



# ANNUAL REPORT 2017

STRONG GLOBAL POSITIONS IN ADVANCED POLYMER COMPOUNDS

# 2017 IN BRIEF

- Sales increased with 12 percent to 12,230 MSEK (10,879)
- Operating profit increased to 1,986 MSEK (1,921)
- Operating margin amounted to 16.2 percent (17.7)
- Profit after tax rose to 1,527 MSEK (1,397) and excl. non-recurring effects to 1,423 MSEK
- Positive non-recurring effects of the US tax reform amounted to 104 MSEK
- Earnings per share increased to 4.44 SEK (4.06) and excl. non-recurring effects to 4.13 SEK
- Operating cash flow amounted to 2,001 MSEK (2,057)
- The Board of Directors proposes a dividend of 1.95 SEK per share

## Significant events per quarter

**Q1** Increased sales and higher profit. At the end of the quarter Trelleborg's Rubber Compounding unit in Czech Republic, a well-known Rubber Compounder in Central Europe, was acquired.

**Q2** Increased sales and higher profit. In early April, Valley Processing, a well-known US Rubber Compounder, was acquired.

**Q3** Increased sales and strong result. The operations in the acquired units in Czech Republic and in the US proceeded according to plan. Mikael Fryklund, new President and CEO took office.

**Q4** Increased sales and strong result. The operations in the, during the year, acquired units have been integrated according to plan.

KEY FIGURES	2017	2016
Sales, MSEK	12,230	10,879
Operating profit (EBIT), MSEK	1,986	1,921
Operating margin, %	16.2	17.7
Profit before tax, MSEK	1,968	1,913
Profit after tax, MSEK	1,527	1,397
Earnings per share, SEK	4.44	4.06
Earnings per share excl. non-recurring effects of the US tax reform, SEK	4.13	4.06
Equity/assets ratio, %	68	77
Return on capital employed, %	25.1	26.8
Operating cash flow, MSEK	2,001	2,057

# 12,230

**SALES MSEK**  
(10,879 MSEK)

# 16.2 %

**OPERATING MARGIN**  
(17.7 %)

# 1,986

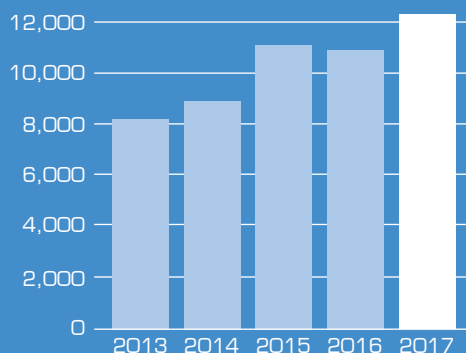
**OPERATING PROFIT MSEK**  
(1,921 MSEK)

# 2,001

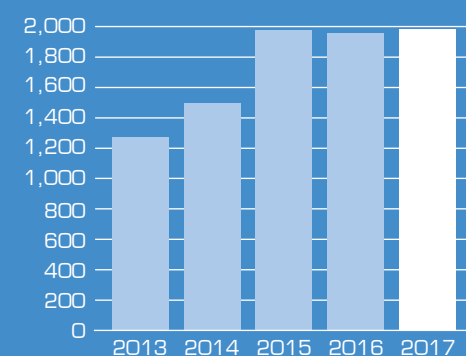
**OPERATING CASH FLOW MSEK**  
(2,057 MSEK)



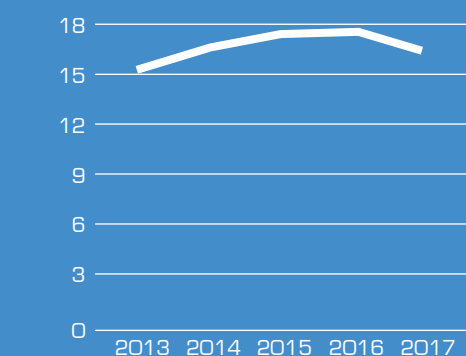
SALES, MSEK



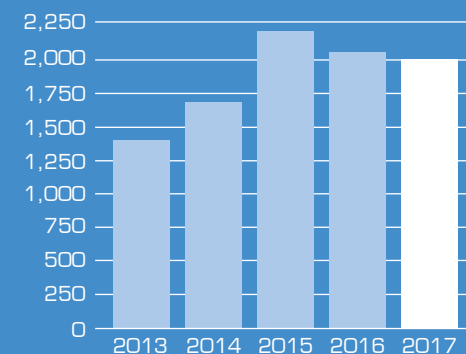
OPERATING PROFIT, MSEK



OPERATING MARGIN, %



OPERATING CASH FLOW, MSEK



## CONTENT

2017 in brief .....	2
HEXPOL in brief .....	4
CEO comments on the year .....	6
About the HEXPOL Group .....	10
The share and Shareholders .....	14
Business area HEXPOL Compounding .....	16
Business area HEXPOL Engineered Products .....	34
Board of Directors' Report .....	44
Financial year 2017 .....	45
Five-year overview .....	47
Risk factors .....	48
Sustainability report .....	52
Corporate Governance Report .....	64
Chairman of the Board comments on the year .....	64
Financial reports .....	70
Consolidated income statements .....	71
Consolidated balance sheets .....	72
Consolidated changes in shareholders' equity .....	73
Consolidated cash flow statements .....	73
Notes of the Group .....	74
Parent Company's income statements .....	84
Parent Company's balance sheets .....	84
Changes in the Parent Company's shareholders' equity .....	85
Parent Company's cash flow statements .....	85
Notes of the Parent Company .....	86
Auditor's Report .....	89
Board of Directors, Auditor and Group Management .....	92
Shareholder information .....	95
Ten-year summary .....	96
Definitions .....	98
Group companies, addresses .....	101

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 - global leadership in the market for rubber compounds
- Strong position in thermoplastic elastomer compounds (TPE) in Europe
- Strong position in reinforced polypropylene compounds in the US
- Organised in two business areas with in-depth and extensive polymer and applications expertise
- Acquisition-oriented
- Growth with strong margins
- Well invested with strong cash flow
- Strong financial position

## Business area HEXPOL Compounding

**OPERATIONS** The HEXPOL Compounding business area is a world leader in the development and manufacture of high-quality advanced polymer compounds for demanding applications and discerning 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 medical technology, cable and water treatment, as well as the energy, oil and gas industries. The largest TPE compounding customer segments are general industry, consumer and medical technology. The largest customer segments within TP compounding are the automotive industry and consumer.

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

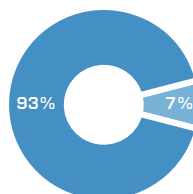
**SALES** 11,326 MSEK (10,028)

**OPERATING PROFIT** 1,873 MSEK (1,806)

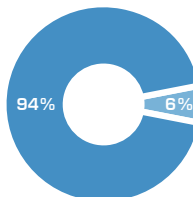
**NUMBER OF EMPLOYEES AT DECEMBER 31**  
2,955 (2,679)

### THE BUSINESS AREA'S SHARE OF THE HEXPOL GROUP (2017):

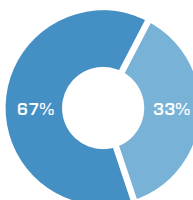
#### SALES



#### OPERATING PROFIT



#### NUMBER OF EMPLOYEES



## Business area HEXPOL Engineered Products

**OPERATIONS** HEXPOL Engineered Products is active in a number of niche areas in which it occupies strong global positions in rubber gaskets for plate heat exchangers, as well as polyurethane, rubber and plastic wheels for forklifts and materials handling. The operations are organised in two product areas, HEXPOL Gaskets and HEXPOL Wheels.

**MARKET** Within its niche areas, HEXPOL Engineered Products operates in the global market with a keen focus on discerning customers and advanced applications. HEXPOL is a leading supplier of rubber gaskets that are used in plate heat exchangers and polyurethane forklift wheels. In these areas, HEXPOL is one of a few major players with a global presence.

**CUSTOMERS** HEXPOL Engineered Products' customers are usually large-scale global OEM manufacturers with market-leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product. Technical competency and long-term relations are of major importance for both parties. HEXPOL Engineered Products wants to develop and renew itself together with its customers in order to jointly strengthen the competitiveness and profitability of all parties.

**SALES** 904 MSEK (851)

**OPERATING PROFIT** 113 MSEK (115)

**NUMBER OF EMPLOYEES AT DECEMBER 31**  
1,429 (1,456)



## 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 plastic and rubber materials for truck and castor wheel applications (Wheels). Customers are primarily system suppliers to the global automotive and engineering industry, the construction, energy, oil and gas sectors, 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 it opportunities to attain leading positions.

Customers of the HEXPOL Compounding business area are mainly system suppliers to the global automotive and engineering industry, the construction, energy, oil and gas sectors, and medical equipment manufacturers. Customers comprise manufacturers of polymer products and components that impose stringent demands on their suppliers in respect 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 active in materials-handling equipment. A shared feature of the operations is the importance of cutting-edge expertise in polymer materials, applications know-how and cost-effective production.

## FINANCIAL OBJECTIVES

The Board of Directors has established the following financial objectives: The equity/assets ratio is to exceed an annual average of 30 percent over a business cycle; sales growth (adjusted for currency 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 trend 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 that 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, construction and engineering, energy, oil and gas sectors, 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.

## STRATEGY

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

- Profitable growth by being the easiest company to do business with in each customer interface, being an innovation leader and utilising our global resources.
- Adding value for our customers by providing the best service in the market, cutting edge expertise in polymer materials and excellent applications know-how.
- The most cost-effective company through continuously improved processes and a focus on cost.
- Efficient supply management that generates volume and technological benefits.
- Superior management skills through competent and experienced teams.

In addition to the operating strategies outlined above, the Group pursues a strategy to achieve continued growth, both organically and through acquisitions. HEXPOL also pursues a strategy of conducting proactive environmental work and taking social responsibility. Such activities help HEXPOL to contribute to sustainable development and we are convinced that this will benefit the society, the employees, the shareholders and the business operations. The strategy for achieving sustainable development includes the introduction of environmental management systems, energy optimisation, reducing 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 of nearly 500 MSEK to 12,230 MSEK, with strong and improved operating margins. This favourable trend is the result of deep and comprehensive product development skills, top-quality customer service, 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

STRONG GROWTH  
AND FURTHER  
IMPROVED  
EARNINGS



MIKAEL FRYKLUND  
PRESIDENT AND CEO  
HEXPOL AB

Dear shareholders,

2017 was our best year to date, with a sales increase of 12 percent and improved earnings. We improved our positions in all of our principal markets and we further improved our operating profit. Our strategy of both organic and acquired growth in our existing areas, combined with strong cash flow, is successful and stands firm.

Long before I had the privilege to take up the position as President and CEO of HEXPOL, I followed with admiration the company's impressive performance over the years, then in my former role at Trelleborg, as a customer of HEXPOL. My view of the company as being dynamic and solid has been additionally strengthened by the significantly greater insights I have gained from working within HEXPOL. There is a considerable focus on the core business, which rests upon a strong business model, which gives us a unique position as a polymer compounder, and we deliver a technologically advanced product that is instrumental for both the customers' end product and for their internal manufacturing processes. Similarly, HEXPOL has highly experienced and strongly committed employees at various levels of the company who, in many cases, entered the company through acquisitions and have chosen to continue to develop and contribute to the company's strong business culture.

Our strategy with growth primarily in the Polymer Compounding area is unchanged and, in 2017, we acquired two new Rubber Compounding operations. The acquisition of Trelleborg's Rubber Compoun-

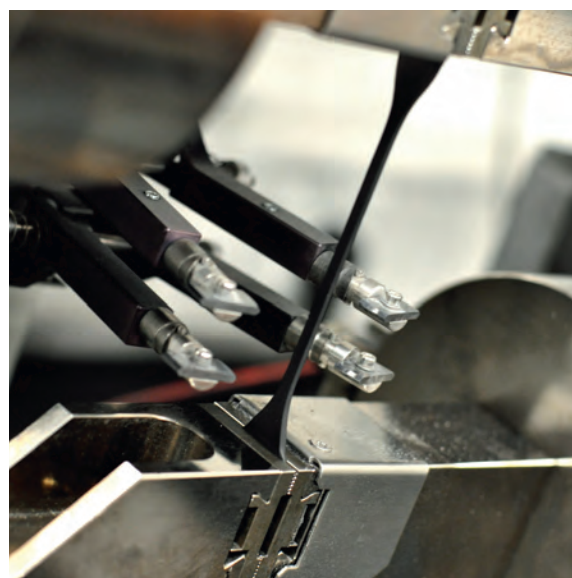
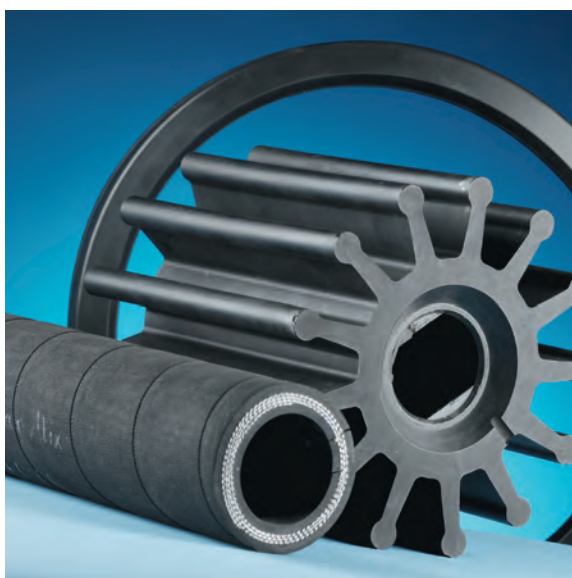
ding unit in Lesina in the Czech Republic, which was implemented in March 2017, strengthens our position in Eastern Europe and our competencies in compounds for injection moulding, and provides us with access to new global customers who are world leaders in their fields. In April 2017, we acquired the well-known US Rubber Compounder, Valley Processing, which strengthens our presence in western USA. These acquisitions are operations that are well known in the market and that we have been monitoring for some time. Our opportunities for successful acquisitions are increased by having a well-thought-out and proven integration plan and by always acquiring companies in known areas.

Our strategy also includes growing organically, meaning by increasing our volumes and sales in all of our markets, and by finding new growth markets and growth areas. That's why I am delighted to say that during 2017 we noted positive growth in our principal markets, which obviously also include emerging markets such as China and Mexico. Our performance was also favourable in HEXPOL TPE Compounding, thanks to marketing efforts and capacity expansion.

During 2017, sales increased a full 12 percent to 12,230 MSEK (10,879). During the first quarter, raw-material prices increased and subsequently remained at higher levels which, like the acquisitions, contributed to the sales increase. It is also gratifying to note that our organic volume trend was positive during the year.

In 2017, we yet again improved our earnings per share, which amounted to 4.44 SEK, an increase of 9 percent, which was largely an effect of the new tax reform in the US. Ignoring the tax reform, earnings per share increased by 2 percent.

Our constant focus on the efficient management of working capital also generated results in the form of a strong operating cash flow, 2,001 MSEK, and a







healthy return on capital employed, 25.1 percent, as well as a return on equity of 22.2 percent.

The HEXPOL Group has a strong financial position thanks to its healthy earnings and efficient management of working capital, which enabled us to distribute an extra dividend to the shareholders of 3.00 SEK per share, in addition to the ordinary dividend of 1.75 SEK per share.

At year-end, the HEXPOL Group had net indebtedness of only 27 MSEK, and the equity/assets ratio was a high 68 percent. All of this provides a solid platform for continued expansion, both through acquisitions and organically.

#### CONTINUED GROWTH

Our strategy is 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, which means that 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 12,230 MSEK in 2017. 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.

#### SKILLS DEVELOPMENT AND INTERNAL RECRUITMENT – THE BASE FOR OUR DEVELOPMENT

Our strategy is based on wide-ranging and in-depth polymer and applications expertise coupled with good commercial and ethical competencies. Our corporate culture is strong, guided by



the watchwords of “DECENTRALISED BUT EXTREMELY COORDINATED”. Coordination and cooperation together with a decentralised organisation create economies of scale at the same time as many decisions can be taken close to the operations, which ensures local commitment and responsibility, and when combined has a lot of positive effects for the Group. Our committed employees are continuously offered paths to development through local or regional in-house training programmes, or one-to-one programmes. We always prioritise internal recruitment and filled a large number of positions in this way during 2017. Filling positions internally always emits positive signals to the organisation and is a key strategy for the HEXPOL Group’s competency supply. Our acquisition strategy also adds many new, highly skilled co-workers 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 few organisational changes.

#### LONG-TERM GROWTH IN OUR CUSTOMER SEGMENTS

Our customers are growing and we are present in geographic markets that are growing. We see extensive growth in most segments, such as the automotive, engineering and construction industries. We see strong growth in the TPE area in many consumer applications, such as medical technology. The same applies to Wheels’ operations, which are noting broad-based growth related to increased activity in the industrial and retail sectors. We also see geographic growth in all of our principal markets, primarily in China and Mexico.

Geographically, the HEXPOL Group’s sales were distributed as follows: 62 percent in NAFTA, 33 percent in Europe and 5 percent in Asia. Asia, our smallest region, is growing rapidly and we increased our organic sales there by 16 percent during the year.



The automotive industry, our largest market segment, is growing on a global basis and accounts for about 38 percent of Group sales.

#### **STRONG FINANCIAL POSITION**

HEXPOL has a business model that works well in both booms and recessions. We proved this especially in 2009 when the financial and automotive crisis broke out. Like all others, we lost sales but we achieved an operating margin of 10.0 percent (excl. items affecting comparability) that year. We are generating strong operating cash flows and this factor, combined with healthy earnings and efficient financing, gives us a strong balance sheet which can cope with both expansion, organic and through acquisitions, and the payment of dividends. We are adhering to our dividend policy of paying between 25 and 50 percent of net profit and the Board of Directors' dividend proposal is to pay a dividend of 1.95 SEK per share – an increase of 11 percent in the ordinary dividend.

#### **PRIORITIES FOR 2018**

In the preceding Annual Report, a continued focus on growth was promised through targeted market and development initiatives. My assessment is that, in total, we advanced our positions in all principal markets. We have never previously had as many and as comprehensive development projects together with existing and future customers. Another promise was that our acquisition orientation and our proactive sustainability and social responsibility efforts would continue. We did this too. During 2017, we completed the acquisition of two units 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 2018, we will continue our growth initiatives through increased and targeted market and development activities in all principal markets. We also have new capacity expansion on the way in TPE, which will be deployed in the first half of



2018. The acquisition orientation stands firm and will be assigned the same high priority as always by HEXPOL. To improve efficiency, we will focus activities on a number of sites.

We will continue with the previously adopted strategy of continued skills development of our employees. Our proactive sustainability and social responsibility efforts will continue at an unabated pace.

I would like to take this opportunity to draw attention to and thank my predecessor Georg Brunstam, who has headed the successful expansion of HEXPOL since the 2008 Initial Public Offering and who, at last year's AGM, was appointed Chairman of the Board and thus functions as an excellent sounding board for me with his vast experience of the operations.

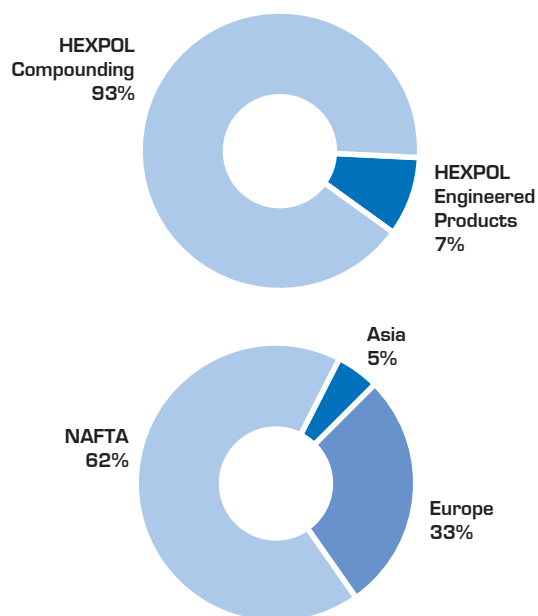
Finally, I would like to thank customers, suppliers and shareholders for your confidence and excellent cooperation during 2017. The effort shown by our employees has been fantastic – thank you all. Today, we have a larger HEXPOL Group, with strong market positions, in-depth expertise and a strong financial position. I am convinced that we can continue to develop the HEXPOL Group in a positive direction.

*Malmö, Sweden, March 2018*

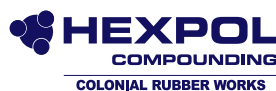
*Mikael Fryklund  
President and CEO*

# ABOUT THE HEXPOL GROUP

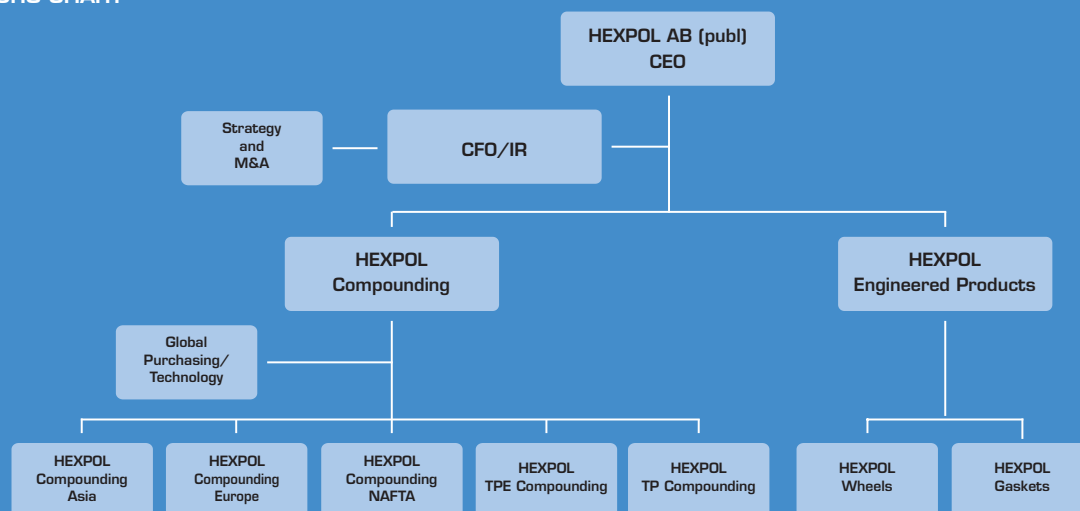
## SALES FOR 2017 DISTRIBUTED BY BUSINESS AREA AND GEOGRAPHICALLY



## 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 decentralised responsibility.

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

Customers are mainly system suppliers to players in the global automotive and engineering industries, construction industry, the energy, oil and gas sector, manufacturers of medical technology, as well as OEM manufacturers of plate heat exchangers and forklifts. HEXPOL has 44 production units and the workforce totals around 4,400 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 sector, medical technology and material-handling industry, 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 applied:

##### **1. Profitable growth**

By being the easiest company to do business with

in each customer interface, growing within existing and new segments and geographies and by being the leading company in the industry within innovation and product development we are creating profitable growth.

##### **2. Adding value for our customers**

By providing the best service in the market, cutting edge expertise in polymer materials and excellent applications know-how and thereby offer technical support and constant development to strengthen the customers' competitiveness on their respective markets, we are adding value for our customers. Marketing and digital channels are helping us to integrate with our customers and strengthen our position on the market.

##### **3. Most cost-effective company**

Through continuously improved processes, by decreasing costs and eliminate waste, having well-invested production units with a high level of technology and broad-based expertise in a flat and cost-effective organisation, we ensure that we are the most cost-effective company.

##### **4. Efficient supply management**

Through continuously focus on finding cost-effective supplier solutions were volume- and technology benefits are taken advantage of we ensure an efficient supply management. Close cooperation with the customers through local presence also creates the opportunity for efficient solutions.

##### **5. 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. As well, short and prompt decision-making processes and time efficient implementation 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.

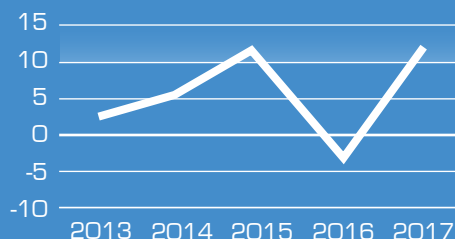
#### **GROWTH STRATEGY**

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**

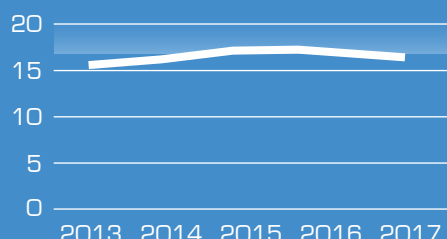
Drivers in the Group's principal markets are trends in a number of end-customer segments, which are primarily pursuing development in the industrial, engineering, automotive and construction markets.

### SALES GROWTH\* % (Target >10%)

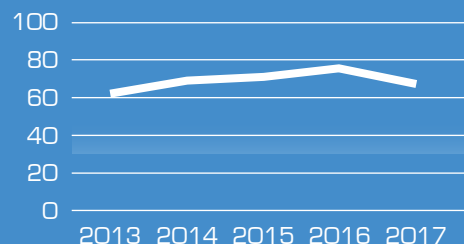


\* Adjusted for exchange rate effects

### OPERATING MARGIN % (Target >17%)



### EQUITY/ASSETS RATIO % (Target >30%)



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, Berwin and, during the past year acquired, Valley Processing 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 2017 equity/assets ratio amounted to 68 percent. The target for the sales growth was fulfilled in 2017 with an increase of 12 percent, but not for the period 2013-2017, when the average increase was 6 percent. The target for the operating margin was fulfilled in 2015 and 2016 but not in 2017 when the operating margin was 16.2. The average

for the period 2013-2017 was 16.7 percent, slightly below the target.

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

Beginning of 2017 two well-known Rubber Compounders - Trelleborg's Rubbber Compounding unit in Lesina, Czech Republic and Valley Processing in USA, were acquired.

1893

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

**1893** The Gislöw brothers form a rubber factory in Gislaved  
**1966** A new factory for the product known as Technical Rubber is built

**1990** The Technical Rubber division becomes Gislaved Gummi AB  
**1991** Production of gaskets for plate heat exchangers is acquired

**1994** Hexagon AB acquires the company

**1995** Stellana 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

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

**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

**2009** Restructuring programme and closure of the compounding operation in Canada

**2010** ELASTO Group with operations in Sweden and the UK is acquired

**2010** The global rubber compounds group, Excel Polymers, with operations in the US, China, the UK and Mexico, is acquired

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

**2012** The German TPE compounding company, Müller Kunststoffe, is acquired

**2012** Capacity investments in the emerging markets Mexico and China

**2012** Robbins, a leading US rubber compounding company, is acquired

**2013** Capacity investments in HEXPOL Compounding in Mexico and China and within HEXPOL TPE Compounding

**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 specialised Thermoplastic Compounding is acquired

**2015** Continued capacity investments within rubber compounding in Mexico

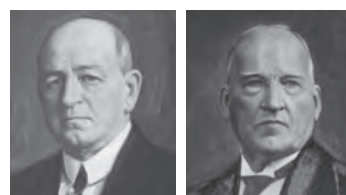
**2016** Berwin Group, a well-known leading British Rubber Compounder, is acquired

**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

**2017** Trelleborg's Rubber compounding unit in Lesina, Czech Republic was acquired.

**2017** Valley Processing, a well-known US Rubber Compounder, was acquired.



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

2007

2008

2010

2012

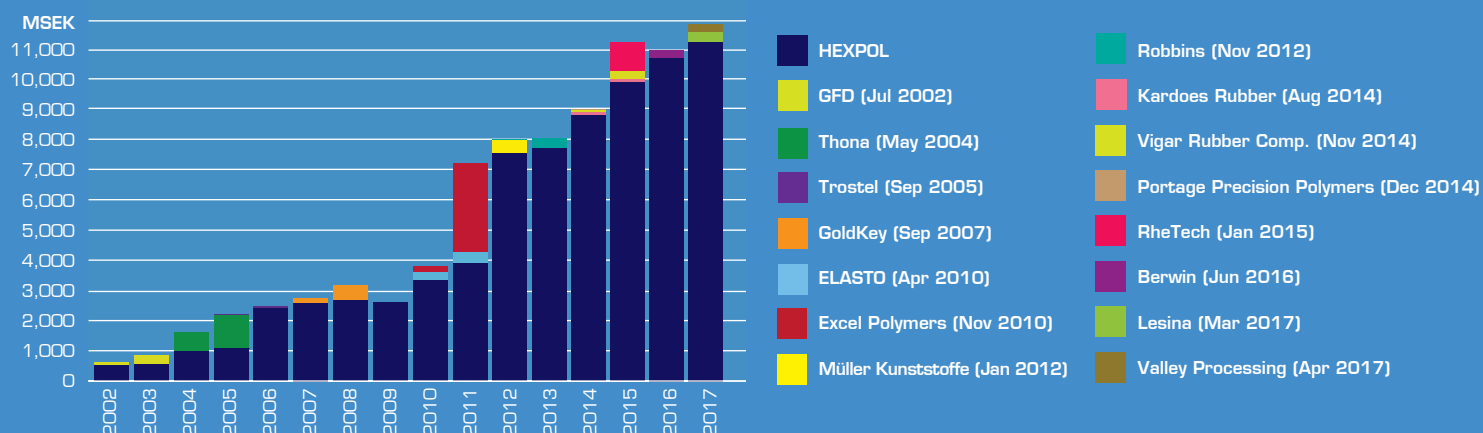
2014

2015

2016

2017

## STRONG GROWTH Contributions to sales made by acquisitions in 2002–2017, acquisition month in parenthesis.



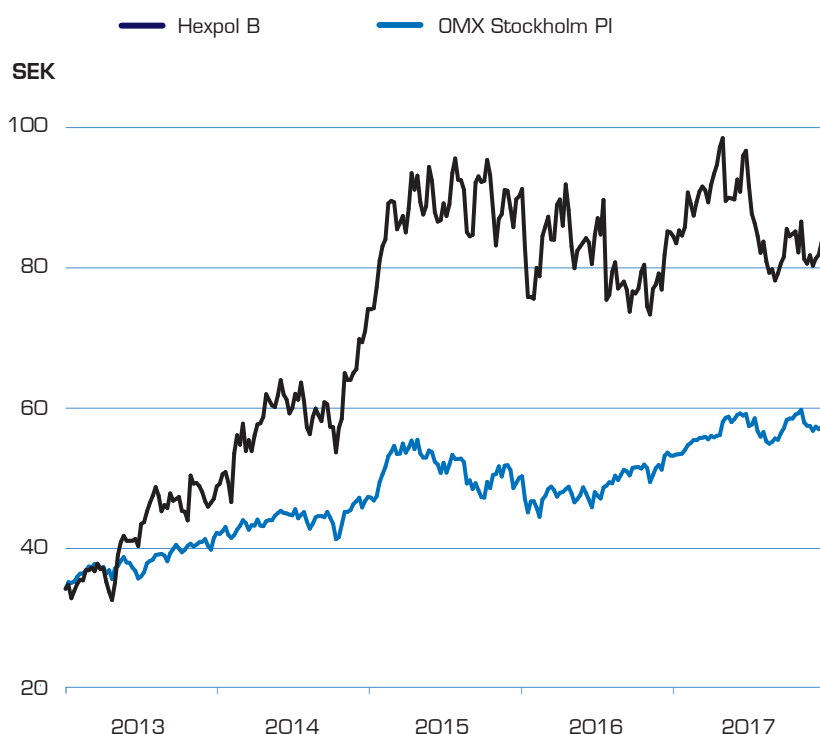


# THE SHARE AND SHAREHOLDERS

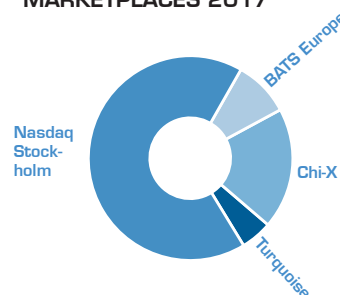
HEXPOL AB was registered on Nasdaq Stockholm on June 9, 2008 where the Class B share is listed on the Stockholm Large Cap list in the industrial sector.

SHAREHOLDER DATA: EUROCLEAR SWEDEN  
SHARE DATA: SIX FINANCIAL INFORMATION

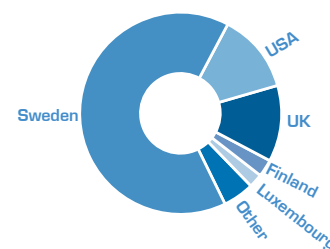
## SHARE PRICE TREND 2013-2017



## STOCK TRADING ON DIFFERENT MARKETPLACES 2017



## GEOGRAPHIC DISTRIBUTION OF SHAREHOLDINGS, DECEMBER 31 2017



## NUMBER OF SHARES PER SHAREHOLDER, DEC. 31 2017

Number of shares per shareholder	Number of shareholders	Number of Class A shares	Number of Class B shares
1-500	8,660	0	1,297,386
501-1,000	1,883	0	1,569,229
1,001-5,000	2,742	0	6,555,940
5,001-20,000	898	0	8,952,188
20,001-	533	14,765,620	311,060,917
<b>Total</b>	<b>14,716</b>	<b>14,765,620</b>	<b>329,435,660</b>

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

SEK	2017	2016	2015	2014	2013
Earnings	4.44	4.06	4.05	3.05	2.70
Equity	20.37	21.96	18.11	14.67	10.51
Dividend	4.75*	1.70	1.20	0.90	0.60
Market price class B shares Dec 31 last traded price	83.15	84.35	91.10	73.65	48.20

\* Including a special dividend of 3.00 SEK.

## 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 1 percent during 2017 and the closing price at the end of 2017 was 83.15 SEK. The highest closing price was 101.0 SEK (April 27). The lowest closing price during the year was 77.75 SEK (August 31). During 2017, 152.3 million (175.5) HEXPOL shares were traded. Average trading per day in the share was 606,631 shares (693,569). The number of shares traded represented 44 percent (51) 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 2017, HEXPOL AB had 14,716 shareholders (13,330). 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 34 percent (29) of the capital. The 20 largest shareholders accounted for 63 percent (63) of the capital and 74 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

During 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.

During 2016, 1,408,000 warrants were subscribed for by senior executives and key employees. The warrant price was 9.00 SEK per warrant and each warrant entitle to subscribe for 1.01 of shares with the strike price of 88.70 SEK, adjusted for the extra dividend in May 2017 according to the warrant terms. During 2017, 225,000 warrants have been subscribed for by one senior executive with the warrant price of 9.00 SEK per warrant and each warrant entitle to subscribe for 1 share with the strike price of 88.70 SEK. The remaining warrants have been reserved for future senior management and recruitment of persons within the categories eligible.

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](http://www.hexpol.com).

## MAJOR SHAREHOLDERS, DECEMBER 31 2017

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 Aktiebolag	0	28,148,138	8.2	5.9
Swedbank Robur fonder	0	20,051,325	5.8	4.2
JPM CHASE NA	0	11,923,566	3.5	2.5
Alecta Pensionsförsäkring, ömsesidig	0	9,695,000	2.8	2.0
STATE STREET BANK & TRUST COM., BOSTON	0	7,740,915	2.2	1.6
SEB Investment Management	0	7,587,842	2.2	1.6
Handelsbanken fonder	0	5,825,634	1.7	1.2
SSB Client Omnibus AC OMO3 (O PCT)	0	5,203,090	1.5	1.1
Nordea Investment Funds	0	3,750,837	1.1	0.8
Total of the 10 largest shareholders	14,765,620	174,459,506	54.9	67.5
Total other shareholders	0	154,976,154	45.1	32.5
<b>Total</b>	<b>14,765,620</b>	<b>329,435,660</b>	<b>100.0</b>	<b>100.0</b>

## OWNER STRUCTURE, DECEMBER 31 2017

Shareholder	Number of shareholders	Shareholder (%)	Holding (%)	Votes (%)
Physical persons	13,486	91.64	9.38	6.77
of whom living in Sweden	13,381	90.93	8.31	6.00
Legal entities	1,230	8.36	90.62	93.23
of whom living in Sweden	640	4.35	57.85	69.59
<b>Total</b>	<b>14,716</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
of whom living in Sweden	14,021	95.28	66.16	75.59

## 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 Wolkener,  
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



## 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.

# 11,326

SALES MSEK (10,028)

# 1,873 MSEK

OPERATING PROFIT (1,806)

## 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 elastomer 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

2,955 (2,679)

Operating units HEXPOL Compounding	Location	Number of employees	Production capacity, tonnes
HEXPOL Compounding North Carolina	Statesville, USA	92	20,000
GoldKey Processing	Middlefield, USA	201	40,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	112	50,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	250	55,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	218	136,000
Chase Elastomer	Kennedale, USA	86	18,000
HEXPOL Compounding – California	Santa Fe Springs, USA	44	13,500
HEXPOL Compounding CA	City of Industry, USA	92	47,000
Robbins	Muscle Shoals, USA	50	0
Kardoes Rubber	LaFayette, USA	75	40,000
HEXPOL Silicone Compounding	Mogadore, USA	8	7,500
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	149	24,000
HEXPOL Compounding Queretaro	Queretaro, Mexico	190	44,000
HEXPOL Compounding Belgium	Eupen, Belgium	79	20,000
HEXPOL Compounding Germany	Hückelhoven, Germany	70	35,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	113	35,000
HEXPOL Compounding Lesina	Lesina, Czech Republic	131	35,000
HEXPOL Compounding Sweden	Gislaved, Sweden	56	19,000
HEXPOL Compounding UK	Manchester, UK	59	5,500
HEXPOL Compounding Spain	Barcelona, Spain	84	30,000
Flexi-cell	Manchester, UK	14	1,200
Berwin Rubber	Manchester, UK	90	30,000
Berwin Industrial Polymers	Lydney, UK	76	21,000
HEXPOL Compounding Qingdao	Qingdao, China	77	20,000
HEXPOL Compounding Foshan	Foshan, China	48	20,000
Elastomeric Group	Bokundara, Sri Lanka	(53) <sup>1</sup>	6,000
RheTech Compounding	Whitmore Lake, USA	107	65,000
RheTech Compounding	Fowlerville, USA	43	38,000
RheTech Colors	Sandusky, USA	41	4,500
RheTech Engineered Plastics	Blacksburg, USA	15	12,700
HEXPOL TPE Germany Plant 1	Lichtenfels, Germany	42	10,000
HEXPOL TPE Germany Plant 2	Lichtenfels, Germany	100	25,000
HEXPOL TPE Sweden	Åmål, Sweden	75	20,000
HEXPOL TPE UK	Manchester, UK	46	13,000
HEXPOL TPE Compounding Foshan	Foshan, China	7	5,500
HEXPOL TPE North America	Sandusky, USA	15	600
<b>Total</b>		<b>2,955</b>	<b>967,000</b>

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 36 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, pro-

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

#### MARKET

HEXPOL Compounding's customers comprise manufacturers of polymer products and components that impose stringent demands on the materials' properties and global delivery capabilities. The largest end-customer segments are the automotive and engineering industries. Other key segments are the medical technology, general industry, construction, transportation, 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 are 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 among others. The Group's share of sales to the automotive industry is about 38 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, 93.0 million light vehicles were produced in 2016. During 2017 the production increased to 95.0 million light vehicles. For 2018, growth of 1.9 percent is expected. The number of light vehicles



City of Industry, USA



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



Lesina, Czech Republic



Barcelona, Spain



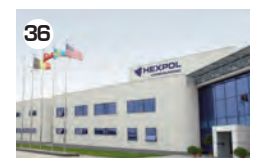
Bokundara, Sri Lanka



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  
Querétaro, Mexico



Andreas Kerl,  
Managing Director  
HEXPOL Compounding  
Belgium and Managing  
Director HEXPOL  
Compounding Germany



Andreas Hausmann,  
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 and Berwin Rubber  
Compounding, UK



Eduard Barragan,  
Managing Director  
HEXPOL Compounding  
Spain



Paul Stevenson,  
General Manager  
Flexi-Cell, UK



Gareth Jefferson,  
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



Norbert Niemand,  
Managing Director  
HEXPOL Compounding  
Lesina, Czech Republic



Dave Schlothauer,  
Managing Director  
HEXPOL Compounding  
CA Inc, USA

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 increased its global capabilities further with the startup of TPE production and product development in North America during 2016.

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.

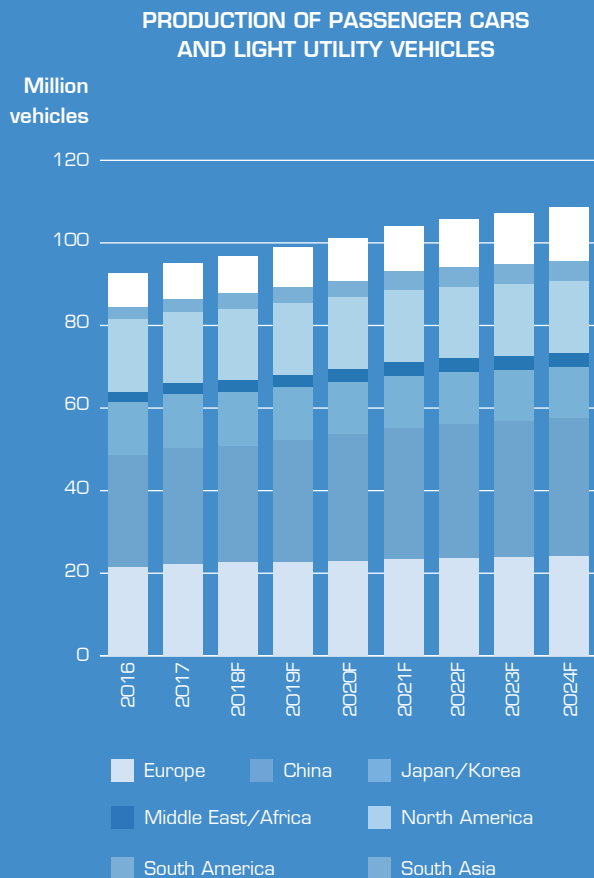
## COMPETITORS

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 a larger portion of their production to plants including HEXPOL Compounding.

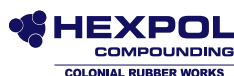
HEXPOL Compounding's potential to offer a global concept and cost-effective production of rubber and TPE compounds is highly competitive, compared with local and regional competitors, or the customers' in-house production operations.

## 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



## Brands within the business area



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 in 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, transportation, consumer, construction, medical technology, energy, oil and gas sectors. Customers in the automotive industry are not the automotive manufacturers themselves, but rather large system suppliers to automotive 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, Kardoes and Valley Processing, 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 Epsel, are used globally. In the HEXPOL TP Compounding area, RheTech and its product brands are used.

## OPERATIONS IN 2017

2017 was another strong year for HEXPOL Compounding. Sales increased to 11,326 MSEK (10,028) and the operating profit increased to 1,873 MSEK (1,806), resulting in the operating margin amounting to 16.5 percent (18.0). Sales were strong to the global automotive industry's system suppliers and sales improved to the engineering and construction industries. Sales also improved to customers within the energy, oil and gas sector, however from a low level.

Two well-known Rubber Compounders, Trelleborg's Rubber Compounding unit in Czech Republic and Valley Processing in the US, were acquired during 2017.

## OUTLOOK AND PRIORITIES

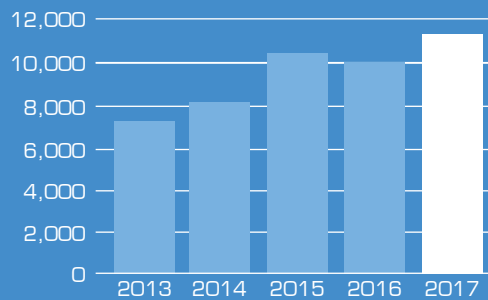
HEXPOL Compounding aims to offer customers local service in all markets and to be a development partner on a global and local basis. With 36 production and development units in ten countries, our structure is unique for the industry and provides our global customers with local service. HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

2018 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.

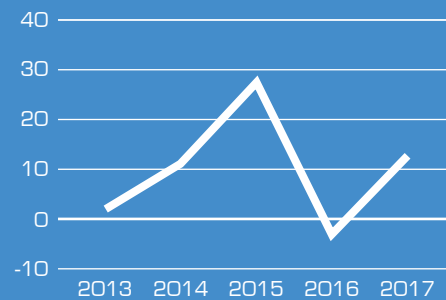


# HEXPOL COMPOUNDING, FIVE-YEAR FIGURES

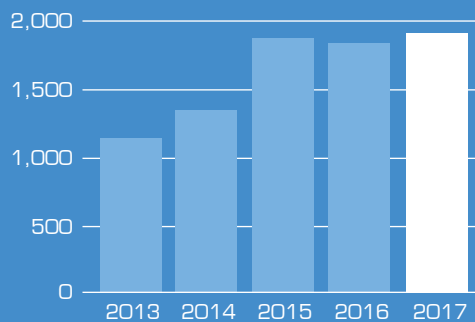
SALES, MSEK



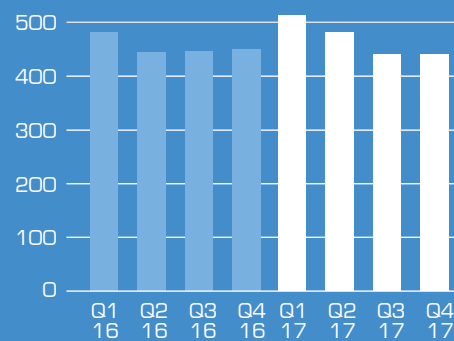
SALES GROWTH, %



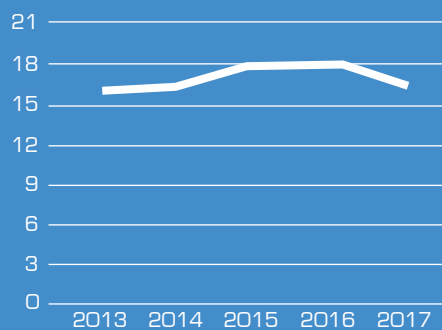
OPERATING PROFIT, FULL-YEAR, MSEK



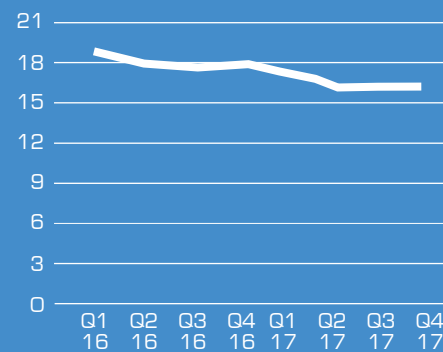
OPERATING PROFIT, QUARTERLY, MSEK



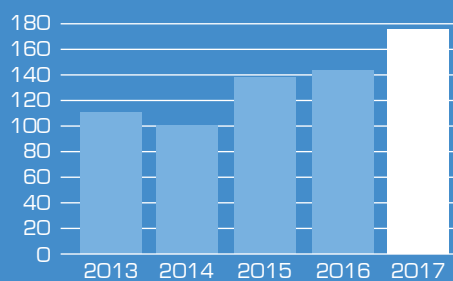
OPERATING MARGIN, FULL-YEAR, %



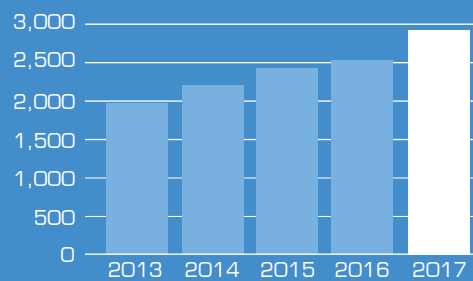
OPERATING MARGIN, QUARTERLY, %



INVESTMENTS, MSEK



AVERAGE NUMBER OF EMPLOYEES



## HEXPOL WELCOMES VALLEY PROCESSING

**On April 7, 2017, HEXPOL announced the acquisition of Valley Processing. Valley Processing, a custom rubber mixing company, was a part of a fourth-generation family owned rubber mixing and molding operation headquartered in the City of Industry, California.**

Valley Processing is a leading producer of customer rubber compounds in the Western United States. Its manufacturing facility employs approximately ninety-five associates who operate four mixing lines and a four-roll calender that produce many highly-engineered commercial grade elastomeric compounds including EPDM, SBR, HNBR, NR, CR, and IIR. The company provides custom rubber compounds to many different market segments such as agriculture, electrical, construction, automotive, transportation and general industrial. Construction is the largest market segment and applications include playground safety surfacing, water pipe gaskets, roof gaskets, and bearing pads for bridges and multi-story commercial buildings.

Associates of Valley Processing are enthusiastic about the acquisition. HEXPOL has brought its technical skills and training to grow associates in the knowledge of their vocation, HEXPOL has brought its leadership training

commitment to develop associates as future leaders within the rubber industry and HEXPOL has stressed its number one commitment that a safe work environment is paramount. HEXPOL's dedication to investing in human capital is evident to the Valley team and HEXPOL's success will be their success.

Valley's customer will benefit from the synergies HEXPOL brings from raw material optimization, technical expertise, manufacturing productivity and customer service. The partnership between Valley and its customer's is enriched through the expansion of Valley into the HEXPOL organisation.

Valley's main objectives are to expand sales and service within California, the Southwest and Western United States and Baja California, and to reinforce Valley's position as a premier supplier of custom rubber solutions. Being part of the HEXPOL family provides Valley the team and resources to achieve its near and long-term objectives.



## HEXLINK™ – CROSS LINKER FOR POLYMER MODIFIED ASPHALT MARKET

**Statistically in the United States approximately 25 – 30% of the asphalt used in paving roadways is a polymer modified asphalt. Primarily used in higher penetration grades of asphalt, Polymer Modified Asphalt (PMA) has quickly become the standard for high performance, high-value, cost-effective road surfacing.**

PMA advantages include increase durability, resistance to aging, stripping/raveling resistance, and greater flexibility. Improvements in product performance such as resistance to high temperature wheel-track rutting and resistance to low temperature fatigue cracking, as well as increasing service life and lowering road noise also stem from using PMA.

HEXPOL Compounding uses rubber compounding knowledge and expertise with cross linkers to apply that experience into asphalt manufacturing, specifically PMAs. HEXPOL Performance Additives manufactures and



sells a complete line of polymer modified asphalt cross linkers in both liquid and powder forms known as HEXLINK™. Currently the markets served for polymer modified asphalt include the United States of America and Canada.

HEXPOL's cross-linker and accelerator packages are each designed to be complete cross-linking and accelerator packages for use with most (nitrile and SBS type) PMA systems; no additional curatives or cross-linking agents are required or recommended to produce the highest quality PMA products.

# HEXPOL RUBBER COMPOUNDING

## ORGANISATION

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

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

HEXPOL has strengthened its position within Rubber Compounding through several acquisitions

during the years. During 2017, Trelleborg's Rubber Compounding unit in Czech Republic, a well-known Rubber Compounding in Central Europe, and Valley Processing, a well-known Rubber Compounder in Western US were acquired.

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 engineering, transportation, building and construction, mining, agricultural, energy, oil and gas sector, 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.

## NEW COMPOUNDS FOR WEIGHT- AND COST REDUCTION, AND TO FULFILL FIRE PROTECTION REQUIREMENTS

**Nowadays increasing demands are made on sealing material in all areas, to which HEXPOL Compounding reacts with a number of new developments. One example are periodically cross-linked EPDM mixtures, which enable an improved property image, such as, for example, increased cold flexibility with a fogging value reduced by up to 50% at the same time.**

These materials offer a significant cost advantage compared to conventional formulations and are also available in a plexiglass compatible manner. Special ADC-free foam rubber mixtures meet today's environmental requirements.

Another innovation are non-halogen fire protection mixtures out of the HexFlame product family, conform to EN 45545-2, which are also an alternative for non-halogen building applications.

The requirements for the "weight reduction" are met by the product group HexLight. The density of the profiles is reduced as to 30%.

The requirements for non-conductive mixtures with a specific flow resistance of at least  $109 \Omega \times \text{cm}$  are also covered by specially developed mixtures, which also ensure a very good flow behavior during processing.

All in all HEXPOL Compounding offers a wide range of high-quality rubber compounds, TPE compounds, thermoplastic compounds as well as synthetic rubber compounds.

Based on broad material know-how and experience with many polymer types as EPDM, SBR, NBR, HNBR, ACM, FKM, AEM, IIR, CR, CSM, CM, VMQ, ECO and NR/IR tailor-made solutions emerge for the automotive industry as well as for suppliers for the construction sector and for many other industrial and consumer markets.



## HEXPOL WELCOMES HEXPOL COMPOUNDING LESINA

**End of March we announced the acquisition of Trelleborg Material & Mixing Lesina (re-named to HEXPOL Compounding Lesina) from the Trelleborg Group. HEXPOL Compounding Lesina with a manufacturing facility in Lesina, Czech Republic has around 130 employees. The main end-user segments are within automotive industry, general industry, building and construction.**

We spoke with Norbert Niemand, Managing Director at HEXPOL Compounding Lesina.



**Welcome to the HEXPOL family, can you please tell us a little about the Lesina unit?**

Hexpol Compounding Lesina was founded in 1994 in northwestern part of Czech Republic. It started up operation in 1997, 20 years ago as custom compounder specialized on building profiles. Within a quarter the plant reached a preliminary output of 600 tons per month, produced on one 165 liter intermeshing mixer. In following years the plant showed steady increase, in parallel first expansions took place: 1999 extruder for off-line straining, 2003 a second mixing line with 190 liter intermeshing mixer. Since 2001 the plant owned QS 9000 and VDA 6.1 certificates and widened its portfolio, supplying compounds for automotive sector, mainly sealing but also critical parts like brake membranes.

End of 2005 another big expansion was performed: Production volume doubled within 3 years and Lesina produced successfully another new portfolio: Compounds for anti-vibration parts in passenger cars and trucks, as well as radiator hoses. This led to the next investment: Third mixing line based on 320 liter intermeshing mixer including inline

straining. After several renewals in mixing hard- and software Lesina has since one year a fully automatic system for weighing of almost all chemicals to secure high level of quality, efficiency, and traceability. During last years within Trelleborg group Lesina managed to change from sole internal supplier to well-known custom compounder for the whole European market, supplying compounds for all automotive parts except tires, for construction profiles, waste water treatment, drinking water applications, and general industry. The material range includes EPDM, NR, SBR, NBR, BR, CR, AEM and ACM. The total capacity today is about 35,000 tons of compounds.

**What is your first impression of HEXPOL?**

HEXPOL is successfully running its core business as custom compounder and can provide a wide range of materials for all kind of industries. A couple of production units are specialised on certain products like non-black compounds, or silicone, thus securing high quality level. HEXPOL concentrates very good know-how for best customer service, and has a flat hierarchy supporting short decision processes. My former impression from outside was confirmed when getting inside.

**Where do you see the biggest possibilities for the future?**

Using the HEXPOL-advantages of size like know-how in material development but also in manufacturing processes and in purchasing.

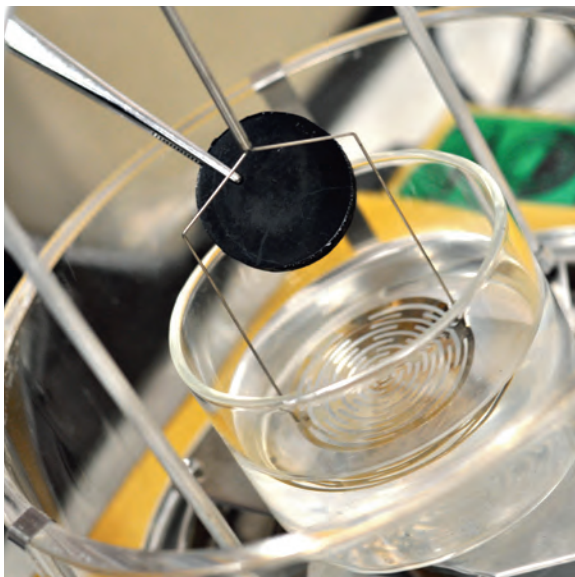
**What are the main objectives for Lesina over the next 12 months?**

Lesina has the ambition to be a "world class" compounder. This includes short delivery times and close to 100 % on time delivery, flexible reaction on customer demands, providing perfect material solutions at lowest transformation cost.

- 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.

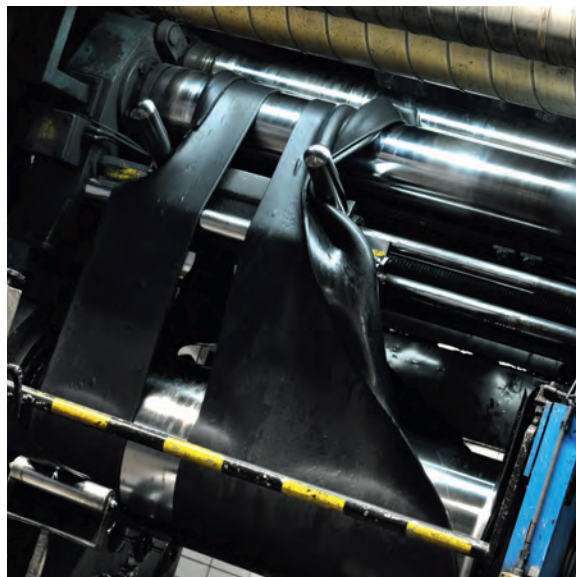
The rubber compounds that leave HEXPOL Compounding's production plants are processed further by customers through, for example, extrusion, injection moulding and compression moulding to give the components their final

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 SILICONE COMPOUNDING

**HEXPOL Silicone Compounding has continued to strengthen its capabilities and expand the customer base. The business now has more than 60 customers of which a few were actually introduced to silicones by HEXPOL. The successful development of this business comes from a team effort where several other HEXPOL units, HEXPOL Kennedale and RheTech to mention a few, have been involved in material and formula development.**

Key focus for the business has been to further expand the product portfolio. Close collaboration with raw material vendors has resulted in access to custom made raw materials and joint development projects which has greatly increased the HEXPOL product offering.

In 2017 HEXPOL Silicone Compounding also focused on continuous process improvements

with significant capital investments in material handling systems, automatic cutting equipment, new screening capabilities, weighing systems and an upgraded process control system. During this intense phase, HEXPOL Silicone Compounding has maintained 98% on time deliveries.

"The enhancements and investments made in production enable HEXPOL Silicone Compounding to serve current customers while growing with new and potential customers", says Don Picard, VP of Sales and Marketing for HEXPOL Compounding North America.

The enhanced capabilities have also resulted in a white paper entitled "Addition Cure HCR: Impact of Inhibitors on the Elastomer Cure Profile" which was presented at the Fall ACS 192nd Technical Meeting. The silicone team has also attended and exhibited at multiple silicone industry trade shows.

## EXPANDING HEXPOL CAPABILITIES FOR WIRE AND CABLE

**In the past three years, HEXPOL's Rubber Compounding businesses have worked on creating new processes for the wire and cable market, more specifically working with customers to create a new way to process rubber compounds for wire and cable jackets.**

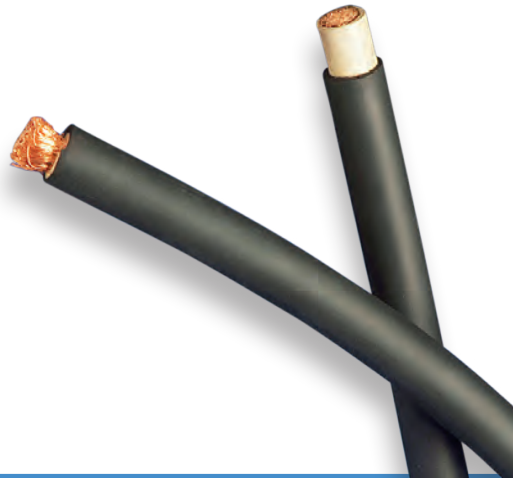
HEXPOL has been able to create a unique process to pelletize rubber compound without the use of an underwater pelletizer or the use of water. This new process eliminates moisture from rubber compounds and thus creates a more stable compound for electrical uses.

In addition to creating the process, HEXPOL also has the capability to cater to increased volumes by unloading into bulk silos. In bulk handling these materials HEXPOL Compounding is able to better serve customers by adding an element of ease to the process.

HEXPOL TPE Compounding has also expanded their capabilities in this area with the development of Dryflex® Cable – a range of specialty Thermoplastic Elastomer (TPE) compounds for high performance cables.

Dryflex Cable TPEs are halogen-free with flame retardancy to various standards. They offer superior thermal and oil resistance properties across a range of Shore A hardnesses. Dryflex Cable TPE compounds also require no post vulcanization, making them easy to process.

HEXPOL TPE are working with the manufacturers of cable insulation and sheathing to develop customized solutions that not only match application requirements, but also help improve productivity.



## HEXPOL AGUASCALIENTES MEXICO – STATE OF THE ART SPLICING AND SPOOLING PROCESS

**As result of the market needs in Mexico; the latest investments made by HEXPOL Compounding are to bolster our product portfolio and serve a market niche of specialties in Mexico.**

In September 2017 a state of the art rubber pooling process solution was installed in Aguascalientes facility to produce high quality splice molding ribbon compounds to meet the current demand from industrial customers. The process solution has the capability to produce rubber ribbons within thickness of 0.5 mm and above and spooled in 1 kg rolls. The new investment perfectly fits with our current high technology 90 liter intermesh mixing lines to fully produce splice molding compounds ready to be used by the customers.

HEXPOL Compounding has full confidence in Mexico and the proof is the constant investment in Mexico's plant year after year.







## 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 there has been significant investment at the site over recent years. New production lines were added in 2013 and 2015 and a new line was announced in 2017 to come on-stream in 2018. There was also investment in infrastructure, sub-systems and equipment to support further expansion of the business, including a new technical centre inaugurated in

## HEXPOL TPE EXPAND IN GERMANY

**As the international plastics industry came together in October during the Fakuma exhibition, HEXPOL TPE announced plans for further investment and capacity expansion at the site in Lichtenfels, Germany.**

The investment includes the installation of a new twin-screw production line as well as investment in infrastructure, sub-systems and equipment to support further expansion of the business. The new line is expected to come on-stream in early 2018 and will add around 5,000 tonnes per annum capacity, putting HEXPOL TPE's global TPE capacity in excess of 80,000 tonnes per annum.

The new line in Germany will increase capacity for the TPS, TPO and TPU based Thermoplastic Elastomer (TPE) compounds, in particular growing demand from the automotive, consumer and footwear markets.

Dr. Peter Ryzko, managing director at HEXPOL TPE's German operation said "We're extremely proud of the journey we've been on over the past few years. This investment is the third new line we have installed since 2013 and is part of our on-going commitment to deliver a highly responsive, quick and flexible service. Alongside the capacity expansion in

Germany we are also investing in our product safety, research and development resources, which are housed in a state-of-the-art technical centre at Lichtenfels. We work in some highly specialized and sensitive application areas, where the technical support, customised compounds and analytical data we provide is essential. We're also seeing a growing need for in-depth knowledge of regulatory and industry standards as well as global and national legislation. This latest investment is part of HEXPOL's continuing determination to be the easiest company to do business with, by delivering the complete package of material know-how, personal service, application expertise and global capabilities."



2016 which houses the R&D, product safety, analytics and process technology departments.

The site in Åmål, Sweden also continued to expand, particularly their medical capabilities with the start-up of a new medical line and expansion to the technical centre at their facility during 2016. The site was the first European TPE compounder to be awarded the ISO 13485 certification for the development, manufacture, marketing and sales of TPE compounds for the medical device industry. The new line is part of the continued focus on medical TPE and supports the sales growth of the Mediprene TPE compounds for medical applications.

HEXPOL TPE consolidated its product offering in the caps and closures market in 2012 by taking over the business activities of European Plastic Sealants (EPS) based in Germany. EPS specialised in the development of compounds for beverage caps and closures. Sales are worldwide under the Epsal® product brand to a range of closures markets including beverage sealants in crown corks, aluminum and plastic closures.

In 2012 HEXPOL also 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

## HEXPOL TPE AND WILDO DEVELOP GREEN SOLUTIONS FOR OUTDOOR LIFE

**Global Thermoplastic Elastomers compounding group HEXPOL TPE worked with Wildo Sweden AB on the development of a bio-based TPE for their iconic Fold-A-Cup.**

"The Scandinavian and Nordic countries have long fostered a culture of sustainability and 'green' thinking is not new," says Klas Dannäs, Global R&D Coordinator at HEXPOL TPE. "What we're doing with the development of our biobased TPEs is creating new possibilities to achieve these goals. Dryflex Green TPEs make it easier for customers to meet application and material demands, while deploying global resources in a sustainable way.

We also recognise that using renewable resources brings with it a responsibility to ensure that they are managed in an ethical way. In this regard, we are working closely with our suppliers to ensure they operate in a responsible manner with good environmental practices that comply with social and environmental demands. We continue to trial new and emerging raw material combinations and further test the possibilities of Dryflex Green TPE compounds. We've found that as the requirements can vary greatly for each application, there is a need for highly customised formulations. For example, working with Wildo Sweden AB, we developed a bespoke Dryflex Green TPE compound for their Fold-A-Cup product. We had several interesting properties to meet, the TPE compound needs to display the correct behaviour during repeated folding and opening of the cup. It should be flexible, yet rigid enough to withstand temperatures from hot or cold drinks. We also needed to consider haptics and of course the raw materials we used had to be compliant with food contact."

Lena-Marie Johannisson, project manager at Wildo commented "Being an outdoor product



producer we always strive to be part of something bigger. With the outdoor as our platform we understand the importance of respecting the environment and surroundings around us. We need to make sure that we can enjoy our planet now and in the future".

Wildo's history started more than 35 years ago when the Fold-A-Cup and Camp-A-Box was developed - outdoor utensils that are functional, durable and lightweight, and can be used over and over again. At that time, it was pioneering in contrast to the buy and throw away-thought as well as the heavy options that were around. Making many small steps by keeping the production in Sweden, well selected suppliers and short transports, recycling and re-usage of boxes as well as easy designed packages has been natural choices in their production. It also enables close contact with their suppliers, they understand and can relate to Wildo's products.

The question of developing a bio material together with HEXPOL TPE was brought up, "It was not hard to leap into this further, knowing that they, as well as us, would never compromise with the quality of the material," adds Johannisson. "This was what we had been looking for! Working for more sustainable material reducing the fossil resources is not a luxury we can choose but a necessary way to go. Wildo has now started with a first step to a green choice, but there will be more to come."

manufacturing. HEXPOL TPE Compounding has supplied customers in Asia for a number of years, initially to European and US manufacturers with local business in the area but increasingly to locally owned producers. Global capabilities were further enhanced during 2016 when HEXPOL TPE took a first step in the NAFTA market with the start-up of a TPE production and product development unit in North America.

To better reflect this expanded offering and footprint, at the end of 2016 a new HEXPOL TPE global brand strategy was introduced. This meant a restructuring of the group's TPE product 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.

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.

## TECHNOLOGY AND PRODUCTS

TPE compounds can be described as bridging the gap between rubber and plastics. They share several of the characteristics of rubber, such as flexibility and softness, but they have the versatility, recyclability and processing advantages of plastics.

The TPE family 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)

In recent years HEXPOL TPE Compounding have also introduced a range of Biobased TPE compounds to the product offering. The Biobased TPE compounds contain raw materials from renewable resources such as plant and vegetable crops. They were developed to meet increasing demands for

## HEXPOL TPE INTRODUCE NEW TPE FOR DRINKING WATER APPLICATIONS

HEXPOL TPE, has launched Dryflex DW - a special range of TPE compounds for applications that come into contact, either directly or indirectly, with drinking water.

Philippe Julien-Labruyère, sales director HEXPOL TPE explained, "When our water supply goes on its journey to our taps, we don't want its quality to be impaired by unwanted odours, colours or flavours. We also want to help safeguard against any microbial contamination along the way. That is why we have developed the Dryflex DW range of TPEs".

Dryflex DW TPE compounds have passed German drinking water regulations, they have been tested and approved according to 'The Guideline for hygienic Assessment of Organic Materials in Contact with Drinking Water' (KTW Guideline) for cold and warm water (23°C / 60°C).

Dryflex DW TPE compounds have no microbial growth without the use of biocides and have been approved according to DVGW Technical Standard W270, which describes a test method to determine the microbial growth on non-metallic materials intended for use in drinking water systems.

Dryflex DW TPE compounds are available in hardnesses from 50 to 90 Shore A. They are available in natural and black, as well as custom colours with compliance certification. The raw materials used to produce Dryflex DW TPEs are compliant with food contact regulation (EU) No 10/2011. They can be processed via injection moulding or extrusion and bond to PP and PE in multi-component applications.

Typical applications for Dryflex DW TPE compounds can include both domestic and commercial applications such as plumbing seals, pipe fittings and shower-heads.





improved sustainability and help to reduce the usage and dependency on limited fossil resources. 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 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 intelligent solutions which precisely match application require-



ments 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 the customers' ideas into superior products.

## HEXPOL TPE HELPS GRUND GO GREEN

**With advances in technical properties and a growing number of manufacturers and materials, we are seeing bioplastics move into new application areas and playing an increasingly important role in the evolution of the plastics industry. Grund GmbH & Co. KG is one of the companies expanding their traditional product offering by using Dryflex Green thermoplastic elastomers from HEXPOL TPE in their new generation bed slat holders.**

For the bed slat holders it was important that the TPE was efficient to process, with good flowability. It needed to be easy to colour and the compression set properties also needed to be considered.

Dryflex Green is a family of biobased thermoplastic elastomers (TPE). They are opening up previously unreachable design solutions to the biobased thermoplastic market by covering a wider range of hardnesses, including softer grades from 20 Shore A through to 55 Shore D, while incorporating high levels of renewable content to over 90%. The biobased content derives from raw materials such as polymers, fillers, plasticizers or additives. HEXPOL TPE has also developed compounds using organic fillers from plants, crops or trees; these give

additional organic appearance and haptics. The biobased content is achieved by use of truly sustainable raw materials and feedstocks with recognised certifications such as ISCC+.

Customers demand is moving towards sustainable materials. They want products that give the performance they need while also being environmentally friendly and responsibly produced. Dryflex Green TPEs gives the properties that customers are looking for.

Thomas Köppl, Manager Central Technology & Development Center HEXPOL TPE, commented "We are working with several customers that want to add a 'green' line to their existing portfolios. We can see that Dryflex Green TPEs are giving manufacturers of applications such as household goods, sports equipment, toys and infant care new opportunities for sustainability".



# 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 North American provider of Polypropylene Compounds (PP), Polyamide Compounds (PA) and Polyolefin and Engineered resin based Color Concentrates and Additives.

RheTech has four modern, well-invested US manufacturing units. The RheTech operations compliment the other HEXPOL Compounding operations with common industries and similar manufacturing technologies. During the last three years, investments have been made in each of the units to increase capacity and capability.

RheTech's manufacturing philosophy is based on flexibility and delivering cost effective quality product time after time. This strategy has helped their customers compete and thrive in a challenging business environment.

## TECHNOLOGY AND PRODUCTS

RheTech is a custom compounder of high performance, cost competitive thermoplastic resins with integrated colorant capabilities that enable it to offer customized solutions across a wide array of applications and markets.

RheTech's expertise in the TP Compounding market is Reinforced Polypropylene Compounds (PP), Reinforced Polyamide Compounds (PA), and Polyolefin and Engineered resin based Color Concentrates and Additives. The manufacturing process is a continuous process with PLC controlled manufacturing automated systems, modern twin-screw extruders, and automated material handling systems. The production process provides flexibility and consistency to ensure the highest

standard of efficiency and quality. With these efficient and flexible operations RheTech is able to adjust to demands of the market with effective, problem solving method for all volume levels.

RheTech offers a broad product line. Each product line has an extensive portfolio of formulations. These formulations are customized for OEM specifications offering distinct performance and specification requirements in the following technologies:

- Glass Reinforced PP Compounds
- Mineral Reinforced PP Compounds
- Co-Reinforced PP Compounds
- TPO (Thermoplastic Polyolefin) Compounds
- Blow Molding PP Compounds
- Extrusion Grade PP Compounds
- Recycled PP Grades Compounds
- RheVision Natural Fiber Reinforced Compounds
- Polyolefin and Engineered Resin based Color Concentrates and Additives.



## RHEVISION – THE GREEN ALTERNATIVE IN REINFORCED THERMOPLASTICS

**RheVision is a line of bio fiber reinforced polypropylene which use renewable natural fibers, for instance ground wood and coconut shells instead of traditional reinforcements such as talc, minerals and glass.**

All of the bio fibers used in RheVision are true waste products that are either traditionally burned or buried. The natural fibers can be combined with a proportion of certified

post-consumer polyolefin resin waste which takes the recycled content above 50%. The RheVision compounds are light weight, environmentally friendly with a very unique aesthetic quality. The natural fiber products are also processed at lower temperatures which furthers the green footprint. RheTech sees a growing demand for these environmentally friendly products that help us further reduce the carbon footprint of thermoplastics.

BUSINESS AREA  
HEXPOL  
ENGINEERED  
PRODUCTS

STRONG  
PROFITABLE  
GROWTH



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.

# 904

SALES MSEK (851)

## 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.

# 113 MSEK

OPERATING PROFIT (115)

## 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 DECEMBER 31

1,429 (1,456)

Operating units HEXPOL Engineered Products	Location	Number of employees Dec 31, 2017	Area m <sup>2</sup>
<b>HEXPOL GASKETS</b>			
Gislaved Gummi	Gislaved, Sweden	77	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	449	7,000
Gislaved Gummi Qingdao	Qingdao, China	144	8,000
Gislaved Gummi, Profiles	Gislaved, Sweden	21	2,500
<b>Total</b>		<b>691</b>	<b>23,500</b>
<b>HEXPOL WHEELS</b>			
Stellana Sweden	Laxå, Sweden	84	8,000
Stellana US	Lake Geneva, Wisconsin, USA	77	6,600
Stellana China	Qingdao, China	64	1,080
Elastomeric	Horana, Sri Lanka	513	16,590
<b>Total</b>		<b>738</b>	<b>32,270</b>
<b>Total HEXPOL Engineered Products</b>		<b>1,429</b>	<b>55,770</b>

Customer requirements on short lead times and delivery reliability are increasing, and places special demands on the business. In recent years major initiatives have been made within logistics with the establishment of 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 the 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 in 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 many smaller manufacturers who primarily sell their products in the Chinese market. The Asian market, and especially the Chinese market, 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 global forklift wheels market has regional differentiation due to varying design requirements, material preferences, and quality standards. The market is dominated by several large global manufacturers; however, there are a number of small local players, mainly in Asia. HEXPOL Wheels is the only forklift wheel 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 these areas and are frequently equipped with gaskets from HEXPOL Gaskets. The global market for gaskets remained relatively stable during the past year. The market for large projects has been weak most of 2017 but at the end of the year orders for larger projects were released, on a low level. The demand for small and midsize plate heat exchangers has remained good.

Aftermarket demand remains strongly driven by maintenance investments in existing facilities. The aftermarket is currently estimated to account for approximately one-fourth of the total market. HEXPOL Gaskets has the privilege of supplying gaskets to all major OEM manufacturers of plate heat exchangers. The product area HEXPOL Gaskets is consolidating its position as market leader and is 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. This market is dominated by few major players in Europe and North America and several fast-growing operators in China. The aftermarket segment for forklift wheels also increased and is dominated by OEM forklift manufacturers and independent distributors.

In 2017, global sales of electric powered warehouse forklifts showed strong growth. Within this market segment, consolidation has been occurring for the last several years. The development of new warehouse forklift models represents a larger share of joint total global content. HEXPOL Wheels with its global presence is well positioned to capture additional market shares through its localised manufacturing and engineering support. The castor wheel market is more diversified with a few major players and many 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.

#### BRANDS

HEXPOL Engineered Products conducts operations under the Gislaved Gummi (gaskets), Stellana (wheels) and Elastomeric (wheels) brands. The brand Gislaved Gummi is one of the strongest and most well-known global brands in the market



Lake Geneva, USA  
HEXPOL Wheels



Laxå, Sweden  
HEXPOL Wheels



Gislaved, Sweden  
HEXPOL Gaskets



Gislaved, Sweden  
HEXPOL Profiles



Bokundara, Sri Lanka  
HEXPOL Gaskets



Horana, Sri Lanka  
HEXPOL Wheels



Qingdao, China  
HEXPOL Wheels



Qingdao, China  
HEXPOL Gaskets

## 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, China



Mark Shea,  
Managing Director  
Stellana US, USA



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



David Jia,  
Managing Director  
Gislaved Gummi China



## Brands in the business area



for gaskets for plate heat exchangers. Stellana is also regarded as a well-known global brand in the material handling industry while Elastomeric is a well-known brand in its niche in Europe and Asia.

**OPERATING UNITS**

HEXPOL Gaskets has production units in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka and Qingdao, China). All plants are modern and incorporate local expertise in production and logistics development. The LEAN concept is successfully applied in all plants and manufacturing processes are coordinated and standardised. It is important for HEXPOL Gaskets to ensure the same high quality regardless of the production plant. All plants work on-line in the shared ERP system, which has resulted in a significant reduction in internal lead times and administrative work.

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

**COMPETITORS**

The market for gaskets for plate heat exchangers is dominated by a limited number of major players, among whom HEXPOL Gaskets is a market leader. The largest competitors are the family owned company TRP and the Trelleborg Group. A few OEM manufacturers of plate heat exchangers also have proprietary gasket production operations.

The market for polyurethane wheels is dominated by roughly ten manufacturers, of which HEXPOL is among one of the leading companies. The primary competitors in the European market are Räder-Vogel and Wicke; both are family owned. In the US market, Thombert, Superior, Millennium, and HEXPOL's Stellana US are the four largest companies.

Numerous minor wheel manufacturers are active on the local level in both markets. The Chinese market is highly fragmented with a large number of manufacturers of polyurethane, plastic, and rubber wheels. The relatively fragmented global market is presenting opportunities for continued growth through acquisitions.

**OPERATIONS IN 2017**

HEXPOL Engineered Products sales increased to 904 MSEK (851) in 2017, a year-on-year increase of just over 6 percent. Operating profit during the

same period amounted to 113 MSEK (115). The operating margin amounted to 12.5 percent (13.5).

HEXPOL Gaskets sales were slightly higher than previous year. Demands for shorter lead times are always in focus. Shorter lead times 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 2017, which has resulted in increased sales within HEXPOL Wheels. The price pressure remained high, especially for forklift wheels in Europe and China. Despite this pressure, HEXPOL Wheels has had a positive sales development in all markets.

**FUTURE PROSPECTS AND PRIORITIES**

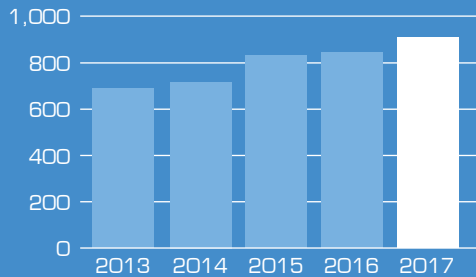
The goal of HEXPOL Gaskets is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market for gaskets for plate heat exchangers is growing long-term due to increased demand for energy efficient solutions. On the logistics side, unique customer solutions will provide additional opportunities for reducing lead times and make it easier for customers to do business with HEXPOL Gaskets. HEXPOL Gaskets focus on developing new markets in Asia and North America continues. During the year, capacity utilization in China increased further and increase in efficiency was achieved. HEXPOL Gaskets carefully monitors market developments and can quickly expand its capacity when needed.

HEXPOL Wheels continued to optimise its operations during 2017. These efforts are core strategic value for all units globally. The establishment of a distribution center in Europe for the servicing the aftermarket enables HEXPOL Wheels to reduce the time to market while drawing closer to the end user, in accordance with the concept "Think global, act local".

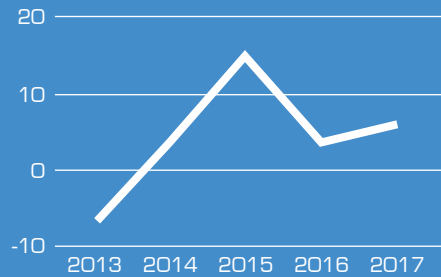
The assessment that the currently fragmented wheel market will enter a consolidation phase stands firm. HEXPOL is well positioned to take an active role in any structural projects. Continued investments in customer service and product development are critical factors for success in 2018. HEXPOL Engineered 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 implemented in all production units.

# HEXPOL ENGINEERED PRODUCTS, FIVE-YEAR FIGURES

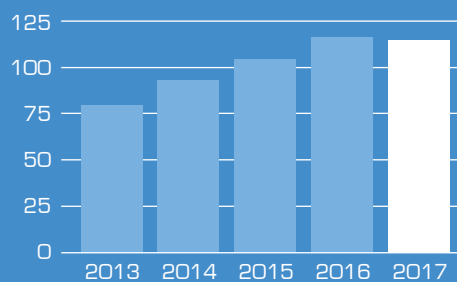
SALES, MSEK



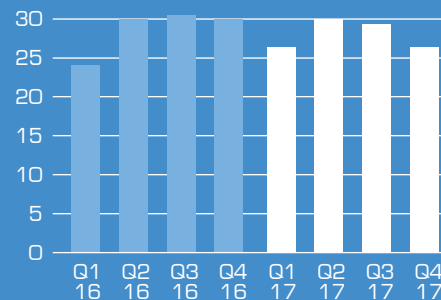
SALES GROWTH, %



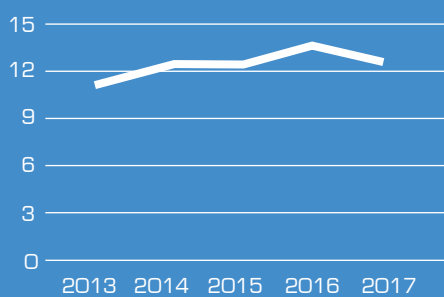
OPERATING PROFIT, FULL-YEAR, MSEK



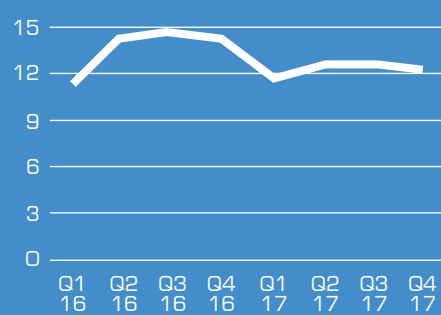
OPERATING PROFIT, QUARTERLY, MSEK



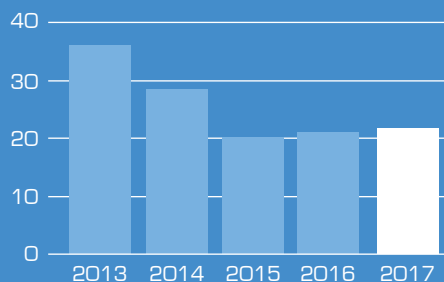
OPERATING MARGIN, FULL-YEAR, %



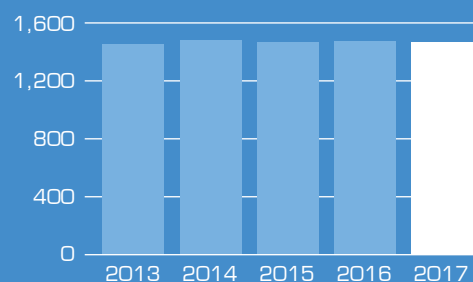
OPERATING MARGIN, QUARTERLY, %



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 Product Area Manager.

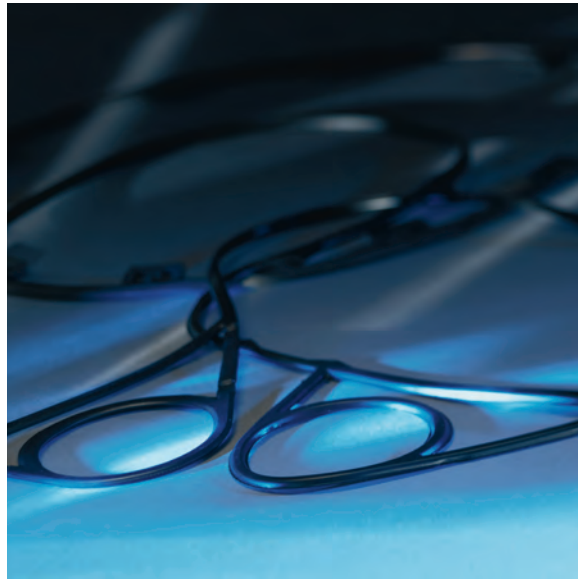
## TECHNOLOGY AND PRODUCTS

HEXPOL Gaskets is a product specialist for the manufacture of rubber gaskets for plate heat exchangers. The technology content is high, and the end product is characterised 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. The parameters that determine the choice of gasket type and rubber material are temperature, pressure and media. Performance of the gasket is dependent on the composition of the rubber material and the geometric design of the gasket. Both 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 units are in Europe (Sweden) and Asia (Sri Lanka and China). All the constituent rubber compounds needed for manufacturing within the product area are manufactured adjacent to the unit in Sweden. The rubber material is then distributed to the respective manufacturing units, thus ensuring the quality of the end product regardless of its production site. The machinery is highly standardised among the units, providing flexibility and allowing for easy shifts in production among the units, 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 positions in China, especially in the



more demanding application areas. The market for gaskets for plate heat exchangers is driven primarily by increased prosperity, increased globalisation, marine transports, demands for reduced emissions, energy efficiency and energy gains.

## DISTRIBUTION

The shared ERP system provides the three units within HEXPOL Gaskets benefits through transparency between the units. This represents an advantage, since logistics are complex with deliveries worldwide that must meet short lead times. HEXPOL Gaskets has for many years been 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.

## MATERIAL DEVELOPMENT WITH CUTTING-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 specialists have extensive insight and knowledge into how a heat exchanger operates within their respective areas of application. This is gained through very close co-operation with customers, which provides invaluable input for materials development projects. Development of rubber materials for a new gasket application for plate heat exchangers usually takes



several years 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 strives to constantly be on the cutting edge in terms of customer focus and customer value. The goal is to have the highest expertise and availability in the market. 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, except for 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 to maintain its market-leading position.

#### LOCAL DISTRIBUTION

An efficient distribution of the gaskets manufactured at the various global units creates competitive advantages for HEXPOL Gaskets and its customers by providing a high degree of accessibility and short lead times, while generating economies of scale in the manufacturing process. The integration of all operating units and distribution centers into a shared ERP system has resulted in shorter internal throughput times and better management of the items that should be available for routine deliveries from the warehouse. A large part of total sales is distributed from local distribution centers in Europe, Asia and NAFTA. 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 within HEXPOL Engineered Products comprises four units. The 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 wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications. HEXPOL Wheels produces five high quality product ranges: polyurethane wheels, thermoplastic wheels, rubber wheels and tires, solid rubber tires, and various special products comprised of the materials previously mentioned.

The global forklift market is highly differentiated in terms of product requirements and the selection of materials. In the European market, Vulkollan™, licensed by Covestra, is the market leading polyurethane through its durability and ability to cope with high loads without becoming deformed. HEXPOL Wheels is one of the leading manufacturers of Vulkollan™ wheels in Europe. In other markets, polyurethane is used as a generic term and HEXPOL Wheels has an extensive selection of various material types. HEXPOL Wheels is on the cutting edge in terms of developing wheels for new forklift models in Europe, the US, and in Asia. A contributing factor in design success is access to advanced testing equipment to simulate realistic wear and various types of strain.

HEXPOL Wheels size also creates leverage in new raw material development plus access to a highly extensive global product portfolio. Considerable emphasis is placed on the control and handling of raw materials, which are mainly purchased from certified suppliers. The production process



is real-time monitored and quality controls are conducted at several phases during the process. The machinery is continuously upgraded and is typically highly automated.

#### BUSINESS MODEL AND STRATEGY

HEXPOL Wheels develops and markets wheels, mainly for the transport and materials handling industry. The operation is international with 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 forklift manufacturers in all major markets. HEXPOL Wheels also offers a comprehensive range of replacement wheels in the aftermarket. Most aftermarket sales are conducted through OEM forklift manufacturers, although independent distributors are also used to gain greater access to the market. The distribution center in Hamburg, Germany, targets customers in the aftermarket with quality service and fast delivery. Several major customers are increasing production capacity to capitalize on the rapidly expanding Asian markets. The market for polyurethane wheels is growing strongly in China.

HEXPOL Wheels' global presence enables it to monitor customer requirements 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 tires 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 facility in Horana, Sri Lanka, manufactures rubber castor wheels, injection-molded thermoplastic wheels and solid tires. 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 is located in Sri Lanka for the development of own and customer specific products. Technical support for product development, testing and validation is 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

## STELLANA WHEELS IN HYPERLOOP COMPETITION

**The Hyperloop is a conceptual fifth generation transportation system consisting of levitating high-speed capsules traveling through low-pressure vacuum tubes. The concept was introduced by Elon Musk in 2013, through his company SpaceX, and aims to provide a cheaper, more efficient, sustainable alternative to existing means of transportation.**

To speed up development and encourage innovation in the younger generation, the SpaceX Hyperloop Pod Competition was initiated in 2015. The competition is an open challenge to student teams across the globe to design and build Hyperloop test vehicles. The ultimate prize is a high-speed test run in the mile-long Hyperloop system in Hawthorne, California.

Teams throughout the world have enrolled and Stellana had the opportunity to support Paradigm, an international team consisting of students from the Memorial University of Newfoundland & Labrador in Canada and the Northeastern University in Boston, Massa-

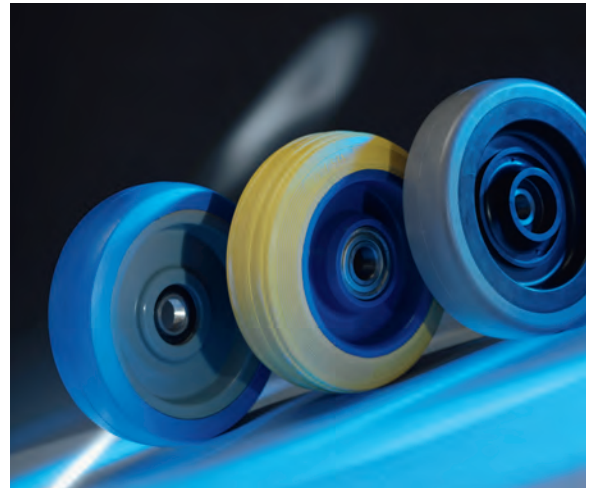
chusetts. The Paradigm team took advantage of Stellana's expertise in wheel design and material science to design a safety system which would create stabilisation while slowing down the vehicle from high speeds.

The Paradigm team placed second in the August 2017 competition being the fastest team in North America and the second fastest team in the world. Stellana's polyurethane wheels may be best known in the Materials Handling industry but are suited for use in many applications and industries where durability and performance are key features.



Europe, but also to Asia, Africa, the Middle East, Australia and the US. Products from Sri Lanka are now also distributed via the distribution center 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 China has a position as a supplier of high quality wheels and has close 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.



## NANOMATERIALS FOR IMPROVED ELECTRICAL CONDUCTIVITY – AN INNOVATION IN RUBBER COMPOUNDING

**Elastomeric Engineering jointly with Sri Jayewardenepura University, have been awarded the Best Conference Paper Award at the ICIRSTM at the University of Singapore in 2017. The research material was on the “Synergistic effect of carbon nanofiber and non-ionic surfactants for improved electrical conductivity of natural rubber composites”.**

As a follow up to this innovation, Elastomeric Engineering have completed the next step of research relating to conductive rubber compounding. The next development comes in the form of silica-filled, non-marking rubber compositions which contain a Carbon Quantum Dot (CQD) nanomaterial, infused with Lithium Chloride (LiCl), to improve electrical conductivity and reduce manufacturing costs. This nano-rubber composition when incorporated into the silica-reinforced treads of non-marking tyres will prove very useful in dissipating any electrostatic charges that accumulate during operation.

Electrostatic build-up has been a common problem for industrial fork-lifts since it causes interference with the vehicles' electronic components. It can also produce a shock hazard to vehicle operators and passengers, and even safety hazards associated with refueling. While most rubber tyres are sufficiently conductive and can dissipate electrostatic charges, this is not the case for non-marking tyres which have non-conductive silica in their treads. The excellent traction and lower wear benefits of silica-filled treads are faced with the downside of harmful electrostatic build-up.

By studying the conductivity effects of CQDs in rubber compounding; Elastomeric Engineering have now solved this problem with its new nanomaterial technology. Due to its chemical inertness, its greatly reduced cytotoxicity compared to the other quantum dots, and more importantly, its electrical semi-conductive property; CQDs were synthesized from a special processing aid by using the solvothermal green synthesis method.

For the first time, the effects of CQDs on electrical and mechanical properties of the natural rubber compounds were studied: Digital Multimeter readings were used to measure volume resistivity according to ISO 2878 standards. The tensile properties were measured according to ISO 37 using a standard Tensometer, and an Oscillating Disc Rheometer (ODR) was used according to ASTM D2084, to study the curing characteristics. The curing properties were studied in terms of optimum curing time ( $t_{90}$ ) and scorching time ( $t_{10}$ ).

It was conclusively discovered that the conductivity of the natural rubber composite strongly depended on the dispersion of CQDs and LiCl. The minimum quantity of CQDs needed to form a continuous network is known as the percolation threshold. It was also revealed that the volume resistivity of the natural rubber compounds decreased by increasing the CQDs and LiCl content.



# 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 2017 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.), with 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 AB had 14,716 shareholders on December 31, 2017. The largest shareholder is Melker Schörling AB with 26 percent of the capital and 47 percent of the voting rights. The twenty largest shareholders own 63 percent of the capital and 74 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 (Wheel). Customers are mainly systems suppliers to players in the global automotive and engineering industries, building and construction sector, the energy, oil and gas sector, 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 4,389 employees in eleven countries at year-end.

# FINANCIAL YEAR 2017

## SALES AND OPERATING PROFIT

The HEXPOL Group's sales increased 12 percent to 12,230 MSEK (10,879) during the year. Currency effects had a positive impact of 5 MSEK on sales. Currency effects had a positive impact on sales in the first and second quarter by 118 and 162 MSEK respectively while sales were negatively affected in the third and fourth quarter by 106 and 169 MSEK respectively.

The volume development was positive and the sales growth (adjusted for currency effects), amounted to 12 percent. Sales growth (adjusted for currency effects and acquisitions) amounted to 5 percent. During the year, the prices on our main raw materials have increased and the price pressure continued strong.

Sales in Europe (including Berwin Group, acquired in June 2016 and Trelleborg Material & Mixing Lesina, acquired in March 2017) increased 24 percent compared to the previous year. Sales in NAFTA (including Valley Processing, acquired in April 2017) increased 7 percent and in Asia 16 percent compared with the previous year. Adjusted for the acquired units, sales were higher in both Europe and in NAFTA compared with the previous year.

Operating profit increased 3 percent to 1,986 MSEK (1,921) and the operating margin amounted to 16.2 percent (17.7). Exchange rate fluctuations had a negative impact of 2 MSEK on operating profit for the year. Exchange rate fluctuations had a positive impact on the operating profit in the first and second quarter by 21 and 29 MSEK respectively while the operating profit was negatively affected in the third and fourth quarter by 23 and 29 MSEK respectively.

On March 31, Trelleborg's Rubber Compounding unit in Czech Republic, a well-known Rubber Compounder in Central Europe, was acquired.

Trelleborg Material and Mixing Lesina s.r.o, with a manufacturing facility in Lesina, Czech Republic has around 130 employees. Net sales amounted to 46 MEUR during 2017.

In early April, Valley Processing, a well-known Rubber Compounder in western US, was acquired. Valley Processing, with a manufacturing facility in California, US, had net sales of 35 MUSD in 2017 and has around 90 employees. Valley Processing's manufacturing facility in Virginia is not included in the transaction. Transaction costs of 6 MSEK have been reported during the year.

The HEXPOL Compounding business area's sales increased 13 percent to 11,326 MSEK (10,028) during the year. Operating profit increased 4 percent to 1,873 MSEK (1,806). The operating margin amounted to 16.5 percent (18.0).

The HEXPOL Engineered Products business area's sales increased 6 percent to 904 MSEK (851) during the year. Operating profit amounted to 113 MSEK (115), and the operating margin amounted to 12.5 percent (13.5).

## FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 18 MSEK (expense: 8), of which interest expense amounted to 13 MSEK (expense: 10).

## TAX EXPENSES

The Group's tax expenses amounted to 441 MSEK (516). Non-recurring effects of the tax reform, which was decided in the US in December 2017, were positive and amounted to 104 MSEK. The largest part of non-recurring effects consists of recalculation of deferred tax assets and liabilities, which do not affect the cash flow. The non-recurring effects also include non-recurring taxation of profits in subsidiaries with parent company in the US, which will be paid in coming years. Adjusted for these non-recurring effects the tax expenses amounted to 545 MSEK, which corresponds to a tax rate of 27.7 percent (27.0). In the US tax reform, the state corporate taxation changed among other things from 35% to 21% and if it had been in

## HEXPOL COMPOUNDING KENNEDALE RECEIVES SUPPLIER AWARD

HEXPOL's Joey Young, General Manager HEXPOL Compounding Kennedale attended a Valmet suppliers meetings beginning of May 2017 and HEXPOL Kennedale was awarded the Most Sustainable Supplier out of over 10,000 suppliers. This was due to HEXPOL's dedication to programs that have a positive impact on the environment including reducing energy consumption and landfill reduction programs, among many others.



force in 2017 the tax rate for the Group is estimated to have been approximately 4 percentages lower.

### NET PROFIT FOR THE YEAR

Profit before tax during the year increased to 1,968 MSEK (1,913). Profit after tax increased to 1,527 MSEK (1,397) and earnings per share rose 9 percent to 4.44 SEK (4.06). Non-recurring effects of the tax reform in the US were positive and amounted to 104 MSEK and adjusted for these the profit after tax amounted to 1,423 MSEK and earnings per share to 4.13 SEK, an increase of 2 percent.

### INVESTMENTS, DEPRECIATION AND AMORTISATION

The Group's investments amounted to 199 MSEK (166) and are mainly attributable to maintenance investments and capacity investments within HEXPOL TPE Compounding. Depreciation, amortisation and impairment amounted to 243 MSEK (216).

### PROFITABILITY

The return on average capital employed, R12, amounted to 25.1 percent (26.8). The return on shareholders' equity, R12, amounted to 22.2 percent (20.5).

### CASH FLOW

The operating cash flow amounted to 2,001 MSEK (2,057). Cash flow from operating activities amounted to 1,699 MSEK (1,710).

### FINANCIAL POSITION

The equity/assets ratio amounted to 68 percent (77). The Group's total assets amounted to 10,350 MSEK (9,848). Net debt amounted to 27 MSEK (net cash 1,268). The dividend of 1,635 MSEK (585) resolved at the Annual General Meeting was paid by HEXPOL in May corresponding to a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share and a special dividend of 3.00 SEK per share.

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 2020.

Unused amount for these two credit agreements was 1,704 MSEK at year-end.

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 5,227 MSEK (4,577).

### 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 affecting comparability) is to exceed 17 percent.

### PRINCIPLES FOR REMUNERATION OF SENIOR EXECUTIVES

The 2017 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 2018 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable and is capped at 130 percent of the fixed salary. The Board shall be entitled to depart from the guidelines if there are reasons for doing so in individual cases.

### RESEARCH AND DEVELOPMENT

During the year, HEXPOL's research and development expenditure amounted to 91 MSEK (82), mainly comprising development expenses in close collaboration with customers. The Group has currently 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):

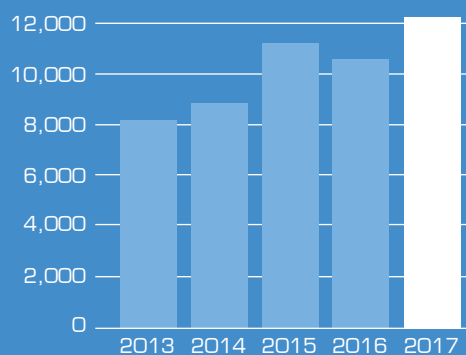
Profit brought forward	1,433,594
Share premium reserve	597,880
Profit for the year	975,095
Total unrestricted funds	3,006,569

The Board proposes that the unappropriated funds be disposed of as follows: that the shareholders be paid a dividend of 1.95 SEK per share.

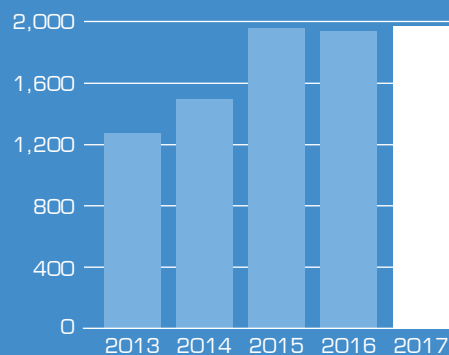
Total dividend from profit brought forward	671,192
To be carried forward	2,335,377
Total	3,006,569

# FIVE-YEAR OVERVIEW

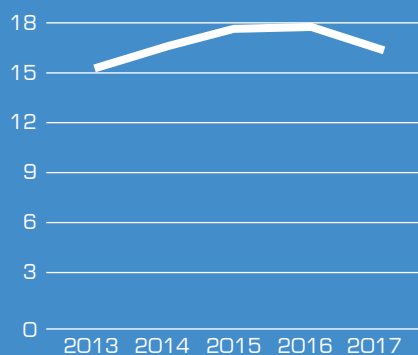
SALES, MSEK



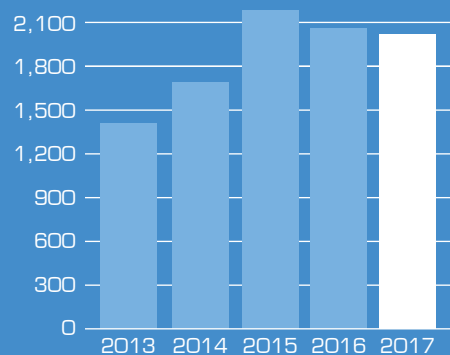
OPERATING PROFIT, MSEK



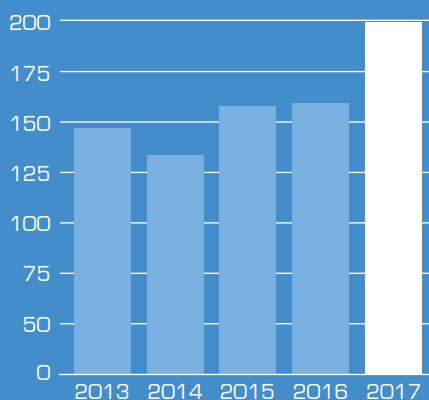
OPERATING MARGIN, %



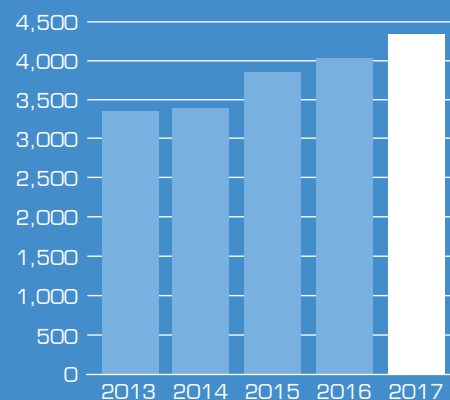
OPERATING CASH FLOW, MSEK



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
<b>Key personnel</b> 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.
<b>Production disruptions</b> 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.
<b>Raw material</b> 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
<b>Legislation and regulation</b> 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.
<b>Tax risks</b> 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.
<b>Intellectual property rights</b> 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.
<b>Health, safety and the environment</b> 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
<p><b>Currency risk</b></p> <p>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).</p> <p>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.</p>	<p>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.</p> <p>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 161 MSEK.</p>
<p><b>Interest risk</b></p> <p>Changes in the market interest rates affect HEXPOL's net financial items.</p>	<p>Excess liquidity and credit agreements are primarily managed at Group level and in accordance with the financial policy and to variable interest rate.</p> <p>External liabilities December 31, 2017, amounted to 840 MSEK (29), which limits the interest risk.</p>
<p><b>Credit risks</b></p> <p>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.</p>	<p>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.</p> <p>HEXPOL's excess liquidity is primarily used to amortize external loans and further surpluses are placed in well-known banks.</p>
<p><b>Financing and liquidity risk</b></p> <p>To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations could ultimately require additional financial resources.</p> <p>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.</p>	<p>HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions.</p> <p>HEXPOL has two major credit agreements with Nordic banks, both of which were unused December 31, 2017:</p> <ul style="list-style-type: none"> <li>· A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2020.</li> <li>· A three-year credit agreement with a limit of 1,500 MSEK that will fall due in August 2020.</li> </ul>
<p><b>Insurable risks</b></p> <p>HEXPOL's operations, assets and employees are to some extent exposed to various types of risks that may affect HEXPOL's operations.</p>	<p>HEXPOL has a centrally procured insurance coverage for property, responsible, interrupt, travel and transport insurances, etc., combined with local insurances where necessary.</p>

## SUSTAINABLE DEVELOPMENT RISK MANAGEMENT

Risk	Risk management
<b>Contaminated soil</b> Most of the Group's facilities are built on land that was not previously used by contaminating operations. No emissions or accidents of significance to the land and groundwater were registered in 2017. Limited soil contamination occurs at three facilities. They are of historical character and there are no legal requirements for soil remediation that concern the Group.	Regular assessments of the risk for soil contamination and other environmental damage are made in conjunction with acquisitions. Where it is considered necessary, sampling of soil and groundwater is conducted. Through risk analysis and preventative actions the probability and the consequences for uncontrolled emissions are minimized.
<b>Hazardous substances in buildings</b> 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.	Regular assessments of the presence of asbestos and PCB are made in conjunction with acquisitions. In accordance with the legislation in different countries inventories has been carried out and relevant precautions have been taken. Further actions is currently not applicable.
<b>Climat-related risks</b> Three of the facilities 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 acquisitions and supplier assessments.
<b>Environmental adaption of products</b> The interest for environmentally adapted products is increasing in many industries and many of the customers sets requirements regarding phase-out of hazardous substances and other properties that have importance to health and environment. If the requirements are not met, there is a risk that the deal will be lost.	The Group is taken an active role within the area and is offering knowledge that contributes to environmental friendly product development. Many of the Group's "green products" gives good business benefits, for example Dryflex Green which consist bio based raw materials.
<b>Human rights</b> The risk for any violation of the human rights at HEXPOL's production facilities are considered low. The main part of the Group's suppliers of raw material is global chemical companies and the risks around human rights are considered as low. HEXPOL has identified suppliers of natural rubber as a potential risk area. Formal sustainability audits have been therefore been performed at natural rubber plantations in Sri Lanka. The situation around human rights was assessed as good.	HEXPOL's code of conduct (Materializing Our Values) specifies the view of human rights. The code of conduct is supplemented by the commitments in the UN Global Compact. The system with whistle-blowing gives the employees the opportunity to blow the whistle and draw attention to possible irregularities. In the collected data for the annual Sustainability report, all companies must take a stand on questions regarding human rights in their own operation and among the suppliers. Any significant deviations have never been registered.
<b>Anti-corruption</b> The Group has operations in both industrialised countries and developing countries. No matter where the operations are, there is a risk that sound valuation principles are not applied. In the materiality analysis done by HEXPOL (see the Sustainability Report) good business ethics is given very high priority. The message from the Group management is that zero tolerance is applied for anti-corruption and lack of business ethics.	Global Compact and the business ethic guidelines are guiding the employees in questions regarding what is and is not allowed in the contact with business partners. In the Compliance Program the managers confirm, through their signature, that the rules are followed. Managers and employees within sales and marketing are part of the mandatory educations within the area. In the collected data for the annual Sustainability report, all companies must take a stand on how they have worked against corruption during the year. The questions originate from Global Compact. Any significant deviations have never been registered.



# SUSTAINABILITY REPORT

## Sustainability work adds value

Taking responsibility for people, the environment and society is a key feature of HEXPOL's corporate culture and sustainability work creates value for the Group's stakeholders. Issues such as the environment, occupational health and safety, social responsibility and business ethics are important components in daily work and in long-term strategic planning. The ambition is to contribute to a better environment and to reduce climate impact, satisfy society's requirements and expectations and generate business opportunities.

## STRATEGY AND GOVERNANCE

### Strategy for sustainable development

Preventive environmental and occupational health and safety work has long been established in the Group. In recent years, the lifecycle perspective of raw materials, processes and products has become an increasingly important issue. Social responsibility and sound business ethics are other strategic issues that create fundamental prerequisites for successful business operations.

The Group's long-term strategy is based on the stakeholders' requirements and expectations and focuses on:

- Reducing risks and costs through preventive measures, risk assessments and investments in modern technology. Issues involving energy, climate and chemicals have been assigned particular priority.
- Generating business opportunities through responsible conduct, and developing resource-efficient production methods and products.
- Working systematically with the help of standards for the environment, quality, occupational health and safety and energy. The company also applies the Lean Manufacturing, 5s and internal management system concepts.
- Being a good corporate citizen and as such engaging current employees and attracting new ones.
- Applying sound business principles and good business ethics. Active efforts to prevent corruption are an important feature of this work.
- Being open in communication about sustainable

development – in terms of both successes and setbacks.

- Integrating sustainability issues into HEXPOL's strategic planning and business model.

### Governance, follow-up and communication

Sustainable development is a feature of HEXPOL's strategic planning and budget process. Practical work involving the environment, occupational health and safety, social issues and business ethics is decentralised and the heads of Group companies are responsible for directing and following up this work. The activities are followed up by Group management through dialogues with the companies' management and through internal and external audits. In connection with the Sustainability Report, an in-depth analysis is conducted of compliance with legislation, goal fulfilment and how the companies performed and of key performance indicators during the year. 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.

HEXPOL communicates its sustainable development activities in a separate sustainability report in accordance with statutory sustainability legislation and the Global Reporting Initiative (GRI). The Group's performance in the climate area is reported in accordance with the Carbon Disclosure Project (CDP). The sustainability work is regularly scrutinised by independent institutions and investors, and expectations concerning transparency and performance are steadily increasing.

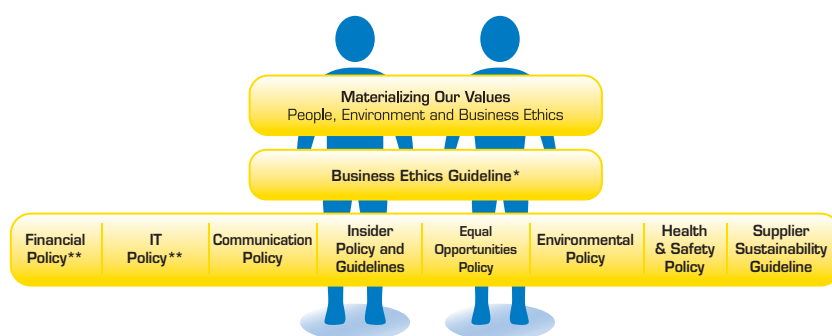
## HIGHLIGHTS OF 2017

- HEXPOL joined the UN Global Compact on corporate responsibility.
- Good results from energy optimisation through energy surveys and investments in energy-smart lighting and production equipment.
- Measures to reduce climate impact were implemented – energy optimisation, purchases of fossil-free electricity and increased use of biofuel.
- Continued systematic sustainability work through environmental, occupational health and safety and energy standards.
- The Group companies successfully met customer requirements concerning the environment, business ethics and social responsibility.
- Many activities were implemented together with schools and universities – study visits, traineeships and degree projects.

Read more in HEXPOL's sustainability report at [www.hexpol.com](http://www.hexpol.com)

## IMPORTANT GUIDELINES

Laws, guidelines, standards, global objectives and voluntary initiatives form the foundation for sustainability work. The Group's fundamental values – which are based, among other things, on the



\* Supported by a Compliance Program relating to Competition and Anti-trust law.  
 \*\* Policies available for all employees but not externally distributed.

Global Compact – are applied in the same way in all operations throughout the world.

### Materializing Our Values

Materializing Our Values is the Group's code of conduct and functions as an ethical compass in matters involving legal responsibility, accounting, conflicts of interest, working conditions, the environment, social responsibility and business ethics. The code of conduct was updated during 2017.

### Code of business ethics

This code guides the employees in matters concerning what is and what is not permitted in business contacts with customers, suppliers, competitors and distributors. Deeper guidelines are provided in a detailed Compliance Program, in which all managers in the Group confirm with their signatures that they are complying with the rules. The managers participate in compulsory training programmes in the area. There is zero tolerance of non-compliance in respect of business ethics.

## 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.



## HEXPOL PARTICIPATES IN GLOBAL COMPACT

### A challenging commitment

In May 2017 HEXPOL successfully applied for participation in UN Global Compact. Global Compact is the world's largest corporate sustainability initiative with more than 12,000 signatories in 170 countries. So far, around 9,400 companies, representing all kinds of industrial sectors, have signed the Global Compact. It can be seen as a call to companies to align strategies and operations with universal principles on human rights, labor, environment and anti-corruption, and take actions that advance societal goals.

HEXPOL's participation in Global Compact is voluntary – but as a member of the initiative we have to bring the commitment to life. We are therefore asked to:

- Make the UN Global Compact and its principles an integral part of HEXPOL's business strategy, day-to-day operations and organizational culture.
- Incorporate the UN Global Compact and its ten principles in our decision-making processes at the highest levels.
- Engage in partnerships that advance the UN Global Compact's principles and support broader UN goals, such as the UN Sustainable Development Goals.
- Advance the UN Global Compact and the case for responsible business practices through advocacy and outreach to peers, partners, clients, consumers and the public at large.
- Make an annual financial commitment to support the work of the UN Global Compact Office. HEXPOL participates on "Signatory" level.

WE SUPPORT



- Produce an annual Communication on Progress (COP) that outlines the efforts to operate responsibly and support society. In our case we will use the annual Sustainability Report to verify HEXPOL's commitment to Global Compact.

### HEXPOL support the Sustainable Development Goals

In September 2015, all 193 Member States of the United Nations adopted a plan for achieving a better future for all – laying out a path over the next 15 years to end extreme poverty, fight inequality and injustice, and protect our planet. At the heart of "Agenda 2030" are the 17 Sustainable Development Goals (SDGs), which clearly define the world we want – applying to all nations and leaving no one behind. The new global goals result from a process that has been more inclusive than ever, with Governments involving business, civil society and citizens from the outset.

During 2016-2017 we linked HEXPOL's Sustainability Objectives to the UN Sustainable Development Goals. In our case the following SDGs were the most relevant: Goal 7 "Affordable and clean energy", Goal 8 "Decent work and economic growth", Goal 9 "Sustainable industry, innovation and infrastructure", Goal 12 "Responsible consumption and production", and Goal 13 "Climate action".

### Whistleblowing

The whistleblowing system empowers all employees to blow the whistle to bring irregularities concerning the code of conduct to the attention of the Board of Directors and company management. During the year, one case was registered that not led to further action.

### Global Compact

During 2017, HEXPOL joined the UN Global Compact, whereby the Group undertook to support ten fundamental principles in respect of human rights, labour conditions, environmental consideration and anticorruption. Read the Sustainability Report for more information on the Group's Global Compact work.

### UN global objectives

Introduced by the UN in 2015, the global objectives for sustainable development place high

expectations on the actions taken by the business sector. This applies both to corporate responsibility and transparent results reporting, as well as the development of products and services that promote sustainable development. HEXPOL's corporate objectives are linked to the global objectives.

### International standards

Standards for quality, the environment and other areas are applied at the Group's production facilities. These standards include ISO 14001 (environment), ISO 9001 (quality), OHSAS 18001 (occupational health and safety), ISO 50001 (energy) and ISO 26000 (social responsibility).

### Legal and other requirements

HEXPOL is subject to comprehensive legislation, including a ban on the formation of cartels, export and import ordinances during international business transactions, trade embargoes and economic

sanctions. Legislation governing the environment and occupational health and safety areas is substantial and most of the production units are subject to permit obligations in accordance with legislation in the country concerned. In addition, a number of the Group's products are subject to various environmental requirements. The majority of customers impose their own sustainable development demands.

#### Supplier Sustainability Guideline

These guidelines guide the company's suppliers in environmental and occupational health and safety matters, human rights, business ethics and the supplier's value chain.

#### VALUE FOR STAKEHOLDERS

The stakeholders' requirements and expectations are important, and HEXPOL actively participates in appraisals, dialogues and exchanges of views. The intention is to add value for the stakeholders and, with this in mind, the Group is working to:

- Fulfil customer requirements in respect of quality, delivery precision, sustainable development and other areas. HEXPOL's relationship to its customers is characterised by professionalism, a high service level, quality awareness and good business ethics.

- Subject the suppliers to relevant requirements and implement constructive follow-ups.
- Communicate on a regular basis with the capital market, including shareholders, investors, analysts, banks and media.
- Listen to and cooperate with the Group's approximately 4,400 employees. This is accomplished through measures such as performance reviews and HR surveys.
- Maintain good contacts with neighbours, authorities, mass media, schools, universities and other representatives of society.

The Sustainability Report contains more information on the stakeholders' requirements and expectations, and how HEXPOL adds value for the various stakeholder groups.

## QUERÉTARO & AGUASCALIENTES LEADERSHIP TRAINING PROGRAM

During 2017, the Queretaro and Aguascalientes Management Teams in Mexico participated in a Leadership Skills Development Program.

This program consisted of several assessments to determine skills and personality factors; also 6 workshops with topics like Leadership with the Power of Coaching, High Performing Teams, Delegation, Follow-Up and Effective Feedback, among others. Executive Coaching was administered to a group of selected participants. To encourage the team to give and receive feedback to facilitate personal growth were also a part of the curriculum.

This training was provided in two different groups, one for Aguascalientes and another one for Querétaro. The program concluded with Team Building activities for the plants.

HEXPOL is highly committed with leadership development, we grow our business by growing our people.





## GOLD KEY PROCESSING RECOGNIZED WITH SILVER LINK AWARD THREE CONSECUTIVE YEARS



**Dave Perry, Division Sourcing & Procurement Manager for Parker Hannifin Corporation Hose Products Division visited the GoldKey Processing, Inc campus located in Middlefield, OH to present the GoldKey associates with the Parker Hose Products Division 2017 Silver Link Strategic Supplier Award.**

A tour of the GoldKey campus to recognise all associates for the achievement of the award which is in recognition of the dedicated support of their supply chain and continued efforts to meet key objectives.

As a Silver Link Supplier, GoldKey is seen as truly a valued partner in the success of The

Hose Products Division of Parker Hannifin's business. This award is a key indicator of Gold Key's focus on customer service, health of the business and the strong relationship between the two organisations. Jerry Saxion, Managing Director of GoldKey Processing commented, "It is humbling to be recognised by Parker Hannifin HPD with the Silver Link award for the third consecutive year. Our associates, at all levels of the organisation, are vital to GoldKey's success and are directly responsible for creating such a positive culture focused on safety, mentorship and servicing our customers."



## HEXPOL SUPPLIES RELIEF FOR MEXICO EARTHQUAKE VICTIMS

**Two powerful earthquakes struck Mexico September 7th and 19th 2017 with a magnitude of 8.1 and 7.1 respectively. These affected 5 different States (Morelos, Oaxaca, Chiapas, Puebla, Estado de Mexico) as well as Mexico city. These events also caused a lot of damage to many buildings, making more than 2 million persons lose their homes.**

HEXPOL is committed with social responsibility by joining the cause through donations of supplies directly to the most needed people. A Relief Fund was approved by the NAFTA management by assigning an important amount from each facility in Mexico (Querétaro &

Aguascalientes) showing that people helping people is one of our main values in our HEXPOL family. US employees are also being part of this Relief Fund by making the great effort to donate money.

Help is getting directly to the victims thanks to the management of funds by HEXPOL Mexico teams in both plants, which have identified places and specific needs to deliver the main required items like medicine, construction tools, gloves, safety equipment, insulin, flashlights, cleaning and hygienic kits, tarpaulins, food, water, blankets, construction materials, etc.

Donations have been divided between Morelos, Oaxaca, Puebla and Mexico City with HEXPOL representatives overseeing the delivery of all goods.

## RELEVANT INFORMATION TO SHAREHOLDERS 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. This is aimed at strengthening confidence in the company among existing and potential shareholders.

The Group complies with customary accounting

policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. HEXPOL applies a policy of transparency in its reporting and, in line with the Group's communication policy, provides well-founded, comprehensive information to the market. Corporate governance is described in the Corporate Governance Report on pages 64-69 and is available at [www.hexpol.com](http://www.hexpol.com). All published financial information is also available on the website, as are presentations, press releases, financial statements, annual reports and sustainability reports.

## HEXPOL COMPOUNDING NAFTA SAFETY PROGRAM

**The HEXPOL Compounding NAFTA safety team focuses on keeping associates safe. The mission statement of the team is simple: "Develop a world class safety culture." The key building blocks of the safety program are:**

- Awareness and Communication
- Corrective Action Process
- Preventive Action Process
- Cardinal Safety Rules
- Internal Safety Audits

The NAFTA safety team conducts weekly conference calls, and every campus is represented. The discussion revolves around all safety incidents which have been reported in a safety database. What happened; what action was taken; and what "look across" actions can be taken at each site to prevent reoccurrence?

Every month, each site conducts a monthly safety communication meeting with all associates. This is a campus wide meeting where all prior month NAFTA recordable injuries; near-miss safety incidents; internal safety audit results; and any other applicable safety topics are presented to help educate the work force.

During 2017 associates from one site traveled to another site to perform safety audits. All safety findings and observations were documented, and corrective actions were

implemented by the site being audited.

Through October 2017, the NAFTA safety incident rate has improved versus the 2016 safety incident rate by 27%. A continuous improvement approach has been taken by the NAFTA safety team. The goal is to send associates home in the same condition as when they arrived at work.

The safety team decided the next logical step to the NAFTA safety program was to include the sales team, as well as any associate who travels for HEXPOL business purposes. The safety program needed to be expanded to include every aspect of the business. The National Safety Council offers an online defensive driving program, and the team opted to have every associate who drives a vehicle for HEXPOL business take (and pass) the course. Over four hundred associates have taken and passed the defensive driving course.

As the NAFTA safety team shapes the safety landscape for 2018, a huge focus will be on 24/7 safety. Keeping associates safe at work will continue to be a major focus. However, the team will also educate associates on the importance of being safe at home.

## Goals and performance measures for sustainable development

HEXPOL implements targeted activities to reduce its environmental impact, create safe and secure workplaces conducive to development and to be a good corporate citizen. The work is conducted systematically and the results are reported in the Group's sustainability report. The targets are linked to the UN's Agenda 2030 and the global objectives for sustainable development. Performance measures showing the trend in a number of important areas are presented below.

### ENVIRONMENTAL RESPONSIBILITY

Work on multiple environmental issues continued during the year. Important driving forces were to reduce environmental impact and to comply with environmental legislation in the countries served by the Group. Other activities were targeted at generating business value from the environmental measures. Better husbandry of resources through more efficient use of energy, water and raw materials are examples of how environmental and business value interact. Environmentally compatible product development is another high-priority area in which HEXPOL's expertise and technology can contribute to the customers' environmental work. The Group has set a number of long-term objectives in the environmental area.

### ENVIRONMENTAL ASPECTS AND ENVIRONMENTAL LEGISLATION

Key environmental aspects that affect HEXPOL's operations include the use of resources in the form of polymer raw materials (rubber, plastics), chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects comprise the environmental impact of suppliers, transportation of raw materials and complete products, and customer use of the Group's products.

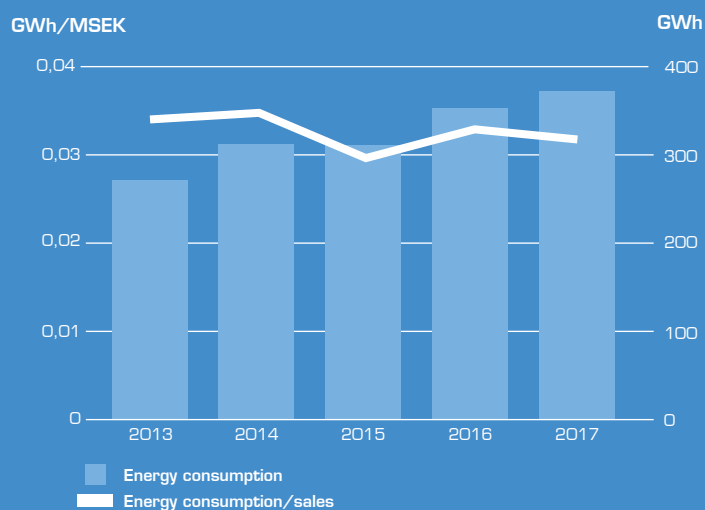
HEXPOL is affected by national and international environmental legislation. The majority of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, 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. A few

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 excess of 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, sustainability report) or other national or international legislation affects 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 became effective 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. At the units concerned, energy surveys have been conducted or will be implemented over the coming four-year period. Status reports have been submitted to the Swedish Energy Agency. Alternatively, the requirements stipulated in the directive can be fulfilled by introducing the ISO 50001 energy management system. In the EU, ISO 50001 has been implemented at two units in Germany and one in the Czech Republic. A couple of other units are working to introduce the management system.
- The CLP Regulation, which became effective in 2015, concerns the classification, labelling and packaging of chemical substances and compounds that are put on the market in the EU. At HEXPOL, the regulation resulted in many measures during 2015-2017, such as new classification of chemical products, while labelling and safety data sheets have been updated.

### ENERGY CONSUMPTION



## HEXPOL COMPOUNDING WINS 2017 ARPM SAFETY AWARD

The Association For Rubber Products Manufactures (ARPM) recently named HEXPOL Compounding a 2017 Safety Award Winner. The HEXPOL Compounding – Burton Rubber Processing campus, in Burton, OH, received a Silver Achievement Award during the 2017 Environmental Health and Safety (EHS) Summit in Columbus, OH, on July 20.

"I'm very proud of our team, they are very committed in making the right decisions to be safe every day, and our performance reflects it," said John Gorrell, General Manager of HEXPOL's Burton campus. "Our commitment and primary goal is to promote and support a culture of health and safety for our associates' benefit. They are our greatest asset by far. We are never satisfied and are always working to be better because of them."

As one of two companies to receive a Silver Achievement Award, HEXPOL Compounding was recognised for having no OSHA recordable occupational injuries or illnesses involving lost workdays or restricted work activity during 2016.

The prestigious Safety Awards Program, sponsored by ARPM, is a way to recognise safety in the rubber industry and award facilities

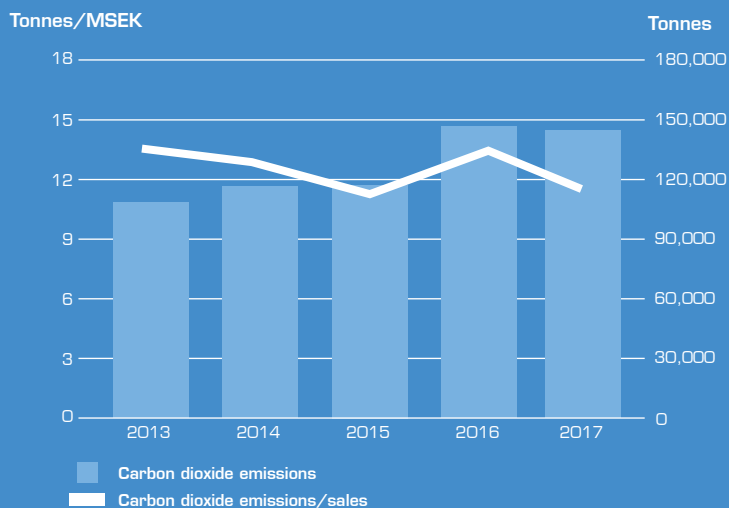
that have achieved a level of safety performance above the industry average. Awards were based on data reported on companies annual OSHA 300 Log of Work-Related Injuries and Illnesses. ARPM reported that they received three times as many applications this year compared to 2016.

The Environmental Health and Safety Summit is an annual event hosted by the Association for Rubber Products Manufacturers and is designed to share best leadership and safety practices with industry professionals hoping to achieve world-class safety within their companies. The 2017 EHS Summit doubled its attendance from prior years.



- Supervisory authorities conducted inspections at 15 of the units. No serious deviations from environmental legislation were noted. A preliminary hearing concerning infringement of environmental legislation involving Gislaved Gummi AB was rescinded by the public prosecutor.

### CARBON DIOXIDE EMISSIONS



### Energy

- Target: Energy consumption (GWh/net sales) is to be reduced continuously. Within the framework of ISO 14001, many of the production units are working with detailed targets for increased energy efficiency. Global objective: "Affordable and clean energy".
- Outcome: Work involving energy surveys and measures to increase efficiency continued. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption. In a five-year perspective, energy efficiency has increased and the performance measure is moving in the right direction. Since 2010, a performance measure for energy consumption shows a reduction of about 25 percent.

### Climate

- Target: 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. This target pertains to carbon emissions resulting from the use of energy. There are various types of local targets and it is common for Group companies to have introduced a joint goal for climate and energy. Global objective: "Climate action".
- Outcome: The use of biofuels, purchases of



## 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.

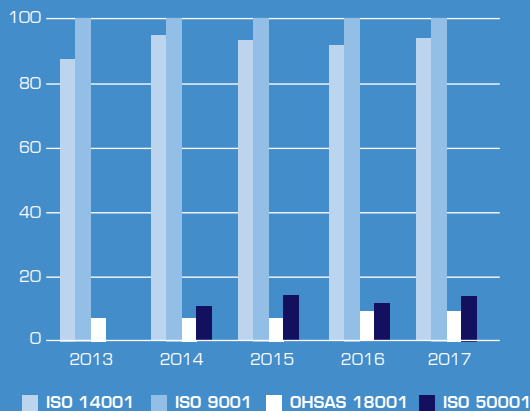
You can find the document on our website [www.hexpol.com](http://www.hexpol.com).

To order printed copies please contact the Group Headquarter at [info@hexpol.com](mailto:info@hexpol.com).



green electricity and energy optimisation reduce emissions of greenhouse gases. This is being countered by increased operations in countries where purchased electricity is generated from fossil energy. In a five-year perspective, the performance measure is moving in the right direction and the prospects of meeting the target are favourable.

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



### Environmental management systems

- Target: All facilities are to have certified environmental management systems (ISO 14001). Acquired companies must implement the environmental management system within a period of two years. Global objective: "Sustainable industry, innovation and infrastructure".

- Outcome: Slightly more than 90 percent of the subsidiaries are ISO 14001 certified. Two minor companies plan to be certified in 2018 and one recently acquired company intends to implement certification no later than 2019. The production facilities that have not yet updated their management systems to ISO 14001:2015 are in the final stages of such work. The update will be completed during 2018. There are favourable opportunities to achieve the target.

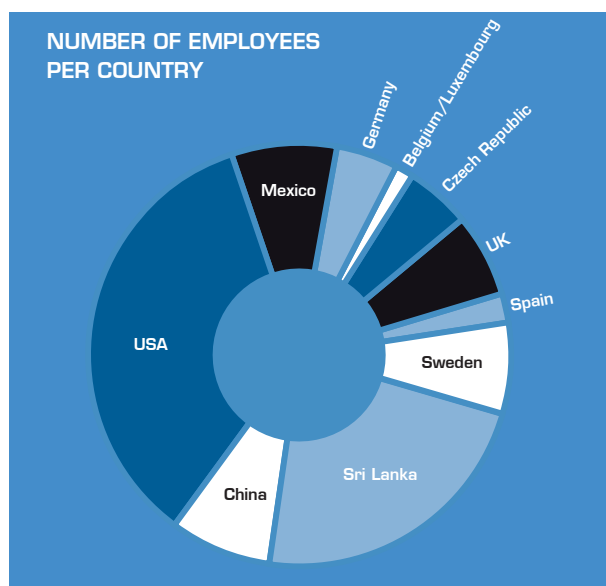
### Chemical substances

- Target: The use of hazardous chemicals must be identified, controlled and, wherever possible, hazardous substances are to be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products. Global objectives: "Sustainable industry, innovation and infrastructure" and "Responsible consumption and production".
- Outcome: Work to limit the use of particularly hazardous substances is conducted continuously. During the year, approximately ten substances were replaced. The development of environmentally compatible products continues and the Sustainability Report provides examples of products that generate both environmental and business value. The replacement of hazardous substances is a long-term process and about 15 substances are currently on the phase-out list. Important driving forces are legislative requirements and customer demands. However, this process is impeded by the fact that there are hazardous chemical substances that have tech-

nical characteristics that are difficult to replace, and by the fact that legislation is not globally harmonised.

### SOCIAL RESPONSIBILITY

Materializing Our Values applies in the same way throughout the world and the Group aims to be a good neighbour and corporate citizen. The basic idea is that these ambitions will contribute to attracting, developing and retaining committed and competent employees. Among other measures, HEXPOL is therefore working to develop managers and train employees. Work environment efforts focus on preventive measures. The Group's suppliers are expected to apply a code of conduct corresponding to Materializing Our Values.



### EMPLOYEES

At the end of the financial year, the number of employees was 4,389 (4,140), of whom 2,955 (2,679) worked in HEXPOL Compounding and 1,429 (1,456) in HEXPOL Engineered Products. The Parent Company had five employees (5). HEXPOL is a global Group and 93 percent (93) of the employees work outside Sweden. Of the employees, 43 percent work in the United States/Mexico, 28 percent in Europe and 29 percent in Asia.

Materializing Our Values has its background in international agreements and guidelines concerning 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.

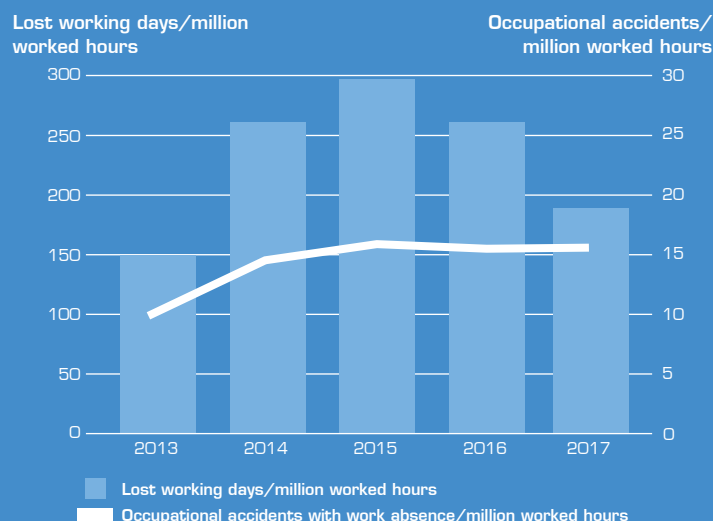
HEXPOL encourages diversity and distances itself from all forms of discrimination. Questions regarding equal rights have been decentralised

and formal equality plans exist at about 60 percent of the units. The employees are entitled to form and join trade unions and have the right to collective bargaining. They also have complete insight into and the right of codetermination in accordance with the provisions of national legislation. Occupational health and safety efforts focus on preventive measures and include risk analyses, training programmes, registration of near misses and technical improvements.

A significant share of the people employed in the global polymer industry are men, something that also applies to HEXPOL. In the Group, 13 percent (13) of the employees are women. The units in Sweden and China account for the highest share (about 35 percent), with the lowest proportion in Sri Lanka (5 percent). The proportion of females is 57 percent (43) on the Board of Directors and 17 percent (17) in Group management. The proportion of females in the local management teams averages 14 percent (15). There is a Group-wide equal opportunity policy, and this serves as a clear message from Group management to strive for a higher proportion of females in connection with external and internal recruitments to various positions. During the year, nothing arose that showed that the Group had breached the guidelines concerning human rights, equal opportunities or diversity.

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 the Group is active. At about 33 percent of the units, all employees are covered by collective agreements and this applied to Sweden, Sri Lanka, Germany, Spain and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

### OCCUPATIONAL ACCIDENTS AND LOST WORKING DAYS



### Safe work environment

**Target:** The vision is that no accidents will occur at our workplaces. The target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations. **Global objective:** "Decent work and economic growth".

**Outcome:** The number of accidents leading to work absence increased year-on-year and the number of lost working days declined. Systems for reporting near misses are in place in most of the units and are being used constructively. In a five-year perspective, the performance measure for occupational accidents is virtually unchanged and it is relatively high in an industrial perspective.

Additional action is required (technical measures, training, follow-up) to be able to meet the target.

### Suppliers

**Target:** Supplier Sustainability Guideline is to be applied in the supply chain. **Global objective:** "Responsible consumption and production".

**Outcome:** The guidelines summarise the Group's values and provide a tangible form to the sustainable development requirements. Assessments are performed through self-declarations, questionnaires, site visits and formal audits. Over the past three years, more than 1,200 suppliers of raw materials have been assessed.

## BURTON RUBBER PROCESSING LISTED AMONG TOP WORKPLACES IN NORTHEAST OHIO THIRD CONSECUTIVE YEAR

**HEXPOL Compounding LLC (Burton Rubber Processing) was honored in the Cleveland Plain Dealer's Top Workplaces listing for the third consecutive year. Ranked number six in the 2017 Top Workplaces listing among Northeast Ohio midsize companies, Burton Rubber Processing again demonstrated the company's commitment to its associates, valued customers, and community.**

Burton Rubber Processing, located in Burton, Ohio, was founded in 1957, with approximately 250 associates currently working at the campus.

"Receiving this recognition is a testament to the daily efforts and pride every associate takes in their contributions to our great organisation," said John Gorrell, General Manager, Burton Rubber Processing. "I'm very proud of our team for their loyalty to making us one of the best mid-size companies to work for in Northeast Ohio. It's a privilege to serve alongside each of them."

Engaged employees agree that they are motivated to do excellent work and deliver quality products and services to their customers. Survey results certainly support this 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.

"It is truly an honor for our company to be recognised for the third consecutive year as one of the best mid-size companies to work for in Northeast Ohio," Gorrell said. "There is an enormous amount of respect and admiration among the entire team. We genuinely believe in the possibilities of our associates and are indebted to their extraordinary contributions that enable us to be highly successful."



The guidelines are primarily being applied by the central purchasing functions, although individual units also conduct their own assessments with the help of questionnaires and audits. The focus is currently on new suppliers and on suppliers of raw materials that are particularly important to HEXPOL.

#### CONTINUED WORK

During 2018, HEXPOL will be working with:

- Activities that contribute to more efficient use of resources such as energy, water and materials through for example systematic energy surveys.
- Measures that reduce emissions of climate-changing gases.
- Preventive measures involving health and safety.
- Adaptation of environmental management systems to the new requirements in ISO 14001:2015.
- Adding business value by offering customers knowledge and experience concerning environmental adaptation of products and transportation.
- Further developing HEXPOL's social involvement and social responsibility.

## HEXPOL COMPOUNDING WINS INAUGURAL AWARD FROM THE JOHN MAXWELL COMPANY

**For its commitment to employee empowerment and community engagement, HEXPOL Compounding NAFTA earned The John Maxwell Company's Inaugural Corporate Leadership Influence Award at its Annual Partner Forum in Atlanta.**

HEXPOL Compounding NAFTA has partnered with The John Maxwell Company since 2011 to continuously advance and evolve its organisational leadership principles. Working through various training workshops and coaching plans, HEXPOL has realised dramatic improvements in key performance metrics.

Chief Operating Officer Randy Simpson and General Manager Shannon Smith have worked closely with The John Maxwell Company to design unique and fully tailored annual leader development plans for new and growing members of the management team. The partnership has paid great dividends for both organisations.

"We started our first Maxwell leadership workshop with four people," Simpson said. "The more we learned and discussed and talked about legacy and helping people, it just sort of started and took off. Before you knew it – all 11 sites in NAFTA were engaged."



To receive his company's award, Randy Simpson was on hand in Atlanta, as was John C. Maxwell, the founder of The John Maxwell Company.

## DONATION TO COLLEGE

RheTech LLC was part of a group of companies making donations to start a plastics program at Schoolcraft College. Schoolcraft, located in the metro Detroit region of Michigan, is known as a "hands on college" that prepares students to go directly into business or to continue on to four year universities. RheTech LLC along with other industrial companies has provided the college with the necessary financial support that will allow Schoolcraft to begin training the next generation of plastics professionals.





# CORPORATE GOVERNANCE REPORT



## CONTINUED PRO- FITABLE GROWTH

When I summarise the work of the Board of Directors for 2017 I can establish that it is characterised by great dedication and constructive discussions. 2017 was another good year for the HEXPOL Group, characterised by continued growth with strong margins.

The established strategy with both organic and acquired growth within our core areas was followed. The sales increased with 12 percent during the year with good organically growth together with important acquisitions within the core area Polymer Compounding. It is gratifying to note that the Group has grown from annual sales close to 500 MSEK in 2001 to 12,230 MSEK in 2017. The growth has always been conducted with strong margins and strong operating cashflows.

The corporate culture within HEXPOL is very strong, guided by the watchwords of a “decentralised but extremely coordinated” organisation. We are convinced that this is a success formula.

Good corporate governance is also a key factor. Good corporate governance creates valuable relations with shareholders, employees, customers, suppliers and other stakeholders. It is about ensuring that the Group is managed in a sustainable, responsible and efficient manner. We are, since many years, reporting the Groups sustainability work in the annual HEXPOL Sustainability Report where goals and the work to achieve the goals within the sustainability area are reported transparently.

As new Chairman of the Board I would like to direct a big thank you to my board colleagues for a dedicated and knowledgeable work during the year. I would also like to direct a special thank you to our new President and CEO Mikael Fryklund who took office on July 1 2017. Mikael has, with his many years of international experience from leading positions within our industry, quickly settled into the Group’s operations and established strategies and improvements.

I would also like to direct a big thank you to our longtime Chairman of the Board Melker Schörling who has led the Board work since the formation of HEXPOL and who, for health reasons, declined re-election at the 2017 Annual General Meeting.

Finally, I would like to thank the Group Management and all the employees of HEXPOL for excellent cooperation during 2017. Thanks to your efforts, HEXPOL is a Group with strong global market positions, in-depth expertise and a strong financial position. With this base, we can continue to develop the HEXPOL Group and continue to create long term shareholder values.

*Malmö, Sweden, March 2018*  
*Georg Brunstam*  
*Chairman of the Board*

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 2017

The 2017 AGM was held on April 28, 2017 in Malmö, Sweden. At the AGM, shareholders in attendance represented approximately 60 percent of the total voting rights. The Chairman of the Nomination Committee, Mikael Ekdahl, 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 4.75 SEK per share for the 2016 fiscal year, consisting of an ordinary dividend of 1.75 SEK per share and a special dividend of 3.00 SEK per share. Georg Brunstam, Alf Göransson, Jan-Anders E. Månson, Malin Persson, Märta Schörling Andreen and Kerstin Lindell were re-elected and Gun Nilsson was elected, as members of the Board. Georg Brunstam was elected as Chairman of the Board. The Meeting approved the Board's proposed guidelines for remuneration to HEXPOL's senior executives.

##### Annual General Meeting 2018

HEXPOL's Annual General Meeting 2018 will be held April 24, 2018 in Malmö, Sweden. For information about the AGM, refer to page 95.

#### 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, Chairman and other members of the Board, 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 2017 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 Elisabet Jamal Bergström representing Handelsbanken Fonder should be members of the Nomination Committee ahead of the 2018 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 2018, 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 three 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 2018 AGM.

#### 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 depu-

## 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
Georg Brunstam Chairman	1957	Swedish	2007	No	Yes	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	Yes	Yes	No	14,765,620	74,533,159	–
Kerstin Lindell	1967	Swedish	2016	No	No	Yes	Yes	–	5,000	–
Gun Nilsson	1955	Swedish	2017	Yes	No	Yes	No	–	1,250	–

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 2017.

ties. 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 28, 2017 resolved to elect a Board consisting of, Georg Brunstam (Chairman), Alf Göransson, Malin Persson, Jan-Anders E. Månson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson. The Board was elected for the period up to the 2018 AGM. HEXPOL's President and CEO and HEXPOL's CFO participates in Board meetings. On request, other HEXPOL employees attend Board meetings to present certain specific issues.

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

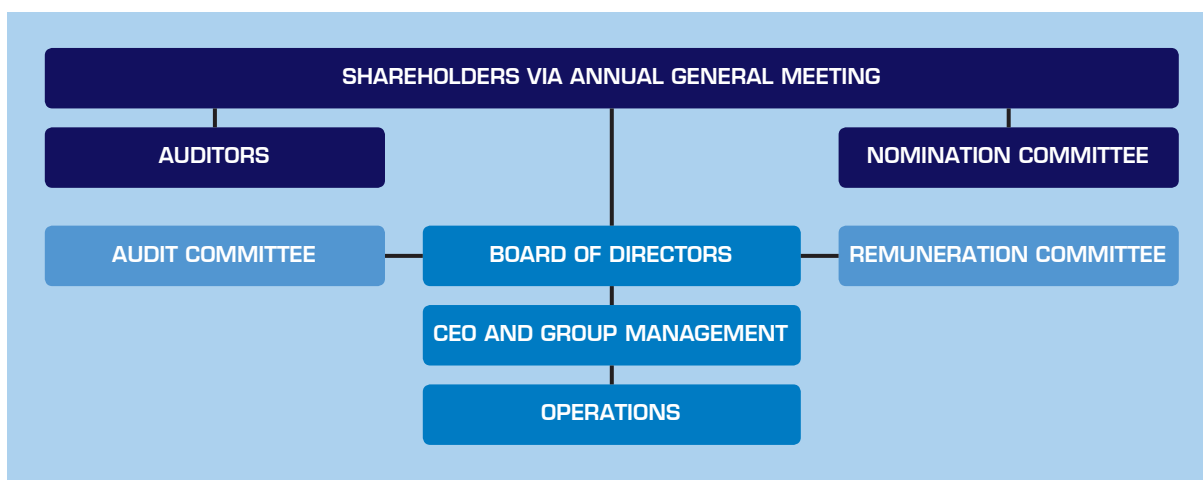
#### Evaluation of the Board's work

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 2017 comprised Gun Nilsson (Chairman since election in April 2017), Malin Persson (Chairman January-April 2017) 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, warrants, 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 2017, the committee consisted of Georg Brunstam (Chairman) and Märta Schörling Andreen. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

#### Board activities in 2017

During the year, the Board held a total of seven 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 2017, all AGM-elected Board members attended all Board meetings except at one meeting when one Board member was unable to attend.

#### 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 2017 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 2018 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 2018.



## 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 94, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

## INFORMATION ON REMUNERATION

Refer to Note 4 on page 77 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 and is revised as needed.

## THE COMPANY'S SYSTEMS FOR INTERNAL CONTROL PERTAINING TO FINANCIAL REPORTING FOR THE 2017 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 different 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	2017	2016
Sales	2	12,230	10,879
Cost of goods sold		-9,572	-8,315
<b>Gross profit</b>		<b>2,658</b>	<b>2,564</b>
Sales costs		-161	-169
Administration costs		-431	-416
Research and development costs		-91	-82
Other operating income		16	29
Other operating expense		-5	-5
<b>Operating profit</b>	2,3,4,5,6,9,10	<b>1,986</b>	<b>1,921</b>
Financial income	7	15	8
Financial expenses	7	-33	-16
<b>Profit before tax</b>		<b>1,968</b>	<b>1,913</b>
Tax	8	-441	-516
<b>Profit after tax</b>		<b>1,527</b>	<b>1,397</b>
of which, attributable to Parent Company's shareholders		1,527	1,397
Earnings per share, SEK		4.44	4.06
Average number of shares before and after dilution, thousands		344,201	344,201

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2017	2016
Profit after tax	1,527	1,397
<b>Items that will not be re-classified to the income statement</b>		
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
	<b>-1</b>	<b>-1</b>
<b>Items that may be re-classified to the income statement</b>		
Hedge of net investment	72	-62
Income tax relating to items that may be re-classified to the income statement	-16	14
Translation difference	-498	550
	<b>-442</b>	<b>502</b>
<b>Other comprehensive income after tax</b>	<b>-443</b>	<b>501</b>
<b>Total comprehensive income</b>	<b>1,084</b>	<b>1,898</b>
of which, attributable to Parent Company's shareholders	1,084	1,898



## CONSOLIDATED BALANCE SHEET

MSEK	Note	2017	2016
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets	9	5,227	4,577
Tangible fixed assets	10	1,751	1,745
Financial fixed assets	20	1	0
Deferred tax assets	8	69	101
<b>Total fixed assets</b>		<b>7,048</b>	<b>6,423</b>
<b>Current assets</b>			
Inventories	11	887	786
Accounts receivable	12,20	1,414	1,181
Current tax receivables		115	97
Other current receivables		31	26
Prepaid expenses and accrued income		42	38
Cash and cash equivalents	20	813	1,297
<b>Total current assets</b>		<b>3,302</b>	<b>3,425</b>
<b>TOTAL ASSETS</b>		<b>10,350</b>	<b>9,848</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		69	69
Other capital contributions		598	598
Reserves		848	1,291
Profit brought forward		3,968	4,204
Profit for the year		1,527	1,397
<b>Total equity attributable to parent company's shareholders</b>	<b>13</b>	<b>7,010</b>	<b>7,559</b>
Attributable to non-controlling interests		0	0
<b>Total shareholders' equity</b>		<b>7,010</b>	<b>7,559</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	14,20	825	-
Deferred tax liabilities	8	331	407
Pension provisions	15	21	21
<b>Total non-current liabilities</b>		<b>1,177</b>	<b>428</b>
<b>Current liabilities</b>			
Interest-bearing current liabilities	14,20	15	29
Accounts payable	20	1,626	1,405
Current tax liabilities		121	70
Other current liabilities		76	31
Other provisions	16	5	6
Accrued expenses and deferred income	17	320	320
<b>Total current liabilities</b>		<b>2,163</b>	<b>1,861</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>10,350</b>	<b>9,848</b>

## CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

MSEK	Attributable to Parent Company's shareholders				Total
	Share capital	Other capital contributions	Reserves	Profit brought forward	
December 31, 2015	69	598	790	4,776	6,233
<b>2016</b>					
<b>Total comprehensive income</b>					
Profit after tax	-	-	-	1,397	1,397
Other comprehensive income	-	-	501	-	501
Total comprehensive income	-	-	501	1,397	1,898
<b>Transactions with shareholders</b>					
Issue of subscription warrants	-	-	-	13	13
Dividend	-	-	-	-585	-585
December 31, 2016	69	598	1,291	5,601	7,559
<b>2017</b>					
<b>Total comprehensive income</b>					
Profit after tax	-	-	-	1,527	1,527
Other comprehensive income	-	-	-443	-	-443
Total comprehensive income	-	-	-443	1,527	1,084
<b>Transactions with shareholders</b>					
Issue of subscription warrants	-	-	-	2	2
Dividend	-	-	-	-1,635	-1,635
December 31, 2017	69	598	848	5,495	7,010

Reserves mainly comprise translation reserve and hedging reserve.

## CONSOLIDATED CASH FLOW STATEMENTS

MSEK	Note	2017	2016
<b>Cash flow from operating activities</b>	19		
Operating profit		1,986	1,921
Adjustment for non-cash items		243	216
Net financial items		-15	-13
Tax paid		-482	-484
<b>Cash flow from operations before changes in working capital</b>		<b>1,732</b>	<b>1,640</b>
<b>Cash flow from changes in working capital</b>			
Changes in operating receivables		-248	42
Changes in operating liabilities		215	28
<b>Cash flow from operations</b>		<b>1,699</b>	<b>1,710</b>
<b>Investing operations</b>			
Investments in tangible fixed assets		-190	-163
Sales of tangible fixed assets		4	16
Investments in intangible fixed assets		-9	-3
Acquisition of business combinations	21	-1,081	-295
<b>Cash flow from investing activities</b>		<b>-1,276</b>	<b>-445</b>
<b>Financing activities</b>			
Loans raised		1,890	550
Amortisation of liabilities		-1,080	-1,053
Issue of subscription warrants		2	13
Dividend		-1,635	-585
<b>Cash flow from financing activities</b>		<b>-823</b>	<b>-1,075</b>
<b>Cash flow for the year</b>		<b>-400</b>	<b>190</b>
Cash and cash equivalents at January 1		1,297	978
Exchange-rate differences in cash and cash equivalents		-84	129
<b>Cash and cash equivalents at December 31</b>		<b>813</b>	<b>1,297</b>

## OPERATING CASH FLOW, GROUP

MSEK	2017	2016
Operating profit	1,986	1,921
Depreciation/amortisation/impairment	243	216
Change in working capital	-33	70
Sales of tangible fixed assets	4	16
Investments	-199	-166
<b>Operating cash flow</b>	<b>2,001</b>	<b>2,057</b>

# NOTES OF THE GROUP

## NOTE 1 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 76.

The applied accounting policies correspond to those applied in the preceding year. None of the amendments and interpretations of existing standards that would be applied as of financial years commencing January 1, 2017 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. Below are the IFRSs which come into force in 2018 or later. 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 new model for calculating credit loss reserves is based on expected credit losses. The standard is to apply to fiscal years beginning on January 1, 2018. It is our assessment that the application of the standard will not have any significant effect on the company's financial statements as the Group has historically had few credit losses.

**IFRS 15** – Revenue from Contracts with Customers regulates the manner in which revenue is recognised. The standard is to apply for fiscal years beginning on January 1, 2018. 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 goods or service is transferred to a customer, which may occur over time or at a time. The income shall consist of the amount that the company expects to be replaced in exchange for the goods or services delivered. IFRS 15 replaces all previously published standards and interpretations that handle revenues with a single revenue recognition model. The Group has evaluated the effects of IFRS 15, during 2017. The expected effects to the transition to IFRS 15 are summarized below. This analysis is based on current available information. HEXPOL has one stream of revenue, sales of goods. When analysing the stream of revenue, a review of contract have been made and investigations with controllers from all product areas have been carried out. HEXPOL have one performance obligation and mainly happens no allocation of the revenue, that occurs at one time. In the transition to IFRS 15, modified retrospective is applied. No change in accounting of revenue will occur that affects the consolidated income statement. The Group has evaluated the Group's contracts and the conclusion is that the revenue recognition will not be impacted by a transition to IFRS 15.

**IFRS 16** – Leases. 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. The standard will mainly affect the presentation of consolidated operating leases. The Group has commenced the evaluation of the effects of the application of the standard, during the year.

## 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 prevailing on the balance-sheet date. Exchange-rate differences arising from translation are recognised as a separate item in other comprehensive income.
- Goodwill and adjustments of fair value arising in connection with an acquisition are treated as assets and liabilities of the acquired operation, and are translated at the exchange rate prevailing on the balance-sheet date.

The 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 recognised insofar as it is probable that future taxable surpluses will be available to offset them against.

#### LEASING

The Group has entered into both capital and operational leases. The agreements are classified in accordance with their financial implication when they were entered into. Capital leases are not material. Expenditure for operating lease agreements is accrued in accordance with the main rule over the contractual period. For capital leases, the leased asset is carried on the balance sheet with a corresponding liability for future lease payments.

The leased asset is depreciated over the same period as for assets of the same kind owned by the Group. Interest expense on the liability is recognised as a financial expense.

#### GOODWILL

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

#### TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

#### DEPRECIATION/AMORTISATION ACCORDING TO PLAN

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

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. 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 recognised from the balance sheet when all benefits and risks associated with ownership have been transferred. Financial instruments are initially recognised at fair value and, subsequently, at fair value or accumulated amortised cost, depending on their classification. Financial derivatives are recognised continuously at fair value. Financial assets and liabilities are recognised in, and deducted from, the balance sheet applying settlement-date accounting.

#### Classification of financial instruments

Financial instruments are classified in the following categories: Finan-



cial 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. Supplementary purchase price are recognised at fair value with changes in value in profit or loss.

#### 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 plus transaction costs 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, 2017, Alecta's surplus in the form of the collective consolidation level was 154 percent (148).

#### 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 3 for further information. In addition, compensation is paid to the Board of Directors and senior executives; refer to Note 4.

#### 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.

## NOTE 2 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.

## NOTE 2 CONTINUED

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2017	2016	2017	2016	2017	2016
Sales, external	11,326	10,028	904	851	12,230	10,879
Operating profit	1,873	1,806	113	115	1,986	1,921
Operating margin, %	16.5	18.0	12.5	13.5	16.2	17.7
Net financial items					-18	-8
Tax					-441	-516
<b>Profit for the year</b>					<b>1,527</b>	<b>1,397</b>
Operating assets	8,885	7,880	467	473	9,352	8,353
Unallocated assets	-	-	-	-	998	1,495
<b>Group Total</b>	<b>8,885</b>	<b>7,880</b>	<b>467</b>	<b>473</b>	<b>10,350</b>	<b>9,848</b>
Operating liabilities	1,912	1,642	115	114	2,027	1,756
Unallocated liabilities	-	-	-	-	1,313	533
<b>Group Total</b>	<b>1,912</b>	<b>1,642</b>	<b>115</b>	<b>114</b>	<b>3,340</b>	<b>2,289</b>
Investments	177	145	22	21	199	166
Depreciation/amortisation	217	191	26	25	243	216

Geographic markets MSEK	Sales per recipient country		Fixed assets	
	2017	2016	2017	2016
Sweden	353	347	310	306
Europe excluding Sweden	3,689	2,921	2,259	1,546
NAFTA	7,567	7,077	4,148	4,205
Asia	621	534	331	366
<b>Total</b>	<b>12,230</b>	<b>10,879</b>	<b>7,048</b>	<b>6,423</b>

## NOTE 3 RELATED-PARTY TRANSACTIONS

Transactions between Group companies occur on market-based conditions. In 2017, the Group purchased energy for 12 MSEK (10) from the associated company, Megufo AB, in Sweden. On December 31, 2017, the Group had a liability of 1 MSEK (1) to this associated company. See also note 4.

## NOTE 4 EMPLOYEES AND PERSONNEL COSTS

Costs for remuneration for employees MSEK	2017	2016	Average number of employees	2017	of whom men	2016	of whom men	Personnel costs per country		
								MSEK	2017	2016
Salaries and remuneration, etc.	1,353	1,253	Sweden	311	66 %	299	64 %	Sweden	226	229
<b>Total</b>	<b>1,353</b>	<b>1,253</b>	Belgium	62	81 %	61	77 %	Belgium	41	39
Pension costs	27	24	Czech Republic	210	89 %	120	94 %	Czech Republic	54	27
Social-security costs	189	171	Germany	208	88 %	197	90 %	Germany	103	95
<b>Total</b>	<b>216</b>	<b>195</b>	Mexico	341	89 %	300	90 %	Mexico	52	30
			Luxembourg	4	75 %	4	75 %	Luxembourg	18	19
			USA	1,509	88 %	1,436	88 %	USA	829	800
			China	336	67 %	303	64 %	China	46	43
			Sri Lanka	977	95 %	1,005	96 %	Sri Lanka	47	43
			UK	284	86 %	216	88 %	UK	108	79
			Spain	85	93 %	87	94 %	Spain	45	44
			<b>Total</b>	<b>4,326</b>	<b>86 %</b>	<b>4,028</b>	<b>87 %</b>	<b>Total</b>	<b>1,569</b>	<b>1,448</b>

## Remuneration of the Board of Directors

KSEK	Board fee		Committee fee		Total	
	2017	2016	2017	2016	2017	2016
Melker Schörling, chairman**	-	650	-	75	-	725
Georg Brunstam, chairman**	800	-	75	-	875	-
Alf Göransson	350	320	-	-	350	320
Kerstin Lindell	350	320	-	-	350	320
Jan-Anders E. Månson	350	320	-	-	350	320
Malin Persson	350	320	100	100	450	420
Märta Schörling Andreen	350	320	150	100	500	420
Gun Nilsson	350	-	200	-	550	-
Ulrik Svensson*	-	213	-	167	-	380
<b>Total</b>	<b>2,900</b>	<b>2,463</b>	<b>525</b>	<b>442</b>	<b>3,425</b>	<b>2,905</b>

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

\*\* At the Annual General Meeting April 28, 2017, Georg Brunstam, previous President and CEO, was elected to Chairman of the Board. At the same time, Melker Schörling, resigned from the Board.

## Remuneration of senior executives

KSEK	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Georg Brunstam, President and CEO	6,215	9,333	4,713	4,406	2,492	3,739	229	348	13,649	17,826
Mikael Fryklund, President and CEO, assumed the position July 1, 2017	3,813	-	2,438	-	1,146	-	63	-	7,460	-
Other members of Group management, 5 (5) persons	22,289	19,937	10,990	9,017	1,647	1,608	611	884	35,537	31,446
<b>Total</b>	<b>32,317</b>	<b>29,270</b>	<b>18,141</b>	<b>13,423</b>	<b>5,285</b>	<b>5,347</b>	<b>903</b>	<b>1,232</b>	<b>56,646</b>	<b>49,272</b>

## 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.

## NOTE 5 FEES AND COST REMUNERATION PAID TO AUDITORS

MSEK	2017	2016
EY		
Audit assignment	7	7
Audit activities in addition to audit	1	1
Tax consultancy	0	0
Other services	0	0
<b>Total</b>	<b>8</b>	<b>8</b>

## NOTE 6 BREAKDOWN OF EXPENSES BY NATURE

MSEK	2017	2016
Employee benefits expenses	-1,569	-1,448
Depreciation/amortisation/impairment	-243	-216
Input costs and other external expenses	-8,443	-7,318
Other operating expenses	-5	-5
<b>Total</b>	<b>-10,260</b>	<b>-8,987</b>

No development expenditures were capitalised during 2017.

## NOTE 7 FINANCIAL INCOME AND EXPENSES

MSEK	2017	2016
Interest income	7	3
Exchange rate gains	8	5
Other financial income	0	0
<b>Financial income</b>	<b>15</b>	<b>8</b>
Interest expenses	-13	-10
Exchange rate loss	-17	-3
Other financial expenses	-3	-3
<b>Financial expense</b>	<b>-33</b>	<b>-16</b>
<b>Net financial expense</b>	<b>-18</b>	<b>-8</b>

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

## NOTE 8 TAXES

MSEK	2017	2016
<b>Current tax expense</b>		
Tax expense on profit for the year	-497	-475
<b>Total</b>	<b>-497</b>	<b>-475</b>
<b>Deferred tax expense</b>		
Deferred tax pertaining to temporary differences	53	-44
Utilised/revaluation of loss carry forwards	3	3
<b>Total</b>	<b>56</b>	<b>-41</b>
<b>Total recognised tax expense</b>	<b>-441</b>	<b>-516</b>

Reconciliation of effective tax MSEK	2017	%	2016	%
Profit before tax	1,968		1,913	
Tax according to applicable tax rate for the Parent Company	-433	-22	-421	-22
Effect of other tax rates for foreign subsidiaries	-126	-6	-97	-5
Non-deductible expenses	-2	0	-17	0
Non-taxable income	13	1	3	0
Deductible goodwill amortisation	7	0	7	0
Revaluation of tax-loss carry forwards/temporary differences	105	5	-1	0
Tax attributable to prior years	-5	0	10	0
<b>Total reported tax expense</b>	<b>-441</b>	<b>-22</b>	<b>-516</b>	<b>-27</b>

At December 31, 2017, the Group had loss carry forwards of 40 MSEK (54) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 31 MSEK (49) expires within five years.

Deferred tax assets/liabilities	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
MSEK	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Intangible assets	-266	-222	59	-41	-18	21	-	-	15	-24	-210	-266
Tangible assets	-114	-114	-1	-2	-	-	-	-	7	2	-108	-114
Current assets	20	14	2	6	-	-3	-	-	0	3	22	20
Operating liabilities	7	13	-4	-6	-	-	-	-	0	0	3	7
Loss carry forwards	3	0	0	3	-	-	-	-	0	0	3	3
Liabilities	44	31	0	-1	-	-	-16	14	0	0	28	44
<b>Total</b>	<b>-306</b>	<b>-278</b>	<b>56</b>	<b>-41</b>	<b>-18</b>	<b>18</b>	<b>-16</b>	<b>14</b>	<b>22</b>	<b>-19</b>	<b>-262</b>	<b>-306</b>

## Tax expenses

The Group's tax expenses amounted to 441 MSEK (516). Non-recurring effects of the tax reform, which was decided in the US in December 2017, were positive and amounted to 104 MSEK. The largest part of non-recurring effects consists of recalculation of deferred tax assets and liabilities, which do not affect the cash flow. The non-recurring effects also include non-recurring taxation of profits in subsidiaries with parent company in the US, which will be paid in coming years. Adjusted for these non-recurring effects the tax expenses amounted to 545 MSEK, which corresponds to a tax rate of 27.7 percent (27.0). In the US tax reform, the state corporate taxation changed among other things from 35% to 21% and if it had been in force in 2017 the tax rate for the Group is estimated to have been approximately 4 percentages lower. The assessment of the effects of the US tax reform is preliminary.

## NOTE 9 INTANGIBLE FIXED ASSETS

MSEK	Goodwill		Other intangible assets		Total		Goodwill distributed by operating segment		
	2017	2016	2017	2016	2017	2016	MSEK	2017	2016
<b>Accumulated acquisition value</b>									
Opening balance, January 1	4,389	3,909	331	344	4,720	4,253	HEXPOL Compounding	4,940	4,348
Acquisitions*	825	224	90	-48	915	176	HEXPOL Engineered Products	27	30
Investments	-	-	9	3	9	3			
Reclassification	-	-	0	10	0	10			
Translation difference	-236	256	-21	22	-257	278			
<b>Closing balance, December 31</b>	<b>4,978</b>	<b>4,389</b>	<b>409</b>	<b>331</b>	<b>5,387</b>	<b>4,720</b>	<b>Closing balance, December 31</b>	<b>4,967</b>	<b>4,378</b>
<b>Accumulated amortisation value</b>									
Opening balance, January 1	-11	-11	-132	-91	-143	-102			
Acquisitions	-	-	-	-10	-	-10			
Amortisation according to plan for the year	-	-	-24	-20	-24	-20			
Reclassification	-	-	0	-4	0	-4			
Translation difference	0	0	7	-7	7	-7			
<b>Closing balance, December 31</b>	<b>-11</b>	<b>-11</b>	<b>-149</b>	<b>-132</b>	<b>-160</b>	<b>-143</b>			
<b>Carrying amount, December 31</b>	<b>4,967</b>	<b>4,378</b>	<b>260</b>	<b>199</b>	<b>5,227</b>	<b>4,577</b>			

\*Including 2016 adjustments of prior preliminary purchase price allocation.

Other intangible assets pertain mainly to acquired customer relations and remaining amortisation period is between 8 and 14 years. Other intangible assets do not include any significant amounts in respect of capitalized development costs.

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 9.3 percent before tax (9.7) 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 10 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	2017	2016	Accumulated acquisition value		2017	2016	2017	2016	2017	2016
Within one year	49	48	Opening balance, January 1		1,063	958	3,802	3,283	4,865	4,241
Between one and five years	68	68	Acquisitions		41	39	84	210	125	249
Longer than five years	12	18	Investments		8	1	182	162	190	163
Total	129	134	Divestments, disposals		0	-10	-22	-28	-22	-38
Leasing expenses			Reclassification		10	18	-10	-28	0	-10
MSEK	2017	2016	Translation difference		-45	57	-201	203	-246	260
Minimum leasing fees	56	50	Closing balance, December 31		1,077	1,063	3,835	3,802	4,912	4,865
Total	56	50	Accumulated depreciation value							
			Opening balance, January 1		-431	-354	-2,674	-2,226	-3,105	-2,580
			Acquisitions		-	-25	-	-169	0	-194
			Depreciation according to plan for the year		-34	-32	-185	-164	-219	-196
			Divestments, disposals		0	2	19	22	19	24
			Reclassification		-	-	0	4	0	4
			Translation difference		16	-22	141	-141	157	-163
			Closing balance, December 31		-449	-431	-2,699	-2,674	-3,148	-3,105
			Accumulated impairment							
			Opening balance, January 1		-4	-4	-11	-11	-15	-15
			Impairment		-	-	0	0	0	0
			Reversed impairment		-	-	-	-	-	-
			Translation difference		-	0	2	0	2	0
			Closing balance, December 31		-4	-4	-9	-11	-13	-15
			Carrying amount, December 31		624	628	1,127	1,117	1,751	1,745

Distribution of depreciation/amortisation/impairment of tangible and intangible assets for the year		
MSEK	2017	2016
Costs of goods sold	230	202
Selling costs	0	1
Administration costs	11	11
Product development costs	2	2
Other	-	0
Total	243	216

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

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

Distribution of depreciation/amortisation/impairment of tangible and intangible assets for the year		
MSEK	2017	2016
Costs of goods sold	230	202
Selling costs	0	1
Administration costs	11	11
Product development costs	2	2
Other	-	0
<b>Total</b>	<b>243</b>	<b>216</b>



## NOTE 11 INVENTORIES

MSEK	2017	2016
Raw materials	550	453
Goods in production	46	41
Finished goods	291	292
<b>Total</b>	<b>887</b>	<b>786</b>

No significant impairments have been made during 2017 and 2016.

## NOTE 12 ACCOUNTS RECEIVABLE

Age distribution of accounts receivable			Provisions for bad debt losses		
MSEK	2017	2016	MSEK	2017	2016
Not due	1,175	1,024	Opening balance	-40	-38
Past due, 1-30 days	211	143	Provision for the year	-5	-2
Past due, 31-60 days	27	9	Actual losses	3	2
Past due, more than 60 days	1	5	Reversal	16	1
<b>Accounts receivable</b>	<b>1,414</b>	<b>1,181</b>	Translation differences	2	-3
			<b>Closing balance</b>	<b>-24</b>	<b>-40</b>

## NOTE 13 SHAREHOLDERS' EQUITY

Changes in the number of shares	Class A shares		Class B shares		Total	
	2017	2016	2017	2016	2017	2016
Opening balance, January 1	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280
<b>Closing balance, December 31</b>	<b>14,765,620</b>	<b>14,765,620</b>	<b>329,435,660</b>	<b>329,435,660</b>	<b>344,201,280</b>	<b>344,201,280</b>

	2017	2016
<b>Average number of shares</b>	<b>344,201,280</b>	<b>344,201,280</b>

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

Each class A share entitles the holder to ten votes and each class B share to one vote. 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 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 1.01 new class B shares at subscription rate SEK 88.70, adjusted for special dividend in May 2017 according to the warrant terms. During 2017, 225,000 subscription warrants has been subscribed for by 1 senior executive, where the issue rate was SEK 9 per subscription warrant and every warrant gives the right to subscribe for 1.00 new class B share at subscription rate SEK 88.70.

## NOTE 14 INTEREST-BEARING LIABILITIES

Non-current liabilities			Loans			
MSEK	2017	2016	MSEK	2017 Utilised	2016 Utilised	2016 Unutilised
Liabilities to credit institutions	825	-	Bilateral loan, 125 MUSD	330	699	- 1,137
<b>Non-current liabilities</b>	<b>825</b>	<b>-</b>	Bilateral loan, 1,500 MSEK	495	1,005	- 1,500
			<b>Total non-current liabilities</b>	<b>825</b>	<b>-</b>	<b>-</b>

Current liabilities			Other			
MSEK	2017	2016		2017 Utilised	2016 Utilised	2016 Unutilised
Liabilities to credit institutions	15	29		15	0	29 0
<b>Current liabilities</b>	<b>15</b>	<b>29</b>	<b>Total current liabilities</b>	<b>15</b>	<b>29</b>	<b>0</b>

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 2020.

The three-year credit agreement with a limit of 1,500 MSEK had an option to extend twice, one year at a time, where two extensions have been made to August 2020. 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, 2017. HEXPOL had no interest-bearing or currency derivatives at December 31, 2017, involving external borrowing.

## NOTE 15 PENSION PROVISIONS

MSEK	2017	2016
Provisions for pension	21	21
<b>Total</b>	<b>21</b>	<b>21</b>

Change in provision		
MSEK	2017	2016
Opening balance, January 1	21	19
Provisions for the year	0	2
<b>Closing balance, December 31</b>	<b>21</b>	<b>21</b>

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

## NOTE 16 OTHER PROVISION

MSEK	2017	2016
Opening balance	6	13
Provision for the year	2	2
Utilised during the year	-3	-10
Translation difference	0	1
<b>Closing balance</b>	<b>5</b>	<b>6</b>

## NOTE 17 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	2017	2016
Personnel-related expenses	221	245
Accrued expenses for goods and services	60	58
Other	39	17
<b>Total</b>	<b>320</b>	<b>320</b>

**NOTE 18 PLEDGED ASSETS AND CONTINGENT LIABILITIES**

Pledged assets MSEK	2017	2016
Current assets	9	4
<b>Total</b>	<b>9</b>	<b>4</b>
<b>Contingent liabilities</b>		
Guarantee for the benefit of associated companies	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

**NOTE 19 CASH FLOW STATEMENT****Financial items received and paid**

MSEK	2017	2016
Financial income received	15	8
Financial expenses paid	-30	-21
<b>Total</b>	<b>-15</b>	<b>-13</b>

**Adjustments for non-cash items**

MSEK	2017	2016
Depreciation/amortisation/impairment	243	216
<b>Total</b>	<b>243</b>	<b>216</b>

**Cash flow statement - Change in liabilities in financing activities**

MSEK	Non-cash changes				2017
	2016	Cash flows	Acquisitions	Translation difference	
Interest-bearing liabilities	-	824	-	1	825
Interest-bearing current liabilities	29	-14	-	0	15
<b>Total</b>	<b>29</b>	<b>810</b>	<b>-</b>	<b>1</b>	<b>840</b>

**NOTE 20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As regards the risks and the risk management, see page 50 in the Board of Directors' Report

**Financial instruments per category and measurement level**

December 31, 2017				
Financial assets measured at fair value through profit or loss				
MSEK	Loan and account receivables	Carrying value	Measurement level	Total
<b>Assets in the balance sheet</b>				
Non-current financial assets	1	-		1
Accounts receivable	1,414	-		1,414
Cash and cash equivalents	813	-		813
<b>Total</b>	<b>2,228</b>	<b>-</b>		<b>2,228</b>
Financial liabilities measured at fair value through profit or loss				
MSEK	Other financial liabilities	Carrying value	Measurement level	Total
<b>Liabilities in the balance sheet</b>				
Derivate instruments	-	2	2	2
Interest-bearing non-current liabilities	825	-		825
Interest-bearing current liabilities	15	-		15
Accounts payable	1,626	-		1,626
Supplementary purchase price	-	42	3	42
Accrued expenses	318	-		318
Other current liabilities	34	-		34
<b>Total</b>	<b>2,818</b>	<b>44</b>		<b>2,862</b>
December 31, 2016				
Financial assets measured at fair value through profit or loss				
MSEK	Loan and account receivables	Carrying value	Measurement level	Total
<b>Assets in the balance sheet</b>				
Derivate instruments	-	0	2	0
Accounts receivable	1,181	-		1,181
Cash and cash equivalents	1,297	-		1,297
<b>Total</b>	<b>2,478</b>	<b>0</b>		<b>2,478</b>
Financial liabilities measured at fair value through profit or loss				
MSEK	Other financial liabilities	Carrying value	Measurement level	Total
<b>Liabilities in the balance sheet</b>				
Derivate instruments	-	0	2	0
Interest-bearing current liabilities	29	-		29
Accounts payable	1,405	-		1,405
Accrued expenses	320	-		320
Other current liabilities	31	-		31
<b>Total</b>	<b>1,785</b>	<b>0</b>		<b>1,785</b>

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

## NOTE 20 CONTINUED

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	2017		2016	
MSEK	Nominal value		Nominal value	
Currency forward contracts	168		129	
Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK	168	0.38	129	0.35

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	2017		2016	
MSEK	Nominal value		Nominal value	
Currency forward contracts	17		31	
Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/GBP	17	1.13	31	1.17

Financial liabilities, December 31	Total amount		Fall due within 1 year		Fall due within 1-2 years		Fall due within 2-5 years	
MSEK	2017	2016	2017	2016	2017	2016	2017	2016
<b>Non-current liabilities</b>								
Liabilities to banks and credit institutions	825	-	-	-	-	-	825	-
<b>Total non-current liabilities</b>	<b>825</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>825</b>	<b>-</b>
<b>Current liabilities</b>								
Liabilities to banks and credit institutions	15	29	15	29	-	-	-	-
Derivative instruments	2	-	2	-	-	-	-	-
Accounts payable	1,626	1,405	1,626	1,405	-	-	-	-
Accrued expenses	320	320	320	320	-	-	-	-
Other current liabilities	34	31	34	31	-	-	-	-
Supplementary purchase price	42	-	42	-	-	-	-	-
<b>Total current liabilities</b>	<b>2,039</b>	<b>1,785</b>	<b>2,039</b>	<b>1,785</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

## NOTE 21 ACQUISITIONS

## Acquisitions during 2017

## Acquisition within Compounding

In March 2017 the HEXPOL Group acquired 100% of Trelleborg Material & Mixing Lesina. Trelleborg Material & Mixing Lesina is a well-known Rubber Compounder in Central Europe.

The acquisition price for Trelleborg Material & Mixing Lesina amounted to approximately 68 MEUR on a cash and debt free basis. The business was consolidated as of April 2017. The sales amounted to 35 MEUR and profit after tax to 4 MEUR for the period April to December 2017. For the full year 2017 the sales amounted to 46 MEUR and profit after tax to 5 MEUR.

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

## MSEK

Purchase consideration	708
Fair value of acquired net assets	267
<b>Goodwill</b>	<b>441</b>

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 extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 48 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

## MSEK

Cash and cash equivalents	60
Accounts receivable	88
Current assets	37
Tangible assets	109
Intangible assets	48
Accounts payables	-54
Current liabilities	-5
Deferred tax liabilities	-16
<b>Acquired net assets</b>	<b>267</b>

Goodwill	441
<b>Purchase considerations</b>	<b>708</b>

Cash and cash equivalents in acquired operations	60
<b>Change in the Group's cash and cash equivalents</b>	<b>648</b>

## Acquisition within Compounding

In early April 2017 the HEXPOL Group acquired 100% of Valley Processing. Valley Processing is a well-known Rubber Compounder in western US.

The acquisition price for Valley Processing amounted to approximately 48 MUSD on a cash and debt free basis. A supplementary purchase price based on product transfers is preliminary and estimated to be maximum 5 MUSD with payment in 2018. The business was consolidated as of April 2017. The sales amounted to 27 MUSD and profit after tax to 1 MUSD for the period April to December 2017. For the full year 2017 the sales amounted to 35 MUSD and profit after tax to 0 MUSD.

Transaction costs for the above acquisition amounted to 6 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	475
Fair value of acquired net assets	90
<b>Goodwill</b>	<b>385</b>

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 extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 42 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

## MSEK

Accounts receivable	49
Current assets	29
Tangible assets	16
Intangible assets	42
Deferred tax liabilities	-2
Accounts payables	-37
Current liabilities	-7
<b>Acquired net assets</b>	<b>90</b>

Goodwill	385
<b>Purchase considerations</b>	<b>475</b>
Contingent consideration	-42
Cash and cash equivalents in acquired operations	0
<b>Change in the Group's cash and cash equivalents</b>	<b>433</b>

## 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 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 2016 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
<b>Goodwill</b>	<b>167</b>

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 extends our capacity and ability to serve our customers more efficiently. 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 receivable	120
Current assets	27
Tangible assets	55
Intangible assets	23
Accounts payables	-77
Current liabilities	-14
Deferred tax liabilities	-6
<b>Acquired net assets</b>	<b>196</b>

Goodwill	167
<b>Purchase considerations</b>	<b>363</b>

Cash and cash equivalents in acquired operations	68
<b>Change in the Group's cash and cash equivalents</b>	<b>295</b>

## NOTE 22 SIGNIFICANT SUBSEQUENT EVENTS

No significant events have occurred after the balance sheet date.



# PARENT COMPANY

## PARENT COMPANY'S INCOME STATEMENT

MSEK	Note	2017	2016
Sales	23	42	42
Administration costs		-57	-68
<b>Operating profit</b>	24, 25	<b>-15</b>	<b>-26</b>
Financial income	26	1,100	1,249
Financial expense	26	-61	-27
<b>Profit after financial items</b>		<b>1,024</b>	<b>1,196</b>
Appropriations	27	-29	-32
<b>Profit before tax</b>		<b>995</b>	<b>1,164</b>
Tax	28	-20	-21
<b>Profit after tax</b>		<b>975</b>	<b>1,143</b>

Comprehensive income matches profit after tax

## PARENT COMPANY'S BALANCE SHEET

MSEK	Note	2017	2016
<b>ASSETS</b>			
Intangible fixed assets	29	0	-
Interest-bearing intra-Group receivables		666	737
Financial fixed assets	32	5,648	4,939
Deferred tax assets		0	0
<b>Total fixed assets</b>		<b>6,314</b>	<b>5,676</b>
<b>Current assets</b>			
Intra-Group operating receivables		125	132
Interest-bearing intra-Group receivables		857	1,305
Prepaid expenses and accrued income		18	9
Cash and cash equivalents		506	1,119
<b>Total current assets</b>		<b>1,506</b>	<b>2,565</b>
<b>TOTAL ASSETS</b>		<b>7,820</b>	<b>8,241</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Restricted shareholders' equity</b>			
Share capital		69	69
<b>Total restricted shareholders' equity</b>		<b>69</b>	<b>69</b>
<b>Non-restricted shareholders' equity</b>			
Share premium reserve		598	598
Accumulated earnings		1,433	1,925
Profit after tax		975	1,143
<b>Total non-restricted shareholders' equity</b>		<b>3,006</b>	<b>3,666</b>
<b>Total shareholders' equity</b>		<b>3,075</b>	<b>3,735</b>
<b>Untaxed reserves</b>	27	<b>61</b>	<b>32</b>
<b>Non-current liabilities</b>			
Liabilities to credit institutions	31	825	-
<b>Total non-current liabilities</b>		<b>825</b>	<b>-</b>
<b>Current liabilities</b>			
Accounts payable		1	1
Current tax liabilities		19	21
Interest-bearing intra-Group liabilities		3,798	4,408
Interest-bearing liabilities to credit institutions	31	-	0
Accrued expenses and prepaid revenues	30	41	44
<b>Total current liabilities</b>		<b>3,859</b>	<b>4,474</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>7,820</b>	<b>8,241</b>

## CHANGES IN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total shareholders' equity
December 31, 2015	69	598	2,492	3,159
<b>2016</b>				
<b>Total comprehensive income</b>				
Profit after tax	-	-	1,143	1,143
<b>Transaction with shareholders</b>				
Issue of subscription warrants	-	-	18	18
Dividend	-	-	-585	-585
December 31, 2016	69	598	3,068	3,735
<b>2017</b>				
<b>Total comprehensive income</b>				
Profit after tax	-	-	975	975
<b>Transaction with shareholders</b>				
Dividend	-	-	-1,635	-1,635
December 31, 2017	69	598	2,408	3,075

## PARENT COMPANY'S CASH FLOW STATEMENTS

MSEK	2017	2016
<b>Cash flow from operations</b>		
Operating profit	-15	-26
Adjustment for non-cash items, depreciations	0	0
Financial income received	63	45
Financial expenses paid	-59	-29
Tax paid	-27	-4
<b>Cash flow from operations before changes in working capital</b>	<b>-38</b>	<b>-14</b>
<b>Cash flow from changes in working capital</b>		
Changes in current receivables	-3	0
Changes in current liabilities	-5	1
<b>Cash flow from operations</b>	<b>-46</b>	<b>-13</b>
<b>Investing operations</b>		
Sales of tangible fixed assets	-	0
Change in interest-bearing receivables	525	-66
Dividends from subsidiaries	912	1,075
Shareholders' contribution	-	-252
Incorporation of subsidiaries	-	0
Group contributions received	124	50
Acquisition	-709	-365
<b>Cash flow from investing activities</b>	<b>852</b>	<b>442</b>
<b>Financing operations</b>		
Issue of subscription warrants	0	18
Change in interest-bearing liabilities	216	577
Dividend	-1,635	-585
<b>Cash flow from financing operations</b>	<b>-1,419</b>	<b>10</b>
<b>Cash flow for the year</b>	<b>-613</b>	<b>439</b>
Cash and cash equivalents, January 1	1,119	680
<b>Cash and cash equivalents, December 31</b>	<b>506</b>	<b>1,119</b>

# NOTES OF THE PARENT COMPANY

## NOTE 23

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 24 EMPLOYEES AND PERSONNEL EXPENSES

Average number of employees	2017	2016
Women	3	3
Men	2	2
<b>Total</b>	<b>5</b>	<b>5</b>

Salaries, other remunerations and social-security costs MSEK	2017	2016
Board of directors	3	3
CEO	16	14
Other employees	5	6
Social security costs, pension costs and payroll tax	14	13
<b>Total</b>	<b>38</b>	<b>36</b>

## NOTE 25 FEES AND EXPENSE REIMBURSEMENT TO AUDITORS

KSEK	2017	2016
EY		
Audit assignment	885	807
Tax consultancy	-	15
Other services	15	0
<b>Total</b>	<b>900</b>	<b>822</b>

## NOTE 28 TAXES

MSEK	2017	2016
<b>Current tax expense</b>		
Tax expense for the year	-20	-21
<b>Deferred tax expense</b>		
Deferred tax pertaining to temporary differences	0	0
<b>Total reported tax expense</b>	<b>-20</b>	<b>-21</b>
<b>Reconciliation effective tax MSEK</b>	<b>2017</b>	<b>2016</b>
	%	%
Profit before tax	995	1,164
Tax according to current tax rate for the parent company	-219 -22%	-256 -22%
Non-deductible costs	-1 0%	-1 0%
Non-taxable revenues	200 20%	236 20%
<b>Total reported tax cost</b>	<b>-20 -2%</b>	<b>-21 -2%</b>

## NOTE 29 INTANGIBLE FIXED ASSETS

Accumulated acquisition value MSEK	Other intangible		Total	
	2017	2016	2017	2016
Opening balance, January 1	-	-	-	-
Investments	0	-	0	-
<b>Closing balance, December 31</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Accumulated amortisation value MSEK</b>	<b>Other intangible</b>		<b>Total</b>	
	2017	2016	2017	2016
Opening balance, January 1	-	-	-	-
Depreciations for the year	0	-	0	-
Divestments, disposals	-	-	-	-
<b>Closing balance, December 31</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Carrying amount, December 31</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>

## NOTE 26 FINANCIAL INCOME AND EXPENSES

MSEK	2017	2016
Dividend	912	1,075
Group contributions	124	130
Interest income	7	1
Interest income from Group receivables	57	43
Exchange-rate gains	0	0
Other financial income	0	0
<b>Financial income</b>	<b>1,100</b>	<b>1,249</b>
Interest expense	-8	-9
Interest expense from Group liabilities	-43	-16
Exchange-rate loss	-4	0
Other financial expense	-6	-2
<b>Financial expenses</b>	<b>-61</b>	<b>-27</b>

## NOTE 27 APPROPRIATIONS AND UNTAXED RESERVES

MSEK	2017	2016
Transfer to Tax allocation reserve	29	32
<b>Total</b>	<b>29</b>	<b>32</b>

MSEK	2017	2016
<b>Untaxed reserves</b>		
Opening balance, January 1	32	-
Transfer to Tax allocation reserve	29	32
<b>Closing balance, December 31</b>	<b>61</b>	<b>32</b>

## NOTE 30 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	2017	2016
Personnel-related expenses	36	40
Other	5	4
<b>Total</b>	<b>41</b>	<b>44</b>

## NOTE 31 INTEREST-BEARING LIABILITIES TO CREDIT INSTITUTIONS

MSEK	2017	2016
<b>Non-current liabilities</b>		
Liabilities to credit institutions	825	-
<b>Non-current liabilities</b>	<b>825</b>	<b>-</b>
<b>Current liabilities</b>		
Liabilities to credit institutions	-	-
<b>Current liabilities</b>	<b>-</b>	<b>-</b>
Bilateral loan 1,500 MSEK	495	-
Bilateral loan 125 MUSD	330	-
<b>Total non-current liabilities</b>	<b>825</b>	<b>-</b>

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

Subsidiaries	Corp. Reg. No.	Registered office	2017		2016	
			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	100	0
Stellana AB	556084-8870	Laxå, Sweden	100	29	100	29
Elastomeric Engineering Co., Ltd. <sup>1)</sup>		Sri Lanka	99.6	58	99.6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. <sup>2)</sup>		Sri Lanka	100		100	
HEXPOL Compounding HQ Sprl		Belgium	100	702	100	702
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 Lesina s.r.o		Czech Republic	100	709	-	-
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V. <sup>3)</sup>		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V. <sup>3)</sup>		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 GbmH		Germany	100		100	
Stellana Deutschland GmbH		Germany	100		100	
HEXPOL TPE AB	556191-5777	Åmål, Sweden	100	250	100	250
HEXPOL TPE Ltd		Great Britain	100	34	100	34
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	33	100	33
Berwin Group Limited		Great Britain	100	365	100	365
Flexi-Cell (UK) Ltd		Great Britain	100		100	
Berwin Rubber Company Limited		Great Britain	100		100	
Berwin of Lydney Limited		Great Britain	100		100	
Berwin Industrial Polymers Limited		Great Britain	100		100	
HEXPOL Finance UK Ltd		Great Britain	100	2,535	100	2,535
HEXPOL Holding Inc.		USA	100	231	100	231
RheTech LLC		USA	100		100	
RheTech Engineered Plastics		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 Compounding CA Inc		USA	100		-	
HEXPOL UK Ltd		Great Britain	100		100	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC		USA	100		100	
HEXPOL Compounding (UK) Ltd		Great Britain	100		100	
Chase Elastomer (UK) Ltd.		Great Britain	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. <sup>4)</sup>		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. <sup>5)</sup>		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	
<b>Total carrying amount in the Parent Company</b>				<b>5,648</b>		<b>4,939</b>

- 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 AB owns 99% and HEXPOL Compounding HQ Sprl owns 1% of the shares.
- 4) HEXPOL Compounding LLC owns 99% and HEXPOL Compounding Querétaro S.A. de C.V. owns 1 % of the shares.
- 5) 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

	2017	2016
Opening balance	4,939	4,322
Shareholder contributions	-	252
Incorporation of subsidiaries	-	0
Acquisitions	709	365
<b>Carrying amount</b>	<b>5,648</b>	<b>4,939</b>

## NOTE 33 ASSETS PLEDGED

MSEK	2017	2016
Sureties for subsidiaries	55	57
<b>Total</b>	<b>55</b>	<b>57</b>



**NOTE 34 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	1,433,594
Share premium reserve	597,880
Profit of the year	975,095
<b>Total unrestricted funds</b>	<b>3,006,569</b>

The Board proposes the unappropriated funds to be disposed as follows: that the shareholders are paid a dividend of 1.95 sek per share.

Total dividend from profit brought forward	671,192
To be carried forward	2,335,377
<b>Total</b>	<b>3,006,569</b>

The undersigned give their assurances that the consolidated financial statements and the Annual Report were prepared in accordance with international accounting standards, IFRS, as adopted by the EU, and generally accepted accounting principles and provide a fair view of the Group's and the Parent Company's position and earnings, and that the Administration Report gives a fair impression of the development of the Group's and the Parent Company's operations, position and earnings, while also describing the material risks and uncertainties facing the companies included in the Group.

Malmö March 16, 2018

Georg Brunstam  
Chairman of the Board

Alf Göransson  
Board Member

Malin Persson  
Board Member

Märta Schörling Andreen  
Board Member

Kerstin Lindell  
Board Member

Gun Nilsson  
Board Member

Jan-Anders E. Månson  
Board Member

Mikael Fryklund  
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 16, 2018. 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 24, 2018 for adoption.

Our audit report was submitted on March 16, 2018

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 64–69 and the statutory sustainability report on pages 52–63 for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 44–88 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 2017 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 2017 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 64–69 and the statutory sustainability report on pages 52–63. 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.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### 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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## GOODWILL AND SHARES IN SUBSIDIARIES

### Description

The carrying value of goodwill as of 31 December 2017 amounts to 4.967 MSEK in the consolidated balance sheet, which represents 48% of total assets. Shares in subsidiaries amounts to 5.648 MSEK in the parent company's balance sheet, which represents 72% 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.

A description of the impairment test is shown in Note 9 "Intangible assets" and under Accounting Principles section "Significant estimates and assumptions".

### How our audit addressed this key audit matter

In our audit, we evaluated and tested the company'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 analyses. 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 1-43, 52-63, and pages 92-103. 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 informa-

tion, 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.

## 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 2017 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 64-69 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.

**The auditor's opinion regarding the statutory sustainability report**

The Board of Directors is responsible for the statutory sustainability report on pages 52-63, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of HEXPOL AB (publ) by the general meeting of the shareholders on the 28th April 2017 and has been the company's auditor since 4th June 2002. HEXPOL AB (publ) has been a public interest entity since 9th June 2008.

*Malmö 16 March, 2018*

*Ernst & Young AB*

*Johan Thuresson*

*Authorized Public Accountant*



# BOARD OF DIRECTORS, AUDITORS AND GROUP MANAGEMENT

## BOARD OF DIRECTORS

	Year of birth	Nationality	Elected	Audit committee	Remuneration committee	Independent in relation to the company and management	Independent in relation to major shareholders	Holdings Number of Class A shares	Holdings Number of Class B shares	Holdings of warrants
Georg Brunstam Chairman	1957	Swedish	2007	No	Yes	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	–	–	–
Mårta Schörling Andreen	1984	Swedish	2014	Yes	Yes	Yes	No	14,765,620	74,533,159	–
Kerstin Lindell	1967	Swedish	2016	No	No	Yes	Yes	–	5,000	–
Gun Nilsson	1955	Swedish	2017	Yes	No	Yes	No	–	1,250	–

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 2017.

### GEORG BRUNSTAM

Born in 1957, M. Sc. (Eng.)  
Chairman of the Board since 2017  
and member of the Board since  
2007. Chairman of the Remuneration Committee.

Other assignments:

Chairman of the Board of Inwido AB. Member of the Board of Melker Schörling AB, 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 (until March 2018). 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 KTH.

HEXPOL holding:

–



## MÄRTA SCHÖRLING ANDREEN

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

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

HEXPOL holding:  
14,765,620 Class A shares and  
74,533,159 Class B shares,  
through Melker Schörling AB.



## 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.



## GUN NILSSON

Born in 1955, B.Sc. (Econ.).  
Member of the Board since 2017.  
Chairman of the Audit Committee.

Other assignments:  
Chairman of the Board of Hexagon  
AB, President and CEO of Melker  
Schörling AB and member of the  
Board of AAK AB, Loomis AB and  
Bonnier Holding AB.

HEXPOL holding:  
1,250 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

## MIKAEL FRYKLUND

Born in 1963, M. Sc. (Eng.) and B.Sc. in Business Administration President and Chief Executive Officer, employed in 2017

Other assignments:  
–

HEXPOL Holdings:  
14,000 Class B shares,  
225,000 warrants



## KARIN GUNNARSSON

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

Other assignments:  
–

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



## JAN WIKSTRÖM

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

Other assignments:  
–

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



## TRACY GARRISON

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

Other assignments:  
Member of the Board Cherokee Sports LLC.

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



## RALPH WOLKENER

Born in 1971, B.Sc. (Econ.). President HEXPOL Compounding Europe/Asia and President HEXPOL TPE Compounding, employed in 1997.

Other assignments:  
–

HEXPOL Holdings:  
88,500 Class B shares,  
75,000 warrants.



## CARSTEN RÜTER

Born in 1971, M. Sc. (Eng.). President HEXPOL Compounding Europe/Asia and HEXPOL Compounding Global Purchasing/Technology. President HEXPOL TPE Compounding, employed in 1997.

Other assignments: –

HEXPOL Holdings:  
100,000 Class B shares,  
75,000 warrants.





# SHAREHOLDER INFORMATION



## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on April 24, 2018, at 3:00 p.m. CET in Malmö Sweden (Börshuset, Skeppsbron 2).

Shareholders who wish to participate in the AGM must:

- be registered in the shareholders' register maintained by Euroclear Sweden AB no later than April 18 2018.
- notify the Company of their intention to attend the AGM by filling out a form on HEXPOL's website, [www.hexpol.com](http://www.hexpol.com) or by post to HEXPOL AB, "Annual General Meeting", c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden or by phone +46 8 402 90 49. Notification of participation should be submitted no later than April 18 2018.

Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than April 18 2018 to be entitled to participate in the AGM. The trustee should therefore be notified in due time before said date.

Notification should state the shareholder's name, personal identity number, telephone number and number of shares. Shareholders wishing to be represented by proxy should send a power-of-attorney to Euroclear Sweden AB before the AGM.

## PROPOSAL FOR DIVIDEND

The Board proposes to the Annual General Meeting on April 24 a dividend of 1.95 SEK per share.

## ANNUAL REPORT

The Annual Report of HEXPOL is distributed digitally. The Annual Report can be downloaded from the website [www.hexpol.com](http://www.hexpol.com). Those shareholders that wish to receive a printed copy please send name and address to [ir@hexpol.com](mailto:ir@hexpol.com) or order it directly from HEXPOL AB's webpage [www.hexpol.com](http://www.hexpol.com).

## CALENDAR FOR FINANCIAL INFORMATION

HEXPOL AB will publish financial information on the following dates:

Activity	Date
2017 Annual Report, published	April 3, 2018
Interim report January-March 2018	April 24, 2018
Annual General Meeting	April 24, 2018
Half year report January-June 2018	July 18, 2018
Interim report January-September 2018	October 25, 2018
Year-end report 2018	February 2019

Financial information is also available in Swedish and English on HEXPOL AB's website [www.hexpol.com](http://www.hexpol.com).

For more information, contact:

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



# TEN-YEAR SUMMARY

MSEK	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>INCOME STATEMENTS, condensed</b>										
<b>Sales</b>	<b>12,230</b>	<b>10,879</b>	<b>11,229</b>	<b>8,919</b>	<b>8,036</b>	<b>8,007</b>	<b>7,197</b>	<b>3,798</b>	<b>2,608</b>	<b>3,190</b>
Operating expenses	-10,244	-8,958	-9,265	-7,463	-6,781	-6,938	-6,302	-3,402	-2,445	-2,880
<b>Operating profit</b>	<b>1,986</b>	<b>1,921</b>	<b>1,964</b>	<b>1,456</b>	<b>1,255</b>	<b>1,069</b>	<b>895</b>	<b>396</b>	<b>163</b>	<b>310</b>
Net financial items	-18	-8	-21	-20	-19	-22	-23	-26	-23	-52
<b>Profit before tax</b>	<b>1,968</b>	<b>1,913</b>	<b>1,943</b>	<b>1,436</b>	<b>1,236</b>	<b>1,047</b>	<b>872</b>	<b>370</b>	<b>140</b>	<b>258</b>
Tax	-441	-516	-550	-388	-306	-294	-253	-97	-38	-75
<b>Profit after tax</b>	<b>1,527</b>	<b>1,397</b>	<b>1,393</b>	<b>1,048</b>	<b>930</b>	<b>753</b>	<b>619</b>	<b>273</b>	<b>102</b>	<b>183</b>
<b>BALANCE SHEETS, condensed</b>										
<b>Assets</b>										
Fixed assets	7,048	6,423	5,868	4,832	3,946	3,971	3,365	3,438	1,977	2,167
Current assets	2,489	2,128	1,877	1,626	1,335	1,372	1,286	1,155	494	692
Cash and cash equivalents	813	1,297	978	826	597	564	557	318	317	342
<b>Total assets</b>	<b>10,350</b>	<b>9,848</b>	<b>8,723</b>	<b>7,284</b>	<b>5,878</b>	<b>5,907</b>	<b>5,208</b>	<b>4,911</b>	<b>2,788</b>	<b>3,201</b>
<b>Shareholders' equity and liabilities</b>										
Shareholders' equity	7,010	7,559	6,233	5,049	3,617	2,909	2,473	1,327	1,217	1,157
Interest-bearing liabilities	840	29	524	567	962	1,809	1,698	2,592	1,128	1,535
Other liabilities and provisions	2,500	2,260	1,966	1,668	1,299	1,189	1,037	992	443	509
<b>Total shareholders' equity and liabilities</b>	<b>10,350</b>	<b>9,848</b>	<b>8,723</b>	<b>7,284</b>	<b>5,878</b>	<b>5,907</b>	<b>5,208</b>	<b>4,911</b>	<b>2,788</b>	<b>3,201</b>
<b>CASH FLOW STATEMENTS, condensed</b>										
Cash flow from operating activities	1,699	1,710	1,760	1,432	1,223	1,115	726	387	359	393
Net investments in tangible and intangible fixed assets	-195	-150	-118	-118	-136	-177	-103	-32	-23	-105
Acquisitions of operations	-1,081	-295	-1,043	-413	-3	-926	1	-1,827	0	0
Cash flow from financing activities	-823	-1,075	-479	-777	-1,060	33	-390	1,498	-358	-194
<b>Cash flow for the year</b>	<b>-400</b>	<b>190</b>	<b>120</b>	<b>124</b>	<b>24</b>	<b>45</b>	<b>234</b>	<b>26</b>	<b>-22</b>	<b>94</b>
Cash and cash equivalents, January 1	1,297	978	826	597	564	557	318	317	342	228
Exchange rate differences in cash flow	-84	129	32	105	9	-38	5	-25	-3	20
<b>Cash and cash equivalents, December 31</b>	<b>813</b>	<b>1,297</b>	<b>978</b>	<b>826</b>	<b>597</b>	<b>564</b>	<b>557</b>	<b>318</b>	<b>317</b>	<b>342</b>

MSEK	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Key figures</b>										
Average shareholders' equity, MSEK	6,871	6,826	5,887	4,333	3,263	2,691	2,038	1,268	1,187	1,091
Average capital employed, MSEK	7,898	7,186	6,861	5,116	4,664	4,458	4,057	2,780	2,530	2,562
Return on shareholders' equity %	22.2	20.5	23.7	24.2	28.5	28.0	30.4	21.5	8.6	16.8
Return on capital employed, %	25.1	26.8	28.6	28.5	27.0	24.0	22.3	13.9	6.4	13.2
Sales growth excl currency effects, %	12	-4	11	6	6	-2	-9	-11	-8	1
Operating margin, %	16.2	17.7	17.5	16.3	15.6	13.4	12.4	10.4	6.3	9.7
Profit margin before tax, %	16.1	17.6	17.3	16.1	15.4	13.1	12.1	9.7	5.4	8.1
Earnings per share, before dilution SEK*, **	4.44	4.06	4.05	3.05	2.70	2.19	1.87	0.93	0.35	0.62
Earnings per share, after dilution SEK*, **	4.44	4.06	4.05	3.05	2.70	2.19	1.87	0.93	0.35	0.62
Net cash, MSEK	-27	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	0.0	0.1	0.4	0.4	1.7	0.6	1.0
Equity/assets ratio, %	68	77	72	69	62	49	47	27	44	36
Shareholders' equity per share, SEK*, **	20.37	21.96	18.11	14.67	10.51	8.45	7.19	4.49	4.14	3.94
Dividend, MSEK	1,635	585	413	310	207	172	103	27	-	-
Dividend per share, SEK**	4.75	1.70	1.20	0.90	0.60	0.50	0.30	0.10	-	-
Operating cash flow, MSEK	2,001	2,057	2,185	1,676	1,418	1,209	911	506	462	411
Cash flow from operating activities, MSEK	1,699	1,710	1,760	1,432	1,223	1,115	726	387	359	393
Cash flow from operating activities per share, SEK*, **	4.94	4.97	5.11	4.16	3.55	3.24	2.19	1.32	1.22	1.34
Average number of employees	4,326	4,028	3,858	3,493	3,411	3,112	3,041	2,133	1,809	2,315
Number of employees at year-end	4,389	4,140	3,867	3,666	3,433	3,332	3,020	3,037	1,827	2,230
Sales per employee, MSEK	2.83	2.70	2.91	2.55	2.36	2.57	2.37	1.78	1.44	1.38
<b>Key figures adjusted for larger non-recurring items such as restructuring</b>										
Operating profit, MSEK	1,986	1,921	1,964	1,456	1,255	1,069	895	460	261	310
Operating margin, %	16.2	17.7	17.5	16.3	15.6	13.4	12.4	12.1	10.0	9.7
Profit before tax, MSEK	1,968	1,913	1,943	1,436	1,236	1,047	872	434	238	258
Profit after tax, MSEK	1,527	1,397	1,393	1,048	930	753	619	318	172	183
Earnings per share before dilution, SEK*, **	4.44	4.06	4.05	3.05	2.70	2.19	1.87	1.08	0.59	0.62
Earnings per share after dilution, SEK*, **	4.44	4.06	4.05	3.05	2.70	2.19	1.87	1.08	0.59	0.62
Return on shareholders' equity %	22.2	20.5	23.7	24.2	28.5	28.0	30.4	25.1	14.5	16.8
Return on capital employed, %	25.1	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

# DEFINITIONS

## 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.

**EARNINGS PER SHARE EXCL. NON-RECURRING EFFECTS** Profit after tax excluding non-recurring effects, attributable to Parent Company shareholders divided by average number of shares outstanding.

**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.

**ALTERNATIVE PERFORMANCE MEASURES** In addition to the financial key ratios covered by IFRS regulations, this report also includes other key ratios. HEXPOL presents alternative performance measures as these provide valuable additional information to investors and the company's management as they allow evaluation of the company's performance. For reconciliation of these alternative performance measures refer to the Year-end report.

# BUSINESS DEFINITIONS

**CARBON DIOXIDE (CO<sub>2</sub>)** 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).

**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).

**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.

**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.



**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.

**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.

**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.

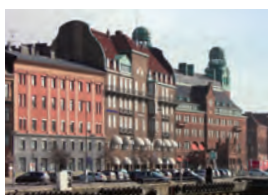
**TPO** Polyolefin blends.

**TPS** Styrenic block copolymers.

**TPU** Thermoplastic polyurethanes.

# GROUP COMPANIES

## Head office



**HEXPOL AB**  
Skeppsbron 3  
SE-211 20 Malmö  
Sweden  
Tel: +46 40-25 46 60  
Fax: +46 40-25 46 89  
info@hexpol.com  
www.hexpol.com

## HEXPOL Compounding NAFTA



**HEXPOL Compounding NC Inc.**  
280 Crawford Road  
Statesville, NC 28625  
USA  
Tel: +1 704 872 1585  
Fax: +1 704 872 7243  
info.sta@hexpol.com  
www.hexpolcompounding.com



**GoldKey Processing, Inc.**  
14910 Madison Rd.  
Middlefield, OH 44062  
USA  
Tel: +1 440 632 0901  
Fax: +1 440 632 0929  
info.mid@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding - Burton Rubber Processing**  
260 Old State Route 34  
P.O. Box 377  
Jonesborough, TN 37659, USA  
Tel: +1 423 753 2196  
Fax: +1 423 753 3379  
info.jon@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding - Burton Rubber Processing**  
14330 Kinsman Rd.  
Burton, OH 44021  
USA  
Tel: +1 440 834 4644  
Fax: +1 440 834 5524  
info.btn@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding - Colonial Rubber Works**  
150 S. Connell Ave.  
Dyersburg, TN 38024  
USA  
Tel: +1 731 285 4353  
Fax: +1 731 287 3098  
info.dyr@hexpol.com  
www.hexpolcompounding.com



**Chase Elastomer**  
635 Tower Dr.  
Kennedale, TX 76060  
USA  
Tel: +1 817 483 9797  
Fax: +1 817 483 1978  
info.kdl@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding - California**  
8227 Sorensen Ave.  
Santa Fe Springs, CA 90670  
USA  
Tel: +1 562 945 1241  
Fax: +1 562 698 7818  
info.sfs@hexpol.com  
www.hexpolcompounding.com



**Robbins LLC**  
3415 Thompson St  
Muscle Shoals, AL 35661  
USA  
Tel: +1 256 383 5441  
Fax: +1 800 821 7918  
info@robbinsllc.com  
www.robbinsllc.com



**Kardoes Rubber**  
1061 Industrial Drive  
LaFayette, AL 36862  
USA  
Tel: +1 334 864 0777  
Fax: +1 334 864 0776  
info.laf@hexpol.com  
www.kardoesrubber.com



**HEXPOL Silicone Compounding**  
3939A Mogadore Industrial Parkway  
Mogadore, OH 44260  
USA  
Tel: +1 440 682 4039  
Fax: +1 440 682 4076  
info.mog@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding Mexico**  
Av Japón 302  
Parque Industrial San Francisco de Los Romo,  
Ags. C.P 20304, Mexico  
Tel: +52 449 139 3270  
Fax: +52 449 139 3289  
info.ag@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding Querétaro S.A. de C.V.**  
La Noria 115  
Parque Industrial Querétaro  
C.P. 76220, Santa Rosa Jauregui,  
Querétaro  
Mexico  
Tel: +52 442 211 3500  
info.gro@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding CA Inc.**  
491 Wilson Way  
City of Industry, CA 91744  
USA  
Tel: +1 626 961 0311  
Fax: +1 626 968 2026  
info.val@hexpol.com  
www.hexpolcompounding.com

## HEXPOL Compounding Europe



**HEXPOL Compounding HQ** sa  
Gewerbestrasse 8  
BE-4700 Eupen  
Belgium  
Tel: +32 87 59 61 50  
Fax: +32 87 59 61 69  
info.hq@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding Sprl**  
Industriestrasse 36  
BE-4700 Eupen  
Belgium  
Tel: +32 87 59 54 30  
Fax: +32 87 74 44 73  
info.eup@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding GmbH**  
Ottostrasse 34  
DE-41836 Hückelhoven  
Germany  
Tel: +49 2433 9755 0  
Fax: +49 2433 9755 99  
info.huk@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding s.r.o**  
Sumperska 1344  
CZ-78391 Uniovo  
Czech Republic  
Tel: +42 585 004 011  
Fax: +42 585 053 568  
info.uni@hexpol.com  
www.hexpolcompounding.com



**Gislaved Gummi AB**  
Box 522  
SE-332 28 Gislaved  
Sweden  
Tel: +46 371 848 00  
Fax: +46 371 848 88  
info@gislavedgummi.com  
www.gislavedgummi.com



**HEXPOL Compounding (UK) Ltd.**  
Unit 3, Fifth Avenue  
Tameside Park, Dukinfield  
Cheshire, SK16 4PP  
United Kingdom  
Tel: +44 161 343 4433  
Fax: +44 161 343 4422  
info.duk@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding S.L.U.**  
Poligono Industrial La Bastida  
Ctra. Molins de Rei a Caldes, Km. 13,2  
08191 Rubi, Barcelona  
Spain  
Tel: +34 93 699 86 11  
Fax: +34 93 6999251  
info.bcn@hexpol.com  
www.hexpolcompounding.com



**Flexi-Cell Ltd**  
Broadway, Globe Lane Industrial  
Estate,  
Dukinfield, Cheshire, SK16 4UJ  
United Kingdom  
Tel: +44 161 342 1150  
Fax: +44 161 343 1208  
info@berwin-rubber.co.uk  
www.hexpolcompounding.com



**Berwin Rubber Ltd**  
Broadway, Globe Lane Industrial  
Estate,  
Dukinfield, Cheshire, SK16 4UJ  
United Kingdom  
Tel: +44 161 342 1150  
Fax: +44 161 343 1208  
Email: info@berwin-rubber.co.uk  
www.hexpolcompounding.com



**Berwin Industrial Polymers Ltd**  
Church Road, Lydney,  
Gloucestershire GL15 5FG  
United Kingdom  
Tel: +44 1594 846 551  
Fax: +44 1594 846 569  
info@berwinip.co.uk  
www.hexpolcompounding.com



**HEXPOL Compounding Lesina sro**  
Lesina  
35134 Skalná  
Czech Republic  
Tel: +420 354 524 911  
Fax: +420 354 524 999  
Email: lesina@hexpol.com  
www.hexpolcompounding.com

## HEXPOL Compounding Asia



**HEXPOL Compounding (Qingdao) Co. Ltd.**  
899 Fenghuangshan Road  
CN-266431 Huangdao, Qingdao  
China  
Tel: +86 532 8173 1118  
Fax: +86 532 8173 1119  
info.qdo@hexpol.com  
www.hexpolcompounding.com



**HEXPOL Compounding (Foshan) Co. Ltd.**  
No. 3 Xinhui Road  
Wusha, Daliang, Shunde District  
Foshan Guangdong CN-528333  
China  
Tel: +86 757 2291 5100  
Fax: +86 757 2291 5149  
info.fsc@hexpol.com  
www.hexpolcompounding.com



**Gislaved Gummi Lanka (Private) Ltd.**  
371 Colombo Road  
Bokundara, Piliyandala  
Sri Lanka  
Tel: +94 11 421 2722  
Fax: +94 11 421 2758  
info-lk@gislavedgummi.com  
www.gislavedgummi.com

## HEXPOL TP Compounding



**RheTech LLC**  
1500 E. North Territorial Rd.  
Whitmore Lake, MI 48189  
USA  
Tel: +1 734 769 0585  
Fax: +1 734 769 3565  
info@rhetechn.com  
www.rhetechn.com



**RheTech LLC**  
9201 West Grand River  
Fowlerville, MI 48836  
USA  
Tel: +1 734 769 0585  
Fax: +1 734 769 3565  
info@rhetechn.com  
www.rhetechn.com



**RheTech Colors**  
2901 W. Monroe Street  
Sandusky, OH 44870  
USA  
Tel: +1 419 626 5677  
Fax: +1 419 626 1140  
info@rhetechncolors.com  
www.rhetechn.com



**RheTech Engineered Plastics**  
221-A York Road  
Blacksburg, SC 29702  
USA  
Tel: +1 864 839 6070  
Fax: +1 864 839 6075  
info@rhetechn.com  
www.rhetechn.com



## HEXPOL TPE Compounding



**HEXPOL TPE GmbH**  
Plant 1  
Grünwaldstr. 13  
DE-96215 Lichtenfels  
Germany  
Tel: +49 9571 94894 0  
Fax: +49 9571 94894 90  
info.de@hexpolTPE.com  
www.hexpolTPE.com



**HEXPOL TPE GmbH**  
Plant 2  
Max-Planck-Str. 3  
DE-96215 Lichtenfels  
Germany  
Tel: +49 95 71 94 89 4-0  
Fax: +49 95 71 94 89 4-90  
info.de@hexpolTPE.com  
www.hexpolTPE.com



**HEXPOL TPE AB**  
Box 51, Gamla Örnäsgratan 15  
SE-662 22 Åmål  
Sweden  
Tel: +46 532 607 500  
Fax: +46 532 607 599  
info.se@hexpolTPE.com  
www.hexpolTPE.com



**HEXPOL TPE Ltd**  
Don Street, Middleton  
Manchester, M24 2GG  
United Kingdom  
Tel: +44 161 654 6616  
Fax: +44 161 654 2333  
info.uk@hexpolTPE.com  
www.hexpolTPE.com



**HEXPOL TPE CHINA**  
No. 3 Xinhui Road  
Wusha, Daliang, Shunde District  
Foshan Guangdong CN-528333  
China  
Tel: +86 757 2291 5100  
Fax: +86 757 2291 5149  
info.fsc@hexpolTPE.com  
www.hexpolTPE.com



**HEXPOL TPE North America**  
2901 W. Monroe Street  
Sandusky, OH 44870  
USA  
Tel: +1 419 626 5677  
Fax: +1 419 626 1140  
info.na@hexpolTPE.com  
www.hexpolTPE.com

**HEXPOL TPE**  
Sales office France  
Tel: +33 160 431717  
info.fr@hexpolTPE.com

**HEXPOL TPE**  
Sales office Belgium  
Tel: +32 87 595 448  
info.be@hexpolTPE.com

## HEXPOL Engineered Products



**Stellana AB**  
Box 54  
SE-695 22 Laxå  
Sweden  
Tel: +46 584 44 48 00  
Fax: +46 584 44 48 90  
info@stellana.se  
www.stellana.com



**Stellana Qingdao Co Ltd**  
No 899 Fenghuang Shan road  
Huangdao, Qingdao, 266431  
China  
Tel: +86 532 81731167  
Fax: +86 532 81731128  
www.stellana-cn.com



**Stellana U.S. Inc.**  
999 Wells Street  
Lake Geneva, WI 53147  
USA  
Tel: +1 262 348 5575  
Fax: +1 262 348 5570  
info@stellana.us  
www.stellana.com



**Elastomeric Engineering Co Ltd**  
51-54, IDB Industrial Estate  
Horana  
Sri Lanka  
Tel: +94 34 226 1051  
Fax: +94 34 226 2045  
info@elastomeric.lk  
www.elastomericgroup.com



**Gislaved Gummi AB**  
Box 522  
SE-332 28 Gislaved  
Sweden  
Tel: +46 371 848 00  
Fax: +46 371 848 88  
info@gislavedgummi.com  
www.gislavedgummi.com



**Gislaved Gummi Qingdao Co Ltd**  
No 899 Fenghuang Shan road  
Huangdao, Qingdao, 266431  
China  
Tel: +86 532 8173 1167  
Fax: +86 532 8173 1006  
info-cn@gislavedgummi.com  
www.gislavedgummi.com



**Gislaved Gummi Lanka (Private) Ltd**  
371 Colombo Road  
Bokundara, Piliyandala  
Sri Lanka  
Tel: +94 11 421 2722  
Fax: +94 11 421 2758  
info-lk@gislavedgummi.com  
www.gislavedgummi.com

**HEXPOL Wheels sales office/  
distribution center Germany**  
Stellana Deutschland GmbH  
Am Appenstedter Wäldchen 7  
D-21217 Seevetal/Meckelfeld  
Germany  
Tel: +49 40 703884710  
Fax: +49 40 703884766  
Email: info@stellana.com  
www.stellana.com

**HEXPOL Gaskets distribution center USA**  
Robbins LLC  
3415 Thompson St  
Muscle Shoals, AL 35661  
USA  
Tel: +1 256 383 5441  
Fax: +1 800 821 7918  
info@robbinsllc.com  
www.robbinsllc.com



Production: G-byran Sverige AB, www.g-byran.se  
Art Director, Project Manager: Anders Ohngren  
Texts: HEXPOL AB · Translation: HEXPOL AB and The Bugli Company.  
Photography: HEXPOL AB's subsidiaries, Pixhill.com,  
Shutterstock, among others.  
Printed in Sweden by Strömkirk-Landströms.





A Material Difference

HEXPOL AB (publ), Skeppsbron 3, SE-211 20 Malmö, Sweden  
Tel. +46 (0)40-25 46 60 · Fax +46 (0)40-25 46 89  
[www.hexpol.com](http://www.hexpol.com)

