



A MATERIAL DIFFERENCE

Strong global market positions in advanced polymer solutions

ANNUAL REPORT 2020 WITH SUSTAINABILITY REPORT

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Board of Directors' Report and Financial Statements

HEXPOL's Annual Report is published in Swedish and English. The Swedish version is the original and has been audited by HEXPOL's auditor.

Accounting in accordance with GRI Standards

HEXPOL's standalone sustainability report can be downloaded from www.hexpol.com a few weeks after the Annual Report has been published. HEXPOL reports sustainability for 2020 in accordance with the GRI Standards, Global Reporting Initiative guidelines for sustainability reporting, Core option.

HEXPOL and the Global Compact

Since 2017, HEXPOL has been affiliated to the UN's Global Compact network, an initiative for responsible business practices focusing on the environment, working conditions, human rights and anti-corruption. The Group submits an annual Communication On Progress (COP) to the UN.

Climate impact

HEXPOL reports carbon dioxide emissions (carbon dioxide equivalents, CO₂e) in accordance with the Greenhouse Gas Protocol (GHG). That reporting covers emissions from direct energy use (Scope 1) and indirect energy use (Scope 2). In a separate report to the Carbon Disclosure Project (CDP), the Group reports on its climate impact and the measures being taken to mitigate this.



We supply high-quality polymer solutions that enhance our customers' applications

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are to resolve new challenges, often in the most demanding environments. Other requirements include uniform quality and global delivery capacity.

The Group's strengths are its locally rooted entrepreneurial spirit, with the units having an excellent familiarity with the market, cutting-edge expertise and development capabilities in advanced polymers. Combined with HEXPOL's global and coordinated platform, the customer offering will be unique.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which, between them, cover a total of three regions and five product areas. HEXPOL generates annual sales of 13.4 billion SEK and has 4,550 employees at 49 units in America, Europe and Asia. The units have their own organizations for sales, product development and manufacturing, for example.

SALES 2020
13,424 MSEK
(15,508 MSEK)

**ADJUSTED
OPERATING PROFIT 2020**
2,011 MSEK
(2,242 MSEK)

**ADJUSTED
OPERATING MARGIN**
15.0%
(14.5%)

PROPOSED DIVIDEND
2.30 SEK
(2.30 SEK)

A world in change – business opportunities benefiting HEXPOL



Increasing electrification drives growth

The increasing electrification of a growing number of applications in society is becoming evident in pace with the replacement of fossil fuels with renewable ones. This is particularly noticeable in the expanding segment of electrified or hybrid vehicles. HEXPOL also has a comprehensive and broad offering in the cable and wire segment.



Clear business opportunities in sustainable development

HEXPOL can contribute to customers' sustainability work by increasing its use of bio-based and recycled raw materials and by means of resource-efficient processes and products.



Short supply chains are business critical for customers

Shorter supply chains, with shorter distances and response times, have become business-critical components for HEXPOL's customers. The ongoing pandemic and increasing trade barriers are driving development. With global operations in Europe, the Americas and Asia, HEXPOL is a reliable partner with a local presence.



Growing need of advanced materials in the Health segment

Human health is a global priority. An ageing population, welfare diseases but also an increased awareness of health issues are strong and critical trends. HEXPOL's advanced polymer solutions are demanded in more and more applications for the health segment.

Read more about the driving forces in four cases on pages 18–19, 30–31, 66–67 and 98–99.

Strong recovery following the effects of the corona virus

In 2020, the corona pandemic changed the circumstances of so many people – and on so many levels.

HEXPOL's operations were impacted by disruptions in demand and extraordinary challenges.

At the same time, HEXPOL's strengths stood out clearer than ever. During the pandemic, our decentralized but highly coordinated business model, as well as our strong shared culture, grew in value as assets. Ultimately, we were able to deliver a very good profit for the year, despite a significant loss of earnings in the second quarter. This also means that we now face 2021 as a stronger, more efficient and, if possible, even more customer-oriented company.

Focus on health, safety and customer-oriented solutions

After a strong start to the year with favourable demand, sales and profitability, the world and HEXPOL were hit by the corona pandemic in the second quarter with countries being partially shut down and demand from most customers falling to low levels, particularly in the automotive industry.

From the outset, our focus was on quickly safeguarding the health and safety of our personnel, as well as that of our customer contacts. The negative effects on demand culminated in April and May and then gradually recovered, resulting in a strong second half of the year. To counter and offset the lower level of demand, vigorous cost savings were implemented by reducing overheads and employee numbers, both in production as well as among white-collar employees.

Equally important was to secure opportunities to deliver to our customers and to keep pace with the various development projects we shared with them. With customer-oriented facilities, we were more easily able to understand and adapt to our customers' needs and regulations right then and there.

Decentralized and strongly coordinated

HEXPOL's experienced and decentralized organization shows its strength in situations like the one that was created by the pandemic, with large-scale and varying challenges. Each unit responds quickly, adjusting to the conditions applicable to them locally, partly to be able to support our customers but also to secure our financial position. At the same time, all essential processes and resources are coordinated centrally to make the best use of our global presence.

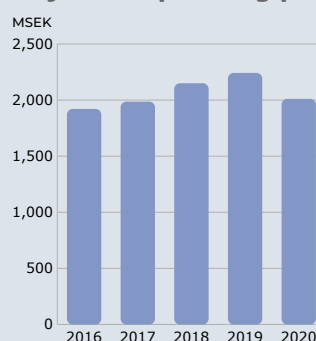
The ongoing pandemic, but also increasing trade obstacles, have made it clear that shorter supply chains have become a

Sales



Sales were impacted negatively by the Covid-19 pandemic, mainly in the second quarter, and by the negative impact of exchange rate changes of 328 MSEK.

Adjusted operating profit



Exchange rate fluctuations affected the adjusted operating profit negatively by 31 MSEK.



“Our culture works because we are able to combine global coordination of business-critical processes with entrepreneurial spirit at the local level and its more customer-oriented opportunities.”

President and CEO, Georg Brunstam

business-critical component for many of our customers. With our decentralized business structure and 49 local units in Europe, America and Asia, we are able to offer fast and secure deliveries based on local conditions and being most aware of our customer's needs.

Strong results and improved market positions

The HEXPOL Group's sales were impacted negatively by the effects of the pandemic over the year as a whole. Despite some recovery emerging towards the end of the second quarter, mainly in the automotive and construction industries, sales decreased by 13 percent to 13,424 MSEK (15,508).

At the same time, I can proudly state that during the year our units succeeded in protecting the Group's overall earnings from the effects of the ongoing pandemic. The well-executed integration of Preferred, which was acquired

last year, with synergies and further vigorous cost savings being realized, and with its labour force being adjusted in the second half of the year, clearly had a positive effect on earnings. Cost savings, capacity adjustments and greatly improved volumes in the second half of the year brought a solid improvement in the operating margin, excluding items affecting comparability, which amounted to 15.0 percent (14.5) for 2020. Profit for the fourth quarter was our strongest to date, with an operating profit of 622 MSEK and an operating margin of 18.3 percent.

As a result of our strong recovery, with very good cash flows and improved earnings, an Extraordinary General Meeting that was held in November elected to pay out the deferred dividend of 2.30 SEK per share for 2019.

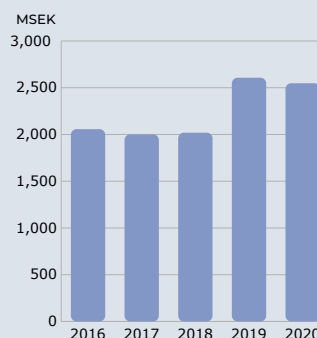
Earnings per share in 2020, adjusted for those items affecting comparability, amounted to 4.26 SEK (4.93). During the year, the Group also generated a continued strong

Adjusted operating margin



The higher margin was primarily affected by a reduced cost base and increased volumes.

Operating cash flow



Focused work regarding working capital led to continued strong operating cash flow.



operating cash flow of 2,548 MSEK (2,607) while our net debt ratio (ND/EBITDA) amounted to only 0.67 (0.95). Significantly reduced costs, a large part of which are structural, strengthens our already strong financial position, affording HEXPOL good prospects for continued growth and development.

“We create a material difference”

HEXPOL is driven forward by its employees and strong corporate culture. During the year of the pandemic, it became particularly clear how strong our business model is. At the same time, the importance of communicating and strengthening our values increases as HEXPOL continues to grow. During the year, we therefore ran a well-founded and supported project to update our corporate vision and purpose, which we present in this annual report.

The conclusion is that we stand firm to our strong core values. With these as a basis, we have refined our vision and our mission to better express what we do every day and where we want to go in the long run. We have also tied this in to how we formulate HEXPOL's purpose – *We create a material difference* – which summarizes both figuratively and literally how we make a difference on a day-to-day basis, both through our products and through our relationships with our customers.

Further sustainable business, for us and for our customers

One of the areas that we clarify in our corporate culture is the work we do to generate additional sustainable business. Both for ourselves and for our customers. We continue to work energetically on sustainability and are challenging our units to be best in class when it comes to social commitment and minimizing their climate impact.

We report on and monitor our sustainability work transparently. We are now strengthening these efforts in line with new regulations and requirements. In 2020, we also adopted new, sharper and more transformational goals. One of these entails reducing our CO₂ imprint by 75 percent by 2025 and a number of our units are now being equipped with photovoltaic panels or supplied with renewable energy.

In recent years, we have worked on a number of development projects generating green growth and new opportunities for our customers. The TPE product Dryflex Circular, which is based on recycled materials, is one of several green products that are gaining ground in our product portfolio.

At the same time, we are also working with our customers to make their products more climate-efficient, by using lighter materials, for example, that reduce the weight of vehicles and thus save fuel.

In many cases, existing raw materials can be replaced with circular or renewable materials. This requires a change among consumers and customers, a process that has begun.

Priorities for 2021 – continued growth

The pandemic affected HEXPOL greatly in 2020 and, even at the time of writing, uncertainty remains even though our markets are generally performing much better. In the same way that our decentralized organization has been able to handle and limit the effects of declining demand, we are able to scale up our business quickly to meet new customer needs. With a stronger and more efficient organization, as well as a very strong position financially, we are also ready to continue our growth. Our global presence, with which we are offering our customers a shorter supply chain, enables organic growth. With regard to acquisitions, we are, as always, working actively and evaluating a number of opportunities in our various niches, always with good profitability and strong cash flow as the objective. We will continue to capitalize on the synergies from our latest acquisitions, MESGO and Preferred, through increased cross-selling and knowledge sharing between all of our units.

During 2020, I have, as Executive Chairman, worked closely with Peter Rosén, who was the interim CEO for most of the year. I would like to thank Peter for his extraordinary efforts during this unusual year and I am delighted that Peter and I will continue working together, now with Peter as Deputy CEO and CFO.

I would also like to extend my sincere thanks to our customers, suppliers and shareholders for their trust and positive partnership over the year. Despite the challenges, our employees and management teams around the world have reliably continued to deliver quality to our customers – my warm thanks to all of you.

HEXPOL is stronger, more efficient and more customer-oriented today than it was a year ago. With our favourable financial position and agile business structure, all of the prerequisites are in place for our Group to continue growing and developing in a positive direction.

Malmö, Sweden, March 2021

Georg Brunstam, President and CEO

Four reasons to invest in HEXPOL

Since its initial public offering in 2008, HEXPOL has generated shareholder value through a steady return on equity, which has, on average exceeded 15 percent in recent years. 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.



Strong growth orientation

HEXPOL strives for leading positions in its operations and has a strategy to grow both organically and through acquisitions with good margins and strong operating cash flows that enable continued expansion. HEXPOL has progressed from sales of slightly less than 500 MSEK in 2001 to 13,424 MSEK in 2020. Read more about HEXPOL's growth orientation on pages 10–11.



Global market positions

HEXPOL has strong global market positions with the ambition of being the market leader in select technical or geographical segments. With 49 units in Europe, America and Asia, HEXPOL can deliver flexible solutions to both local and global customers. HEXPOL is present in most industrial segments requiring leading polymer expertise, the largest segments being the automotive and engineering sectors. Read more about HEXPOL's global market positions on pages 12–13.



Advanced polymer solutions for demanding customer applications

HEXPOL's customers impose rigorous demands and high expectations of solutions to new challenges, often in the most demanding environments. Through cutting-edge knowledge in polymeric materials, solid application know-how and the best service on the market, HEXPOL strengthens its customers' competitiveness, often in direct collaboration with the customers' own development departments. Read more about HEXPOL's customer offering on pages 14–15.



Contribution to sustainable development

Sustainability forms an integral part of HEXPOL's operations. Reducing the impact on the climate of raw materials, production facilities and products, as well as being prepared for the impact of a changed climate on the Group's value chain, are highly strategic issues. Interest in products containing bio-based or recycled raw materials has increased markedly among many customers, and creating a more circular economy is a strong driving force for HEXPOL and its business partners. Read more about HEXPOL's sustainability work on pages 32–47.

The HEXPOL share and shareholders

Share, share price trend and trading volume

In 2020, the price paid for HEXPOL's Class B share fell by 4 percent (31) while the index of comparable industrial companies, OMX BRPI, rose by 11 percent (47). The Stockholm exchange as a whole, Nasdaq Stockholm, rose by 13 percent (31).

The highest price paid for HEXPOL's Class B share was noted on 2 January at 93.70 SEK and the lowest price paid was noted on 18 March at 40.46 SEK.

During 2020, 329.7 million (202.8) HEXPOL shares were traded. An average, 841,569 shares (811,217) were traded per business day. HEXPOL's shares are not only traded on Nasdaq Stockholm but also on marketplaces such as Cboe BXE, Turquoise and Cboe CXE. The number of shares traded on Nasdaq Stockholm represented 64 percent (62) of the total number of shares.

HEXPOL's total return decreased by 1.57 percent over the year, which can be compared with the OMX GI1 index, which climbed 15 percent. Over the past five-year period, HEXPOL's Class B share has had a total return of about 12 percent.

Ownership structure

HEXPOL's Class B share has been listed on the exchange since 2008. Today, the share is included on Nasdaq Stockholm's large company list, Large Cap, under HPOL B. 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.

As of 31 December 2020, HEXPOL AB had 12,575 (12,075) shareholders. The major shareholder is Melker Schörling AB, who owns all Class A shares. Melker Schörling AB also holds Class B shares and owns in total 25 percent of the share capital and 46 percent of the voting rights. The number of shares held by non-Swedish share-holders totalled 42 percent (40) of the capital. The 20 largest shareholders accounted for 69 percent (72) of the capital and 78 percent (80) of the voting rights.

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 in dividends to HEXPOL's shareholders, on the condition that the Group's financial position is deemed satisfactory. For 2020, the Board of Directors proposes a dividend of 2.30 SEK (2.30), corresponding to approximately 57 percent of net profit for the year. Taking non-recurring items into account, the corresponding figure is 51 percent.

Warrants programme

During 2016, a warrants programme was implemented for Group management, senior managers and key employees within the Group through a private placement of 2,100,000 subscription conveying rights to subscribe for the corresponding number of new Class B shares in HEXPOL AB. 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 conveyed the right to subscribe for 1.01 shares at a strike price of 88.70 SEK, adjusted for the extra dividend in May 2017 in accordance with the terms of the warrants. During 2017, 225,000 warrants were subscribed for by one senior executive at the warrant price of 9.00 SEK per warrant and with each warrant entitled the holder to subscribe for 1 share at the strike price of 88.70 SEK.

The remaining warrants was reserved for future senior management and recruitment of persons within the categories eligible. The rate was based on a market valuation taking into account the established option consideration in accordance with the Black & Scholes method. The options entitled the holder to subscribe for shares during the period 1 June 2019–31 December 2020. In December 2020, 235,566 new shares were subscribed for within the frame-work of the 2016/2020 incentive programme. These new shares are reported as an ongoing new issue as of 31 December 2020.

Shareholder value and analysts

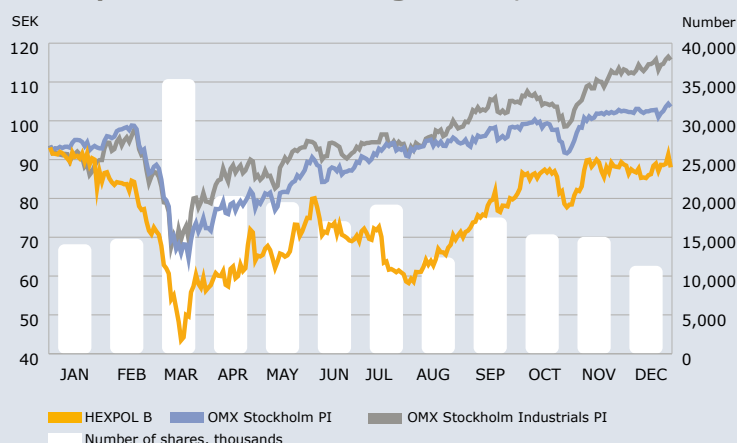
HEXPOL's executive management works continuously to develop the Company's financial information to create favourable conditions for valuing the Group in the most accurate manner possible. This includes working actively through meetings with analysts, shareholders and the media.

Peter Rosén, Deputy CEO and CFO, is responsible for IR matters at HEXPOL: +46 (0)40-25 46 60, ir@hexpol.com.

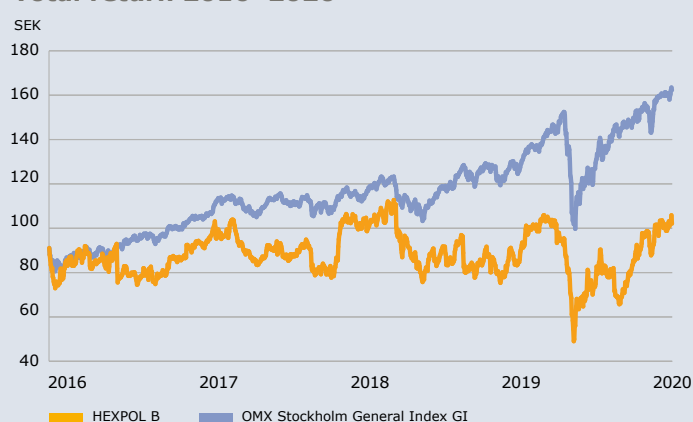
For a current list of the analysts who continuously monitor HEXPOL, visit www.hexpol.com.

¹ Nasdaq Stockholm General Index, the average trend on Nasdaq Stockholm, including dividends.

Share price trend and trading volume, 1 Jan–31 Dec 2020



Total return 2016–2020

Key performance indicators per share¹

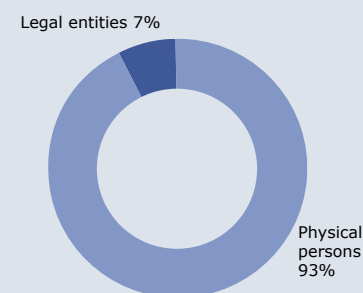
SEK	2020	2019	2018	2017	2016
Earnings	4.26	4.93	4.78	4.44	4.06
Shareholders' equity	26.53	28.34	24.96	20.37	21.96
Dividend	2.30	2.25	1.95	4.75 ²	1.70
Market price class B shares Dec 31 last traded price	88.0	91.80	70.05	83.15	84.35
Cash flow from operating activities	6.90	6.86	5.25	4.94	4.97

Major shareholders

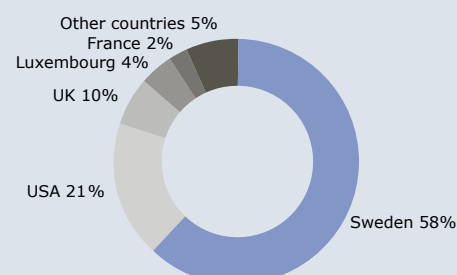
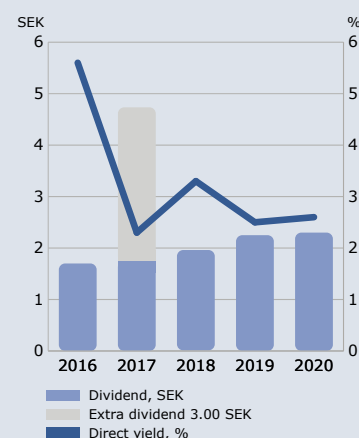
Owner/manager/custodial bank	Class A shares	Class B shares	Share capital %	Votes %
Melker Schörling AB	14,765,620	70,783,430	24.9	45.8
State Street Bank and Trust Co., W9	0	40,495,176	11.8	8.5
BNY Mellon NA (Former Mellon) W9	0	14,130,769	4.1	3.0
Alecta Pensionsförsäkring, mutual	0	13,000,000	3.8	2.7
Lannebo fonder	0	12,222,803	3.5	2.6
The Northern Trust Company	0	12,116,366	3.5	2.5
Didner & Gerge Fonder Aktiebolag	0	12,017,456	3.5	2.5
Handelsbanken fonder	0	9,091,621	2.6	1.9
CBNY-Norges Bank	0	9,077,975	2.6	1.9
JP Morgan Chase Bank N.A	0	7,351,124	2.1	1.5
Total of the 10 largest shareholders	14,765,620	200,286,720	61.7	72.9
Total other shareholders	0	129,148,940	38.3	27.1
Total	14,765,620	329,435,660	100.0	100.0

¹ Adjusted for items affecting comparability.² Including extra dividend of 3.00 SEK per share.

Shareholder categories, % of capital



Shareholders by country, % of capital

Dividends and direct yield per share¹

Shareholder distribution

Number of shares per shareholder	Number Shareholders	Class A shares	Class B shares
1 – 500	8,024	0	1,002,993
501 – 1,000	1,370	0	1,119,638
1,001 – 5,000	2,114	0	4,966,093
5,001 – 20,000	706	0	7,063,627
20,001 –	361	14,765,620	315,283,309
Total	12,575	14,765,620	329,435,660

A material difference – a corporate culture that makes a difference, every day

As a company, HEXPOL is propelled forward by its employees and its strong corporate culture. This model has proven successful over the years, particularly during periods of substantial change. As HEXPOL continues to grow, the importance of communicating and reinforcing our values increases. In 2020, we therefore conducted a project, strongly supported within the organization, that has updated our corporate vision and purpose, which we present in this Annual Report.

Purpose

The positive impact of what we do

We create a material difference

Vision

Our long-term objective

The leading supplier of solutions for sustainable polymer applications

Mission

What we do each day

We supply high-quality polymer solutions that enhance our customers' applications Every day. Everywhere.

Core values

Our fundamental values, which guide how we work

We are committed

We know our markets, our customers and their end products. This ensures that our customers can grow with us, globally and in all segments, regardless of application.

We are close to you

Our global footprint with agile development-focused units safeguards our offering of the best local support for customer needs.

We make you sustainable

We take sustainability seriously and challenge our units to be best in class in terms of social responsibility and minimizing climate impact.

We are entrepreneurs

A decentralized structure with local expertise and close customer contact provides benefits such as speed and creativity together with efficiency and flexibility in a larger structure.

We are true specialists

Above all else, we value technical skills and in-depth know-how in applications. This enables us to surpass our customers' expectations by further improving the products.



We stand by our core values

The conclusion is that we stand by our core values, while choosing to express them in a slightly different way. With these as a basis, we have refined our vision and our mission to better express what we do every day and where we want to go in the long run. We have also tied this in to how we formulate HEXPOL's purpose – *We create a material difference* – which summarizes both figuratively and literally how we make a difference on a day-to-day basis, both through our products and through our relationships with our customers.

Operational strategies

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

Efficient supply management

We safeguard efficient supply management by continuously focusing on identifying cost-efficient supplier solutions from which benefits can be derived in terms of volume and technology. Maintaining close cooperation with customers by means of a local presence also generates opportunities to achieve efficient solutions.

Adding value for our customers

With the best service in the market, cutting-edge expertise in polymer materials and solid knowledge of applications, technical support and constant development, we strengthen our customers' competitiveness in their markets.

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 organization, we ensure that we are the most cost-effective company.

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. In the same way, short and prompt decision-making processes and time-efficient implementation boost the organization's capacity.

Responsibility and care

HEXPOL's 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. These efforts benefit society, employees, shareholders and the operations alike.

A clear growth strategy

Over the years, HEXPOL has expanded sharply on the basis of both healthy organic growth, as well as strategic acquisitions. Since 2010, 41 units have been acquired and successfully integrated into the operations. HEXPOL has amassed substantial experience in integrating acquisitions and generating synergies.

The growth strategy stands firm with a target for sales growth, adjusted for exchange rate effects, of more than 10 percent annually over a business cycle.

Growth has been accompanied by an improvement in the operating margins of the acquired units, aided by synergies and the Group's internal improvement efforts, in which all units are quantified and compared with one another.

Positioned for profitable growth

HEXPOL is positioning itself to benefit from development and growth in its principal markets through new innovations, by growing alongside its existing customers, and by expanding in new customer segments. The Group strategy also includes continuing to leverage opportunities arising when Rubber Compounding manufacturers face the decision of whether to switch from proprietary compounding operations to outsourcing.

The Group's strategy is also to continue acquiring 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 analyzed on the basis of a series of strategic parameters.

The HEXPOL Group has a strong cash flow, a strong financial position and the leadership capacity to capitalize on interesting acquisition opportunities on an ongoing basis.

Growth journey over the years

HEXPOL has its origins in Svenska Gummifabriks AB in Gislaved, a Swedish industrial company established towards the end of the 19th century. Hexagon acquired the company

in 1994. In 2008, HEXPOL was distributed to Hexagon's shareholders and listed on Nasdaq Stockholm. Over the years, the operations have experienced a strong growth trend, with sales increasing by 19 percent over the past five years.

Extensive experience of extracting synergies

A key factor behind HEXPOL's success in combining acquisitions and growth with significantly improved operating margins lies in the Group's extensive experience of integrating acquisitions into the existing structure. Even before an acquisition is completed, distinct plans and processes are put in place to derive synergies. HEXPOL's acquisition strategy has proven successful, with the most recent acquisitions being MESGO and Preferred Compounding.

In July 2019, HEXPOL acquired Preferred Compounding, a well-run and profitable American manufacturer of rubber compounds with a wide range of large-scale industrial customers in several end-markets, including the automotive, engineering and infrastructure industries. With Preferred Compounding as an integrated part of the Group's US operations, HEXPOL has guaranteed global capacity and expertise in advanced polymer compounds and, for its customers in the Americas, an improved supply chain and leading services in research and development and technology. In 2019, as a result of the acquisition, a programme of integration and restructuring was implemented, including a review of the shared production capacity in HEXPOL Compounding Americas. A shared sales organization was immediately established, with customers being contacted on the same day as the acquisition was completed. The programme also included the closure of two production units and Preferred's

2004

The acquisition of the Thona Group is significant for HEXPOL's development going forward.

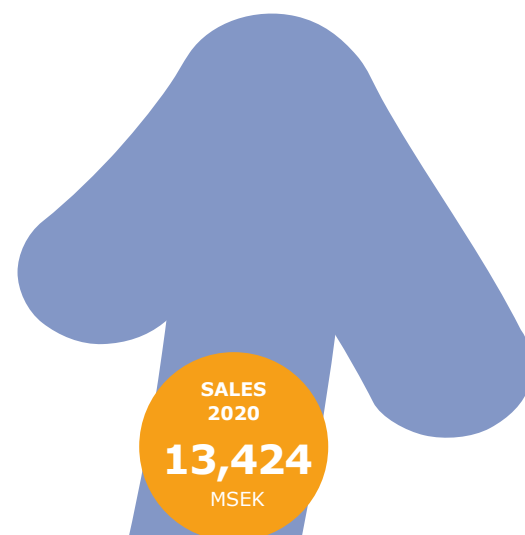
**SALES
2005**

2,205
MSEK

**SALES
2008**

3,190
MSEK

headquarters, while the business unit's overheads were reorganized. All of the cost synergies from the integration and review have now been realized. In the autumn of 2018, MESGO was acquired in Italy, marking an abrupt and strategically important step for HEXPOL suddenly in high-performance elastomers, while also strengthening HEXPOL's positions in advanced rubber compounds and TP. The acquisition was accompanied by state-of-the-art facilities in Italy, Poland and Turkey, as well as significant research and development capacity. Today, MESGO is a natural hub for HEXPOL's silicone and fluoroelastomer operations. HEXPOL has succeeded in realizing significant leverage effects through cross-selling with other parts of the Group, as well as increased knowledge sharing and benchmarking in the area of elastomers. New geographic markets have also been added thanks to MESGO's strong position in Italy, Turkey and Poland.



2019

The acquisition of Preferred Compounding further strengthens HEXPOL's cutting-edge expertise and adds opportunities in the form of new applications know-how and extended customer base. The operations have been fully integrated into HEXPOL Compounding's organization.

2018

The acquisition of MESGO is a strategically important step for HEXPOL in high-performance elastomers, adding new customers. The operations have been fully integrated into HEXPOL Compounding's organization.

The acquisition of Kirkhill strengthens HEXPOL in growing segments such as the aerospace industry and medical technology.

SALES 2015

11,229
MSEK

2015

The acquisition of RheTech Thermoplastic Compounding strengthens HEXPOL's offering in TP.

2012

German Müller Kunststoffe was acquired, making HEXPOL one of Europe's leading manufacturers of TPE.

SALES 2011

7,197
MSEK

2010

The acquisition of the ELASTO Group broadens the material base with thermo-plastic elastomer compounds (TPE).

The acquisition of the Excel Polymers Group makes HEXPOL a global leader in Rubber Compounding.

The illustration of HEXPOL's growth shows a selection of the more important acquisitions made over the years.

Global market positions

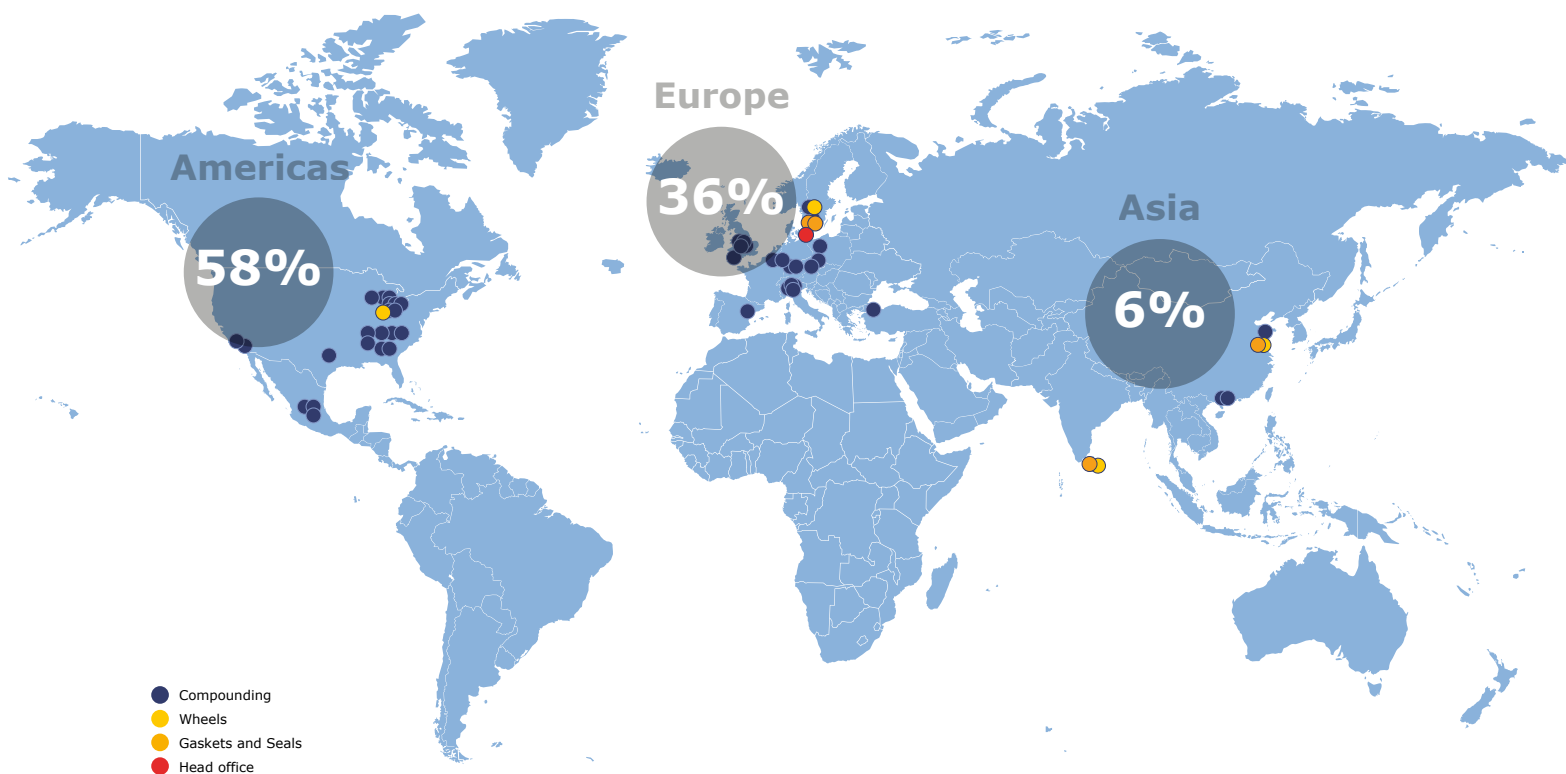
HEXPOL is represented in most industrial segments that demand leading knowledge and development capacity in advanced polymers. The largest segments comprise the automotive and engineering industries, followed by the construction sector. Other important customer segments are the transport sector, the energy, oil and gas sector, the consumer sector, the wire and cable industry and manufacturers of medical technology.

The Group holds strong global market positions in advanced polymer compounds, gaskets for plate heat exchangers and wheels made of polymer materials for forklifts and castor wheel applications. The ambition is to be a market leader, ranking number one or two, in all selected technological or geographical segments.

Decentralized and strongly coordinated

HEXPOL has 49 units with production, development and sales in Europe, America and Asia that are able to deliver flexible solutions to global systems suppliers and OEMs in a coordinated network.

Geographical sales and units




HEXPOL has chosen to organize its operations with strong and experienced local management teams who assume considerable responsibility for their local operations. We also coordinate all of the processes where we are best able to make use of our global strengths. This includes purchasing, research and development, and account management for major customers. This organization allows us to adapt quickly to local conditions, to develop the opportunities that exist and to support our local customers. At the same time, we use our global organization to achieve benefits in terms of both costs and efficiency by, for example, developing and implementing “best practice” throughout the Company.

The HEXPOL Group also makes use of its strong global platform and knowledge-intensive organization to increase sales through its proprietary units and for benchmarking to further strengthen its positions.

Globally competitive concept

HEXPOL has substantial opportunities to offer a competitive global concept and cost-effective manufacturing, compared with local and regional competitors, or the customers’ in-house production operations. Major international manufacturers of Rubber, TPE and TP compounds are, for example, AirBoss, Avient, Teknor Apex, Dynamix, PTE, Multibase, GLS, Kraiburg, A. Schulman and Washington Penn. There are also a large number of smaller, locally active manufacturers and, within rubber compounds, also customers with their own Rubber Compounding operations. The markets for gaskets for plate heat exchangers and for polyurethane wheels are dominated by a limited number of major players, among whom HEXPOL is a market leader. The largest competitors include family-owned TRP of the UK.



With a global market presence, HEXPOL helps customers worldwide to secure critical applications with advanced polymersolutions.

Leading-edge expertise and close customer relationships increase the value of the offering

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are to resolve new challenges, often in the most demanding environments.

A partnership that succeeds in meeting these requirements and expectations is the result of a focused organization. This offers opportunities for favourable profitability, additional sales and a high degree of recurring transactions.

HEXPOL meets its customers' high demands and expectations by offering leading-edge expertise in polymer materials, solid applications know-how with technical support and power of development, as well as the best service on the market. HEXPOL delivers high-quality polymer solutions that enhance its customers' applications and competitiveness, often in direct collaboration with their own development departments. HEXPOL offers customer-specific solutions in advanced polymer solutions.

Alongside its customer-oriented development work, the Group's units work continuously to optimize processes, reduce costs and eliminate waste to ensure cost efficiency. Well-invested production units with a high level of technical

know-how also enable us to safeguard our own efficiency and achieve superior value in the customer offering.

The decentralized Group organization produces short and prompt decision-making processes, time efficient implementation and boost the organization's capacity. At the same time, global coordination and a continuous exchange of experiences between competent and experienced management teams allow all of the units to adapt to the best practice in the Group and the industry.

An increasingly prominent requirement and a prominent element in HEXPOL's offering lies in our opportunities to help customers mitigate their climate impact by developing resource-efficient and sustainable products. HEXPOL has built a strong position through both extensive customer know-how and long-term development work with materials including Dryflex Circular and RheVision, which are well-suited to the purposes of the circular economy.



HEXPOL offers customer-specific solutions in advanced polymer solutions.



HEXPOL has a strong position through extensive customer know-how and long-term development work with the materials Dryflex Circular and RheVision, which are well-suited to the purposes of the circular economy.



Targets and outcomes 2020

With clearly-defined financial and sustainability targets, HEXPOL demonstrates how value is generated over time for the Group's different stakeholders. The targets are well-rooted and have been integrated into the business units of the decentralized organization and their respective targets. The financial targets form the basis for the Group's strategies.

Financial targets¹

Sales growth

Sales growth demonstrates HEXPOL's competitiveness in the market and its ability to leverage its strengths and areas of expertise. Sales growth, adjusted for currency effects, should amount to more than 10 percent, over a business cycle.

Comments on 2020:

Sales growth adjusted for exchange rate effects, was a negative 11 percent, of which organic growth was a negative 17 percent, while acquisitions contributed positively by 6 percent. Sales were strongly affected by Covid-19.



Operating margin

The operating margin shows HEXPOL's capacity to cover operating costs and generate profit for shareholders. The target is for the operating margin, adjusted for items affecting comparability, to exceed 17 percent over a business cycle.

Comments on 2020:

The operating margin, adjusted for non-recurring items, was 15.0 percent and grew compared with the preceding year. The margin was primarily affected by a reduced cost base combined with gradually increasing volumes after the second quarter. During the second half of the year, the margin strengthened to more than 17 percent.



Equity/assets ratio

The equity/assets ratio measures the proportion of HEXPOL's total assets that are financed with equity. The goal is to exceed 30 percent annually.

Comments on 2020:

The balance sheet remained strong and the equity/assets ratio for 2020 was 61 percent.



¹ Financial definitions can be found on page 100.

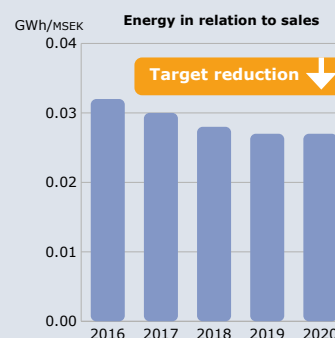
Sustainability targets¹

Energy

Energy consumption (GWh/net sales) is to be reduced continuously.

Comments on 2020:

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. Since 2010, the performance measure for energy consumption has decreased by about 30 percentage points.

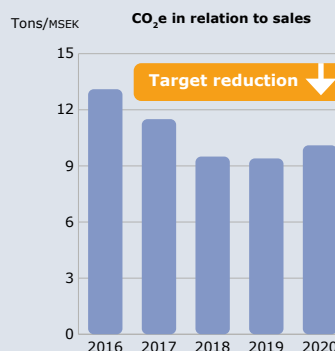


Climate

Carbon dioxide emissions from energy consumption (tons CO₂e/net sales) are to decrease by 75 percent by 2025 compared with the average for 2018–2019.

Comments on 2020:

The use of biofuels, purchases of fossil-free electricity and energy optimization reduce carbon dioxide emissions. Currently, about 28 percent (21) of energy use consists of fossil-free electricity and biofuels. Since 2010, the performance measure for carbon dioxide emissions has decreased by about 25 percentage points.

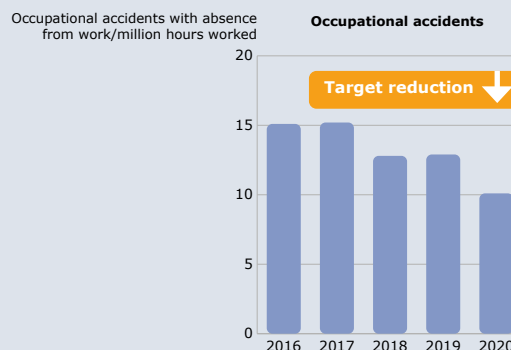


Safe work environment

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.

Comments on 2020:

The number of accidents involving absence from the workplace decreased to 10.1 per million hours worked (12.9).



¹ Read more about HEXPOL's sustainability-related targets on page 35.





Electrification and e-mobility are driving growth – today and tomorrow

The electrification of society is accelerating. Considerable investments in electrical infrastructure are being made to reduce climate impact and to benefit from next-generation technology.

Global efforts to limit carbon dioxide emissions create additional tailwinds for electrification and generate strong growth in e-mobility for transport vehicles, public transport and cars. HEXPOL is well-positioned in this fast-growing segment.

E-mobility and electrification offer several possibilities for HEXPOL products. Hybrid-vehicles require more high-performance compounds in an environment with higher temperatures. Wire & Cable compounds for complementary battery charging systems or battery and fuel cell seals will affect demand positively.

The trend towards e-mobility or electrification has a positive effect on HEXPOL's largest product area – for example, the need to seal passenger cabins from weather and noise in electrified vehicles remains intact.

The electrification trend entails more opportunities than threats for HEXPOL. Some specifications may change, but new products and materials are already in the development phase. Examples of upcoming product offerings are special materials for lightweight products, new engine mounts and different suspension systems, to name a few.

HEXPOL is in close contact with industry and research partners to steer internal research and development to secure its leading position. The Group is involved in development projects and research on new product segments related to sealing, damping and cooling of batteries, seals and coatings for fuel cell housings and various types of cables and connectors for compressors and charging stations.

Group summary

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are to resolve new challenges, often in the most demanding environments.

Other requirements include uniform quality and global delivery capacity.

The Group's strengths are its locally rooted entrepreneurial spirit, with the units having an excellent familiarity with the market, cutting-edge knowledge and development capabilities in advanced polymers. Combined with HEXPOL's global platform, the customer offering will be unique.

The Group comprises two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which are further divided between three regions and five product areas. Together, they generate annual sales of SEK 13.4 billion and had, at the end of the year, 4,550 employees at 49 units in America, Europe and Asia.

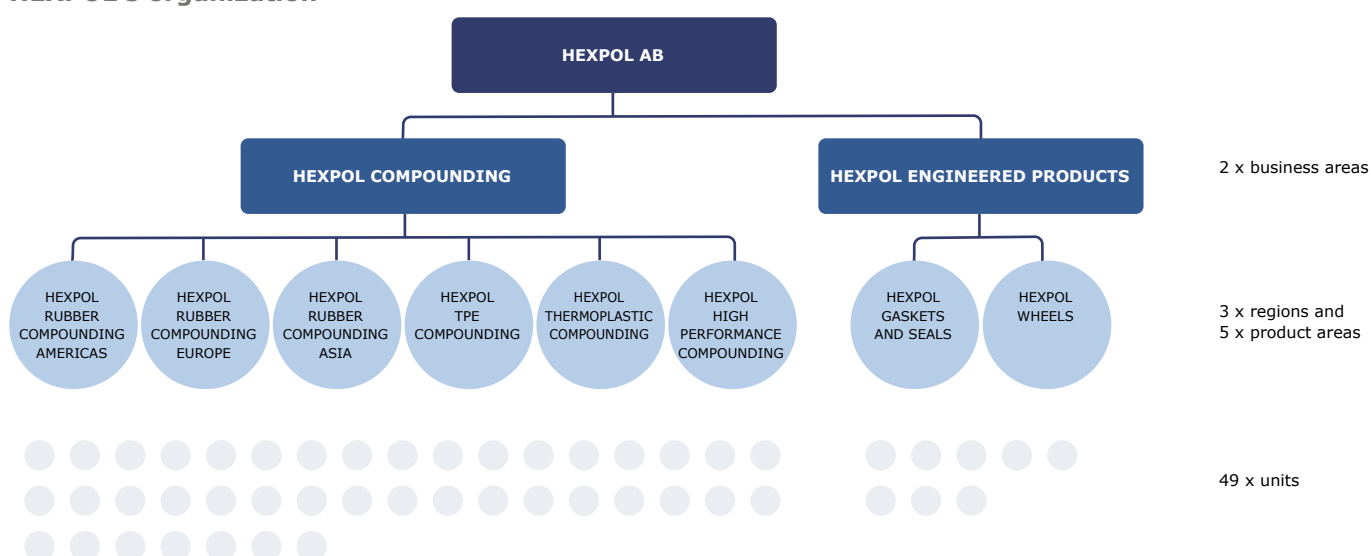
HEXPOL's organization is structured to facilitate short and prompt decision-making processes, with clear, decentralized responsibility. Our functions represent a

coordinated process of innovation and knowledge sharing about materials and markets.

Most of the plants are relatively new and well-invested. The advanced level of the technology, combined with far-reaching production and technological coordination, provides cost-efficiency, high and uniform levels of quality and capacity for smoothly relocating production between units.

Thanks to its customer order-steered batch production, HEXPOL's production organization is flexible. The global production platform enables brief supply chains for the Group's customers, while production capacity can be adjusted quickly and efficiently based on demand.

HEXPOL's organization



Strongly increasing electrification also provides favourable growth opportunities in the Wire & Cable segment, where HEXPOL Compounding has brought together its offerings to achieve a more powerful impact on the market.



Business area HEXPOL Compounding: A world-leading player in advanced polymer compounds

The HEXPOL Compounding business area is one of the world's leading suppliers in the development and manufacturing of customer-specific advanced polymer compounds. Customers are manufacturers of polymer products and components who impose rigorous demands on quality, improved properties and local delivery capacity. The market is global and the largest end-customer segments are the automotive and engineering industries, followed by the building and construction sector. Other important customer segments are the transport sector, the energy, oil and gas sector, the consumer sector, the wire and cable industry and manufacturers of medical technology.

A decentralized, and strongly coordinated organization

HEXPOL Compounding's operations comprise 41 units divided into three geographic regions, the Americas, Europe and Asia, as well as into the product areas HEXPOL TPE Compounding, HEXPOL Thermoplastic Compounding and HEXPOL High Performance Compounding.

The organization is decentralized and most of the units have been built up with complete organizations for sales, product development and production. With strong local

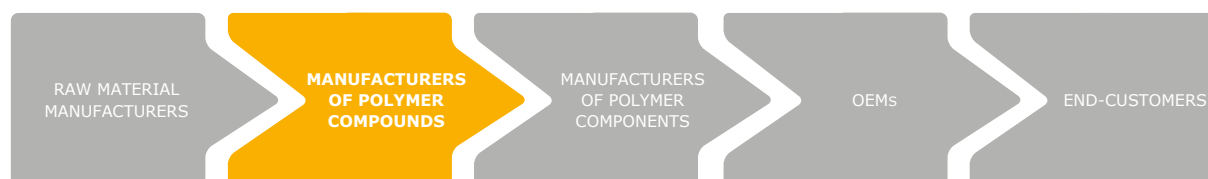
units and customer-oriented expertise, the customer's supply chain can be shortened, an increasingly appreciated aspect given both rising trade barriers and the ongoing pandemic.

Coordination and cooperation is managed between the units in key areas such as research and development (co-ordination between the units and development of new materials and products), global supplier agreements (strategic selection of suppliers, price negotiations), technology (equipment design) and communications and digitization.

Production is primarily customer order-based and focused on a considerable number of selected raw materials that are largely subject to price fluctuations. Accordingly, pricing is renegotiated several times a year. The key polymer compound formulas are often developed in close cooperation with customers and require unique expertise. In most cases, the formulas are HEXPOL's property.

HEXPOL Compounding works continuously to improve the processes used in the organization. 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.

HEXPOL Compounding in the value chain



Product areas within HEXPOL Compounding



HEXPOL Rubber Compounding

HEXPOL Rubber Compounding is a global leader in advanced rubber compounds with an extensive product range for a wide range of customer segments and application areas:

- Rubber compounds – development of custom compounds and formulas.
- Specialty Products – a comprehensive range of custom and standardized chemical additives and colour concentrates. Curing envelopes and tubes for retreading. Products with specific properties in terms of, for example, high temperatures, cooling, static electricity and electrical insulation.

The rubber compounds are processed further by customers through, for example, extrusion, injection moulding and compression moulding to give the components their final shape.

Continuous or discontinuous vulcanization gives the end-products their elastic properties. The production facilities have advanced, computerized quality assurance systems to safeguard efficiency and quality. HEXPOL Compounding is continuously advancing the technology for producing extremely pure rubber compounds. With advanced technologies, the plants can easily adapt their processes to meet specific customer requirements, since production takes place in a closed process for each batch.



HEXPOL Thermoplastic Compounding

The manufacturing process is a continuous, automated process that provides flexibility and continuity to ensure the highest standards of efficiency and quality and that meets the market's demand for problem-solving capacity regardless of volume.

The product area HEXPOL Thermoplastic Compounding offers a broad range, in which each product group has its own portfolio of recipes, customized for specific OEMs, with distinct properties and specific requirements within the following technologies:

- Glass and mineral reinforced and co-reinforced PP (polypropylene) compounds
- TPO (thermoplastic polyolefin) compounds
- Blow molded and extrusion graded PP compounds
- Recycled PP-graded compounds
- RheVision natural fibre-reinforced compounds
- Polyolefin and engineered resin-based colour concentrates and additives



HEXPOL TPE Compounding

Thermoplastic elastomer compounds bridge the gap between rubber compounds and thermoplastic compounds. They share several of the characteristics of rubber compounds, such as flexibility and softness, but they also have the versatility, recyclability and processing advantages found in thermoplastic compounds.

The product area 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)
- Polyolefin compounds (TPE-O or TPO)
- Elastomeric compounds (TPE-V or TPV)
- Thermoplastic polyurethanes (TPE-U or TPU)

The product area also offers a growing range of bio-based TPE compounds and compounds based on recycled TPE to meet the clearly increased demand for sustainable materials that reduce the use of fossil resources.

A number of the markets, such as medical technology, toys and food, require the highest level of production control, material traceability and consistency.

HEXPOL invests in high-quality compounding technology and supporting sub-systems, while also operating extremely versatile processes that have enabled the development of a comprehensive product offering in close collaboration with customers.



HEXPOL High Performance Compounding

The product area consists for the most part of MESGO Group's product groups within high-performance elastomers. The product area brings together the business area's shared expertise and customer contacts within the area of materials and constitutes a platform for global growth.

Its principal customer segments are industry, consumer products, transport and vehicles. Examples of applications containing silicone are insulators for high voltage power transmission, where the material is required to be weather resistant, electrically insulating, able to withstand sizable shifts in temperature, and lightweight. Other examples are seals for highly demanding environments requiring high chemical resistance and able to withstand both high and low temperatures.

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



A customer-specific offering

Polymer compounds are manufactured through highly technological processes that enhance the properties and performance of the polymers by joining and blending them with various components, such as additives and stabilizers, to create new, customer-specific 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.

The business area also strives to develop products that can improve our customers' total production costs. The focus is primarily on three important polymer compounding areas: rubber compounds (including high-performance elastomers, such as silicone and fluoro-carbon rubber), thermoplastic elastomer-compounds (TPE) and thermoplastic compounds.

Leading global market positions

The Group's sales to the automotive industry amount to around 36 percent (36) of total sales and include rubber compounds for products such as sealing strips for doors and windows, hoses and gaskets, as well as reinforced polypropylene compounds. A clearly growing niche, in which HEXPOL's products contribute to improved weight performance, is the electric car market. Strongly increasing electrification also provides favourable growth opportunities in the Wire & Cable segment, where HEXPOL Compounding has brought together its offerings to achieve a more powerful impact on the market. The demands on quality are rigorous, particularly in the premium segment.

The major vehicle manufacturers and their system suppliers operate globally. Increasingly, these customers seek shorter supply chains. HEXPOL focuses on being able to deliver the market's best products globally, offering identical quality regardless of the production unit, and is, for this reason, a good partner.

Other attractive niches in the transport sector, with growth opportunities for HEXPOL, are train, aviation and the space industry.

The product area HEXPOL TPE Compounding's market is growing well, with interesting and growing customer applications in medical technology, general industry, the consumer sector and automotive. HEXPOL is well positioned in the market with capacity in Europe, Asia and North America.

The market for the product area HEXPOL Thermoplastic Compounding is also growing, with interesting and growing customer applications, particularly for reinforced polypropylene compounds (PP) and polyamide compounds (PA).

Demand for green products is rising steadily, as are sales of such products. HEXPOL has established a strong position, both through extensive customer expertise and long-term development work with materials such as Dryflex Circular and RheVision, which are high-quality alternatives with a high content of recycled raw materials for everything from toys and sporting goods to various applications for machines and vehicles.

Continued growth through strategic acquisitions and consolidations

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

HEXPOL actively seeks out acquisition opportunities through geographical expansion, consolidation and acquisitions in selected technologies and materials.

Small and medium-sized manufacturers of components find it difficult to maintain proprietary production of rubber compounds long term, choosing therefore to outsource some of this production to HEXPOL Compounding, among others, which have substantial opportunities to offer a competitive global concept and cost-efficient manufacturing.

Other major players and international manufacturers of rubber, TPE and thermoplastic compounds are AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS, Kraiburg, A. Schulman and Washington Penn. There is also a large number of smaller, locally active manufacturers and, within rubber compounds, also customers with their own compounding operations.

Significant events in 2020

- The HEXPOL Compounding business area's sales decreased over the year by 14 percent, mainly due to

lower demand attributable to Covid-19 but also to lower sales prices because of lower raw material prices.

- The second half of 2020 showed a clear improvement in volumes, primarily to the automotive and building and construction industries. Other customer segments showed a slower improvement.
- The operating margin, excluding items affecting comparability, increased to 15.0 percent. The higher margin was mainly affected by efforts to cut direct and indirect costs. A large part of the cost savings is structural.

Business area HEXPOL Compounding

SALES 2020
12,446 MSEK
(14,465 MSEK)

ADJUSTED OPERATING PROFIT 2020
1,864 MSEK
(2,109 MSEK)

NUMBER OF EMPLOYEES 31 DEC 2020
3,172
(3,665)

SALES
participation, Group

93 %



OPERATING PROFIT
participation, Group

93 %

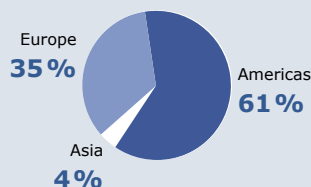


NUMBER OF EMPLOYEES
participation, Group

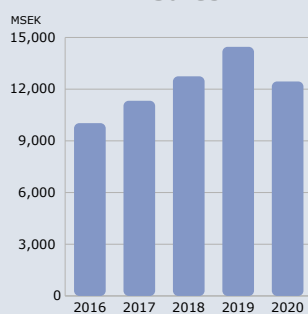
70 %



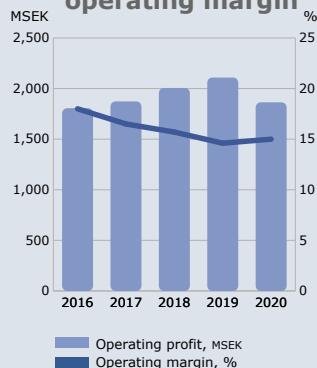
SALES BY REGION



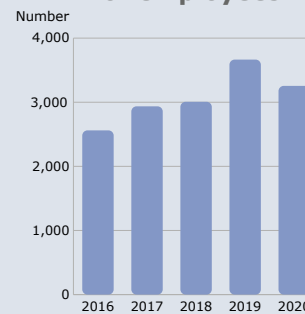
Sales



Adjusted operating profit and adjusted operating margin



Average number of employees



Operating units



Americas		Location	
HEXPOL Compounding – Statesville	Statesville, USA	87	20,000
GoldKey Processing	Middlefield, USA	173	40,000
HEXPOL Compounding – Burton	Burton, USA	223	55,000
HEXPOL Compounding – Dyersburg	Dyersburg, USA	159	136,000
HEXPOL Compounding – Jonesborough	Jonesborough, USA	98	50,000
HEXPOL Compounding – Kennedale	Kennedale, USA	60	18,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	116	24,600
HEXPOL Compounding Querétaro	Querétaro, Mexico	152	53,000
HEXPOL Silicone Compounding	Mogadore, USA	18	7,500
VALLEY Processing	City of Industry, USA	70	56,000
Kirkhill Rubber	Long Beach, USA	76	48,000
RheTech Compounding	Whitmore Lake, USA	89	65,000
RheTech Compounding	Fowlerville, USA	32	38,000
RheTech Colors and HEXPOL TPE North America	Sandusky, USA	48	4,500
Preferred Compounding – Barberton	Barberton, USA	73	20,300
Preferred Compounding – Huntingdon	Huntingdon, USA	76	22,700
Preferred Compounding – Whitewater	Whitewater, USA	49	8,000
Preferred Compounding – Tallapoosa	Tallapoosa, USA	108	34,100
Preferred Compounding San Luis Potosi	San Luis Potosi, Mexico	125	36,300
Robbins	Muscle Shoals, USA	40	–
Europe		Location	
HEXPOL Compounding Belgium	Eupen, Belgium	72	20,000
HEXPOL Compounding Germany	Hückelhoven, Germany	71	35,000
HEXPOL Compounding Sweden	Gislaved, Sweden	64	19,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	117	35,000
Berwin Rubber	Manchester, UK	145	36,700
HEXPOL Compounding Spain	Barcelona, Spain	88	30,000
Berwin Industrial Polymers	Lydney, UK	64	21,000
HEXPOL Compounding Lesina	Lesina, Czech Republic	105	35,000
MESGO S.p.A.	Gorlago, Italy	46	10,000
MESGO S.p.A.	Carobbio degli Angeli, Italy	56	15,000
MESGO IRIDE COLORS S.r.l.	Garlasco, Italy	44	8,000
3A MCOM S.r.l.	Grigno, Italy	16	20,000
MESGO POLSKA Sp. z o.o.	Tomaszów Mazowiecki, Poland	18	3,000
MESGO ASIA KAUÇUK	Şekerpınar, Çayırova, Turkey	11	2,000
HEXPOL TPE Germany Plant 1	Lichtenfels, Germany	38	10,000
HEXPOL TPE Germany Plant 2	Lichtenfels, Germany	105	25,000
HEXPOL TPE Sweden	Åmål, Sweden	77	20,000
HEXPOL TPE UK	Manchester, UK	45	13,000
Asia		Location	
HEXPOL Compounding Qingdao	Qingdao, China	57	20,000
HEXPOL Compounding Foshan	Foshan, China	50	20,000
HEXPOL TPE Compounding Foshan	Foshan, China	11	5,500



Ken Bloom

President HEXPOL Compounding Americas



Ralph Wolkener

President HEXPOL Compounding Europe/Asia and HEXPOL TPE Compounding



Carsten Rüter

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



Jan Wikström

President HEXPOL Thermoplastic Compounding and HEXPOL Engineered Products

HEXPOL is a world leader in the manufacture of gaskets for plate heat exchangers. There is a considerable technology content in the gaskets, and the end product is characterized by stringent quality requirements.



Business Area HEXPOL Engineered Products: Strong, global positions in niche areas

HEXPOL Engineered Products holds strong global positions in gaskets for plate heat exchangers and wheels in polymer materials for forklifts and material handling. The business area's 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, a high degree of service and long-term relations are of major importance for both parties.

A decentralized and globally coordinated organization

The business area's manufacturing processes are coordinated and standardized, and the LEAN concept is applied successfully in all production facilities, safeguarding the same high product quality regardless of the production plant. All production facilities work within a common business system, which forms the basis for efficient processes, resulting in less administrative work.

The business area is organized into two product areas: HEXPOL Gaskets and Seals and HEXPOL Wheels. HEXPOL Gaskets and Seals has production units in Sweden (Gislaved) and in Asia (Bokundara, Sri Lanka and Qingdao,

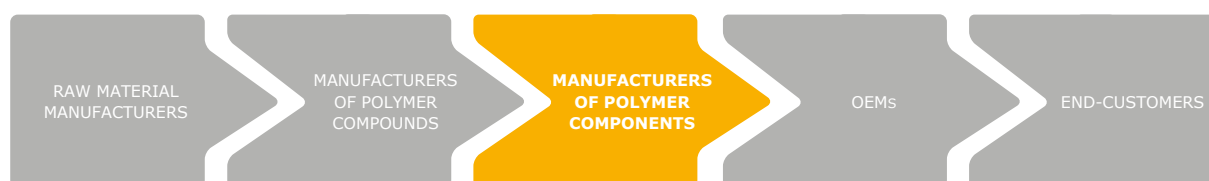
China). All plants are modern and incorporate local expertise in production and logistics development.

HEXPOL Wheels has production facilities in Sweden (Laxå), the US (Lake Geneva, Wisconsin) and in Asia (Horana, Sri Lanka and Qingdao, China), which are all well-suited to the local market conditions.

Strong product offerings for demanding customers

The HEXPOL Gaskets and Seals product area specializes in the manufacture of gaskets for plate heat exchangers and various forms of extruded seals in advanced rubber materials. The technology content is high, and the end product is characterized by high quality requirements. Performance depends on the composition of the rubber material, the geometric design of the gasket and tight tolerances in the manufacturing process. These factors are critical for the product's performance and service life. The gasket consists of advanced rubber materials developed specifically for different applications and are delivered in varying sizes, ranging from a few decimeters in length up to several meters. The parameters that determine the choice of gasket type and material are temperature, pressure and media.

HEXPOL Engineered Products in the value chain





HEXPOL Wheels is the only forklift wheel manufacturer able to serve customers globally with production units in Europe, North America, and Asia alike.

HEXPOL's objective is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market is growing as the demand for energy-efficient solutions increases.

HEXPOL Gaskets and Seals' technological 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. The unit in Sweden conducts research and development in new materials.

Development is being driven by and towards withstanding higher temperatures and pressures, more aggressive external media and by exacting demands for cost-efficiency in the refinement process. All the constituent materials 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.

Flexible production

HEXPOL's machinery is highly standardized among the units, providing flexibility and allowing for easy shifts in production between the units during production peaks, for example. The machinery is continuously upgraded and is typically highly automated. Considerable emphasis is placed on the control and handling of raw materials, which are purchased from certified suppliers. The production process is monitored continuously and quality controls are conducted at several stages.

Gasket production is tool-specific, with each tool creating a unique gasket type. The product area HEXPOL Gaskets and Seals manufactures most of the tools used.

HEXPOL Wheels offers a complete range of wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications. Five types of quality products are manufactured in the product area: polyurethane wheels, thermoplastic wheels, rubber wheels and tires, solid rubber tires and various special products in the above materials.

HEXPOL Wheels' size also creates leverage in the new development of, and access to, a highly extensive global product portfolio. The establishment of a distribution centre in Europe for servicing the aftermarket has enabled the product area to reduce its delivery times, increase its level of service and to become more end user-oriented, in accordance with the concept "Think globally, act locally".

Leading global market positions

The product area HEXPOL Gaskets and Seals is global market leader in gaskets for plate heat exchangers. Customers are mainly leading global OEM manufacturers of plate heat exchangers in Europe, the US and Asia.

The international OEMs occupy a strong position in China and take advantage of their significantly high expertise and product quality. HEXPOL Gaskets and Seals' production units and distribution centres are strategically well placed in Europe, Asia and North America.

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.

General GDP growth also drives demand in, for example, comfort (cooling/heating) as well as food and beverages. Plate heat exchangers are used in these areas, and HEXPOL has the benefit of working together with all major OEM manufacturers of plate heat exchangers.

HEXPOL Wheels is the only forklift wheel manufacturer able to serve customers globally with production units in Europe, North America, and Asia alike.

The market for forklift wheels is regionally differentiated due to varying design requirements, material preferences, and quality standards. The market is dominated by large global manufacturers; however, there are a number of small local players, mainly in Asia. The Asian market, and primarily the Chinese market is considerable and continues to grow faster than the rest of the world.

Accordingly, HEXPOL Wheels is well-positioned to capture additional market shares by means of its leading-



HEXPOL's machinery is highly standardized among the units, providing flexibility and allowing for easy shifts in production among the units, for example during production peaks.

edge expertise and technical support. Among other things, it operates in the expansive market for electric warehouse trucks and hand trucks, where growth is linked to increasing warehouse automation and e-commerce, which drive demand for the products.

Well-positioned for growth – organically, in niche areas and geographically

HEXPOL Gaskets and Seals' focus on developing new markets in Asia and North America continues. The product area carefully monitors market developments and can quickly expand its capacity when needed. 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 gaskets for plate heat exchangers is growing long-term due to increased demand for energy efficient solutions and the objective is to become a principal supplier to all OEM manufacturers.

The wheel market is more diversified with a few major players and many local manufacturers. The market for polyurethane wheels is dominated by roughly ten manufacturers, of which HEXPOL Wheels is among one of the leading companies. The primary competitors in the European market are Räder-Vogel and Wicke; both of which are family owned. Together with HEXPOL's Stellana US, Thombert and Superior are the largest players in the US market. Numerous minor wheel manufacturers are active on the local level in both markets.

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.

The assessment that the currently fragmented wheel market will enter a consolidation phase stands firm.

HEXPOL Wheels 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.

Significant events in 2020

- Sales have been negatively affected by the Covid-19 pandemic. As many end users of both gaskets for plate heat exchangers and truck wheels operate in socially critical functions, the decline has been somewhat smaller than in other industries. Despite this, we have suffered production stoppages in our own factories and at those of customers due to national shutdowns.
- The pandemic has led to the introduction of various types of preventive measures at the manufacturing units to reduce the risk of contagion and to secure production. The measures introduced differ depending on local regulations, guidelines and opportunities in the different countries. In collaboration with the Sri Lankan Association of Manufacturers & Exporters of Rubber Products (SLAMERP), Covid-19 vaccine will be procured and offered to all staff at the units in Sri Lanka.



Jan Wikström

President HEXPOL Engineered Products
and HEXPOL Thermoplastic Compounding

Operating units



Americas		Location	
Stellana US (Wheels)		Lake Geneva, USA	71 7,500
Europe			
Stellana Sweden (Wheels)		Laxå, Sweden	72 11,800
Gislaved Gummi (Gaskets)		Gislaved, Sweden	77 6,000
Gislaved Gummi (Seals)		Gislaved, Sweden	20 2,500
Asia			
Stellana China (Wheels)		Qingdao, China	59 3,500
Stellana Lanka (Wheels)		Horana, Sri Lanka	529 11,800
Gislaved Gummi Lanka (Gaskets and Seals)		Bokundara, Sri Lanka	406 9,850
Gislaved Gummi Qingdao (Gaskets and Seals)		Qingdao, China	137 8,400

Business Area HEXPOL Engineered Products

SALES 2020
978 MSEK
(1,043 MSEK)

ADJUSTED OPERATING PROFIT 2020
147 MSEK
(133 MSEK)

NUMBER OF EMPLOYEES 31 DEC 2020
1,371
(1,390)

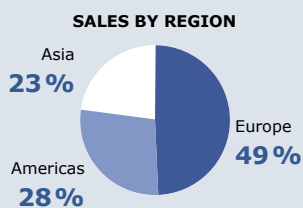
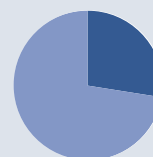
SALES
participation, Group
7 %



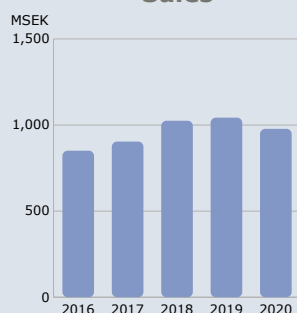
OPERATING PROFIT
participation, Group
7 %



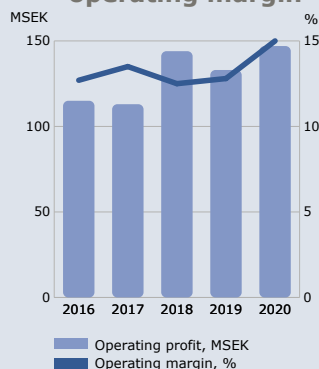
NUMBER OF EMPLOYEES
participation, Group
30 %



Sales



Adjusted operating profit and adjusted operating margin



Average number of employees







New TPE materials for a more sustainable world

With reducing climate impact and building a more circular economy strengthening as driving forces, interest in bio-based or recycled raw materials has grown significantly among HEXPOL customers – from manufacturers of consumer products to the automotive industry.

To facilitate sustainable development, HEXPOL has developed the Dryflex Green and Dryflex Circular TPE series. Dryflex Green contains polymers originating in plants, while Dryflex Circular is based on recycled raw materials. The portfolio also includes Lifocork TPE – cork-based bio-composites with a natural look.

Although water bottle nozzles may seem unexciting, they actually exemplify a Dryflex Green solution having generated value for the customer. Together with German company VAUDE, which manufactures outdoor activity equipment, HEXPOL has developed a water bottle for cyclists.

The project involved several challenges in terms of the mechanical properties, gaining food contact approval, and determining the behaviour of a bio-based material in the manufacturing process. The TPE material produced for VAUDE contains 34 percent bio-based raw material and can be processed with conventional methods and existing tools. It offers favourable technical properties and is fully recyclable, directly in processing.

Another market undergoing massive transformation to become more sustainable is the automotive industry. Dryflex Green, Dryflex Circular and Lifocork TPE are three solutions currently being tested and applied in an initial application series at several TIER suppliers and OEMs.

Further examples in the automotive industry are the recently introduced Dryflex HIF TPE blends offering very high melt flow and scratch resistance for large interior surfaces,

including dashboard upholstery, door panels and glove compartments. Replacing non-recyclable PVC or PU solutions while still using standard injection molding, sustainability is the key driving force here. The new TPE materials are highly efficient compared with energy, waste and cost-intensive processes such as sludge casting or foil thermoforming.

HEXPOL seeks to drive the TPE industry in the direction of greater sustainability with related issues being considered in all significant business decisions. In 2020, a network was therefore established within HEXPOL TPE, comprising six focus groups with the objective of improving their own approach and influencing others. Their findings are now being disseminated systematically – benefiting the environment and business alike.

During 2020, a life cycle analysis was conducted in which Dryflex Green was compared with completely fossil-based TPE mixtures. The key conclusion from the analysis was that Dryflex Green variants had a 10 to 40-percent lower climate impact than traditional TPE. Another significant factor is energy consumption at the production facilities. By improving energy efficiency, and increasingly using fossil-free electricity, the Group targets a 75-percent reduction in carbon dioxide emissions by 2025.

Currently, the greatest challenge lies in gaining access to bio-based raw materials. Unfortunately, although global production capacity is increasing, it is not yet in line with demand.

Our role in society

Sustainability forms an integral part of the Group's operations. Through preventive and goal-oriented initiatives, we generate value for customers, employees, shareholders and all other stakeholders who have a long-term investment in HEXPOL. We are convinced that investing in innovative products that have a reduced impact on the climate will generate environmental and business benefits.

Focus areas

- *Climate* – the Group's products are primarily based on fossil raw materials. The Group's energy consumption is also strongly dependent on fossil energy sources. We have clear ambitions in both areas to steer towards renewable raw materials and energy sources.
- *Resources* – Our production processes involve using natural resources, such as water, energy and raw materials. Using resources efficiently contributes to sustainable development and strengthens the Group's competitiveness.
- *People* – Respect, a stimulating work environment, good business ethics and motivation are crucial factors for employees in our operations and value chain.

Materiality analysis

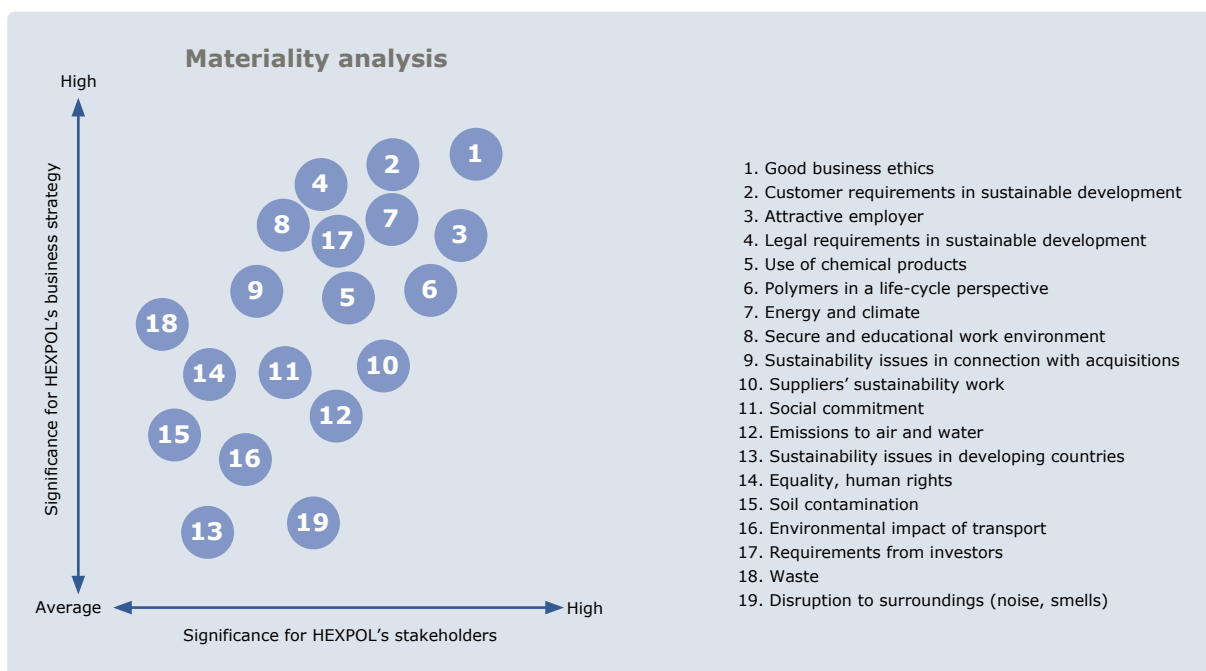
Compared with last year's analysis, energy consumption and climate impact have been afforded a higher priority. Among other things, this has resulted in a demanding new Group target for cutting carbon dioxide emissions. In addition, investors and other financial players have placed

sustainable development increasingly high on their agendas, an aspect clearly reflected in the materiality analysis. The concept of "polymeric products in a life cycle perspective", conceals the question of whether the substantial use of polymeric products impacts the Group's customers and we are increasingly investing in developing products that contain bio-based and/or recycled raw materials. The materiality analysis is linked to the analysis of risks in sustainable development, which are presented on pages 52–55.

Strategy for sustainable development

The sustainable development strategy forms part of the overall Group strategy. Reducing the impact on the climate of raw materials, production facilities and products, as well as being prepared for the impact of a changed climate on the Group's value chain, are highly strategic issues. The long-term strategy aims to:

- Reduce the Group's risks and costs through preventive measures, risk assessments and investments in effective technical solutions.



- Generate business opportunities through responsible conduct, and developing resource-efficient production methods and products.
- Reduce climate impact and establish contingencies for climate change.
- Apply a goal-oriented and systematic approach aided by certified management systems in the areas of the environment, quality, work environment and energy.
- Ensure we are an attractive employer and an active corporate citizen.
- Ensure we apply sound business ethics and prevent corruption.
- Safeguard open communications regarding targets and outcomes in sustainable development.

Governance and follow-up

Sustainable development is part of the Group's strategic planning and budget process. The practical work is decentralized with managers within the Group's companies being responsible for policies, targets and results. 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 and how targets, performance and key performance indicators have developed over the year. At the Group level, matters related to strategy, risks, follow-up and sustainability reporting, as well as sustainability issues, are addressed in conjunction with corporate acquisitions as well as dialogues with investors.

The Board of Directors is responsible for overseeing the development of the sustainability work. The Board of Directors monitors the work regularly and approves the policies, goals and strategies. The Managing Director bears the overarching responsibility for the strategy and the operational aspects of sustainable development.

HEXPOL recently established a Sustainability Council intended to deepen and further develop the strategic sustainability work.

Reporting of sustainability work

Indicators stated by the GRI (Global Reporting Initiative) are applied as a standard in the sustainability reporting. In the area of climate, a separate report is submitted in accordance with the Carbon Disclosure Project (CDP). The reporting of climate data is based on the GHG (Greenhouse Gas Protocol) and in the climate area, the Group has begun to apply the recommendations in the TCFD (Task Force on Climate-related Financial Disclosures).

In accordance with the requirement in the Global Compact, an annual report is submitted to the UN and sustainability data (ESG: Environment, Social, Governance) is presented at the Nasdaq Listing Center. The sustainability work is

reviewed regularly by independent institutions, universities and investors, and expectations regarding transparency and measurable performance have increased considerably in recent years.

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, the Company has chosen to summarize the statutory Sustainability Report in the Annual Report, and to provide a detailed description in a separate Sustainability Report in accordance with the guidelines in the Global Reporting Initiative (GRI). The Sustainability Report is available at www.hexpol.com a few weeks after the publication of the Annual Report. The table below indicates where in the Annual Report the statutory information can be found. A detailed description of the different areas can be found in the separate Sustainability Report, in which the reporting principles are also presented.

Area	Page reference
Business model	8–9
Policies, frameworks, stakeholders and material issues	32, 36–39
Sustainable development goals	35
Human rights	38–39
Prevention of corruption	39
Diversity on the Board of Directors and in management	40
Personnel conditions and social responsibility	40–41
Environmental responsibility	42–46
Risks and risk management	52–55

WE SUPPORT



In 2017, HEXPOL joined the UN's Global Compact initiative for responsible business, thereby committing to adhere to its ten principles in the areas of human rights, working conditions, the environment and anti-corruption.



HEXPOL has been participating in the CDP's reporting of greenhouse gas emissions since 2011. In the CDP's 2020 survey of climate issues, HEXPOL received a C ranking (2019: C), where an A ranking is the highest and D is the lowest. C is in line with Europe's regional average.



The Task Force on Climate-related Financial Disclosures (TCFD) is the financial sector's call-to-arms for the climate. It outlines how companies should manage their climate-related data, including risks and opportunities.

Global Goals for Sustainable Development

Within the framework of Agenda 2030, the UN published its Global Sustainable Development Goals in 2017. The 17 goals provide a clear and useful framework for meeting global challenges and has achieved considerable impact in society. They also serve to inspire innovation and business opportunities in the area of sustainability. Private and public organizations have an important role to play and the business sector is expected to contribute responsible business, transparent reporting of its own targets and results, as well as developing products and services that contribute to sustainable development.



The global goals help us identify areas of importance within sustainable development and we have identified several goals with a clear bearing on the Group's operations. Based on the Goals, we perceive opportunities to both reduce the environmental impact and create business opportunities. We have therefore linked the Group's targets to seven of the global goals. In principle, our undertaking encompasses all of the goals because they are all connected in some way to the Group's operations.

An important starting point for achieving the goals is to minimize the Group's use of resources. We bring this about by working with innovations, efficiency enhancements, investments in new technology, increased use of renewable energy, and investments in bio-based and recycled plastics. The global goals also inspire measures in social responsibility, social engagement and business ethics.

Targets and key performance indicators

HEXPOL applies long-term targets and key performance indicators related to the environment, management systems, chemical substances, environmentally adapted products and work environment. The targets are linked to the UN's Agenda 2030 and the global goals for sustainable development. Diagrams and tables describing the developments can be found on pages 35 and 40–46.



Flax fibre, coconut shells and agave fibres are examples of plant-based raw materials that we use in RheVision, our biofibre-reinforced polypropylene series.

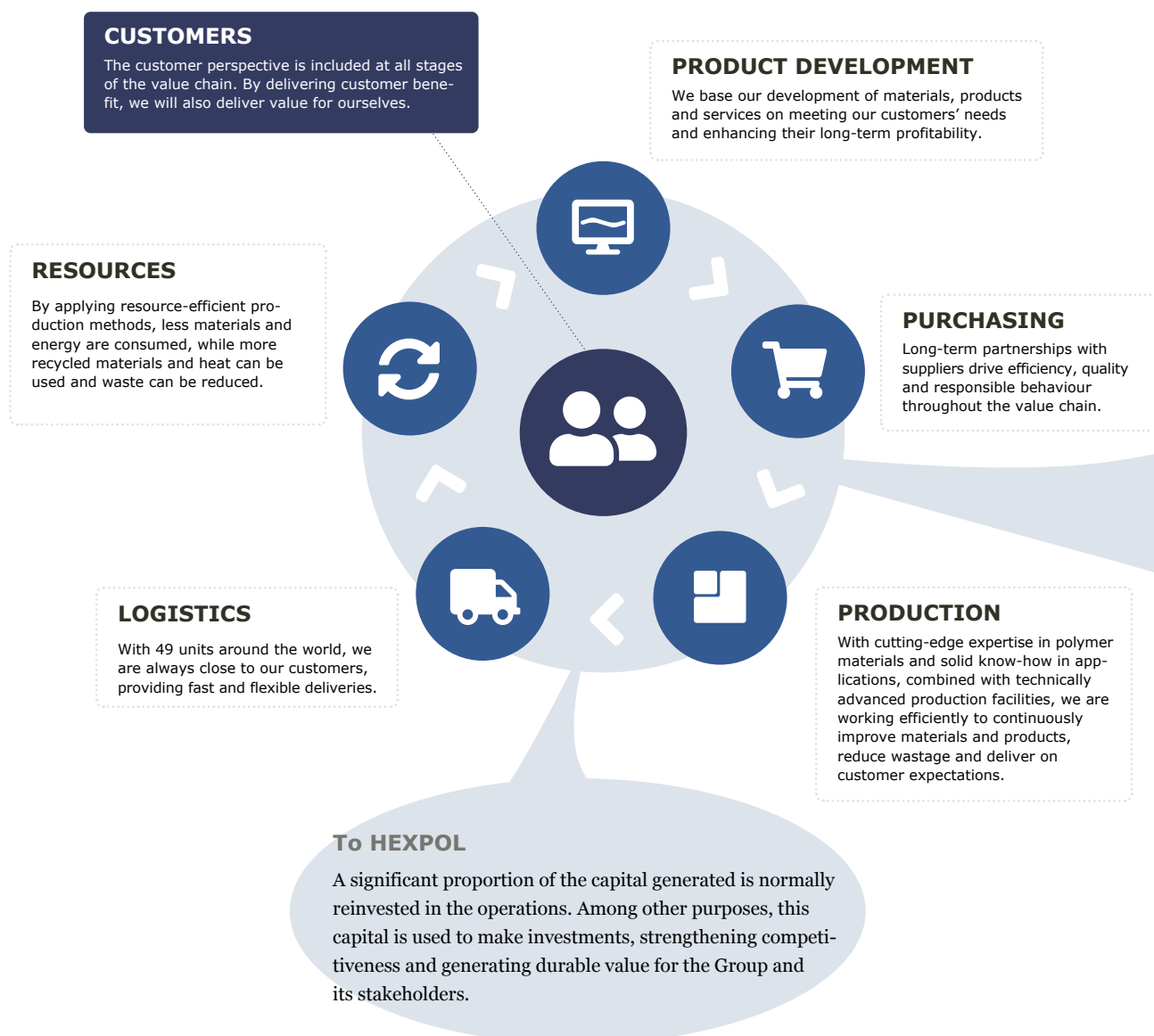


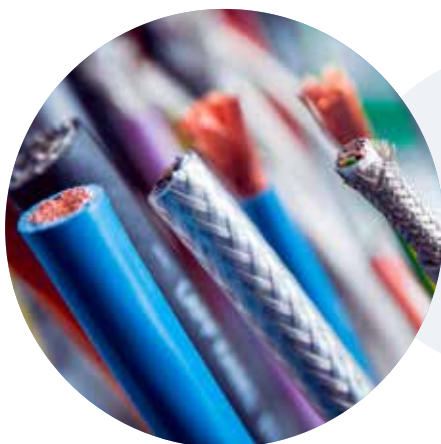
HEXPOL's sustainable development goals

Target	Global objective	Outcome	Continued measures
Energy Energy consumption (GWh/net sales) is to be reduced continuously.		Within the ISO 14001 and/or ISO 50001 frameworks, the production units continued to work with detailed targets. 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. Since 2010, the performance measure for energy consumption has decreased by about 30 percent.	Purchases of energy-efficient equipment, lighting and infrastructure will continue.
Climate Carbon dioxide emissions (tons CO ₂ e/net sales) are to be reduced by 75 percent by 2025 compared with the average for 2018–2019. The target refers to carbon dioxide emissions from energy consumption (Scopes 1 and 2 in accordance with the GHG Protocol).		Various local targets exist and several Group companies have introduced a joint target for climate and energy. The use of biofuels, purchases of fossil-free electricity and energy optimization reduce carbon dioxide emissions. Currently, about 28 percent (21) of energy use consists of fossil-free electricity and biofuels. Since 2010, the performance measure for carbon dioxide emissions has decreased by about 25 percentage points.	Energy efficiency measures and procurement of biofuels will continue. Purchases of fossil-free electricity will be conducted in all countries where this is possible. This is a prerequisite for the demanding emissions target to be achieved. The proportion of units with proprietary electricity production using photovoltaic cells will increase. Continued phasing out of fossil fuels.
Environmental management systems All facilities are to have certified environmental management systems (ISO 14001). Acquired companies are to introduce ISO 14001 within a period of two years.		One company was certified in accordance with ISO 14001 during the year and 77 percent (76) of the plants are now certified.	Ten companies are planning to achieve certification in 2021–2022.
Chemical substances Uses of hazardous chemicals are to be identified and controlled. Where possible, hazardous substances should be phased out.		Work to limit the use of particularly hazardous substances is conducted continuously. Over the year, about ten substances were replaced, including phthalates (plasticizers) and other reactive chemicals that form nitrosamines.	Replacing hazardous substances is a long-term process. There are currently about fifteen chemicals, or groups of chemicals, on the list of substances to be phased out. The work will continue for the foreseeable future.
Products HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of products that contribute to sustainable development.		The development of products contributing to sustainable development continued in 2020, primarily in thermoplastic elastomers (TPE) but with increased intensity in rubber compounds. About 8 percent (8) of the raw materials were recycled polymers.	The development of products with a lower climate impact continues. These are applications in environmental technology, electric vehicles, lighter materials, and mixtures that contain bio-based and recycled raw materials.
Safe work environment 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.		The number of accidents involving absence from the workplace was 10.1 per million hours worked (12.9).	From an industrial perspective, the key performance indicator for occupational accidents is relatively high, although it has shown a downward trend over the past five years. Additional action is required (technical measures, training, follow-up) to be able to meet the target.

Value chain: driving efficiency to generate value

HEXPOL builds durable competitiveness by maximizing the value it generates at all stages in the value chain. We achieve this through increased efficiency, working closely with our customers, the right level of quality, high performance in our offering, and by acting responsibly towards our business partners, employees and the external community.





To customers

In addition to product-specific requirements such as the pace of innovation and functionality, many customers impose demands in terms of sustainable development. HEXPOL is convinced that being ambitious in sustainable development reinforces its relationship with customers. In 2020, customer surveys and audits were conducted at 17 (23) facilities. HEXPOL received positive reviews regarding its efforts.

To employees

It is important to retain and develop employees, as well as attracting new ones. For employees, health, safety, financial compensation, personal development, social conditions and good business ethics are important. During the year, HEXPOL paid 1,994 MSEK (2,069) in salaries, pension premiums and social-security costs for its employees. The accident rate was 10.1 (12.9). The number of training hours was 80,000 (171,400). 2,601 (2,960) employees participated in development interviews. Surveys regarding employee satisfaction in the workplace gave good results.

To society and public authorities

Social commitment is an important aspect and is appreciated by local communities in which the Group operates. As a global company, the Group is expected to take measures contributing to different goals for sustainable development. HEXPOL is affiliated to the UN Global Compact and work continued on the UN's global goals for sustainable development. At the local level, the Group collaborated with schools and universities and contributed to healthcare, sports and culture. The Group's tax expense for 2020 amounted to

446 MSEK (466). Compliance with legal requirements is fundamental for the Group. In 2020, no serious violations of laws and regulations in sustainable development occurred.

To suppliers

HEXPOL strives for open and long-term relationships with its suppliers. The objective is to guarantee suitable quality, financial stability and active sustainability work for both parties. A new version of the guidelines on sustainable development for suppliers (Supplier Sustainability Guideline) was presented in 2020. In 2020, some 640 suppliers were evaluated.

To shareholders

For our shareholders, growth and dividends are central in generating value. The integration of sustainability issues in the business strategy reduces risks and generates business opportunities through the development of products that contribute to sustainable development, resource-efficient production, as well as investments in resource-efficient technology. The dividend to the shareholders amounted to 792 MSEK (774). Over the past five-years period, HEXPOL's Class B share has had a total return of about 12 percent. During the year, dialogues were conducted with investors and the Group was evaluated by several independent institutions.

Ethics and compliance – Materializing Our Values

Behaving ethically and conducting our operations with a high degree of integrity and in accordance with the law are prerequisites for being a responsible corporate citizen. This fosters trust among customers, business partners and other stakeholders.

Code of Conduct

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 also contains policies within the environment, work environment and other areas. An updated version of Materializing Our Values was presented in 2020 and we are currently informing our employees about the new code. Training on the Code of Conduct has been carried out at most of the facilities. As a consequence of Covid-19, however, a handful of units chose not to carry out such training in 2020.

The Code of Conduct is supplemented with a more detailed Compliance Program, in which all managers in the Group sign to confirm that they are compliant with the rules. The managers participate in compulsory training programmes in the area. Zero tolerance applies with regard to non-compliance in respect of business ethics.

Legal compliance

Legal compliance forms the foundation for everything we do within HEXPOL. The scope of this affects a number of areas and our efforts are guided by Group employees with relevant expertise and skills, as well as by external specialists.

The Group's operations are 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 areas of occupational health and safety 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, such as REACH. The majority of customers impose their own sustainable development demands. During the financial year, no significant deviations from relevant legislation or Materializing Our Values were registered.

Supplier follow-up

In 2020, an updated version of the guidelines on sustainable development for suppliers (Supplier Sustainability Guideline) was presented. The purpose of the new guidelines is to engage suppliers in the Group's sustainability work while not generating an excessive administrative workload. In brief, the guidelines entail the following:

- All suppliers are to be informed of HEXPOL's Code of Conduct and are expected to introduce equivalent undertakings within their own organizations.
- Suppliers meeting specific criteria, such as being associated with potential sustainable development risks, are to conduct a digital self-assessment. As part of the self-assessment, the supplier certifies its compliance with relevant legislation, that it works systematically on matters involving the environment and work environment, and that it promotes human rights and combats corruption.
- In cases where HEXPOL feels uncertain about the supplier's sustainability work, or has identified significant risks, targeted audits will be conducted.

During the financial year, 598 supplier assessments were performed by means of questionnaires and 39 audits or site visits were carried out.

Protection of personal data

The General Data Protection Regulation (GDPR) applies throughout the EU and is intended to improve the protection of the individual's right to privacy. The protection of personal data is included in Materializing Our Values and the Group has implemented a specific Data Protection Policy. Processes and applications have been adapted to guarantee the protection of personal data and compliance with legal requirements.

Human rights

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. During the year, no deviations attributable to human rights were registered at the Group's units, or among suppliers.

The Group's values recognize 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 a third 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.

Business ethics and combating corruption

In accordance with Materializing Our Values and the tenth principle of the Global Compact, the business principles must be characterized by integrity and responsibility. For a global company, these issues are complex and the view of what represents normal business principles varies between different countries and cultures. Within the Group, the following methods are used to guide and monitor how business ethics are applied:

- Materializing Our Values applies to everyone and the management teams within the Group's companies are responsible disseminating the values within their organizations.

- We continuously monitor costs, expenses and revenues and are particularly aware of ethical issues in our relations with business partners.
- Although normal business practices in each country are to be observed, if the business principles do not correspond with the Code of Conduct, we shall abstain from the transaction or take other relevant measures.

The information and training initiatives continued during the year. With the help of checklists from the Global Compact, regular assessments are made of how the companies work to counteract corruption. No cases of bribery, corruption or cartelization were registered in 2020. Further information on efforts to combat corruption can be found in the risk section on pages 52–55.

Whistleblowing

Compliance with Materializing Our Values is monitored through internal controls. Employees are encouraged to report suspected violations to their managers or other representatives of management. Where reporting to a superior is out of the question, or is not taken seriously, it is possible to report suspected violations for external assessment via a whistleblower function (Whistleblower Policy). This can be done by sending an e-mail to whistleblower@hexpol.com. HEXPOL will not tolerate any form of retaliation against anyone who, in good faith, lodges a complaint or suspects that the Code of Conduct has been violated. In 2020, no reports for further processing and investigation were received.



¹ Supported by a programme for compliance with competition and antitrust law.

² Policy documents available to all employees.



Social responsibility

Materializing Our Values applies in the same way worldwide and the Group aims to be a good corporate citizen applying sound business principles. As part of the strategy for sustainable development, the Code of Conduct helps attract, develop and retain committed and skilled employees. Work environment efforts are focused on preventive measures with the vision of zero accidents occurring.

Employees

At the end of the financial year, the number of employees was 4,550 (5,061), of whom 3,172 (3,665) worked in HEXPOL Compounding and 1,371 (1,390) in HEXPOL Engineered Products. The Parent Company had seven employees (six). 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, 30 percent in Europe and 27 percent in Asia.

Diversity and equality

HEXPOL encourages diversity and distances itself from all forms of discrimination. Questions regarding equal rights have been decentralized and formal equality plans exist at 53 percent (61) 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 co-determination in accordance with the provisions of national legislation. Work environment efforts focus on preventive measures and include risk analyses, training programmes and technical improvements.

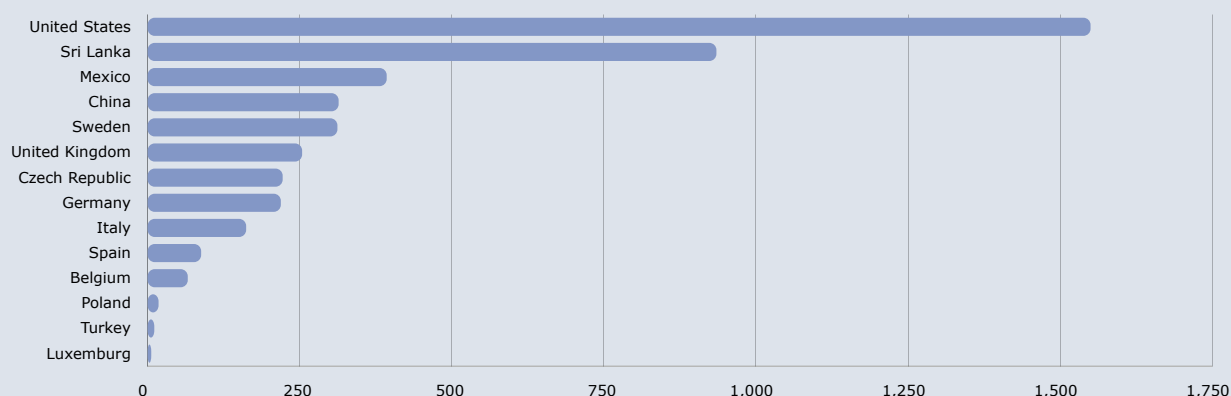
In the Group, 86 percent (86) of the employees are men. A change currently in progress involves an increase in the

proportion of female employees in Sri Lanka. Although this is from a very low level. On the Board of Directors, the proportion of women members was 57 percent (57), and in Group Management it was 0 percent (17). The proportion of females in the local management teams averaged 20 percent (18). 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 recruitment to various positions. During the year, nothing arose that showed that the Group had breached the guidelines concerning equal opportunities or diversity.

Knowledge and skills

Networking efforts and participation in project organizations help bring employees from different cultures together to share their knowledge and experience. In addition to this, formal skills development is conducted at the Group companies and the number of training hours over the year was 80,000 (171,400). This corresponds to 17 hours (32) per employee. About 2,600 people (2,960) participated in development talks or equivalent activities. The global pandemic meant that a number of training opportunities were post-

Number of employees per country



poned. Work satisfaction, personal development, salary and career opportunities are important factors for many employees. The Group offers remuneration that, at a minimum, meets the minimum requirements in the legislation and is fully adapted to the market in the countries where HEXPOL operates. Variable performance-based compensation occurs in parts of the Group. In 2020, salaries, pension premiums and social costs amounted to 1,994 MSEK (2,069).

During the year, employee surveys were conducted at 9 units (18). Examples of views and wishes expressed by employees concerned personal development, training, internal communications and planning of working hours.

Health and safety

The overarching objective is that no accidents should occur at our workplaces. The emphasis is on preventive measures, such as risk analyses, systems for reporting incidents (near misses), training, work environment management systems (ISO 45001) and technical measures. Responsibility for fostering a favourable work environment lies with the local managements and improvement programs are designed in collaboration with the employees. About half of the production units have introduced reward programmes for positive initiatives in the areas of health, safety and the environment.

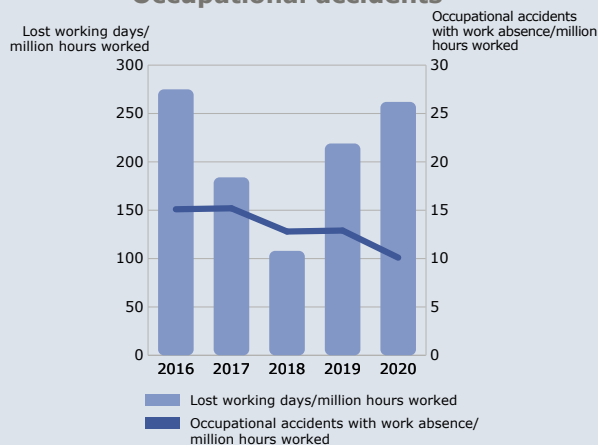
In 2020, 93 occupational accidents (135) occurred that resulted in at least one day of absence. Among contractors, 3 (7) experienced accidents. It is gratifying that approximately 40 percent (25) of the units reported zero accidents during the year. Occupational accidents caused a total absence of 2,400 days (2,282). The number of accidents per million hours worked has decreased over the past five years.

Social commitment

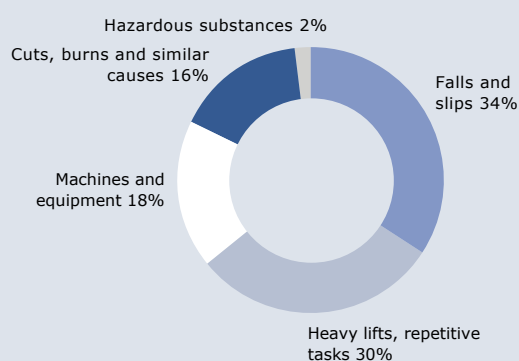
HEXPOL participates actively in the community, including through collaborations with universities, study visits from schools, “open days” for employees and their families, and financial support for healthcare, sports and cultural events. More information about the year’s activities can be found in the Sustainability Report.



Occupational accidents



Causes of occupational accidents





Environmental responsibility

The transition to a society with no long-term impact on the climate brings both risks and opportunities for HEXPOL. By increasing energy efficiency and phasing out fossil fuels, the Group's carbon footprint is reduced. Measures also prepare the Company for higher fees and taxes on activities that impact the climate. Increased use of recycled and bio-based raw materials are other measures that are positive from the perspective of climate. Environmentally compatible product development is another priority area in which the Group's expertise and technology can contribute to the customers' climate and environmental work.

Environmental aspects

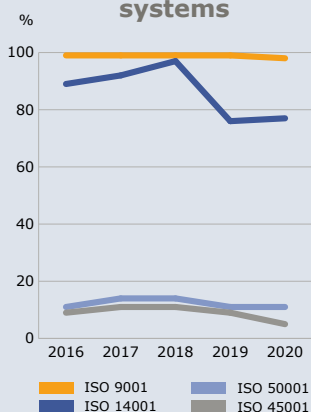
Key environmental aspects include the consumption of resources in the form of polymer raw materials, chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects comprise the environmental impact of suppliers,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

Good for the environment – good for business

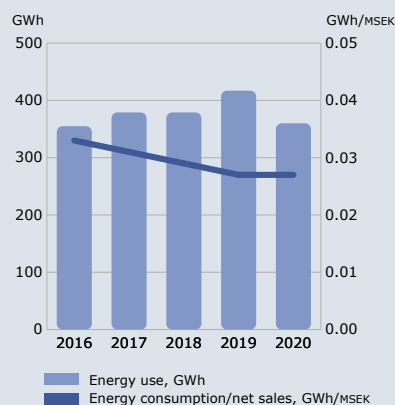
We prioritize adapting our products to the environment and present here some examples of products contributing to sustainable development:

- HEXPOL's environmentally adapted TPE portfolio already includes Dryflex Green, which contains bio-based plastics, and Lifocork, a bio-composite in which we combine raw materials from cork oak with TPE. We recently introduced TPE containing recycled plastic – Dryflex Circular.
- Replacing hazardous chemical substances in products reduces the risks to people and the environment. One example is the HexFlame product family, which does not contain halogens as flame retardants.
- RheTech in the US uses significant amounts of recycled polymers in its products. The RheVision product line contains natural fibres from cacti, coconuts and rice, for example. The biological content can amount to about 15 percent and, if this is combined with recycled polypropylene, the carbon footprint of the material is considerably lower compared with traditional plastic products.
- Reduced weight lowers vehicles' fuel consumption and the porous material HexLight contributes to this. The technology reduces the density of the polymer by about 30 percent.
- Gaskets from HEXPOL Engineered Products are used in plate heat exchangers worldwide. The gaskets add environmental benefit by reducing energy consumption, reducing climate impact and facilitating safer handling of chemical products and food.

Certified management systems



Energy use



- The Group's products are to be found in various environmental technology applications, including wind power, electric cars, electric trucks, solar energy and water purification.

Environmental legislation

The Group 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, Italy, 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 operations in the UK, Poland, Germany and the US are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through measurements and inspections, and close to 40 units submit specific environmental reports to supervisory authorities. About 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 optimization, sustainability reporting; see definitions of terms) 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:

- Energy mappings were performed in accordance with the EU directive on energy efficiency.
- The supervisory authorities conducted inspections at 17 facilities. No significant deviations were identified.

- Minor violations of environmental legislation occurred at two units.

Environmental management systems

The international standards for environmental management (ISO 14001) and quality (ISO 9001) are applied at most of the Group's production units. The work environment standard (ISO 45001) has been introduced at a couple of units. At the Group level, the social responsibility standard (ISO 26000) provides guidance in strategic sustainability work.

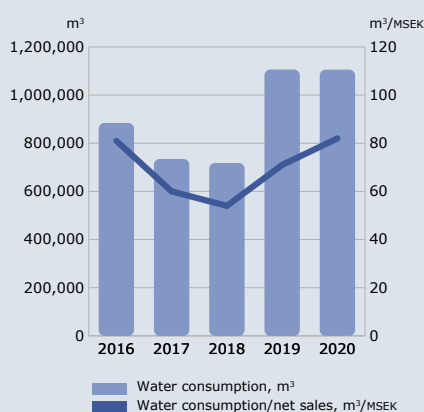
Energy

Energy consumption at the production units is significant. Mixing equipment, presses and other heavy production equipment contribute greatly to energy consumption. Infrastructure such as compressed air, ventilation and lighting is also significant in this context. In 2020, energy consumption amounted to 360 GWh (417). About 73 percent (75) of the energy consumed was purchased electricity, 15 percent (14) was natural gas and the remainder was from other sources, including biofuels. Energy from biofuels and fossil-free electricity amounted to 28 percent (21) of the total energy consumption. Solar panels have been installed at four plants in Italy, the US and Mexico.

The overarching objective is for energy to be used as efficiently as possible, with numerous different energy projects being conducted within the Group each year. Here are some examples:

- Improved control of the speed at which rubber mixing equipment operates reduces energy consumption. Briefer cycles in mixing also help reduce energy consumption.
- LED lighting is being installed on a broad scale.
- Energy mappings have been conducted at seven facilities in accordance with the EU's energy efficiency directive.

Water consumption



Polymer materials at HEXPOL

Polymers	Description	Environmental impact
Synthetic rubber	About 60 percent of the world's production of synthetic rubber is used by the tire industry. The raw materials for the production of synthetic rubber derive from the petroleum industry (crude oil). Many different types of polymers are used at HEXPOL, including EPDM, SBR and NBR.	The environmental aspects of the manufacture and use of synthetic rubber are primarily energy consumption, the use of fossil raw materials, emissions to air and water, and waste. Examples of positive environmental aspects include rubber's capacity to contribute to lower energy consumption and to reduce noise and vibrations.
Natural rubber	Natural rubber is extracted from the viscous sap (latex) of several species of trees, among which the rubber tree, <i>Hevea brasiliensis</i> , is the most important. The rubber tree grows in regions with a tropical climate and about 90 percent of global production comes from Southeast Asia. Plantations can also be found in South America and Africa. Almost 70 percent of global production is used in the tire industry.	The large-scale cultivation of rubber trees on plantations can have an impact on local ecosystems, displacing the natural rainforest, for example, and replacing it with monocultures. Other negative environmental aspects include the use of pesticides and the impact on watercourses. Positive aspects include the fact that natural rubber is a renewable raw material and that interest in more sustainable, small-scale cultivation methods is increasing. HEXPOL owns no rubber plantations of its own, and all raw materials are instead purchased.
Thermoplastic elastomers	Thermoplastic elastomers (TPE) are a family of materials that share properties with rubber (flexibility, softness), while also offering typical plastic properties (versatility, recycling, advantages in processing). These materials are used in medical technology applications, for example, as well as in toys, vehicles and electronics.	Conventional TPE is produced from fossil raw materials (crude oil). Accordingly, the key environmental aspects of these materials include the non-renewable nature of the raw materials, emissions of gases that impact the climate, and waste. A positive environmental aspect is that TPE can be recycled. Furthermore, TPE may contain bio-based and recycled raw materials, as is the case with Dryflex Green (bio-based ingredients) and Dryflex Circular (recycled ingredients).
Thermoplastics	Thermoplastics (TP) offer the advantage of melting when heated and solidifying when cooled. They can be remelted several times and are fully recyclable. Thermoplastics are easily processed using different production technologies, such as injection molding. Polyethylene (PE), polypropylene (PP) and polyvinyl chloride (PVC) are examples of thermoplastics.	Conventional thermoplastics are made from fossil petroleum products (for environmental aspects, see TPE). In the Group, Rhetechnic manufactures composite materials comprising recycled thermoplastics and biodegradable waste products, such as rice husks or recycled cotton. The climate impact of such composite materials is significantly lower than for fossil-based materials. An example is the RheVision product line, which consists of polypropylene reinforced with natural fibres.

The (ISO 50001) energy management system has been introduced at 5 units.

- Installation of energy-efficient cooling systems and compressors.
- Installing steam traps on presses and thermally insulating furnaces reduces energy losses and creates a better work environment.

Water

Access to quality water is important for the facilities and the Group has many good reasons to save water. This is particularly true of two units in California (US), which are located in areas of prolonged drought.

In 2020, 274,000 m³ (361,000) of municipal water was used, 485,000 m³ (476,500) was pumped up from the Group's own wells, and 359,000 m³ (269,000) came from

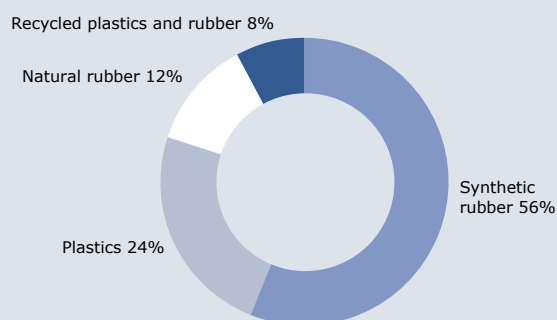
nearby waterways. Water is used mainly for cooling and sanitary purposes. Emissions of pollutants into waste water are very limited and preventive measures have been implemented regarding the storage and handling of chemical products and oils, for example. See the graph on page 43.

Polymers and other chemical products

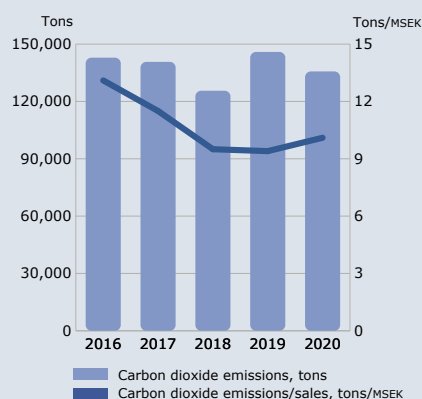
The manufacture and use of polymer products affect the environment. The various stages in the lifecycle of the products contribute to their environmental impact. The table provides examples of the environmental aspects that can be associated with the raw materials most common at HEXPOL. The impact is not exclusively negative and polymer materials can, for example, contribute to energy savings, sound attenuation, water management, reduced fuel consumption in vehicles and much more.

Polymer materials at HEXPOL

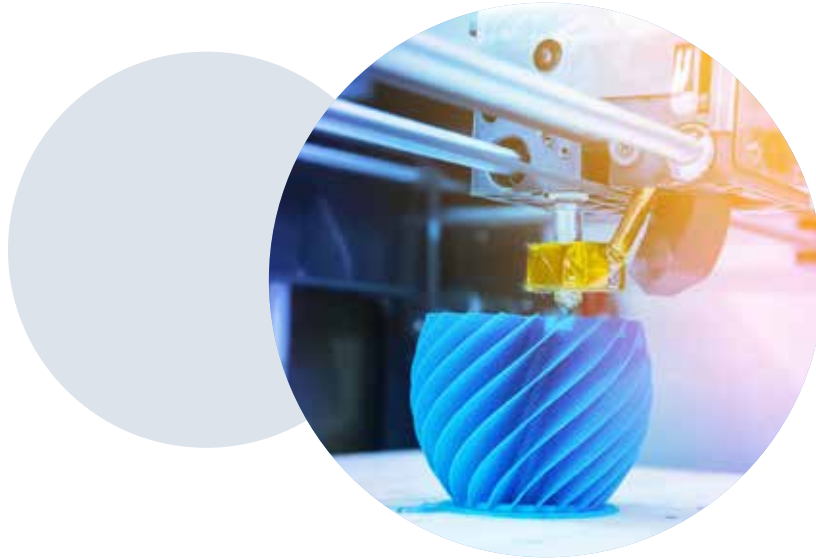
% of total polymer consumption



Carbon dioxide emissions



One of HEXPOL's environmental targets is for carbon dioxide emissions from energy consumption (tons CO₂e/net sales) to decrease by 75 percent by 2025 compared with the average for 2018–2019.



The manufacturing processes are based predominantly on polymer raw materials, as well as a large number of chemical products. The latter include plasticizers, antioxidants, fillers and reaction chemicals. In terms of volume, synthetic polymers dominate, but in some mixtures natural rubber is used. Thermoplastic elastomers (TPE), thermoplastics (TP), polyurethane plastics, metals and paints are examples of other important raw materials. Natural cork is used in some TPE products and the product series Dryflex Green, Dryflex Circular and RheVision contain bio-based and recycled raw materials.

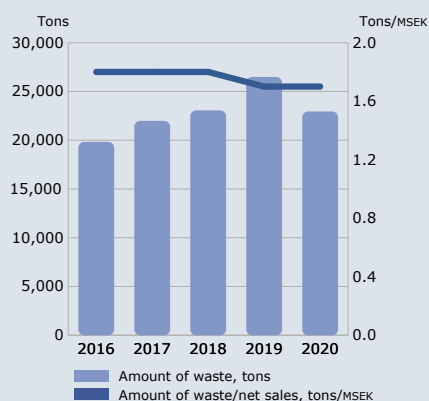
Climate impact

As an important step in reducing the impact on the climate, measures are being implemented to reduce emissions from energy consumption, that is Scopes 1 and 2 in accordance with the GHG protocol. Carbon dioxide emissions arise through the use of fossil fuels (oil, natural gas, propane), as well as through purchased electricity. In 2020, carbon dioxide emissions amounted to 136,000 tons (146,000), of which 13,600 tons (16,700) were in accordance with Scope 1

and 124,000 tons (129,200) were in accordance with Scope 2. The indirect emissions from purchased electricity dominated, accounting for 82 percent (89) of total emissions. In a five-year perspective, the key performance indicator for climate impact (tons of CO₂e/net sales) shows a positive trend. The key performance indicator is affected by both positive and negative factors, for example:

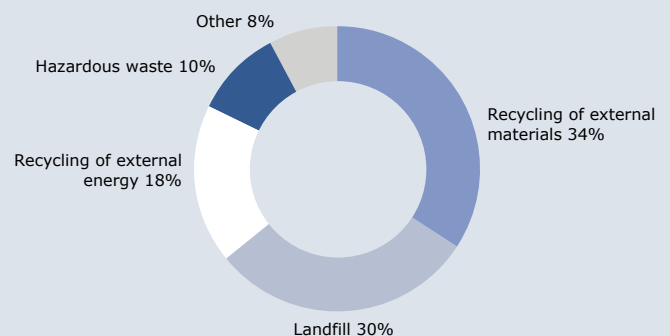
- Measures to increase energy efficiency help reduce carbon dioxide emissions.
- Increased use of fossil-free electricity, biofuels and solar panels reduce carbon dioxide emissions. Purchases of fossil-free origin-labelled electricity will increase significantly over the next few years.
- Increased production, increased energy use and acquisitions of companies in countries whose energy systems are largely based on fossil fuels (the US, Mexico, China) are working in the opposite direction.

Amount of waste



Waste categories

% of total amount of waste



TCFD

The Task force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative launched in 2017. The purpose is to develop recommendations for voluntary and consistent reporting of climate-related financial risks and opportunities. The TCFD's guidelines are based on governance, strategy, risk management, measurement values and target scenarios. For HEXPOL, it is, in purely concrete terms, about having financial insight into how the Group is affected by climate change over time, and how the operations are affected by controls to limit carbon dioxide emissions.

Supporting the TCFD is voluntary and affiliation is open to all. Thousands of companies and organizations are officially affiliated with the TCFD and HEXPOL is now taking the initial steps to follow the guidelines. The TCFD lists four key areas in which investors and other market participants find it important to obtain information. Although the Group's climate work focuses on these areas, additional efforts remain before the TCFD's guidelines will have been met:

- **Steering** – the Board of Directors of HEXPOL bears the overall responsibility for following up on climate-related risks and opportunities. The Board regularly receives information on how the climate work has developed and is ultimately responsible for the design and implementation of the Group's climate goals.
- **Strategy** – climate change brings risks and opportunities for HEXPOL, with the issues it involves forming part of the Group's overarching strategy for sustainable development. If we envisage a scenario in which society resolves to steer strongly towards very low fossil-based carbon dioxide emissions, the Company will be affected both by increased costs (taxes, fees) and various regulations, including legislation. The realignment to reduce the Group's carbon dioxide footprint is in progress but will require substantial resources for many years to come. If, at the same time, we envisage a scenario in which temperatures rise significantly, the Group will be affected by physical risks that will probably extend throughout the value chain. Current risk analyses, take flooding, extreme

weather conditions and drought into account. To meet the TCFD's guidelines, the Group needs to continue to work with possible scenarios with the objective of being able to express how the Group's earnings capacity would be affected by these various situations.

- **Risk management** – to mitigate its risks, the Group is steering away from fossil-based energy. In addition, opportunities are being created through the development of products containing bio-based and recycled raw materials. Read more about risks and risk management on pages 52–55.
- **Metrics and targets** – the Group has reported carbon dioxide emissions for a long time and publishes key performance indicators on how emissions are changing over time. In 2020, a demanding new climate target was introduced for the Group.

Waste

Key components in our sustainability work include using raw materials in a resource-efficient manner and reducing the amount of waste produced. The sorting of waste at source into different categories for external recycling, as well as the internal reuse of plastic waste and carbon black are some examples of measures being conducted on an ongoing basis. In 2020, the total waste volume amounted to 23,000 tons (26,500), of which 2,340 tons (1,760) consisted of hazardous waste. From a five-year perspective, the key performance indicator (tons of waste/net sales) has remained unchanged, although the proportion of waste that is sorted at source and handled by external recycling companies has increased significantly. See the graph on page 45.

Accidents and complaints

During the financial year, no accidents or uncontrolled emissions occurred that impacted the environment. On three occasions, complaints were received from nearby residents (noise, odour and ash from biofuels).

Customers increasingly seek "greener polymers". With a high level of technical know-how in polymers at HEXPOL and experience in using bio-based and recycled materials, this generates advantages for the Company, its customers and the environment.



HEXPOL and the EU taxonomy for sustainable investment

The taxonomy for environmentally sustainable investments is one of the measures included in the EU's plan of action for financing sustainable growth. The taxonomy makes it possible to identify and compare investments that are necessary in achieving a sustainable economy. The intention is that it will provide a basis for future standards and for the labelling of sustainable financial products. The Taxonomy Ordinance is to be fully implemented on 31 December 2022 and companies with more than 500 employees must report their sales, capital investments and operating expenses in accordance with the taxonomy. HEXPOL is covered by the regulation and the Group will be affected in several ways.

Contributing to environmental goals

To be sustainable in accordance with the ordinance, HEXPOL must make a significant contribution to at least one of the environmental goals in the table. The contribution can be made through internal measures, such as phasing out fossil fuels, and /or by HEXPOL facilitating a stakeholder's contribution to one of the environmental goals. An example is that HEXPOL and a customer together develop a product consisting of bio-based raw materials, thereby reducing its impact on the climate. HEXPOL's separate Sustainability Report contains examples of products contributing environmental benefits.

Although the table shows that HEXPOL contributes to the environmental goals, there is currently no guidance on what is considered "essential" in our industry. To meet the requirements of the taxonomy, HEXPOL must also report revenues, investments and costs that can be linked to the environmental goals.

Do not counteract environmental goals

HEXPOL shall not cause significant harm to any of the goals. Several of these are already prioritized by HEXPOL

and we have introduced Group-wide goals and plans of action. Although the Group's operations do not cause significant harm to any of the goals in our view, but there is currently no clear guidance on how this should be determined.

Meet basic principles and standards

This refers to conventions and guidelines on, for example, work environment and human rights. In HEXPOL's case, this requirement is met through our fundamental values (Materializing Our Values), the UN Global Compact, the OECD guidelines for multinational companies, the ISO 26000 standard for social responsibility and other international guidelines. We report our sustainability work in accordance with the GRI's international standards and our climate work is reported in accordance with the CDP.

Adhere to technical criteria

In order for an activity or product to be considered sustainable, the taxonomy states specific requirements and criteria. Activities covered by these criteria include forestry, cement production and energy production. Criteria are stated for the manufacture of primary plastic raw material and carbon black, but not for activities where plastic raw material or carbon black is converted, or mixed, into rubber or plastic products. Accordingly, there are currently no criteria that can be applied directly to HEXPOL's operations.

According to the EU's taxonomy for sustainable investments, HEXPOL will not be required to submit a full report until 2022. This will certainly be facilitated by advice, guidelines and examples of practical applications. As we await this, we will continue to apply the taxonomy, particularly with regard to the reporting of how direct and indirect activities can be described in monetary terms.

Target	HEXPOL's contribution	
	Internal measures ¹	Facilitates for stakeholders ²
Limiting climate change	✓	✓
Adaptation to climate change	✓	✓
Sustainable use and protection of water and marine resources	✓	✓
Transition to circular economy	✓	✓
Pollution prevention and control	✓	✓
Protection of biodiversity and ecosystems	—	—

¹ For example, energy efficiency, risk analyses, ISO 14001, sustainability targets and minimizing waste.

² For example, products with a lower content of fossil raw materials, fuel savings through lighter materials, products used in environmental technology, and products used to counteract flooding.

Operations

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 2020 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 in the Large Cap segment of the Nasdaq Stockholm exchange. HEXPOL AB had 12,575 shareholders on 31 December 2020. The largest shareholder is Melker Schörling AB with 25 percent of the capital and 46 percent of the voting rights. The 20 largest shareholders hold 69 percent of the capital and 78 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 Seals) and wheels made of plastic and rubber materials for fork-lifts and castor wheel applications (Wheels). Customers are primarily system suppliers to the global automotive and engineering industry, the building and construction and civil engineering sector, the transport sector, the energy, oil and gas sectors, the consumer sector, the cable and wire industry, medical equipment manufacturers and manufacturers of plate heat exchangers, forklifts and castor wheels. The Group is organized in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 4,550 employees in 14 countries at year-end.

FINANCIAL YEAR 2020

Sales and operating profit

The HEXPOL Group's sales were affected negatively by Covid-19 during the year and decreased by 13 percent over the year to 13,424 MSEK (15,508). Acquisitions made in 2019, with a full-year effect in 2020, increased sales by 6 percent, while exchange rate fluctuations reduced sales by 2 percent and organic sales decreased by 17 percent. In the fourth quarter, sales volumes increased both compared with the preceding quarter in 2020 and compared with the corresponding quarter in the preceding year.

Sales in Asia increased by 2 percent, while sales in the Americas decreased by 15 percent and in Europe by 14 percent compared with the preceding year.

Operating profit amounted to 1,935 MSEK (2,043), and the operating margin amounted to 14.4 percent (13.2).

Earnings were burdened by 76 MSEK (199) in items affecting comparability related to restructuring measures. Over the year, exchange rate fluctuations had a negative impact of 31 MSEK on operating profit.

Business Area HEXPOL Compounding's sales decreased by 14 percent over the year to 12,446 MSEK (14,465), affected by Covid-19. Operating profit amounted to 1,791 MSEK (1,910). The operating margin amounted to 14.4 percent (13.2).

Business Area HEXPOL Engineered Products' sales were also affected by Covid-19 and amounted to 978 MSEK (1,043), decreasing by 6 percent. Operating profit amounted to 144 MSEK (133), and the operating margin increased to 14.7 percent (12.8).

Financial income and expenses

Consolidated net financial items amounted to a negative 80 MSEK (35), including exchange-rate gains and losses.

Tax expenses

The consolidated tax expense amounted to 446 MSEK (466), corresponding to a tax rate of 24.0 percent (23.2).

Profit of the year

Profit before tax for the year amounted to 1,855 MSEK (2,008). Profit after tax amounted to 1,409 MSEK (1,542) and earnings per share amounted to 4.09 SEK (4.48). Profit after tax was burdened by 59 MSEK (156) in non-recurring items related to restructuring measures.

Investments, depreciation and amortization

The Group's investments amounted to 253 MSEK (286) and are mainly attributable to maintenance investments. Depreciation, amortization and impairment amounted to 440 MSEK (447).

Profitability

The return on capital employed amounted to 14.3 percent (15.2). The return on shareholders' equity amounted to 13.9 percent (16.2).

Cash flow

The operating cash flow amounted to 2,548 MSEK (2,607). Cash flow from operating activities increased to 2,376 MSEK (2,361), impacted negatively by exchange rate effects.

Financial position

The equity/assets ratio amounted to 61 percent (56). The Group's total assets amounted to 15,073 MSEK (17,425). Net debt amounted to 1,593 MSEK (2,376). HEXPOL has implemented the dividend of 792 MSEK (774) approved by the Extraordinary General Meeting in November, corresponding to a dividend of 2.30 SEK per share. The Group has the following major credit agreements with Nordic banks:

- A credit agreement with a limit of 1,500 MSEK that will fall due in August 2021.
- A credit agreement with a limit of 125 MUSD that will fall due in February 2022.
- A credit agreement with a limit of 2,000 MSEK that will fall due in July 2022.
- A credit agreement with a limit of 1,500 MSEK that will fall due in September 2023.

The goodwill value is tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. On 31 December 2020, consolidated goodwill and intangible assets amounted to 8,502 MSEK (9,429), impacted by exchange rate effects.

Financial targets

The Group has the following financial targets. Yearly average over a business cycle:

- Sales growth (adjusted for exchange rate effects) is to exceed 10 percent.
- The operating margin (adjusted for items affecting comparability) is to exceed 17 percent.
- Each year, the equity/assets ratio shall exceed 30 percent.

Principles for remuneration of senior executives

The 2020 Annual General Meeting adopted the following guidelines on the remuneration of the President and CEO, other senior executives and the working Chairman of the Board as follows. Other senior executives are defined as members of Group Management. What is stated in the guidelines regarding the President and CEO shall also apply to the working Chairman of the Board. The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the 2020 Annual General Meeting. These guidelines do not apply to any remuneration decided or approved by the General Meeting. For information regarding the company's business strategy, see www.hexpol.com.

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to attract and retain qualified senior executives. To this end, it is necessary that the company offers competitive remuneration on market terms. These guidelines enable the company to offer the executive management a competitive total remuneration.

A warrants programme has been implemented for the members of Group Management, senior executives and key individuals within the HEXPOL Group. The programme has been resolved by the General Meeting and is therefore excluded from these guidelines. For more information regarding this programme, see <https://investors.hexpol.com/sv/bolagsstyrning/teckningsoptionsprogram>.

Variable cash remuneration covered by these guidelines shall aim at promoting the company's business strategy and

long-term interests, including its sustainability.

The remuneration shall be on market terms and consist of fixed cash salary, variable remuneration, other benefits and pension. Additionally, the General Meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related incentive programmes.

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration is capped and shall constitute a maximum of 130 percent of the fixed annual cash salary.

For senior executives, pension benefits shall be paid not earlier than from the age of 60 years. For the President and CEO, pension benefits, including health insurance (SE: sjukförsäkring), shall either be benefit or fee based, or a combination of both. Variable cash remuneration shall not qualify for pension benefits. The pension premiums for premium defined pension shall amount to not more than 30 percent of the fixed annual cash salary. For other executives, pension benefits, including health insurance, shall either be benefit or fee based, or a combination of both. Variable cash remuneration shall qualify for pension benefits only to the extent required by mandatory collective agreement provisions applicable to the executive. The pension premiums for premium defined pension shall amount to not more than 30 percent of the fixed annual cash salary.

Other benefits may include, for example, life insurance, healthcare insurance and company cars. Premiums and other costs relating to such benefits may amount to not more than 10 percent of the fixed annual cash salary.

In relation to employments governed by rules other than Swedish, duly adjustments may be made for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

The notice period shall normally be six months on the part of the employee, without the right to severance pay. Between the company and the President and CEO, the President and CEO is entitled to a notice period of six months. On notice of termination by the company, a notice period of 24 months shall apply. For other senior executives the notice period shall normally be 12 months on the part of the company. Fixed cash salary during the period of notice and severance pay may normally together not exceed an amount equivalent to the fixed cash salary for two years for the President and CEO, and the fixed cash salary for one year for other senior executives.

The variable cash remuneration shall be linked to individualized predetermined and measurable criteria. The criteria shall be designed so as to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development. The criteria applied are based on earnings, earnings per share and capital. The variable cash remuneration shall be based on earnings and capital. Cash remuneration in accordance with the company's long-term cash-based incentive program (LTI) shall be based on earnings per share. For cash remuneration in accordance with LTI, payment of the remuneration shall be made by half approximately one year after the measurement period has ended and by half approximately two years after the measurement period has ended. The design of the criteria for variable cash remuneration and the terms for payment contributes to the company's business strategy, long-term interests and sustainability.

The extent to which the criteria for awarding variable cash remuneration have been satisfied shall be determined when the measurement period has ended. The Remuneration Committee is responsible for the evaluation so far as it concerns variable cash remuneration to the President and CEO. For variable cash remuneration to other executives, the President and CEO is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

In preparing the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the Remuneration Committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

The Board of Directors has established a Remuneration Committee. The remuneration of the President and CEO and other senior executives shall be prepared by the Remuneration Committee and approved by the Board of Directors based on the proposal by the Remuneration Committee. The Committee's tasks include preparing the Board of Directors' proposal on guidelines for executive remuneration.

The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the General Meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The President and CEO and other members of the executive management do not participate in the Board of Directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

During 2020, the company adhered to the applicable remuneration guidelines adopted by the Annual General Meeting, with the exception that the company, in an employment agreement with the company's CEO Georg Brunstam, in order to offer market-based remuneration, agreed that the pension premiums for defined-contribution pensions shall amount to 45 percent of the fixed annual cash salary, which deviates from the remuneration guidelines. In the assessment of the Board of Directors, specific reasons prevailed for deviating partially from the guidelines and it has been deemed necessary to satisfy the company's long-term interests, which is why the Board has been justified in deviating from the guidelines in this case. The Board's decision was prepared by the Remuneration Committee.

The Board of Directors proposes that the 2021 Annual General Meeting resolves on guidelines for remuneration to the President and CEO and other senior executives as follows. Other senior executives are defined as members of Group Management. The guidelines are applicable to

remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the Annual General Meeting. These guidelines do not apply to any remuneration decided or approved by the general meeting.

A prerequisite for the successful implementation of the company's vision, business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to attract and retain qualified senior executives. To this end, it is necessary that the company offers competitive remuneration on market terms. These guidelines enable the company to offer the executive management a competitive total remuneration. Further information about HEXPOL's vision and business strategy can be found on HEXPOL's website, www.hexpol.com.

The total remuneration to senior executives shall be on market terms and consist of fixed cash salary, variable remuneration, other benefits and pension. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related incentive programmes.

The fixed remuneration for senior executives in HEXPOL shall be adapted to the market and competitive. It shall be based on the areas of responsibility, authority, skills and experience of the individual executive.

In addition to a fixed annual salary, senior executives shall also be able to receive variable remuneration. The criteria for this remuneration must be designed to foster the company's vision, business strategy and long-term interests, including its sustainability. The criteria applied are based on earnings, earnings per share and working capital. The variable remuneration consists of two parts. The first of these parts, annual variable cash remuneration, shall be linked to individualized predetermined and measurable criteria. The variable cash remuneration shall be based on earnings and working capital. The second part, cash remuneration in accordance with the company's long-term cash-based incentive program (LTI) shall be based on improved earnings per share.

For cash remuneration in accordance with LTI, payment of the remuneration shall be made by half in the second year after the end of the measurement period and with the remaining half in the third year after the end of the measurement period. The design of the criteria for variable cash remuneration and the terms for payment contributes to the company's vision and business strategy, as well as to its long-term interests and sustainability.

The extent to which the criteria for awarding variable cash remuneration have been satisfied shall be determined when the measurement period has ended. The Remuneration Committee is responsible for the evaluation so far as it concerns variable cash remuneration to the President and CEO. For variable cash remuneration to other executives, the President and CEO is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration is capped and shall constitute a maximum of 130 percent of the fixed annual cash salary of which, 80 percent is attributable to annual cash remuneration and 50 percent to LTI.

For senior executives, pension benefits shall be paid not earlier than from the age of 60 years. For the President and CEO, pension benefits, including health insurance (SE: sjukförsäkring), shall either be benefit or fee based, or a

combination of both. A prerequisite for variable cash remunerations is that they should not qualify for pension benefits. Variable cash remuneration shall qualify for pension benefits only to the extent required by mandatory collective agreement provisions applicable to the executive. For other executives, pension benefits, including health insurance, shall either be benefit or fee based, or a combination of both. The pension premiums for premium defined pension shall amount to not more than 45 per cent of the fixed annual cash salary.

Other benefits may include, for example, life insurance, medical insurance (SE: sjukvårdsförsäkring) and company cars. Premiums and other costs relating to such benefits may amount to not more than 10 per cent of the fixed annual cash salary. In relation to employments governed by rules other than Swedish, duly adjustments may be made for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

The notice period shall normally be six months on the part of the employee, without the right to severance pay. Between the company and the President and CEO, the President and CEO is entitled to a notice period of six months. On notice of termination by the company, a notice period of 24 months shall apply. For other senior executives the notice period shall normally be 12 months on the part of the company. Fixed cash salary during the period of notice and severance pay may normally together not exceed an amount equivalent to the fixed cash salary for two years for the President and CEO, and the fixed cash salary for one year for other senior executives.

In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for senior executives of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the Remuneration Committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

The Board of Directors has established a Remuneration Committee. Remuneration to the President and CEO and other senior executives shall be prepared by the Remuneration Committee and resolved by the Board of Directors based on the proposal of the Remuneration Committee. The Committee's tasks include preparing the Board of Directors' decision to propose guidelines for executive remuneration. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The President and CEO and other members of the executive management do not participate in the Board of Directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration

Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Research and development

HEXPOL's research and development expenditure over the year amounted to 97 MSEK (105), mainly comprising development expenses in close collaboration with customers. The Group has currently no significant research expenditure that meets the criteria for capitalization.

Events after the reporting period

The Covid-19 pandemic continues to generate considerable uncertainty regarding demand for the company's products.

On 7 January 2021, a fire broke out in our facility in Jonesborough, Tennessee, in the US. An employee was injured and required hospital care for their injuries. The actual production facility suffered major damage and planned production has been transferred to other production units nearby. The insurance compensation is expected to exceed book values and cover other financial claims.

On 2 March 2021, the HEXPOL Group acquired 100 percent of the shares in VICOM 2002 SL, which is a Spanish Polymer Compounder. The operations were consolidated as of March 2021. VICOM is a profitable company with some 30 employees at a production unit in Barcelona and generated sales of about 30 MEUR in 2020.

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	3,449,619
Share premium reserve	618,728
Profit of the year	1,535,361
Total unrestricted funds	5,603,708

The Board of Directors proposes that earnings be allocated as follows: that shareholders be paid a cash dividend of 2.30 SEK per share.

Total dividend from profit brought forward	792,205
To be carried forward	4,811,503
Total unrestricted funds	5,603,708

Risks and risk management

The capacity to identify, evaluate, manage and monitor risks is an important part of the governance and control of HEXPOL's business operations. The purpose is to achieve the Group's objectives through well-considered risk-taking within a defined framework.

Market risk management

Risk	Description	Risk management
Covid-19	The Covid-19 pandemic has caused substantial uncertainty and volatility in the world economy, and has had a major negative impact on people's health. This has led to significantly lower economic activity and increased unemployment around the world. In addition, the pandemic and the measures implemented by countries, public authorities and companies around the world, have had a considerable negative impact on demand for products and services, leading to disruptions in production and supply chains. This has affected our customers and HEXPOL alike. The continued effects of the pandemic on us, our customers and on global supply chains remain highly uncertain and unpredictable. This applies to, but is not limited to, demand for products and services, pricing, access to raw materials, delivery opportunities, production disruptions, the health of our employees and our financial results. In addition to what is described here, it is highly likely that the Covid-19 pandemic will affect several other risks described in this Risks and Risk Management section.	We have undertaken measures at all of our units to safeguard the health and safety of our employees by following local health recommendations and regulations and encouraging people to work from home if possible. To be able to react quickly to shifting and often uncertain demand, we are focusing even more on close customer contacts, allowing us to adapt production to meet our customers' needs. We are also adapting our costs to the lower level of demand. During the first year of the pandemic, we also sharply reduced our costs when a number of employees left the Company. We have not received any employment support in Sweden.
Economic sensitivity	<p>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.</p> <p>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.</p>	<p>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.</p> <p>HEXPOL has a flexible production that can adapt to changed customer requirements.</p>
Competition and price pressure	<p>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.</p> <p>HEXPOL's future competitive capacity is dependent on its ability to utilize the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this into attractive products and customized 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.</p>	Focusing on product development is one of HEXPOL's operational strategies 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.



Market risk management, cont.

Risk	Description	Risk management
Acquisitions and integration	<p>HEXPOL applies 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.</p> <p>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 materialize.</p>	<p>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 platform for future acquisitions.</p> <p>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.</p>

Strategic and operational risk management

Risk	Description	Risk management
Customers	<p>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.</p> <p>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.</p>	HEXPOL has a favourable risk diversification in terms of geographical areas and customer groups. No single customer accounts for more than 10 percent of the Group's sales.
Products	If HEXPOL's products do not meet customer requirements, complaints and recalls may occur.	HEXPOL uses quality systems to ensure that the product complies with specified requirements.
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.	HEXPOL has a favourable risk diversification in terms of suppliers and the Group is not, to any significant extent, dependent on any single supplier.
Key personnel	If key persons leaves and successors cannot be recruited or if HEXPOL is unable to attract qualified personnel, this could have a negative impact on the Group's operations.	HEXPOL's future success largely depends on its ability to recruit, retain and develop the Group's employees. HEXPOL strives to be an attractive employer and encourages internal recruitment.
Production disruptions	Damage to production facilities caused, for example, by fire, flood, mechanical damage, natural disaster, can lead to interruption of business and affect customer deliveries.	HEXPOL has many units which gives certain flexibility in terms of supporting production. HEXPOL works regularly with risk prevention.
Raw materials	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 holding monthly price negotiations.
Cyber risk	HEXPOL uses modern IT infrastructure for communications and business support. Disruptions in these systems can have a negative effect on operations, both in terms of marketing activities and production. Cyber-attacks and misuse of data can also lead to personal data and intangible assets falling into the wrong hands.	HEXPOL takes IT security and cyber risks very seriously and continuously assesses the reliability and weaknesses of the Company's security system. All HEXPOL units are covered by the Group's IT policy, which clearly states what requirements apply. Compliance with the above-mentioned policy is audited annually by the Group's auditors to a certain extent, but mainly by representatives of the IT organization.

Legal risk management

Risk	Description	Risk management
Legislation and regulation	HEXPOL's principal markets are subject to extensive regulation. Amendments to the regulatory framework, customs regulations and other trade obstacles, anti-competition regulations, price and currency controls, as well as other public legal guidelines, ordinances and restrictions in the countries in which HEXPOL is active could have an adverse impact on the Group's operations.	HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works for quick adaptation to identified future changes in the area. HEXPOL educates employees in business ethics guidelines and senior managers and employees within purchasing and sales participate in education of international law relating to cartels and other illegal business collaborations.



Legal risk management, cont.

Risk	Description	Risk management
Tax risk	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 advisers. Transactions between Group companies are normally conducted at arm's length.
Intellectual property rights	HEXPOL sells its products under several well-known brands. It is of major commercial significance for the Group that these brands can be protected against unauthorized use by competitors and that the goodwill associated with the brands can be maintained. According to a licence agreement with Covestro AG, HEXPOL is entitled to use the Vulkollan brand and logotype in connection with the manufacture and marketing of wheels produced by HEXPOL Wheels. The licence agreement with Covestro AG extends for one-year periods and notice may be given three months prior to the end of the agreement. Notice of termination of the agreement by Covestro would have a negative impact, since Vulkollan wheels currently accounts for a major share of the sales of the subsidiary Stellana AB.	HEXPOL has an ongoing dialogue with the license owner.
Health, safety and the environment	HEXPOL has operations in many countries with different permit requirements and environmental legislation. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes may have a negative impact on the Group's operations.	HEXPOL's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health, safety and the environment. The Group continuously monitors anticipated and implemented changes in legislation in the countries where the Group operates. Most of the 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. On an ongoing basis, HEXPOL ensures that it holds all of the necessary permits and that it fulfils all of the necessary applicable declaration obligations. Most of the production units are certified in accordance with ISO 14001 and internal and external environmental audits are conducted regularly. In the US, HEXPOL provides a health insurance system through which employees receive compensation for health care. The Group's expenses are maximized to a fixed amount per individual and year.

Financial risk management

Risk	Description	Risk management															
Currency risk	In its operations, HEXPOL is exposed to various financial risks, of which the currency risk is the dominant one. Exchange-rate fluctuations affect HEXPOL's earnings, in part when sales and purchases take place in different currencies (transaction exposure) and, in part when the income statements and balance sheets of foreign subsidiaries are translated to SEK (translation exposure). HEXPOL's global operations give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss. In conjunction with the translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange rate fluctuations could have an impact on the Group's balance sheet.	HEXPOL's business is local, which means that sales and purchases normally are made in local currency and thus limits the Group's transaction exposure. A sensitivity analysis shows that the effect of a change of 10 percent against all currencies in relation to the exchange rate for SEK would affect sales by 1,214 MSEK and operating profit by 167 MSEK. <table border="1"> <thead> <tr> <th>Currency</th><th>Sales</th><th>Operating profit</th></tr> </thead> <tbody> <tr> <td>USD</td><td>739</td><td>116</td></tr> <tr> <td>EUR</td><td>381</td><td>69</td></tr> <tr> <td>Other</td><td>94</td><td>-18</td></tr> <tr> <td>Total</td><td>1,214</td><td>167</td></tr> </tbody> </table>	Currency	Sales	Operating profit	USD	739	116	EUR	381	69	Other	94	-18	Total	1,214	167
Currency	Sales	Operating profit															
USD	739	116															
EUR	381	69															
Other	94	-18															
Total	1,214	167															
Interest risk	Changes in the market interest rates affect HEXPOL's net financial items.	Excess liquidity and credit agreements are primarily managed at Group level and in accordance with the financial policy and to variable interest rate. On 31 December 2020, external liabilities amounted to 2,796 MSEK (4,003). A change of 1 percentage point in the interest rate on the Group's closing balance of liabilities for 2020 would impact full-year earnings by approximately 28 MSEK before tax.															
Credit risk	The financial risks to which HEXPOL is exposed also include credit risks, meaning that a customer or business partner will be unable to fulfil their payment obligations or to settle receivables that HEXPOL has invoiced or intends to invoice. Financial credit risks are defined as the risk that counterparties with which the Group has invested cash and cash equivalents, has current bank investments or has entered into financial instruments will be unable to fulfil their obligations.	HEXPOL conducts regular credit assessments of customers. HEXPOL has widely diversified customers in terms of both geographical areas and customer groups, which limits the risk of significant customer losses. HEXPOL's excess liquidity is primarily used to amortize external loans and further surpluses are placed in well-known banks.															



Financial risk management, cont.

Risk	Description	Risk management
Financing and liquidity risk	To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations could ultimately require additional financial resources. HEXPOL's ability to ensure future capital requirements depends to a great extent on successful sales of the Group's products and services. There are no guarantees that HEXPOL will be able to secure the necessary capital. In this regard, general developments in the share capital and credit markets are also of considerable significance. The liquidity risk is defined as the risk that the Group will be unable to entirely fulfil its payment undertakings when they fall due or will only be able to do so on highly unfavourable terms.	HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions. HEXPOL has four major credit agreements with Nordic banks: <ul style="list-style-type: none"> • A credit agreement with a framework of 1,500 MSEK maturing in August 2021. • A credit agreement with a framework of 125 MUSD maturing in February 2022. • A credit agreement with a framework of 2,000 MSEK maturing in July 2022. • A credit agreement with a framework of 1,500 MSEK maturing in September 2023.
Insurable risks	HEXPOL's operations, assets and employees are to some extent exposed to various types of risks that may affect HEXPOL's operations.	HEXPOL has a centrally procured coverage for property, liability, disruption, travel and transport insurance, etc., combined with local insurances where necessary.

Sustainable development risk management

Risk	Description	Risk management
Contaminated soil	Most of the Group's facilities are built on land not previously used for contaminating operations. No emissions or accidents of significance for the soil or groundwater were registered in 2020. There is limited contamination of the soil at three facilities. This contamination is historical in nature and the Group is not subject to any legal requirements to decontaminate the soil.	Regular assessments of the risk for soil contamination and other environmental damage are made in conjunction with acquisitions. Where deemed necessary, soil and groundwater samples are collected. Through risk analysis and preventative actions the probability and the consequences for uncontrolled emissions are minimized.
Hazardous substances in buildings	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. There may also be small amounts of asbestos in pipe systems at a particular plant. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Small quantities of PCB were found in the window seals in a number of buildings and the caulking compound will be remedied as the windows are gradually replaced. The risks to people and the environment are very minor.	Regular assessments of the presence of asbestos and PCB are made in conjunction with acquisitions. In accordance with the legislation in different countries inventories have been carried out and relevant precautions have been taken. No further actions are currently required.
Climate-related risks	Two 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 conditions. Three facilities are located in areas with a shortage of fresh water.	The Group works actively to mitigate emissions of gases affecting the climate and originating from our production facilities and products. Scenario analyses of how physical climate changes, policy decisions and legislation affecting HEXPOL have been initiated. With regard to these issues, the Group has begun to apply the TCFD guidelines, see pages 45–46. Climate-related risks are taken into account in conjunction with acquisitions and supplier assessments.
Environmental adaption of products	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" show good potential for business development, for example Dryflex Green, which contains bio-based raw materials, and Dryflex Circular, which contains recycled polymers.
Human rights	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 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 under the UN Global Compact. The whistle-blowing system makes it possible for employees to sound the alarm regarding 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. No significant deviations have ever been registered.
Anti-corruption	The Group has operations in both industrialized and developing countries. No matter where the operations are, there is a risk that sound business principles are not applied. For this reason, good business ethics are afforded a very high priority in the materiality analysis. The message from Group Management is that zero tolerance is applied for anti-corruption and lack of business ethics.	The Global Compact and the business ethics guidelines guide employees in questions regarding what is and is not allowed in contacts with business partners. In the Compliance Programme 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 data on which the annual Sustainability Report is based, all of the companies must take a position on how they combated corruption during the year. The questions originate from the Global Compact. No significant deviations have been registered.

Responsible governance builds confidence in continued development

HEXPOL delivered strong earnings and favourable cash flow for 2020 despite considerable drama due to the pandemic. This was largely thanks to the strong recovery experienced in the latter half of the year. Combined, these factors once again afford the HEXPOL Group favourable conditions for continued growth, both organically and through acquisitions.

During 2020, the year of the pandemic, several of HEXPOL's strengths became increasingly clear. Our strong customer focus and global presence, with capacity to deliver from several production units, has proven critical for our customers, as well as valuable.

We have also demonstrated skill in our capacity to quickly adjust our costs and we understand the importance of continuously working to lower our breakeven point. With little advance notice in our order backlog, we are accustomed to this fast-moving environment, although in 2020 this was put to the test like never before and proved achievable even under extreme conditions.

Large organizations are sometimes criticized for not being sufficiently agile and fast-footed compared with smaller local suppliers but in 2020 I think many were impressed that even large organizations were able to adapt faster than most thought possible.

We continued our strategy process in 2020, with our vision and values being expressed in a new and clearer way. The strategy process is an important part of the Board's corporate governance work, with an essential part of this being to increase our focus on sustainability. This mainly involves measures and plans for "here and now", that is, breaking the trend and mitigating environmental impacts in the short term. One of our concrete targets is to lower our CO₂ imprint by 75 percent by 2025.

In early 2020, we implemented a change of CEO in HEXPOL, with Georg Brunstam as Executive Chairman of the Board and Peter Rosén as Acting CEO. During the autumn, we were able to find a permanent solution with Georg as President and CEO and Peter as Deputy CEO. Their management work was a stabilizing factor in a turbulent year and provides optimum conditions for strong leadership, an energizing course ahead and for the continued generation of value for shareholders over the upcoming years.

Malmö, Sweden, March 2021

Alf Göransson, Chairman of the Board

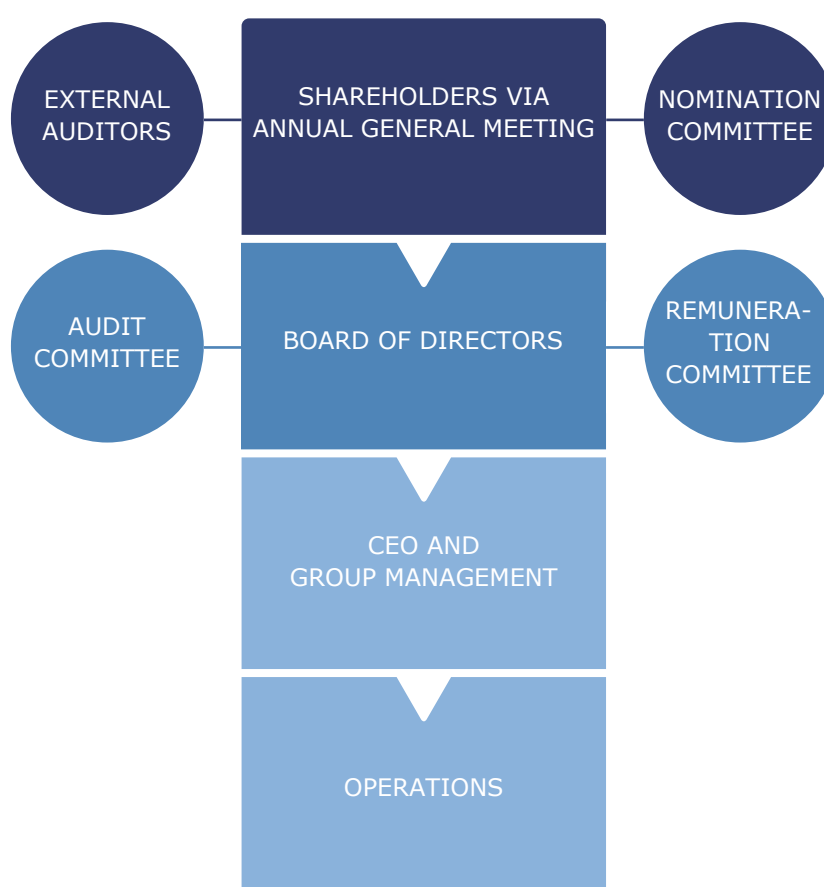


Alf Göransson
Chairman of the Board

Corporate Governance Report

HEXPOL is a public company listed on Nasdaq Stockholm, Large Cap.

The governance of the HEXPOL Group is based on Swedish legislation, primarily the Companies Act, HEXPOL's Articles of Association, the Nordic Main Market Rulebook for Issuers of Shares and the Swedish Code of Corporate Governance (the Code).



Ownership structure and share

On 31 December 2020, HEXPOL's share capital amounted to 68,840,256 SEK, divided between 344,201,280 shares, of which 14,765,620 were Class A shares, conveying ten votes apiece, and 329,435,660 were Class B shares, conveying one vote apiece. The largest individual shareholder is Melker Schörling AB, whose holding at the end of 2020 comprised a total 14,765,620 Class A shares and 70,783,430 Class B shares, corresponding to 46 percent of the votes and 25 percent of the capital in the company. No other shareholder has a direct or indirect holding amounting to at least 10 percent of the total number of votes in the company. For

more detailed information on ownership structure and the share, see pages 6–7.

Articles of association

HEXPOL's current Articles of Association were adopted on 28 April 2020. 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 announces the Annual General Meeting no later than four weeks prior to the Meeting. The Annual General Meeting is usually held in Malmö, Sweden, although, in accordance with the Articles of Association, it may also be held in Stockholm, and it is 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.

Annual General Meeting 2020

The 2020 AGM was held on 28 April 2020 in Malmö, Sweden. At the AGM, shareholders in attendance represented approximately 66 percent of the total voting rights. The Chairman of the Board, Georg Brunstam, 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 AGM resolved, in light of the prevailing uncertainty caused by Covid-19, that no dividend would be paid to shareholders. Georg Brunstam, Alf Göransson, Jan-Anders E. Månson, Malin Persson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson were re-elected as members of the Board.

Georg Brunstam was re-elected as Chairman of the Board. The Meeting approved the Board's proposed guidelines for remuneration to HEXPOL's senior executives and the Board of Directors' proposed amendments to the Articles of Association.

Extraordinary General Meeting 2020

On 20 November 2020, an Extraordinary General Meeting was held in Malmö, Sweden. At the Extraordinary General Meeting, shareholders in attendance represented approximately 67 percent of the total voting rights. The Chairman of the Board, Georg Brunstam, was elected Chairman of the Meeting. In accordance with the Board's proposal, the AGM resolved that a dividend of 2.30 SEK per share be paid.

It was announced on 23 October 2020 that the Chairman of the Board of HEXPOL, Georg Brunstam, had been appointed President and CEO of HEXPOL with effect from

20 November 2020 and that Georg Brunstam had, accordingly, stepped down from his role as Chairman of the Board and Board Member. The AGM resolved, in accordance with the Nomination Committee's proposal, to elect Alf Göransson as Chairman of the Board for the period until the end of the next Annual General Meeting. The Board subsequently consisted of Alf Göransson (Chairman), Jan-Anders E. Månson, Malin Persson, Kerstin Lindell, Märta Schörling Andreen and Gun Nilsson. The Extraordinary General Meeting also resolved that the fees to be paid to the Chairman of the Board and for service on the Board's committees, approved by the Annual General Meeting on 28 April 2020 shall continue to apply and shall, where applicable, be distributed pro rata in proportion to the timing of each General Meeting's election of Chairman of the Board.

Annual General Meeting 2021

HEXPOL's Annual General Meeting 2021 will be held on 28 April 2021 in Malmö, Sweden. For information about the AGM, refer to page 104 and the company's website <https://investors.hexpol.com/en/corporate-governance/annual-general-meeting>.

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.

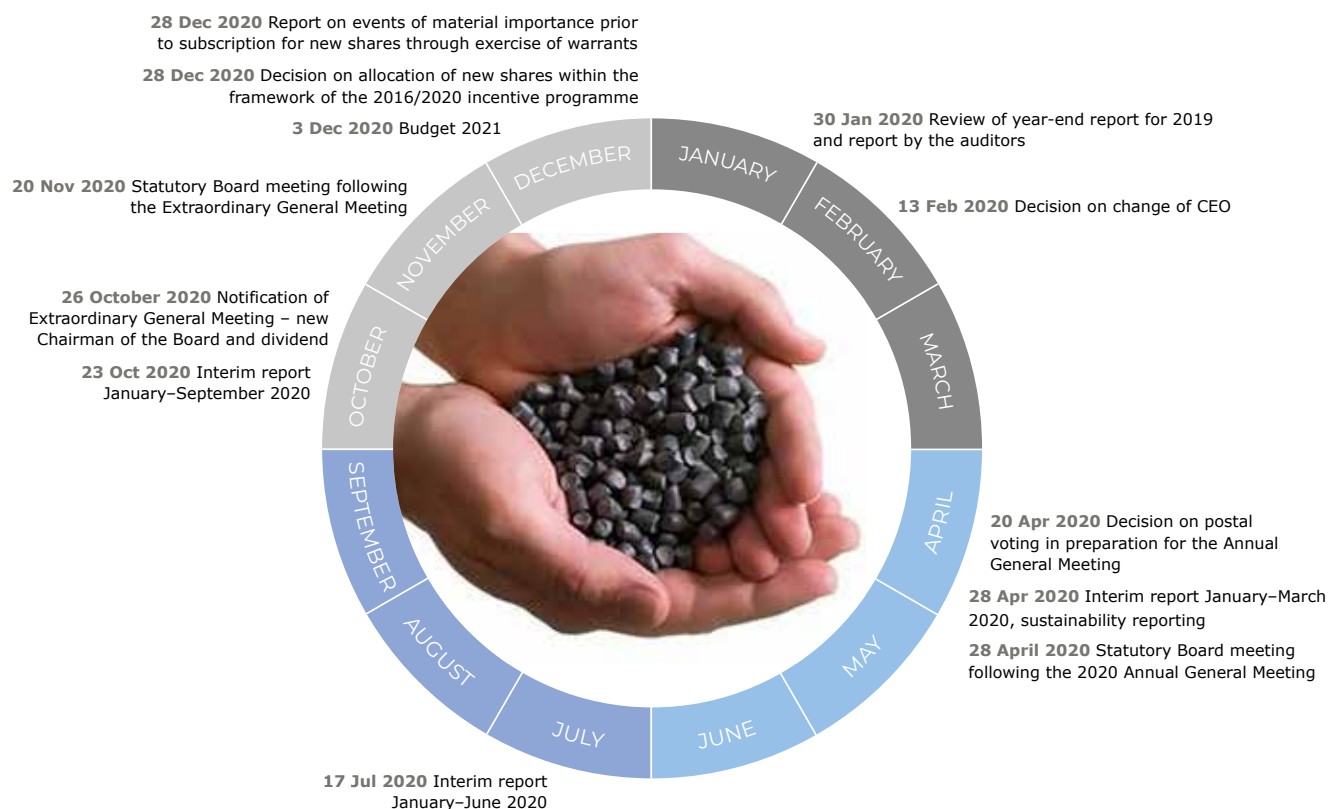
In the nomination process in preparation for the Annual General Meeting in 2020, the Nomination Committee applied rule 4.1 of the Code on Diversity Policy in preparing its proposals for the Board. The Nomination Committee concluded that the Board of HEXPOL has an even gender distribution and an appropriate composition in other regards.

The 2020 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, Henrik Didner representing Didner & Gerge Fonder, Marcus Lüttgen representing Alec-ta Pensionsförsäkring and Mats Gustafsson representing Lannebo fonder should be members of the Nomination Committee ahead of the 2021 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 2021, 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 meetings at which minutes were recorded. The Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2021 AGM.

Work of the Board of Directors in 2020



The Board of Directors and its work

Composition of the Board and independence

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, with no more than two deputies. HEXPOL's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles. The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on 28 April 2020 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 2021 AGM. At the Extra-ordinary General Meeting on 20 November 2020, Alf Göransson was elected Chairman of the Board for the period until the ensuing Annual General Meeting. The Board subsequently consisted of Alf Göransson (Chairman), Jan-Anders E. Månson, Malin Persson, Kerstin Lindell, Märta Schörling Andreen and Gun Nilsson. HEXPOL's President and CEO and HEXPOL's CFO participate 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 on page 64.

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 on page 64, 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 organization 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 coordinated by the Chairman of the board. In 2020, the Chairman conducted a written questionnaire-based survey of all Board members. The results of the evaluation have been reported and discussed by the Board and 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. During 2020, the Audit Committee consisted of Gun Nilsson (Chairman), Malin Persson and Märta Schörling Andreen. During the period, the Audit Committee held four 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. Until 20 November 2020, the Remuneration Committee consisted of Georg Brunstam (Chairman) and Märta Schörling Andreen. Since 20 November 2020, the Remuneration Committee has consisted of Alf Göransson (Chairman) and Märta Schörling Andreen. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

Board activities in 2020

During the year, the Board held a total of 12 Board meetings, two of which were statutory meetings. 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 other things, addressed questions related to investment, interim reports, the annual report, acquisitions and the auditors' report on the audit work. In 2020, all of the Board members elected by the Annual General Meeting attended all Board meetings.

**Johan Thuresson**

Authorized Public Accountant and member of FAR

Born: 1964**Nationality:** Swedish**Other assignments:** Precise Biometrics AB and Alligator Bioscience AB

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 by 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 2020 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 Authorized 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 2021 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 are followed 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 function. The issue of a special audit function will be reviewed again in 2021.

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 CFO, the head of M&A and strategy 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 organization is structured to facilitate short and prompt decision-making processes, with clear, decentralized responsibility. Group Management is presented on page 65, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

Information on remunerations

Refer to Note 4 on page 76 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.

Internal control of financial reporting

The internal control of financial reporting is part of the overall internal control within HEXPOL and is a central component of the Group's corporate governance. The most important objectives are for the internal control to be efficient and effective, to provide reliable reports and for it to comply with laws and regulations.

According to the Swedish Companies Act and the Code, 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 frame-work 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

HEXPOL's organization is designed to facilitate rapid decision making. Operational decisions are therefore made at the business area, product area or subsidiary level, while decisions on strategies, acquisitions and divestments, as well as on overarching financial matters are made by the company's Board of Directors and Group Management. The organization is characterized 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 organization, 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 authorization 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 monitors the company's assessment of the internal control through the work conducted by the Audit Committee, for example. This work includes an ongoing review of the matters deemed to affect financial management. The Board also maintains direct contacts with the company's auditors to safeguard the internal control.

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. This is achieved by continuously monitoring the areas considered critical for the company and its operations. 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 are managed via the company's control activities. The control activities are designed to prevent, uncover and rectify errors and deviations. 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 performance indicators. 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 analyzes 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.

Information including the following can be found on the company's website www.hexpol.com:

- Articles of Association
- Code of Conduct
- Previous years' Corporate Governance Reports, commencing 2008
- Information from HEXPOL's Annual General Meetings, commencing 2008 (notices, minutes, CEO's speeches and communiques)
- Information regarding the Nomination Committee
- Information on principles for remuneration of senior executives
- Information in preparation for the 2021 Annual General Meeting

Board of directors



Alf Göransson

Chairman of the Board¹

Elected: 2007

Born: 1957

Nationality: Swedish

Education: International B.Sc. (Econ.)

Other assignments: Chairman of the Board of Loomis AB, NCC AB and Axfast AB. Member of the Boards of Attendo AB, Sweco AB, Melker Schörling AB and Sandberg Development Group

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: No

Committee: Remuneration Committee

Own holding and holdings of related parties: 3,000 Class B shares



Malin Persson

Member

Elected: 2007

Born: 1968

Nationality: Swedish

Education: M. Sc. (Eng.)

Other assignments: Member of the Boards of e.g. Peab AB, Getinge AB and Ricardo AB

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: Yes

Committee: Audit Committee

Own holding and holdings of related parties: –



Jan-Anders E. Månson

Member

Elected: 2008

Born: 1952

Nationality: Swedish

Education: M. Sc. (Eng.) and PhD

Other assignments: Distinguished Professor at Purdue University. Co-Exec. Dir. Indiana Next Generation Manufacturing Competitiveness Center (INMAC), Exec. Dir. Ray Ewry Sports Engineering Center and member of the Board of Eelcee Ltd.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: Yes

Committee: –

Own holding and holdings of related parties: –



Märta Schörling Andreen

Member

Elected: 2014

Born: 1984

Nationality: Swedish

Education: B.Sc. (Econ.)

Other assignments: Member of the Boards of Melker Schörling AB, Hexagon AB, Absolent Group and AAK AB

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: No

Committee: Audit Committee and Remuneration Committee

Own holding and holdings of related parties: 14,765,620 Class A shares and 70,783,430 Class B shares, through Melker Schörling AB



Kerstin Lindell

Member

Elected: 2016

Born: 1967

Nationality: Swedish

Education: Master Business Administration, PhD Polymer Chemistry and Master Chemical Engineering

Other assignments: Chairman of the Board of Bona AB and of the Chamber of Commerce and Industry of Southern Sweden. Member of the Boards of Peab AB and Inwido AB

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: Yes

Committee: –

Own holding and holdings of related parties: 5,000 Class B shares



Gun Nilsson

Member

Elected: 2017

Born: 1955

Nationality: Swedish

Education: B.Sc. (Econ.)

Other assignments: Chairman of the Board of Hexagon AB. President of Melker Schörling AB and Member of the Boards of AAK AB, Bonnier Group AB, Einar Mattsson AB and the Swedish Corporate Governance Board.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: No

Committee: Audit Committee

Own holding and holdings of related parties: 5,000 Class B shares

¹ Alf Göransson, former member, elected Chairman of the Board, succeeding Georg Brunstam, at the Extraordinary General Meeting on 20 November 2020.

Group Management



Peter Rosén
CFO, Deputy CEO and IR Manager
Employed, year: 2019
Born: 1968
Nationality: Swedish
Education: B.Sc. (Econ.)
Other assignments: –
Own holding and holdings of related parties: 17,000 Class B shares



Georg Brunstam
President and CEO
Employed, year: 2007
Born: 1957
Nationality: Swedish
Education: M. Sc. (Eng.)
Other assignments: Chairman of the Board of AAK AB and Member of the Boards of Melker Schörling AB, Nibe Industrier AB and GeBe Consulting AB
Own holding and holdings of related parties: 945,000 Class B shares



Jan Wikström
President of HEXPOL Thermoplastic Compounding¹, HEXPOL Wheels and HEXPOL Gaskets and Seals
Employed, year: 2008
Born: 1972
Nationality: Swedish
Education: M.Sc. (Eng.)
Other assignments: –
Own holding and holdings of related parties: 800,000 Class B shares



Ken Bloom
President of HEXPOL Compounding Americas
Employed, year: 2020
Born: 1963
Nationality: American
Education: B.Sc. (Eng.) and MBA in finance
Other assignments: –
Own holding and holdings of related parties: –



Ralph Wolkener
President of HEXPOL Compounding Europe/Asia and President of HEXPOL TPE Compounding
Employed, year: 1997
Born: 1971
Nationality: Belgian
Education: B.Sc. (Econ.)
Other assignments: –
Own holding and holdings of related parties: 88,500 Class B shares



Carsten Rüter
President of HEXPOL Compounding Europe/Asia, HEXPOL Compounding Global Purchasing/Technology and HEXPOL TPE Compounding
Employed, year: 1997
Born: 1971
Nationality: German
Education: M. Sc. (Eng.)
Other assignments: –
Own holding and holdings of related parties: 100,000 Class B shares



Magnus Berglund
Senior Vice President, Strategy, M&A
Employed, year: 2008
Born: 1971
Nationality: Swedish
Education: M.A. (Econ.) and B.Sc. (Eng.)
Other assignments: –
Own holding and holdings of related parties: 17,000 Class B shares

¹ Jan Wikström was appointed President of HEXPOL Thermoplastic Compounding on 23 March 2020.





Customers impose increasing demands on shorter and more secure supply chains

HEXPOL's customers are imposing increasing demands on shorter and more secure supply chains. This grew even clearer in connection with the Covid-19 pandemic.

Local and regional shutdowns, closed borders and transport problems have caused supply chain disruptions. Because many customers and industries apply just-in-time delivery, such disruptions are often severe and of a large scale. Increased international tensions have also induced trade barriers and increased tariffs, which also interfere with supply chains.

With its extensive local presence, HEXPOL has proven its value as a stable and reliable partner. Because the Group has 49 units in different parts of the world, when problems arise locally or regionally, the affected units can call on the support of other Group units.

Being considered essential to society, all of HEXPOL's operations and facilities have mainly remained open during the pandemic. HEXPOL's decentralized and coordinated organization has functioned well in these turbulent times and adapted quickly and efficiently to shifting conditions.

In recent years, HEXPOL has increasingly observed customers responding to trade barriers and the pandemic by repatriating production historically conducted abroad. The Group expects such trends to strengthen in the future and is well-equipped to secure its customers' shorter supply chains.

Financial statements

Consolidated Income Statements

MSEK	Note	2020	2019
Sales	2	13,424	15,508
Costs of goods sold		-10,496	-12,430
Gross profit		2,928	3,078
Selling costs		-272	-243
Administration costs		-632	-699
Research and development costs		-97	-105
Other operating income		21	22
Other operating expenses		-13	-10
Operating profit	2, 3, 4, 5, 6, 9, 10, 11	1,935	2,043
Financial income	7	43	24
Financial expenses	7	-123	-59
Profit before tax		1,855	2,008
Tax	8	-446	-466
Profit after tax		1,409	1,542
of which, attributable to Parent Company's shareholders		1,409	1,542
Earnings per share, before and after dilution SEK		4.09	4.48

Consolidated Statement of Comprehensive Income

MSEK	2020	2019
Profit after tax	1,409	1,542
Items that will not be re-classified to the Income Statement		
Re-measurement of defined benefit pension plans	0	-2
Income tax relating to items that will not be re-classified to the Income Statement	-	0
	0	-2
Items that may be re-classified to the Income Statement		
Hedge of net investment	-	7
Income tax relating to items that may be re-classified to the Income Statement	-	-2
Translation difference	-1,261	399
	-1,261	404
Other comprehensive income after tax	-1,261	402
Total comprehensive income	148	1,944
of which, attributable to Parent Company's shareholders	148	1,944

Consolidated Balance Sheet

MSEK	Note	2020	2019
ASSETS			
Fixed assets			
Goodwill and intangible fixed assets	9	8,502	9,429
Tangible fixed assets and right-of-use assets	10, 11	2,261	2,632
Financial fixed assets	21	3	3
Deferred tax assets	8	51	52
Total fixed assets		10,817	12,116
Current assets			
Inventories	12	1,094	1,391
Accounts receivable	13, 21	1,744	1,983
Current tax receivables		138	193
Other current receivables		41	68
Prepaid expenses and accrued income		39	50
Cash and cash equivalents	21	1,200	1,624
Total current assets		4,256	5,309
TOTAL ASSETS		15,073	17,425
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
New share issue in progress		0	-
Other capital contributions		619	598
Reserves		596	1,857
Profit brought forward		6,440	5,690
Profit for the year		1,409	1,542
Total equity attributable to Parent Company's shareholders	14	9,133	9,756
Attributable to non-controlling interests		-	-
Total shareholders' equity		9,133	9,756
Non-current liabilities			
Interest-bearing liabilities	15, 21	2,699	2,754
Other liabilities	21	38	41
Deferred tax liabilities	8	521	580
Pension provisions	16	64	55
Total non-current liabilities		3,322	3,430
Current liabilities			
Interest-bearing current liabilities	15, 21	97	1,249
Accounts payable	21	1,796	1,953
Current tax liabilities		153	148
Other current liabilities	21	68	450
Provisions	17	64	94
Accrued expenses	18, 21	440	345
Total current liabilities		2,618	4,239
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		15,073	17,425

Consolidated Changes in Shareholders' Equity

MSEK	Attributable to Parent Company's shareholders					Total
	Share capital	New share issue in progress	Other capital contributions	Reserves	Profit brought forward	
As per 31 December 2018	69	–	598	1,455	6,470	8,592
Effects of transition to IFRS 16 Leases					–6	–6
Converted opening equity	69	–	598	1,455	6,464	8,586
2019						
Total comprehensive income						
Profit after tax	–	–	–	–	1,542	1,542
Other comprehensive income	–	–	–	402	–	402
Total comprehensive income	–	–	–	402	1,542	1,944
Transactions with shareholders						
Dividend	–	–	–	–	–774	–774
As per 31 December 2019	69	–	598	1,857	7,232	9,756
2020						
Total comprehensive income						
Profit after tax	–	–	–	–	1,409	1,409
Other comprehensive income	–	–	–	–1,261	–	–1,261
Total comprehensive income	–	–	–	–1,261	1,409	148
Transactions with shareholders						
New share issue in progress	–	0	21	–	–	21
Dividend	–	–	–	–	–792	–792
31 December 2020	69	0	619	596	7,849	9,133

Consolidated Cash Flow Statements

MSEK	Note	2020	2019
Cash flow from operating activities	20		
Operating profit		1,935	2,043
Adjustment for non-cash items		451	447
Net financial items		-40	-20
Tax paid		-385	-512
Cash flow from operations before changes in working capital		1,961	1,958
Cash flow from changes in working capital			
Changes in operating receivables		273	649
Changes in operating liabilities		142	-246
Cash flow from operations		2,376	2,361
Investing operations			
Investments in tangible fixed assets		-239	-278
Sales of tangible fixed assets		0	0
Investments in intangible fixed assets		-14	-8
Acquisitions of operations	22	-412	-2,204
Cash flow from investing activities		-665	-2,490
Financing activities	20		
Loans raised		2,016	2,690
Amortization of liabilities		-3,125	-1,398
Amortization of lease liabilities		-98	-91
New share issue in progress		21	-
Dividend		-792	-774
Cash flow from financing activities		-1,978	427
Cash flow for the year		-267	298
Cash and cash equivalents, 1 January		1,624	1,164
Exchange-rate differences in cash and cash equivalents		-157	162
Cash and cash equivalents, 31 December		1,200	1,624

Operating Cash Flow, Group

MSEK	2020	2019
Operating profit	1,935	2,043
Depreciation/amortization/impairment	440	447
Other items not affecting cash flow	11	-
Change in working capital	415	403
Sales of tangible fixed assets	0	0
Investments	-253	-286
Operating cash flow	2,548	2,607

Note 1 Accounting principles

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 74. The applied accounting policies correspond to those applied in the preceding year with the exception of the new IFRS applied commencing 1 January 2020. None of the amendments and interpretations of existing standards be applied as of financial years commencing 1 January 2020 had any effect on the consolidated or Parent Company's financial statements.

New standards 2020

The IASB has introduced amendments to IFRS 3 regarding how acquisitions of operations are defined. An acquisition shall be classified either as an acquisition of asset or as a business combination. The changed definition of a business requires that an acquisition include resources and processes that combined contribute significantly to the capacity to achieve produce. The definition of the term "production" is changed to focus on goods and services provided to customers, generating returns and other revenue. The current definition, according to which includes "return in the form of lower costs or other economic benefits" no longer applies. The amendment took effect on 1 January 2020.

IBOR reform – amending IFRS 9, IAS 39 and IFRS 7. As a result of the reforms promoted by the Financial Stability Board, efforts are in progress in various countries to replace IBOR with new reference rates, RFR (Risk Free Rate). The change in reference interest rates may have an impact on, companies' hedge accounting, for example. The amendments to IFRS 9, IAS 39 and IFRS 7 introduce exemptions from certain requirements regarding the valuation of the hedging relationship with regard to IBOR reference interest rates where hedge accounting is applied. Any inefficiencies shall, however, continue to be reported in profit or loss. The amendment applies as of 1 January 2020.

IFRS 16 Leases – supplement to the standard regarding rent reductions as a consequence of Covid-19. The relief rule entails lessees not having to determine whether a rent reduction as a consequence of Covid-19 entails a modification of the existing agreement or not. As a result, the rent reduction can be reported directly in profit or loss. The supplementary rule applies as of 1 June 2020.

New and amended IFRS yet to come into effect – None of the 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.

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 acquisition method is used to recognize 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 recognized 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 recognized directly in profit or loss.

In 2018, HEXPOL acquired 80 percent of the shares in the Mesgo Group. According to the agreement, HEXPOL has an option to acquire the remaining shares, and shareholders without a controlling influence retain an option to sell their remaining shares to HEXPOL. The shareholder agreement that the company has signed with shareholders without a controlling influence includes provisions on put/call options under which the holders of the minority interests are entitled to sell their shares to HEXPOL in accordance with a calculation formula, stipulated in the agreement, during specific windows of time until and including 30 June 2023. In the same way, HEXPOL is entitled to acquire the shares in accordance with this calculation formula during specific windows of time until and including 30 June 2023. IFRS 3 Business Combinations does not regulate how such contractual terms are to be addressed in the accounts. According to IAS 32 Financial Instruments: Presentation, the Group must recognize a liability for put issued options in its own equity instruments, that is, the obligation to purchase

outstanding shares in the MESGO Group. During 2020, MESGO Group exercised its put option and the Group has acquired the remaining 20 percent of MESGO Group. See also Note 22.

Intra-Group transactions, balance-sheet items and unrealized 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 recognized in profit or loss.

When transactions constitute hedging that meets the requirements for hedge accounting of net investments, exchange-rate differences are recognized 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 recognized 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 recognized 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.

ASSOCIATED COMPANIES

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, the business areas represent the basis of division into operating segments. The Group is organized 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 Sweden, Europe, the Americas and Asia. Sales are recognized according to customer location, while assets are recognized according to the actual physical location of these assets.

OTHER 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.

REVENUE RECOGNITION

The Group's agreements with customers include only one kind of performance commitment, sales of goods. Revenue from sales of goods is recognized when the performance commitment is fulfilled, which occurs at a particular point in time. The agreements have short periods of validity. Sales are reported excluding VAT and at the transaction price determined in accordance with the customer agreement. The agreements include information on pricing, volume discounts, payment terms and delivery terms. The transfer of control of the goods to the customer occurs in accordance with the delivery terms in the various agreements. A customer may choose to collect the goods from the company or to have the goods delivered. The proceeds from the sale are recognized at a particular point in time, when the goods have been delivered to the customer or collected by the customer. Variable compensation may be payable to customers under retroactive volume discounts, for which provisions are applied under accrued expenses in

profit or loss, based on their anticipated value. Normally, neither accrued nor prepaid revenues are reported, that is, no contract balances are recognized – only accounts receivable following delivery. Normal payment terms are applied, meaning there are no financing components included in the agreements. The Group has no commitments in the form of returns.

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalized as follows: Capitalization 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. Capitalized development expenditures are amortized according to the useful life of the assets.

INCOME TAX

Income tax expenses for the year consist of current and deferred tax. Tax is recognized in profit or loss, apart from when the tax pertains to items recognized in other comprehensive income or directly in shareholders' equity. In such cases, the tax is also recognized 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 recognized 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 recognized because it is not probable that these will be utilized in the foreseeable future. Deferred tax assets are recognized insofar as it is probable that future taxable surpluses will be available to offset them against.

LEASING

Right-of-use assets and lease liabilities are reported in the balance sheet. HEXPOL applies the relief rules regarding short-term leases with a maturity of 12 months or less and leases where the underlying asset has a value of less than SEK 50,000. Expenses incurred in connection with these leases are reported on a straight-line basis over the lease period as operating expenses in profit or loss.

Lease liabilities

Lease liabilities are initially valued at the present value of the lease fees that were not paid on the commencement date. These lease liabilities are recognized in the items interest-bearing liabilities and interest-bearing current liabilities in the balance sheet.

The term of the lease is determined as the non-cancellable period plus with periods in which the agreement can be extended or terminated early if HEXPOL is reasonably certain that it will exercise such options. When determining the length of the lease, all available information and circumstances indicating a financial value for exercising an extension option or not exercising an option to terminate the lease are taken into account. Options to extend or terminate the lease relate primarily to the Group's leases on buildings.

The lease payments include fixed payments (following deductions for any benefits in connection with the signing of the lease), variable lease fees dependent on an index or price, and amounts that are expected to be paid under residual value guarantees. In addition, the lease payments include the exercise price of any option to purchase the underlying asset or penalty fees payable upon termination if HEXPOL is reasonably certain that it will exercise these options. Variable lease fees not dependent on an index or price are expensed in the period to which they are attributable.

In the event that the implicit interest rate cannot easily be determined from the agreement, the marginal loan rate is applied in the present value calculation of lease payments. The marginal loan rate is determined by using the 12-month STIBOR model for each currency with a premium corresponding to the Group's external loan margins. HEXPOL has chosen not to divide the interest rate into different asset classes as this is not material. Following the commencement date of a lease, the lease liability increases to reflect the interest rate on the lease liability and decreases as lease payments are disbursed. In addition, the lease liability is reassessed as a result of agreement modifications, changes in the estimate of the lease term, changes in lease payments or changes in the assessment of whether to acquire the underlying asset or not.

Right-of-use assets

HEXPOL recognizes right-of-use assets in the balance sheet from the commencement date of the lease. The right-of-use assets are reported under the item tangible fixed assets in the balance sheet. Right-of-use assets are valued at cost less deductions for accumulated depreciation and any impairment, and adjusted for revaluations of the lease liabilities. Cost includes the initial value of the attributable lease liability, direct expenses, any advance payments made on or before the commencement date of the lease after deduction of any incentives received, and an estimate of any restoration costs. Provided that HEXPOL is not reasonably certain that it will assume ownership of the underlying asset at the end of the lease, the right-of-use asset will be written off on a straight-line basis over the term of the lease or the useful life of the underlying asset, whichever is shorter.

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 recognized at cost less accumulated depreciation/amortization according to plan and any impairment losses.

DEPRECIATION/AMORTISATION

Depreciation/amortization is performed on a straight-line basis across the useful life of the asset based on the depreciable/amortizable amount (cost less estimated residual value) and is based on the useful life of the asset. At a minimum, the useful life and residual value of the assets are revised at the end of each financial year.

The following useful lives are 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 recognized 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 recognized 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 analyzed at least annually with regard to any impairment requirements. Other assets are analyzed for indications of impairment requirements, that is, an asset's carrying amount exceeds its recoverable amount. The recoverable value is the higher of the asset's net realizable 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 cost and net realizable value at the balance-sheet date. The cost is measured in accordance with the first-in first-out principle. For manufactured goods, the cost comprises the cost of raw materials, direct payroll costs, other direct costs and a portion of indirect manufacturing costs. Net realizable 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 recognized in the Balance Sheet include cash and cash equivalents, accounts receivable, other financial receivables, accounts payable, interest-bearing liabilities and other financial liabilities. A financial asset or financial liability is recognized from the Balance Sheet when all benefits and risks associated with ownership have been transferred. Financial assets and liabilities are recognized in, and deducted from, the Balance Sheet applying settlement-date accounting.

Classification of financial instruments

Financial instruments are classified in the following categories: Financial assets and financial liabilities measured at fair value through profit or loss, and financial assets and financial liabilities measured at amortized cost. The classification is based on the company's business model and the nature of the instrument.

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 recognized 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 recognized at fair value through profit or loss

Liabilities for put options are recognized as a financial liability measured at fair value with changes in value in profit or loss, and are valued in accordance with Level 3.

Financial assets and liabilities valued at amortized cost

Financial assets and liabilities are initially measured at fair value plus transaction costs and, subsequently, at amortized cost, less any provisions for impairment. Receivables are initially recognized at fair value and subsequently at amortized cost applying the effective

interest method, less any provision for expected and incurred loan losses. Provisions for expected loan losses are applied in accordance with the simplified method, meaning that expected loan losses are reserved for the remaining maturity. Impairment of accounts receivables are reported in operating expenses. Financial liabilities are measured at amortized cost, applying the effective interest method.

Interest income

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

Cash and cash equivalents

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

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 recognized 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. These loans are recognized at the exchange rate prevailing on the balance-sheet date and the exchange rate differences on the loans are recognized 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 recognized in other comprehensive income and accumulated amounts in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss as other income or expenses. Amounts accumulated in equity are reclassified to the Income Statement in the periods when the hedged item affects earnings.

PENSION AND SIMILAR COMMITMENTS

The Group predominantly has defined-contribution pension obligations. There are also employees with 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 recognized 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 recognized as defined contribution plans. At the end of December 2020, Alecta's surplus in the form of the collective consolidation level was 148 percent (148).

PROVISIONS

The Group recognizes 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 recognized 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 recognized 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 (Note 9), shares in subsidiaries (Note 33), assessments of assets and liabilities identified in connection with acquisitions (Note 22).

ACCOUNTING POLICIES IN THE PARENT COMPANY

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

- 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 recognized at cost before any impairment. Impairment testing is carried out when there are indications of impairment, that is, when there are indications that the book value exceeds the recoverable amount. The recoverable amount corresponds to fair value or value in use, whichever is highest.
- In the Parent Company, financial assets and liabilities are initially reported at fair value plus transaction costs and subsequently at amortized cost. The Parent Company applies IFRS9, but since all accounts receivable are intra-group, credit risk is limited.

The Parent Company continues to apply the exemption included for legal entities in RFR 2 and expenses all leases on a straight-line basis over the term of the lease. Accordingly, right-of-use assets and lease liabilities are not included in the Parent Company's balance sheet. However, leases are identified in the same way as in the Group, that is, an agreement is, or contains, a lease if the agreement assigns the right to determine the use of an identified asset for a certain period in exchange for compensation.

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 single customer accounts for more than 10 percent of the Group's sales.

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2020	2019	2020	2019	2020	2019
Sales, external	12,446	14,465	978	1,043	13,424	15,508
Operating profit	1,791	1,910	144	133	1,935	2,043
Operating margin, %	14.4	13.2	14.7	12.8	14.4	13.2
Net financial items					-80	-35
Tax					-446	-466
Profit of the year					1,409	1,542
Operating assets	13,241	15,043	440	495	13,681	15,538
Unallocated assets	-	-	-	-	1,392	1,887
Group Total	13,241	15,043	440	495	15,073	17,425
Operating liabilities	2,215	2,310	113	113	2,328	2,423
Unallocated liabilities	-	-	-	-	3,612	5,246
Group Total	2,215	2,310	113	113	5,940	7,669
Investments	233	262	20	24	253	286
Depreciation/amortization/impairment	409	415	31	32	440	447

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2020	2019	2020	2019	2020	2019
NON-RECURRING ITEMS						
Costs of goods sold	-17	-97	-3	-	-20	-97
Sales and administration costs	-56	-102	-	-	-56	-102
Operating profit	-73	-199	-3	-	-76	-199
Tax					17	43
Profit of the year					-59	-156

Items affecting comparability in profit or loss refer to restructuring costs in 2020. In 2019, these items pertain to acquisition, integration, restructuring and legal costs.

MSEK	Sales per recipient country		Fixed assets	
	2020	2019	2020	2019
Geographic region				
Sweden	363	446	313	330
Europe, excl. Sweden	4,495	5,173	4,012	4,305
USA	6,207	6,968	6,118	7,018
Americas, excl. USA	1,639	2,215	112	158
Asia	720	706	262	305
Total	13,424	15,508	10,817	12,116

MSEK	HEXPOL Compounding		HEXPOL Engineered Products	
	2020	2019	2020	2019
Sales per geographic market and business area				
Europe	4,383	5,080	475	539
Americas	7,572	8,907	274	276
Asia	491	478	229	228
Total	12,446	14,465	978	1,043

Note 3 Related-party transactions

Transactions between Group companies are conducted on market-based terms. In 2020, the Group purchased energy for 13 MSEK (12) from the associated company, Megufo AB, in Sweden.

On 31 December 2020 the Group had a liability of 3 MSEK (1) to this associated company.

See also Note 4.

Note 4 Employees and personnel expenses

MSEK	2020	2019
Costs for remuneration of employees		
Salaries and remuneration, etc.	1,701	1,772
Total	1,701	1,772
Pension costs	53	34
Social-security costs	240	263
Total	293	297

	2020		2019		MSEK	2020	2019
Average number of employees	of whom, men		of whom, men		Personnel costs per country		
Sweden	330	68 %	339	69 %	Sweden	291	236
Belgium	50	84 %	56	82 %	Belgium	41	44
Czech Republic	223	89 %	236	90 %	Czech Republic	74	77
Germany	220	89 %	218	89 %	Germany	118	116
Mexico	414	87 %	399	85 %	Mexico	78	85
Luxembourg	6	50 %	4	75 %	Luxembourg	26	21
USA	1,614	90 %	1,761	89 %	USA	1,019	1,106
China	312	64 %	326	66 %	China	52	53
Sri Lanka	948	93 %	942	93 %	Sri Lanka	52	53
UK	268	89 %	293	88 %	UK	103	123
Spain	88	90 %	88	90 %	Spain	48	50
Italy	156	80 %	155	80 %	Italy	87	99
Turkey	11	64 %	10	60 %	Turkey	2	2
Poland	17	59 %	17	59 %	Poland	3	4
Total	4,657	86 %	4,844	86 %	Total	1,994	2,069

KSEK	Board fee		Committee fee		Total	
	2020	2019	2020	2019	2020	2019
Remuneration of the Board of Directors						
Georg Brunstam, Chairman ¹	11,048	900	13	100	11,061	1,000
Alf Göransson ²	447	390	11	–	458	390
Kerstin Lindell	390	390	–	–	390	390
Jan-Anders E. Månson	390	390	–	–	390	390
Malin Persson	390	390	125	125	515	515
Märta Schörling Andreen	390	390	175	175	565	565
Gun Nilsson	390	390	250	250	640	640
Total	13,445	3,240	574	650	14,019	3,890

¹ Georg Brunstam was the Chairman of the Board until the Extraordinary General Meeting on 20 November. From and including 17 February, Georg Brunstam was the Acting Chairman of the Board. Of the total, 138 KSEK pertains to ordinary Board fees and 10,923 KSEK to remuneration as Acting Chairman of the Board, divided between salary (7,137 KSEK), variable remuneration (1,500 KSEK) and pension (2,286 KSEK).

² Alf Göransson took over as Chairman of the Board at the Extraordinary General Meeting on 20 November.

KSEK	Basic salary		Variable salary		Non-recurring items		Pension cost		Car, housing and other benefits		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Remuneration of senior executives												
Mikael Fryklund ³	1,145	8,650	3,525	–	24,954	–	416	2,516	16	168	30,056	11,334
Peter Rosén ⁴	3,404	–	614	–	–	–	919	–	148	–	5,085	–
Georg Brunstam ⁵	1,333	–	240	–	–	–	306	–	27	–	1,906	–
Other members of Group management, 6 (6) persons	22,655	27,682	11,489	5,633	–	–	1,792	2,616	1,132	865	37,068	36,796
Total	28,537	36,332	15,868	5,633	24,954	–	3,433	5,132	1,323	1,033	74,115	48,130

³ CEO until and including 16 February 2020. Non-recurring costs include salary (19,723 KSEK) and pension (5,231 KSEK) during the period of notice.

⁴ Acting CEO from 17 February 2020 to 19 November 2020 and Deputy CEO from 20 November 2020.

⁵ Acting Chairman of the Board from and including 17 February 2020 to and including 19 November 2020 and CEO from and including 20 November 2020.



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. On notice of termination by the company, a notice period of 24 months shall apply. 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. For information of incentive programme, see Note 14.

Note 5 Fees and cost remuneration paid to auditors

MSEK	2020	2019
EY		
Audit assignment	11	11
Audit activities in addition to audit	1	1
Tax consultancy	1	0
Other services	0	0
Total	13	12

Note 6 Expenses broken down by cost category

MSEK	2020	2019
Employee benefits expenses	1,994	2,069
Depreciation/amortization/impairment	440	447
Input costs, other external expenses	9,063	10,961
Other operating expenses	13	10
Total	11,510	13,487

No development expenditures were capitalized in 2020 or 2019.

Note 7 Financial income and expenses

MSEK	2020	2019
Assets and liabilities valued at amortized cost		
Interest income from accounts receivable	0	0
Interest income other financial assets	3	20
Total interest income according to the effective-interest-rate method	3	20
Other financial income		
Exchange rate differences on financial items	40	4
Total	40	4
Total financial income	43	24
Assets and liabilities valued at amortized cost		
Interest expense liabilities to credit institutions	-41	-33
Interest expenses other financial liabilities	0	-1
Total interest expense according to the effective-interest-rate method	-41	-34
Other financial expenses		
Expected credit losses on financial assets	0	0
Interest expense lease liabilities	-15	-14
Exchange rate differences on financial items	-41	-5
Other	-26	-6
Total	-82	-25
Total financial expenses	-123	-59
Net financial items	-80	-35

Note 8 Taxes

MSEK	2020	2019
Current tax expense		
Tax expense on profit for the year	-460	-430
Total	-460	-430
Deferred tax expense		
Deferred tax pertaining to temporary differences	14	-39
Utilized/revaluation of loss carry forwards	0	3
Total	14	-36
Total reported tax expense	-446	-466

As of 31 December 2020, the Group had loss carry forwards of 1 MSEK (11) that had not been capitalized due to uncertainty concerning their value for tax purposes. Of these, 0 MSEK (9) expires within five years.

MSEK	2020	%	2019	%
Reconciliation of effective tax				
Profit before tax	1,855		2,008	
Tax according to current tax rate for the parent company	-397	-21	-430	-21
Effect of other tax rates for foreign subsidiaries	-43	-2	-16	-1
Non-deductible expenses	-13	-1	-13	-1
Non-taxable revenues	9	0	19	1
Deductible goodwill amortization	4	0	1	0
Revaluation of tax-loss carry forwards/temporary differences	0	0	3	0
Tax attributable to prior years	-6	0	-30	-1
Total reported tax expense	-446	-24	-466	-23

MSEK	Opening balance		Recognized in profit/loss		Acquisitions		Recognized directly in comprehensive income		Translation differences		Closing balance	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Deferred tax assets/tax liabilities												
Intangible assets	-394	-382	-16	-24	-	10	-	-	38	2	-372	-394
Tangible assets	-155	-129	11	-23	-	-	-	-	10	-3	-134	-155
Current assets	13	19	3	-7	-	-	-	-	0	1	16	13
Operating liabilities	3	-13	16	16	-	-	-	-	0	0	19	3
Loss carry forwards	3	0	0	3	-	-	-	-	-3	0	0	3
Liabilities	2	3	0	-1	-	-	-	-1	-1	1	1	2
Total	-528	-502	14	-36	-	10	-	-1	44	1	-470	-528

Note 9 Intangible fixed assets

MSEK	Goodwill		Other intangible assets		Total	
	2020	2019	2020	2019	2020	2019
Accumulated acquisition value						
Opening balance, 1 January	8,734	6,909	982	931	9,716	7,840
Acquisitions*	–	1,671	–	32	–	1,703
Investments	–	–	14	8	14	8
Reclassification	15	–	–15	–	0	–
Translation difference	–820	154	–83	11	–903	165
Closing balance, 31 December	7,929	8,734	898	982	8,827	9,716
Accumulated depreciation						
Opening balance, 1 January	–11	–11	–276	–192	–287	–203
Depreciation according to plan for the year	–	–	–77	–78	–77	–78
Reclassification	1	–	–1	–	0	–
Translation difference	8	0	31	–6	39	–6
Closing balance, 31 December	–2	–11	–323	–276	–325	–287
Carrying amount, 31 December	7,927	8,723	575	706	8,502	9,429

MSEK	2020	2019
Goodwill distributed by operating segment		
HEXPOL Compounding	7,901	8,693
HEXPOL Engineered Products	26	30
Closing balance, 31 December	7,927	8,723

* Includes adjustments to previous preliminary acquisition analysis, see Note 22.

Other intangible assets pertain mainly to acquired customer relations and remaining amortization period is between 5 and 13 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 realizable 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 9.2 percent before tax (9.0) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on the budget for 2021 approved by the Board of Directors and thereafter with an assumed growth rate of 4–6 percent, followed by annual growth levelling out at 2 percent (2). The most important assumptions involve 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, amortization 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

MSEK	Land and buildings		Machinery and equipment		Total	
	2020	2019	2020	2019	2020	2019
Tangible fixed assets						
Accumulated acquisition value						
Opening balance, 1 January	1,289	1,222	4,862	4,302	6,151	5,524
Acquisitions	–	7	–	228	–	235
Investments	16	7	187	252	203	259
Divestments, disposals	–1	0	–38	–30	–39	–30
Reclassification	12	19	–12	–19	0	0
Translation difference	–108	34	–475	129	–583	163
Closing balance, 31 December	1,208	1,289	4,524	4,862	5,732	6,151
Accumulated depreciations						
Opening balance, 1 January	–551	–495	–3,334	–3,020	–3,885	–3,515
Depreciation according to plan for the year	–43	–42	–239	–192	–282	–234
Divestments, disposals	1	0	28	19	29	19
Reclassification	0	0	0	0	0	0
Translation difference	48	–14	336	–141	384	–155
Closing balance, 31 December	–545	–551	–3,209	–3,334	–3,754	–3,885
Accumulated impairment						
Opening balance, 1 January	–19	–3	–42	–7	–61	–10
Impairment ¹	0	–16	0	–35	0	–51
Translation difference	2	0	4	0	6	0
Closing balance, 31 December	–17	–19	–38	–42	–55	–61
Carrying amount, tangible fixed assets	646	719	1,277	1,486	1,923	2,205
Leased assets ²	284	351	54	76	338	427
Book value	930	1,070	1,331	1,562	2,261	2,632

¹ Refers to the closure of two production units.

² For further information on leased assets, see also Note 11.

MSEK	2020	2019
Distribution of depreciation/amortization/impairment of tangible, intangible and right-of-use assets for the year		
Costs of goods sold	406	414
Selling costs	3	4
Administration costs	28	26
Product development costs	3	3
Total	440	447

Note 11 Right-of-use assets

HEXPOL distribute its leasing agreements into the following categories of right-of-use assets: premises, production and office equipment and vehicles. The following table present the closing balance of the right-of-use assets and lease liabilities and changes during the year:

MSEK	Right-of-use assets		Total	Lease liability
	Land and buildings	Machinery and equipment		
Opening balance, 1 January 2019	262	96	358	365
Additional agreements	130	16	146	146
Depreciation of right-of-use assets	-46	-38	-84	-
Terminated agreements	0	-1	-1	-1
Revaluation of agreements	0	0	0	0
Translation difference	5	3	8	9
Interest expense lease liabilities	-	-	-	13
Leasing fees	-	-	-	-91
Closing balance, 31 December 2019	351	76	427	441
Additional agreements	12	24	36	36
Depreciation of right-of-use assets	-51	-30	-81	-
Terminated agreements	1	-11	-10	-5
Revaluation of agreements	0	0	0	10
Translation difference	-29	-5	-34	-40
Interest expense lease liabilities	-	-	-	15
Leasing fees	-	-	-	-98
Closing balance, 31 December 2020	284	54	338	359

The amount that are attributable to leasing activities and are recognized in profit or loss during the year are presented below:

MSEK	2020	2019
Depreciation of right-of-use assets	-81	-84
Interest expense lease liabilities	-15	-14
Expenses relating to short-term lease agreements	0	0
Expenses relating to agreements where the underlying asset is of low value	0	0
Expenses for variable leasing fees	0	0
Result of ended agreements	1	0
Total expenses related to leasing activities	-95	-98

HEXPOL recognizes cash outflow attributable to leasing agreements amounting to 98 MSEK (91) for the financial year 2020. For a term analysis of the Group's lease liabilities, see Note 20.

Note 12 Inventories

MSEK	2020	2019
Raw materials	733	931
Goods in production	52	72
Finished goods	309	388
Total	1,094	1,391

No significant impairments were recognized in 2020 and 2019.

Note 13 Accounts receivable

MSEK	2020	2019	MSEK	2020	2019
Age distribution of accounts receivable			Provisions for bad debt losses		
Not due	1,597	1,675	Opening balance	-29	-28
Past due, 1-30 days	136	250	Provision for the year	-33	-8
Past due, 31-60 days	10	34	Actual losses	1	7
Past due, more than 60 days	1	24	Reversal	1	1
Accounts receivable	1,744	1,983	Translation differences	7	-1
			Closing balance	-53	-29

MSEK	Not past due	Past due, 1-30 days	Past due, 31-60 days	Past due, more than 60 days	Total
31 December 2020					
Reported amount of accounts receivable – gross	1,600	142	14	41	1,797
Credit loss reserves	-3	-6	-4	-40	-53
Closing balance	1,597	136	10	1	1,744

MSEK	Not past due	Past due, 1-30 days	Past due, 31-60 days	Past due, more than 60 days	Total
31 December 2019					
Reported amount of accounts receivable – gross	1,675	253	35	49	2,012
Credit loss reserves	0	-3	-1	-25	-29
Closing balance	1,675	250	34	24	1,983

Note 14 shareholders' equity

	Class A shares		Class B shares		Total	
	2020	2019	2020	2019	2020	2019
Changes in the number of shares						
Opening balance, 1 January	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280
Closing balance, 31 December	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280

	2020	2019		Class A shares	Class A shares	Total
Average number of shares	344,201,280	344,201,280	Number of votes	147,656,200	329,435,660	477,091,860

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

The Annual General Meeting in April 2016, resolved to implement an incentive programme (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 were subscribed for by 39 senior executives and key employees. The issue rate was 9 SEK per subscription warrant with each warrant conveying the right to subscribe for 1.01 new Class B shares at subscription rate 88.70 SEK, adjusted for special dividend in May 2017 according to the warrant terms. In 2017, 225,000 warrants were subscribed for by 1 senior executive at an option premium of 9 SEK per warrant and with each warrant conveying the right to subscribe for one Class B share at a subscription rate of 88.70 SEK. The warrants conveyed the right to subscribe for shares during the period 1 June 2019 – 31 December 2020, the programme has now been concluded. In December 2020, 235,566 new shares were subscribed for within the framework of the 2016/2020 incentive programme. These new shares are reported as an ongoing new issue as of 31 December 2020. The new shares were registered in January 2021.

Note 15 Interest-bearing liabilities

MSEK	2020	2019
Non-current liabilities		
Liabilities to credit institutions	2,428	2,410
Lease Liabilities	271	344
Non-current liabilities	2,699	2,754
Current liabilities		
Liabilities to credit institutions	9	1,152
Lease Liabilities	88	97
Current liabilities	97	1,249

	Utilized	Un-utilized	Utilized	Un-utilized
MSEK	2020		2019	
Bilateral loan, 125 MUSD	650	374	–	–
Bilateral loan, 1,500 MSEK	990	510	940	560
Bilateral loan, 2,000 MSEK	770	1,230	1,470	530
Other non-current liabilities	18	–	–	–
Lease Liabilities	271	–	344	–
Total non-current liabilities	2,699		2,754	
Bilateral loan, 125 MUSD	–	–	180	985
Bilateral loan, 1,500 MSEK	–	1,500	920	580
Other current liabilities	9	–	52	–
Lease Liabilities	88	–	97	–
Total current liabilities	97		1,249	

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

- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in August 2021.
- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2022.
- A three-year credit agreement with a limit of 2,000 MSEK that will fall due in July 2022.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in September 2023.

For loan agreements with an option to extend the original maturity date, all possibilities for extension have been used. All loans are amortization-free and carry a floating interest for each one-month and three-month period.

All bilateral credit agreements include financial covenants, all of which were fulfilled at 31 December 2020. See also information on changes in liabilities in Note 20, and the maturity analysis in Note 21.

Note 16 Pension provisions

MSEK	2020	2019
Change in provision		
Opening balance, 1 January	55	42
Acquisitions	–	9
Provisions for the year	9	4
Closing balance, 31 December	64	55

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

Note 17 Provisions

MSEK	Restructuring programme		Other provisions		Total	
	2020	2019	2020	2019	2020	2019
Opening balance	78	3	16	5	94	8
Provisions for the year	4	131	21	13	25	144
Utilized during the year	–45	–59	–3	–2	–48	–61
Translation difference	–5	3	–2	0	–7	3
Closing balance	32	78	32	16	64	94

Closing balances for restructuring programme refers to reorganizations and concentrations within the business areas and are expected to be utilized during 2021.

Note 18 Accrued expenses

MSEK	2020	2019
Personnel-related expenses	299	197
Accrued expenses for goods and services	119	121
Other	22	27
Total	440	345

Note 19 Pledged assets and contingent liabilities

MSEK	2020	2019
Pledged assets		
Current assets	5	6
Total	5	6
Contingent liabilities		
Guarantee for the benefit of associated companies	0	0
Total	0	0

Note 20 Cash flow statement

MSEK	2020	2019
Financial items received and paid		
Interest income received	6	24
Interest expenses paid	–46	–44
Total	–40	–20
Adjustments for non-cash items		
Depreciation/amortization/impairment	440	447
Other items not affecting cash flow	11	–
Total	451	447



Cash flow statement – Change in liabilities in financing activities MSEK		Cash flows	Non-cash changes			
			Acquisitions	Leasing agreement	Translation difference	
	1 Jan 2019					31 Dec 2019
Liabilities to credit institutions	2,332	1,230	–	–	0	3,562
Lease liabilities	365	-78	128	17	9	441
Supplementary purchase price	27	-27	–	–	–	–
Liabilities arising from financing activities	2,724	1,125	128	17	9	4,003

Cash flow statement – Change in liabilities in financing activities MSEK		Cash flows	Non-cash changes			
			Acquisitions	Leasing agreement	Translation difference	
	1 Jan 2020					31 Dec 2020
Liabilities to credit institutions	3,562	-1,125	–	–	0	2,437
Lease liabilities	441	-83	–	41	-40	359
Liabilities arising from financing activities	4,003	-1,208	–	41	-40	2,796

Note 21 Financial instruments and risk management

Financial instruments per category and measurement level. As regards the risks and the risk management, see page 54 in the Board of Directors' Report.

31 Dec 2020 MSEK	Financial assets/liabilities valued at:			
	Amortized cost	Fair value through profit or loss	Measurement level	Total
Assets in the balance sheet				
Non-current financial assets	3	–		3
Accounts receivable	1,744	–		1,744
Cash and cash equivalents	1,200	–		1,200
Total	2,947	–		2,947
Liabilities in the balance sheet				
Liabilities to credit institutions, non-current	2,428	–		2,428
Interest-bearing non-current lease liabilities	271	–		271
Liabilities to credit institutions, current	9	–		9
Interest-bearing current lease liabilities	88	–		88
Accounts payable	1,796	–		1,796
Other liabilities	68	–		68
Accrued expenses	440	–		440
Total	5,100	–		5,100



31 December 2019	Financial assets/liabilities valued at:			Total
	Amortized cost	Fair value through profit or loss	Measurement level	
MSEK				
Assets in the balance sheet				
Non-current financial assets	3	–		3
Accounts receivable	1,983	–		1,983
Cash and cash equivalents	1,624	–		1,624
Total	3,610	–		3,610
Liabilities in the balance sheet				
Liabilities to credit institutions, non-current	2,410	–		2,410
Interest-bearing non-current lease liabilities	344	–		344
Liabilities to credit institutions, current	1,152	–		1,152
Interest-bearing current lease liabilities	97	–		97
Accounts payable	1,953	–		1,953
Other liabilities	61	–		61
Liability to minority shareholders	–	389	3	389
Accrued expenses	345	–		345
Total	6,362	389		6,751

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

Term analysis, 31 December	Total amount		Fall due within 1 year		Fall due within 1–2 years		Fall due within 2–5 years		Fall due after 5 years	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
MSEK										
Non-current liabilities										
Liabilities to credit institutions	2,428	2,410	–	–	1,420	–	1,008	2,410	–	–
Lease liabilities	326	428	–	–	62	82	102	139	162	207
Total non-current liabilities	2,754	2,838	–	–	1,482	82	1,110	2,549	162	207
Current liabilities										
Liabilities to credit institutions	9	1,152	9	1,152	–	–	–	–	–	–
Lease liabilities	44	52	44	52	–	–	–	–	–	–
Liability to minority shareholders	–	389	–	389	–	–	–	–	–	–
Accounts payable	1,796	1,953	1,796	1,953	–	–	–	–	–	–
Other current liabilities	68	61	68	61	–	–	–	–	–	–
Accrued expenses	440	345	440	345	–	–	–	–	–	–
Total current liabilities	2,357	3,952	2,357	3,952	–	–	–	–	–	–

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

Note 22 Acquisitions

Acquisitions during 2020

Acquisitions within Compounding

In early October 2018, the HEXPOL Group acquired 80 percent of the shares in Mesgo Group. According to the agreement HEXPOL had an option to acquire the remaining shares (during the period March 2022–June 2023) and the Caldara family had an option to sell the remaining shares to HEXPOL (during the period March 2020–June 2023), the commitment was reported as a liability to minority shareholder. The option has now been exercised by the minority owner and HEXPOL has acquired the remaining 20 percent of MESGO Group. The change in value of reported debt in the final settlement had a negative effect on operating profit of 11 MSEK and net financial items of 16 MSEK in interest expense. The transaction was completed on 6 August 2020, with the purchase consideration amounted to 39.8 MEUR (412 MSEK).

Acquisitions during 2019

Acquisitions within Compounding

On 1 July 2019, the HEXPOL Group acquired 100 percent of Preferred Compounding, a notable Rubber Compounder in North America.

The acquisition price amounted to approximately 232 MUSD on a debt-free basis. The operations were consolidated as of July 2019.

Acquisition-related expenses are estimated at approximately 2 MUSD. The sales amounted to 118 MUSD and the loss after tax was 2 MUSD for the period July to December 2019.

For full-year 2019, sales amounted to 259 MUSD and the loss after tax was 6 MUSD.

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

MSEK	
Purchase consideration	2,238
Fair value of acquired net assets	611
Goodwill	1,627

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 strengthen our global positions within advanced compounds with improved supply chain, cutting-edge expertise in polymer materials and solid knowledge of applications. The fair value of the acquired net assets includes 194 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	25
Accounts receivable	368
Current assets	237
Tangible assets	232
Intangible assets	194
Deferred tax liabilities	-36
Pensions	-9
Non-current liabilities	-43
Accounts payable	-285
Current liabilities	-72
Acquired net assets	611
Goodwill	1,627
Purchase considerations	2,238
Cash and cash equivalents in acquired operations	25
Change in the Group's cash and cash equivalents	2,213

Note 23 Events after the balance sheet date

Covid-19

The Covid-19 pandemic continues to generate considerable uncertainty regarding demand for the company's products.

Fire

On 7 January 2021, a fire broke out in our facility in Jonesborough, Tennessee, in the US. An employee was injured and received hospital care for their injuries. The actual production facility suffered major damage and planned production has been transferred to other production units nearby. The insurance compensation is expected to exceed book values and cover other financial claims.

Acquisition

In March, HEXPOL acquired 100 percent of VICOM 2002 S.L., a Spanish Polymer Compounder operating in the attractive and growing "wire and cable" product segment. VICOM generated sales of approximately 30 MEUR in 2020 and it is a profitable company with some 30 employees at its production unit in Barcelona. The acquisition is currently expected to have a small but positive impact on the Group's earnings. We will start integrating VICOM into our existing structure immediately. The acquisition consideration amounts to 21 MEUR on a debt-free basis, plus 5 MEUR for investments currently in progress, and has been financed through existing cash and bank balances. The Company has yet to obtain full details of the assets and liabilities acquired, which is why they are not presented here. The operations will be consolidated as of 1 March 2021.

Parent Company's Income Statements

MSEK	Note	2020	2019
Sales	24	57	54
Administration costs		-98	-62
Operating profit	25, 26	-41	-8
Financial income	27	1,678	1,425
Financial expenses	27	-79	-130
Profit after financial items		1,558	1,287
Appropriations	28	0	0
Profit before tax		1,558	1,287
Tax	29	-23	-26
Profit for the year		1,535	1,261

Comprehensive income matches profit after tax

Parent Company's Balance Sheet

MSEK	Note	2020	2019
ASSETS			
Fixed assets			
Tangible fixed assets		0	0
Intangible fixed assets	30	2	2
Interest-bearing intra-Group receivables		653	747
Holdings of shares in Group companies	33	8,631	8,219
Deferred tax assets		0	0
Total fixed assets		9,286	8,968
Current assets			
Intra-Group operating receivables		476	137
Interest-bearing intra-Group receivables		1,729	2,276
Prepaid expenses and accrued income		32	39
Cash and cash equivalents		529	556
Total current assets		2,766	3,008
TOTAL ASSETS		12,052	11,976
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	69
New share issue in progress		0	-
Total restricted shareholders' equity		69	69
Non-restricted shareholders' equity			
Share premium reserve		619	598
Profit brought forward		3,449	2,980
Profit of the year		1,535	1,261
Total non-restricted shareholders' equity		5,603	4,839
Total shareholders' equity		5,672	4,908
Untaxed reserves	28	0	0
Non-current liabilities			
Liabilities to credit institutions	32	2,410	2,390
Total non-current liabilities		2,410	2,390
Current liabilities			
Accounts payable		2	4
Current tax liabilities		24	25
Interest-bearing intra-Group liabilities		3,900	3,506
Liabilities to credit institutions	32	0	1,120
Accrued expenses and prepaid revenues	31	44	23
Total current liabilities		3,970	4,678
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		12,052	11,976

Parent Company Changes in Shareholders' Equity

MSEK	Share capital	New share issue in progress	Share premium reserve	Profit brought forward	Total
31 December 2018	69	–	598	3,754	4,421
2019					
Total comprehensive income					
Profit for the year	–	–	–	1,261	1,261
Transactions with shareholders					
Dividend	–	–	–	–774	–774
31 December 2019	69	–	598	4,241	4,908
2020					
Total comprehensive income					
Profit for the year	–	–	–	1,535	1,535
Transactions with shareholders					
New share issue in progress	–	21	–	–	21
Dividend	–	–	–	–792	–792
31 December 2020	69	21	598	4,984	5,672

Parent Company's Cash Flow Statements

MSEK	2020	2019
Cash flow from operations		
Operating profit	–41	–8
Adjustment for non-cash items, depreciations	0	0
Financial income received	76	117
Financial expenses paid	–81	–126
Tax paid	–25	–11
Cash flow from operations before changes in working capital	–71	–28
Cash flow from changes in working capital		
Changes in current receivables	3	–8
Changes in current liabilities	22	–8
Cash flow from operations	–46	–44
Investing operations		
Investments in intangible fixed assets	0	–2
Change in interest-bearing receivables	306	–1,224
Dividends from subsidiaries	1,462	1,171
Group contributions received	140	135
Acquisitions	–412	14
Cash flow from investing activities	1,496	94
Financing operations		
Loans raised	4,404	3,995
Amortization of liabilities	–5,110	–3,313
New share issue in progress	21	–
Dividend	–792	–774
Cash flow from financing operations	–1,477	–92
Cash flow for the year	–27	–42
Cash and cash equivalents, 1 January	556	598
Cash and cash equivalents, 31 December	529	556

Note 24

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 25 Employees and personnel expenses

	2020	2019	MSEK	2020	2019
Average number of employees			Salaries, other remunerations and social-security costs		
Women	3	3	Board of Directors ¹	14	4
Men	4	3	CEO and Deputy CEO incl. non-recurring expenses ²	35	11
Total	7	6	Other employees	11	6
			Social security costs, pension costs and payroll tax	30	13
			Total	90	34

¹ Of the total, 10,923 KSEK pertains to remuneration for the acting Chairman of the Board, during the period 17 February to 20 November, for Georg Brunstam.

² Non-recurring costs include salary and pension for Mikael Fryklund during the notice period.

Note 26 Fees and cost remuneration paid to auditors

MSEK	2020	2019
EY		
Audit assignment	1	2
Audit activities in addition to audit	0	0
Other services	0	0
Total	1	2

Note 27 Financial income and expenses

MSEK	2020	2019
Dividend	1,462	1,171
Group contributions	140	135
Interest income	1	19
Interest income from Group receivables	75	100
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	1,678	1,425
Interest expenses	-40	-34
Interest expense from Group liabilities	-29	-86
Exchange-rate loss	-4	-6
Other financial expenses	-6	-4
Financial expenses	-79	-130

Note 28 Appropriations and untaxed reserves

MSEK	2020	2019	MSEK	2020	2019
Reversal of tax allocation reserve	-	-	Opening balance, 1 January	0	-
Accumulated excess depreciation	0	0	Reversal of tax allocation reserve	-	-
Total	0	0	Accumulated excess depreciation	0	0
			Closing balance, 31 December	0	0

Note 29 Taxes

MSEK	2020	2019	MSEK	2020	2019
Current tax expense			Reconciliation of effective tax		
Tax expense for the year	-23	-26	Profit before tax	1,558	1,287
Deferred tax expense			Tax according to current tax rate for the Parent Company	-333 -21%	-275 -21%
Deferred tax pertaining to temporary differences	0	0	Non-deductible expenses	-3 -0%	-1 -0,0%
Total reported tax expense	-23	-26	Non-taxable revenues	313 20%	250 19%
			Total reported tax expense	-23 -2%	-26 -2%

Note 30 Intangible fixed assets

Amortized cost	Other intangible		Total		Accumulated amortization/depreciation	Other intangible		Total	
MSEK	2020	2019	2020	2019	MSEK	2020	2019	2020	2019
Opening balance, 1 January	2	0	2	0	Opening balance, 1 January	-	-	-	-
Investments	1	2	1	2	Depreciation for the year	-1	-	-1	-
Closing balance, 31 December	3	2	3	2	Divestments, disposals	-	-	-	-
					Closing balance, 31 December	-1	-	-1	-
					Carrying amount, 31 December	2	2	2	2

Note 31 Accrued expenses and prepaid revenues

MSEK	2020	2019
Personnel-related expenses	40	16
Other	4	7
Total	44	23

Note 32 Interest-bearing liabilities to credit institutions

MSEK	2020	2019
Non-current liabilities		
Liabilities to credit institutions	2,410	2,390
Non-current liabilities	2,410	2,390
Current liabilities		
Liabilities to credit institutions	-	1,120
Current liabilities	-	1,120
Bilateral loan, 1,500 MSEK	-	-
Bilateral loan, 1,500 MSEK	990	920
Bilateral loan, 125 MUSD	650	-
Bilateral loan, 2,000 MSEK	770	1,470
Total non-current liabilities	2,410	2,390
Bilateral loan, 1,500 MSEK	-	940
Bilateral loan, 125 MUSD	-	180
Total current liabilities	-	1,120

Note 33 Parent Company's holdings of shares and participations in Group companies

Subsidiaries	Corp. Reg. No	Registered office	Proportion of equity, %		Carrying amount, MSEK	
			2020		2019	
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. 1)		Sri Lanka	99,6	58	99,6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. 2)		Sri Lanka	100		100	
HEXPOL Compounding HQ 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	100	709
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V 3)		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V 3)		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		UK	100	34	100	34
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	33	100	33
Berwin Group Limited		UK	100	365	100	365
Flexi-Cell (UK) Ltd		UK	100		100	
Berwin Rubber Company Limited		UK	100		100	
Berwin of Lydney Limited		UK	100		100	
Berwin Industrial Polymers Limited		UK	100		100	
MESGO SpA		Italy	100	2,066	80	1,654
MESGO Iride Colors Srl		Italy	100		100	
3A MCOM Srl		Italy	100		100	
MESGO Polska		Poland	100		100	
MESGO Asia		Turkey	100		100	
HEXPOL Finance UK Ltd		UK	100	0	100	0
HEXPOL Holding Inc.		USA	100	3,683	100	3,683
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		100	
Kirkhill Rubber Company		USA	100		100	
Preferred Compounding Corp.		USA	100		100	
Preferred Compounding de Mexico S. de R.L. de C.V.		Mexico	100		100	
HEXPOL UK Ltd		UK	100		100	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC		USA	100		100	
HEXPOL Compounding (UK) Ltd		UK	100		100	
Chase Elastomer (UK) Ltd.		UK	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. 4)		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. 5)		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	
Total carrying amount in the Parent Company				8,631		8,219



MSEK	2020	2019
Participations in Group companies		
Opening balance	8,219	8,233
Shareholders' contribution	-	-
Reduction of shareholders' equity in subsidiaries	-	-
Acquisitions	412	-14
Book value	8,631	8,219

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

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

3) HEXPOL AB owns 99 percent and HEXPOL Compounding HQ Sprl owns 1 percent of the shares.

4) HEXPOL Compounding LLC owns 99 percent and HEXPOL Compounding Querétaro S.A. de C.V. owns 1 percent of the shares.

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

Note 34 Pledged assets

MSEK	2020	2019
Sureties for subsidiaries	76	85
Total	76	85

Note 35 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	3,449,619
Share premium reserve	618,728
Profit of the year	1,535,361
Total unrestricted funds	5,603,708

The Board of Directors proposes that earnings be allocated as follows: that shareholders be paid a cash dividend of 2.30 SEK per share.

Total dividend from profit brought forward	792,205
To be carried forward	4,811,503
Total	5,603,708

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, 30 March 2021

Alf Göransson
Chairman of the Board

Malin Persson
Board Member

Märta Schörling Andreen
Board Member

Kerstin Lindell
Board Member

Gun Nilsson
Board Member

Jan-Anders E. Månson
Board Member

Georg Brunstam
CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 30 March 2021. 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 28 April 2021 for adoption.

Our audit report was submitted on Malmö, 30 March 2021

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 56–65 and the statutory sustainability report on pages 32–47 for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 32–65, 68–94 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 2020 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 2020 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 56–65 and the statutory sustainability report on pages 32–47. 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 participations in group companies

Description

The carrying value of goodwill as of 31 December 2020 amounts to 7.927 MSEK in the consolidated balance sheet, which represents 53% of total assets. Participations in group companies amounts to 8.631 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 participations in group companies 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 participations in group companies as a key audit matter.

A description of the impairment test is shown in Note 9 "Intangible fixed assets" and in Note 1 Accounting Policies section "Important assessments and assumptions".

How our audit addressed this key audit matter

In our audit, we evaluated and reviewed the company's process for preparing impairment test, including evaluating past accuracy of forecasts and assumptions. We also evaluated 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 have reviewed the disclosures in the annual report.

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 1–47, 66–67 and 98–105. The remuneration report for the financial year 2020 also constitutes other information. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of

Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so. The Audit Committee shall, without prejudice to the Board of Directors' 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, actions taken to eliminate threats or related safeguards applied.

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 2020 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 56–65 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 RevR 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 33, and that it is prepared in accordance with the Annual Accounts Act.

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 2020 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, 30 March 2021

ERNST & YOUNG AB

Johan Thuresson
Authorized Public Accountant, Auditor-in-charge





HEXPOL makes a material difference in the medical sector

HEXPOL works on a daily basis with the development of materials for products containing advanced material solutions for surgical and medical instruments or apparatuses, for example.

HEXPOL works on a daily basis with the development of materials for products that must comply with the strict regulations applied for medical applications. The product portfolio includes advanced material solutions for applications such as catheters and medical tubing, as well as for surgical and medical instruments or apparatuses. The Mediprene product brand holds a strong position in the market. The Group also has customers in consumer products for well-being and health, with its materials being used in, for example, toothbrushes, sports shoes and other sports applications, such as grips and protection, ear plugs and orthopedic inserts.

It is impossible to describe market trends and developments for medical applications without commenting on the extraordinary year that the world just experienced.

The supply chain for medical technology products was affected strongly when production was adapted to meet the demand generated by Covid-19.

The increased demand for translucent and transparent TPE materials used in various types of face masks was particularly evident. Customers seek soft and highly transparent materials that can be sterilized with gamma irradiation, ethylene oxide (EtO) or steam as necessary. Another area experiencing high demand was the highly elastic TPE materials used in the earbands or headbands for face masks. These materials must be highly elastic, returning to their original state after deformation. The pandemic is global and HEXPOL receives enquiries from all over the world. From recommending materials and mailing samples to production and delivery, HEXPOL's medical team responds rapidly and provides support in meeting the growing demand. The unusual situation that the pandemic entails has brought faster commercialization than normal for medical projects. As the world now embarks on global programmes of vaccination, demand may shift in the direction of syringes and other applications related to drug distribution and administration.

Definitions

Financial definitions

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

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

CAPITAL EMPLOYED Total assets less non-interest-bearing liabilities.

CASH FLOW FROM OPERATIONS Cash flow from operating activities after changes in working capital.

CASH FLOW FROM OPERATING ACTIVITIES 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 ITEMS/ ADJUSTED EARNINGS PER SHARE Profit after tax excluding non-recurring items, attributable to Parent Company shareholders divided by average number of shares outstanding.

EBITA Operating profit, excluding amortization and impairment of intangible assets.

EBITA margin EBITA in relation to sales.

EBITDA Operating profit before depreciation, amortization 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.

INTEREST-COVERAGE RATIO Profit before tax plus interest expenses in relation to interest expenses.

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.

NON-RECURRING ITEMS Non-recurring items refers to integration- and restructuring costs and acquisition costs.

OPERATING CASH FLOW Operating profit excluding items affecting comparability less depreciation/amortization and investments, and after change in working capital.

OPERATING MARGIN Operating profit as a percentage of sales.

OPERATING MARGIN ADJUSTED FOR NON-RECURRING ITEMS/ ADJUSTED OPERATING MARGIN Operating profit adjusted for items affecting comparability in relation to sales.

OPERATING PROFIT ADJUSTED FOR ITEMS AFFECTING COMPARABILITY/ADJUSTED OPERATING PROFIT Operating profit adjusted for items affecting comparability.

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

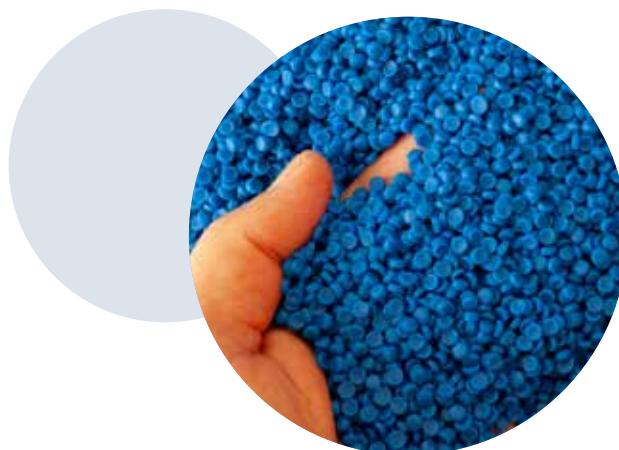
RETURN ON CAPITAL EMPLOYED Profit before tax plus interest expenses as a percentage of average capital employed.

RETURN ON EQUITY Profit after tax, attributable to Parent Company shareholders, as a percentage of average shareholders' equity, excluding minority interests.

SALES GROWTH ADJUSTED FOR 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.

HEXPOL uses alternative key figures associated with the Group's financial position: return on capital employed, net debt, net cash, debt/equity ratio and equity/assets ratio. The key figures are used to assess opportunities for dividends, strategic investments and to manage financial commitments. Operating cash flow is used to show what funds the operations generate to make strategic investments and repayments, as well as to pay dividends. HEXPOL considers earnings measures excluding items affecting comparability to be of value to investors in understanding underlying earnings before items affecting comparability. Sales growth, excluding exchange rate effects and acquisitions are valuable key figures for HEXPOL and investors in being able to monitor the trend in the underlying operations. For reconciliation of alternative key figures, please see the Year-end report available on our website.



Operational definitions

CARBON DIOXIDE (CO₂) Carbon dioxide is formed in all processes involving the combustion of carbon containing material, such as from the combustion of fossil fuels. Carbon dioxide emissions increase global warming (the greenhouse effect).

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.

CO₂e GHG Green House Gases. HEXPOL reports emissions of the greenhouse gas carbon dioxide (CO₂ equivalents; CO₂e) from energy consumption, that is, Scope 1 and Scope 2 in accordance with GHG Protocol.

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.

COMPOUNDING/COMPOUNDS Mixing/mixtures of polymeric materials with additives.

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 organization'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 organization'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 organization's operations. The equivalent applies to investments in improved working environment.

EU TAXONOMY The taxonomy for environmentally sustainable investments makes it possible to identify and compare investments that are necessary in achieving a sustainable economy.

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 organizations undertake to support ten fundamental principles in respect of human rights, labour conditions, environmental considerations and anti-corruption. HEXPOL joined the Global Compact in 2017.

GLOBAL GOALS At the UN summit in 2015, the world's heads of state and government adopted 17 Global Goals and Agenda 2030 for sustainable development. The Global Goals and Agenda 2030 aim to eradicate poverty and hunger, achieve human rights for all, achieve equality and empowerment for all women and girls, and to ensure lasting protection for the planet and its natural resources. The Global Goals are integrated and indivisible and balance the three dimensions of sustainable development – the economic, the social and the environmental.

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

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 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. Some 315,000 organizations (49,000 facilities) worldwide are currently certified in accordance with the ISO 14001 requirements.

ISO 26000 International standard that provides guidance concerning how organizations are to address social responsibility matters. The standard was introduced in 2010 and encompasses all aspects of sustainability.

ISO 45001 International standard for health and safety, replacing OHSAS 18001.

ISO 50001 International standard governing energy management systems.

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.

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.

POLYMERS Chemical compounds consisting of very long chains comprising smaller repeating units (monomers). Plastic and rubber are examples of polymer materials.

PP Polypropylene, a low-density, high-tensile thermoplastic.

REACH Chemicals legislation within the EU intended to ensure safer handling of chemicals. Chemical substances must be registered for a certain use and particularly hazardous substances may be subject to restrictions.

ROHS Restrictions of Hazardous Substances. EU legislation restricting the use of certain substances that are hazardous to the environment and health.

SUSTAINABLE DEVELOPMENT The concept pertains to a development that "satisfies the needs of today without compromising the ability of future generations to meet their own needs". Sustainable development encompasses ecological, social and financial sustainability.

SUSTAINABILITY REPORT In accordance with an EU directive, the Swedish government has determined that sustainability reporting is to be mandatory for large companies as of 2017. The Sustainability Report shall include the non-financial data necessary to comprehend the company's development, position, performance, and the impact of its operations, including disclosures on issues involving the environment, personnel, and social conditions, respect for human rights and combating corruption.

TCFD The Task Force on Climate-related Financial Disclosures (TCFD) provides recommendations on reporting climate-related financial risks and opportunities.

TP Thermoplastic compounds is a plastic material that becomes pliable or moldable above a specific temperature and solidifies upon cooling.

TPE Thermoplastic elastomer compounds are rubber-like materials that combine the properties of vulcanized rubber with the process benefits of thermoplastics.

TPO Polyolefin blends.

TPS Styrenic block copolymers.

TPU Thermoplastic polyurethanes.

Financial ten-year overview

MSEK	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
INCOME STATEMENTS, condensed										
Sales	13,424	15,508	13,770	12,230	10,879	11,229	8,919	8,036	8,007	7,197
Operating expenses	-11,489	-13,465	-11,620	-10,244	-8,958	-9,265	-7,463	-6,781	-6,938	-6,302
Operating profit	1,935	2,043	2,150	1,986	1,921	1,964	1,456	1,255	1,069	895
Net financial items	-80	-35	11	-18	-8	-21	-20	-19	-22	-23
Profit before tax	1,855	2,008	2,161	1,968	1,913	1,943	1,436	1,236	1,047	872
Tax	-446	-466	-515	-441	-516	-550	-388	-306	-294	-253
Profit for the year	1,409	1,542	1,646	1,527	1,397	1,393	1,048	930	753	619
BALANCE SHEETS, condensed										
Assets										
Fixed assets	10,817	12,116	9,698	7,048	6,423	5,868	4,832	3,946	3,971	3,365
Current assets	3,056	3,685	3,594	2,489	2,128	1,877	1,626	1,335	1,372	1,286
Cash and cash equivalents	1,200	1,624	1,164	813	1,297	978	826	597	564	557
Total assets	15,073	17,425	14,456	10,350	9,848	8,723	7,284	5,878	5,907	5,208
Shareholders' equity and liabilities										
Shareholders' equity	9,133	9,756	8,592	7,010	7,559	6,233	5,049	3,617	2,909	2,473
Interest-bearing liabilities	2,796	4,003	2,332	840	29	524	567	962	1,809	1,698
Other liabilities and provisions	3,144	3,666	3,532	2,500	2,260	1,966	1,668	1,299	1,189	1,037
Total shareholders' equity and liabilities	15,073	17,425	14,456	10,350	9,848	8,723	7,284	5,878	5,907	5,208
CASH FLOW STATEMENTS, condensed										
Cash flow from operations	2,376	2,361	1,806	1,699	1,710	1,760	1,432	1,223	1,115	726
Net investments in tangible and intangible fixed assets	-253	-286	-207	-195	-150	-118	-118	-136	-177	-103
Acquisitions of operations	-412	-2,204	-2,190	-1,081	-295	-1,043	-413	-3	-926	1
Cash flow from financing operations	-1,978	427	775	-823	-1,075	-479	-777	-1,060	33	-390
Cash flow for the year	-267	298	184	-400	190	120	124	24	45	234
Cash and cash equivalents, 1, January	1,624	1,164	813	1,297	978	826	597	564	557	318
Exchange-rate differences in cash and cash equivalents	-157	162	167	-84	129	32	105	9	-38	5
Cash and cash equivalents, 31, December	1,200	1,624	1,164	813	1 297	978	826	597	564	557
Key performance indicators										
Average shareholders' equity, MSEK	10,135	9,534	8,077	6,871	6,826	5,887	4,333	3,263	2,691	2,038
Average capital employed, MSEK	13,332	13,484	9,678	7,898	7,186	6,861	5,116	4,664	4,458	4,057
Return on shareholders' equity %	13.9	16.2	20.4	22.2	20.5	23.7	24.2	28.5	28.0	30.4
Return on capital employed, %	14.3	15.2	22.5	25.1	26.8	28.6	28.5	27.0	24.0	22.3
Sales growth excl currency effects, %	-11	7	9	12	-4	11	6	6	-2	-9
Operating margin, %	14.4	13.2	15.6	16.2	17.7	17.5	16.3	15.6	13.4	12.4
Profit margin before tax, %	13.8	12.9	15.7	16.1	17.6	17.3	16.1	15.4	13.1	12.1
Earnings per share, before dilution SEK ^{1, 2}	4.09	4.48	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87
Earnings per share, after dilution SEK ^{1, 2}	4.09	4.48	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87
Net debt, MSEK	-1,593	-2,376	-1,143	-27	1,268	454	259	-312	-1,215	-1,096
Net debt/equity ratio, multiple	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.1	0.4	0.4
Equity/assets ratio, %	61	56	59	68	77	72	69	62	49	47
Shareholders' equity per share, SEK ^{1, 2}	26.53	28.34	24.96	20.37	21.96	18.11	14.67	10.51	8.45	7.19
Dividend, MSEK	792	774	671	1,635	585	413	310	207	172	103
Dividend per share, SEK ²	2.30	2.25	1.95	4.75	1.70	1.20	0.90	0.60	0.50	0.30
Operating cash flow, MSEK	2,548	2,607	2,019	2,001	2,057	2,185	1,676	1,418	1,209	911
Cash flow from operating activities, MSEK	2,376	2,361	1,806	1,699	1,710	1,760	1,432	1,223	1,115	726
Cash flow from operating activities per share, SEK ^{1, 2}	6.90	6.86	5.25	4.94	4.97	5.11	4.16	3.55	3.24	2.19
Average number of employees	4,657	4,844	4,454	4,326	4,028	3,858	3,493	3,411	3,112	3,041
Number of employees at year-end	4,550	5,061	4,640	4,389	4,140	3,867	3,666	3,433	3,332	3,020
Sales per employee, MSEK	2.88	3.20	3.09	2.83	2.70	2.91	2.55	2.36	2.57	2.37

¹ After the implemented rights issue in 2011, the historical share data was adjusted to take into account a bonus issue element.

² Data per share is adjusted for share split 10:1 in May 2015.

Sustainability, ten-year overview

AREA		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Environment											
Compliance	Number of violations of environmental legislation (fines, penalties)	1	3	2	3	1	2	2	4	1	3
Energy	Energy use, GWh	360	417	379	379	355	309	313	275	258	264
	Energy consumption/net sales, GWh/MSEK	0.027	0.027	0.029	0.031	0.033	0.030	0.035	0.034	0.032	0.037
Climate	Carbon dioxide emissions from energy consumption, tonnes ¹	135,700	145,800	125,600	140,700	142,900	117,400	114,900	108,500	100,500	100,400
	Carbon dioxide emissions/sales, tonnes/MSEK	10.1	9.4	9.5	11.5	13.1	11.4	12.9	13.5	12.6	14.0
Water	Water consumption, m ³ thousands	1,105.7	1,106.3	718.0	734.8	884.3	700.3	684.1	570.7	450.2	452.1
	Water consumption/net sales, m ³ /MSEK	82	71	54	60	81	68	77	71	56	63
Waste	Amount of waste, tonnes	22,950	26,500	23,100	22,000	19,800	16,000	14,800	14,500	14,900	18,000
	Amount of waste/net sales, tonnes/MSEK	1.7	1.7	1.8	1.8	1.8	1.6	1.7	1.8	1.9	2.5
Raw materials	Recycled/bio-based plastics and rubber, % of total use	8	8	15	15	18	1	3	2	2	2
Management systems	ISO 14001,certified facilities, % of total number	77	76	97	92	89	93	96	88	88	62
People											
Employees	Number of employees, average	4,657	4,844	4,454	4,326	4,028	3,858	3,493	3,411	3,112	3,041
Compliance	Number of violations of environmental legislation (fines, penalties)	0	3	0	0	1	0	2	0	1	2
Health and safety	Workplace accidents, lost working days, number/million hours worked	10.1	12.9	12.8	15.2	15.1	15.9	14.3	10.0	12.6	19.1
Diversity	Number of women on the Board of Directors of the Group, %	57	57	57	57	43	29	29	17	17	17
	Number of women in local management teams, %	20	18	18	14	15	12	11	10	10	10
Training	Training of employees, hours/employee	17	32	26	22	19	23	22	16	15	10
Management systems	ISO 45001,certified facilities, % of total number	5	9	11	11	9	7	7	7	0	0
Code of Conduct	Reported human rights violations, number	0	2	1	1	1	0	1	0	1	1
Finance											
	Financial value distributed between stakeholders, MSEK ²	3,273	3,357	2,989	3,658	2,559	2,366	1,743	1,431	1,338	1,192
	Taxes paid, MSEK	446	466	516	441	515	550	388	306	294	253

¹ In accordance with GHG (Greenhouse Gas Protocol) HEXPOL reports Scope 1. that is, emissions from direct energy use (e.g. fuel oil, natural gas), and Scope 2. that is, from indirect energy use (e.g. purchased electricity, district heating).

² Compensation to suppliers is not included.

Shareholder information

Annual General Meeting

Due to the continued spread of the corona virus and the authorities' regulations/advice on avoiding gatherings, the Board of Directors has determined that the Annual General Meeting shall be conducted without the attendance in person of shareholders, proxies and others and that shareholders shall have the opportunity to exercise their voting rights only by submitting their votes by post prior to the Meeting. Information on the resolutions of the Annual General Meeting will be published on 28 April 2021, as soon as the results of the postal voting have been fully compiled.

Any updated information will be published on HEXPOL AB's website www.hexpol.com.

Shareholders who wish to participate in the AGM must

- be registered in the shareholders' register maintained by Euroclear Sweden AB no later than 20 April 2021,
- confirm their intention to participate by casting their postal vote in accordance with instructions on the company's website www.hexpol.com by 27 April 2021 at the latest. Please note that confirmation of participation in Annual General Meeting can only be submitted by means of a postal ballot.

For shareholders whose shares are registered with a nominee, the following applies to have the right to participate in the meeting. In addition to registering by casting their postal vote, such shareholders must contact their bank or nominee to temporarily register the shares in their own name so that the shareholder is registered in the share register kept by Euroclear Sweden AB as of the record date

of 20 April 2021. Registration of voting rights that has been requested by shareholders in sufficient time that the registration has been made by the nominee no later than 22 April 2021 will be taken into account in the production of the share register.

Proposal for dividend

The Board of Directors proposes to the 2021 Annual General Meeting to be held on 28 April that a dividend of 2.30 SEK per share be paid.

Annual Report

HEXPOL's Annual Report is distributed digitally and can be downloaded from www.hexpol.com. Shareholders wishing to receive a printed copy should send their name and address to ir@hexpol.com or place their order directly with HEXPOL AB via the website www.hexpol.com.

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

Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

ACTIVITY	DATE
Interim report January-March 2021	28 April
Annual General Meeting	28 April
Interim report January-June 2021	16 July
Interim report January-September 2021	22 October
Year-end report 2021	February 2022



HEXPOL AB is a public company. Corp. Reg. No. 556108-9631.
Registered office in Malmö, Sweden.

Denna årsredovisning finns även på svenska.

The Annual Report is published in Swedish and English. The Swedish version is the original and has been audited by HEXPOL's auditor. All values are expressed in Swedish kronor (SEK), unless otherwise stated. Swedish kronor is abbreviated SEK, thousand of Swedish kronor as KSEK and millions of Swedish kronor as MSEK. Figures in parentheses refer to the preceding year, 2019, unless otherwise stated.

This report contains forward-looking information based on HEXPOL management's current expectations. Although management believes that the expectations stated in such forward-looking information are reasonable, no guarantee can be given that these expectations will prove to be correct. Consequently, future outcomes can vary significantly compared to what is stated in the forward-looking information due, among other things, to changed conditions in terms of the economy, market and competition, changes in legal requirements and other policy measures, exchange rate fluctuations and other factors.



The Annual Report is produced by HEXPOL in collaboration with RHR/CC in Malmö and graphic design by G-byrå Sverige in Anderstorp.

This Annual Report is printed on Munken Kristall paper from Arctic Paper Munkedals AB, one of the most environmentally friendly paper mills in the world. The company is ISO 14001 certified. The paper is made from raw materials from sustainable forestry and meets the requirements for both FSC, PEFC and the EU Ecolabel.

The Annual Report is printed by Taberg Media Group – which has ISO 14001 certification and holds the Nordic Swan environmental certification. The Swan is the official ecolabel of the Nordic countries. They review the environmental impact of goods and services throughout the lifecycle, from raw material to waste, and sets requirements in terms of function and quality.

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

Customers are primarily global suppliers to the automotive and engineering industries, the construction and civil engineering industries, and in sectors such as transport, energy, oil/gas and consumer products, as well as the cable industry and medical technology manufacturers, plate heat exchangers and forklifts.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products. The HEXPOL Group generated sales of 13,424 MSEK in 2020 and the Group has some 4,550 employees in 14 countries.



A Material Difference

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