



 **HEXPOL**  
A Material Difference



**HEXPOL AB (publ)**  
**Annual Report 2009**

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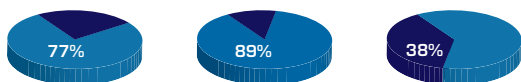
# HEXPOL in brief

- Strong global market positions
- Innovative solutions in advanced rubber compounding, gaskets for plate heat exchangers and wheels for forklifts and castor wheel applications
- Organised in two business areas with in-depth and extensive polymer and applications expertise
- Well invested with strong cash flow
- Strong margins over business cycles

## Business area HEXPOL Compounding

The business area's share of the HEXPOL Group (2009):

Net sales	Operating profit excluding items affecting comparability	Average number of employees
-----------	--	--------------------------------



**Operations** HEXPOL Compounding is one of the world's leading suppliers in the development and manufacture of advanced, high-quality rubber compounds.

**Market** The market is global, with the automotive industry as the largest end user. Other key segments are construction and infrastructure, cable, water management, pharmaceutical and the energy and oil industries.

**Customers** Manufacturers of rubber products who impose stringent demands in terms of performance, quality and global delivery capabilities.

**Sales** 2 020 MSEK (2 425)

**Operating profit**

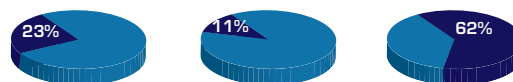
231 MSEK (224) excluding items affecting comparability  
155 MSEK (224) including items affecting comparability

**Average number of employees** 682 (801)

## Business area HEXPOL Engineered Products

The business area's share of the HEXPOL Group (2009):

Net sales	Operating profit excluding items affecting comparability	Average number of employees
-----------	--	--------------------------------



**Operations** HEXPOL Engineered Products is one of the world's leading suppliers of advanced products such as gaskets for plate heat exchangers and wheels for the forklift truck industry. The business area is also a major player in rubber profiles in the Scandinavian market.

**Market** The market for gaskets and wheels is global. HEXPOL has production units in Europe and Asia as well as in North America for wheels. The market for profiles is Scandinavian.

**Customers** Gaskets for manufacturers of plate heat exchangers, wheels for manufacturers of forklift trucks and castor wheels as well as profiles for the construction and engineering industries.

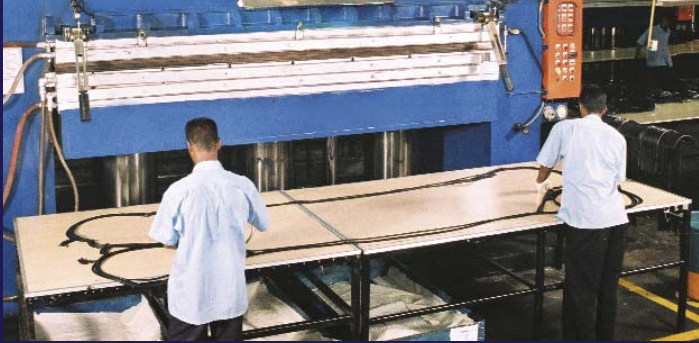
**Sales** 588 MSEK (765)

**Operating profit:**

30 MSEK (86) excluding items affecting comparability  
8 MSEK (86) including items affecting comparability

**Average number of employees** 1 122 (1 508)





## THE GROUP IN BRIEF

HEXPOL is a leading global polymers group with strong market positions that enable it to offer innovative solutions and products based on advanced rubber compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of polyurethane, plastic and rubber materials for forklifts and castor wheel applications (Wheels).

The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and at the end of 2009 had operations in nine countries. Customers outside Sweden account for about 90 percent of invoiced sales, and seven of the Group's 14 production units are situated in expansive regions of Asia, Mexico and Eastern Europe.

## OPERATIONS AND MARKET

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

Customers of the HEXPOL Compounding business area are mainly system suppliers to the global automotive industry. The customers comprise international companies that subject suppliers to stringent demands in terms of quality and delivery reliability.

OEM manufacturers of plate heat exchangers comprise the largest customer group for the HEXPOL Engineered Products business area. Supported by growing interest in energy efficiency, the market for plate heat exchangers is characterised by high growth and, in turn, strong demand for the products offered by the HEXPOL Gaskets product area. The largest customers of the HEXPOL Wheels product area consist of companies in the segment comprising manufacturers of materials-handling equipment. As a result of the increased volume of materials

handling worldwide, these customers are reporting strong growth.

HEXPOL Profiles is one of the leading manufacturers of extruded profiles in the Scandinavian market. A feature that the business areas have in common is the importance of cutting-edge expertise relating to polymer materials, applications know-how in the Group's business areas and cost-effective production operations.

## FINANCIAL OBJECTIVES

The Board of Directors has established the following financial objectives over a business cycle: The aim is that organic sales growth will average 7-10 percent annually and that the operating margin will average at least 8-10 percent annually.

## DIVIDEND POLICY

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

## BUSINESS CONCEPT

The business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of polymer products. HEXPOL shall be the most attractive partner for customers in key industries, such as automotive, construction, energy and material handling industries, based on its offering of innovative and specialised polymer products and solutions.

## VISION

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

## STRATEGY

To achieve sustainable profitability and competitiveness, five operating strategies are applied:

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

In addition to the operating strategies outlined above, the Group also pursues a strategy to achieve continued growth, both organically and through acquisitions.

## SUCCESS FACTORS

Since 2000, Group operations have expanded from annual sales of 482 MSEK to just over 2 600 MSEK, with operating margins that – in most cases – are much better than those of comparable companies. The operating margin adjusted for items affecting comparability was 10,0 percent in 2009 and when sales declined 18 percent. Cash flow has been strong and, when combined with approved credit lines, provides the Group with a strong financial base for continued growth and expansion. This favourable trend is the result of deep and comprehensive product development skills, cost-effective production plants and successful company acquisitions. The Group is also well positioned in segments characterised by healthy growth. The corporate culture is strong, with skilled and experienced employees led by experienced management teams with short and prompt decision-making routes.



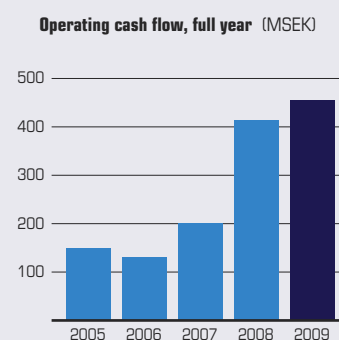
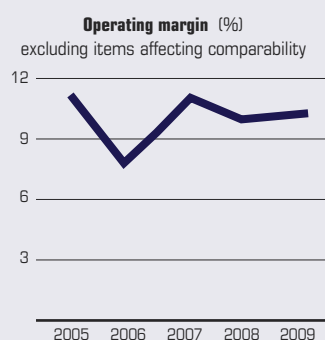
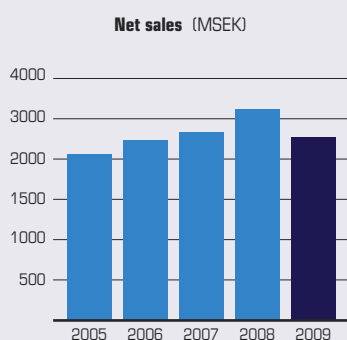
## 2009 in brief

- Net sales totalled 2 608 MSEK (3 190), down 18 percent
- Operating profit, excluding items affecting comparability, amounted to 261 MSEK (310). Including these items, operating profit amounted to 163 MSEK (310)
- Profit after tax, excluding items affecting comparability, amounted to 172 MSEK (183). Including these items, profit after tax amounted to 102 MSEK (183)
- Earnings per share, excluding items affecting comparability, amounted to 6.48 SEK (6.89). Including these items, earnings per share amounted to 3.84 SEK (6.89)
- Operating cash flow totalled 462 MSEK (411), excluding items affecting comparability
- Restructuring costs, recognised during the first quarter, amounted to 98 MSEK
- The Board of Directors proposes a dividend of 1.00 SEK (-) per share.

Key figures	2009	2008
Net sales, MSEK	2 608	3 190
Operating profit, EBIT, MSEK	163	310
Operating margin, %	6.3	9,7
Profit before tax, MSEK	140	258
Profit after tax, MSEK	102	183
Earnings per share, SEK	3,84	6,89
Equity/assets ratio, %	43,7	36,1
Return on capital employed, %	6,4	13,2

### Key figures, excluding items affecting comparability

Operating profit, EBIT, MSEK	261	310
Operating margin, %	10,0	9,7
Profit before tax, MSEK	238	258
Profit after tax, MSEK	172	183
Earnings per share, SEK	6,48	6,89
Return on capital employed, %	10,3	13,2
Operating cash flow, MSEK	462	411



# CEO's comments on the year

## Strong earnings in a very challenging market



Georg Brunstam  
President and  
CEO, HEXPOL AB

Dear shareholders,

2009 was one of the most turbulent years we will ever experience. The year began with the crisis in the finance and automotive sectors, and then spread to a general financial and industrial crisis with major problems in the credit system. Naturally, we were strongly impacted by this.

Despite the volume declines of up to 35-45 percent noted by our primary markets and customers during the year, the HEXPOL Group remained strong and we succeeded in achieving earnings per share, excluding items affecting comparability, of 6.48 SEK (6.89) – nearly on a par with the preceding year. Adjusted for items affecting comparability operating profit amounted to 261 MSEK (310) and the operating margin improved to 10.0 percent (9.7).

Sales were affected by positive currency effects until the fourth quarter, but nonetheless decreased by 18 percent in a market that declined substantially more. Operating cash flow was very strong at 462 MSEK (411) as a result of positive operating income and excellent management of inventories, accounts receivable and accounts payable, as well as lower investments. Our equity/assets ratio was strengthened to 44 percent and we reduced our net debt forcefully by 433 MSEK to 760 MSEK (1 193).

Accordingly, 2009 was a year of much weaker demand and lower volumes for the HEXPOL Group. However, we implemented rapid inventory and cost adjustments early on, which resulted in strong operating margins in every quarter of 2009. Unfortunately, we were forced to close our compounding operations in Canada after sharp market declines for a number of years. I am sorry for this and we have done everything in our power to manage the closure in a responsible manner. The volumes were successfully transferred to our other plants in the United States and Mexico.

### **ADVANCED EXPERTISE AND MOTIVATED EMPLOYEES**

I am proud and impressed by how we managed this difficult situation of sharp declines in volume and staff reductions. Our employees' expertise and motivation have been of great value in this extreme market situation. Since our strategy is based on in-depth and broad-based polymer and application expertise, we have been very careful to maintain our development and process expertise. Consequently, we have been able to successfully continue development of new applications and products for our customers and thereby strengthen our market share. I would like to thank all employees, including those whom we were forced to let go, for their brilliant efforts and achievements during a very difficult 2009. Thank you – very impressive.

### **STRONG MARKET POSITIONS**

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

More than 90 percent of our sales are from outside Sweden and we have relatively new, well-invested facilities in all major markets including the emerging markets of China, Mexico and Eastern Europe. In rubber compounds, we are the largest, and virtually the only, global supplier to the large system and OEM manufacturers in the automotive sector. HEXPOL Wheels is the only global player on the market and HEXPOL Gaskets is the largest global manufacturer.

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

Despite the extreme turbulence of 2009, we see long-term growth in our market segments. After a disastrous 2009 for the automotive industry, there is, however, some cause for joy in the recovery that began at the end of the year primarily thanks to government-funded incentive for the scrapping of cars and accelerated growth, mainly in China.

We believe in a slow recovery and strong long-term demand from our customers in the automotive industry. We also believe in strong long-term demand for products for the energy and materials-handling sector, which will increase demand for our wheels and gaskets.

### **PRIORITIES FOR 2010**

First, permit me to comment on the priorities for 2009 I outlined in our latest annual report. We promised to increase our market shares, generate new customer projects, expand in emerging markets, focus on financial risks and prioritise our margins and cash flows. In 2009, we did just that. We increased our market shares, generated 462 MSEK in operating cash flow together with a better operating margin of 10.0 percent (9.7), generated new customer projects and expanded in emerging markets. We also managed financial risks well, especially those related to customers. However, I am not satisfied with the pace of growth in the emerging markets.

We will continue to prioritise this area in 2010, particularly in China. Other priorities for 2010 are a continued focus on increased market shares and an active role in the consolidation that will affect the compounding industry sooner or later. Continued focus on margins in a market that remains troubled is another important priority. Profit improvements in the HEXPOL Engineered Products business area is another of the priorities for 2010.

In conclusion, I would once again like to thank all our employees for their extraordinary efforts during a very difficult and turbulent year in 2009. I would also like to take this opportunity to thank our customers and suppliers for our strong cooperation and partnership. The HEXPOL Group is well prepared to flexibly manage the opportunities that 2010 offers.

Malmö March 2010

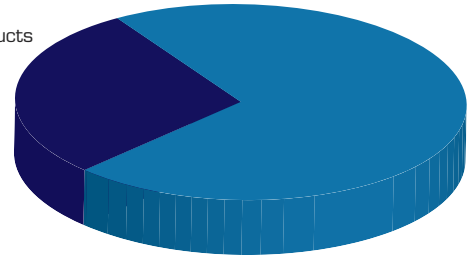
*Georg Brunstam*  
President and CEO



# About the HEXPOL Group

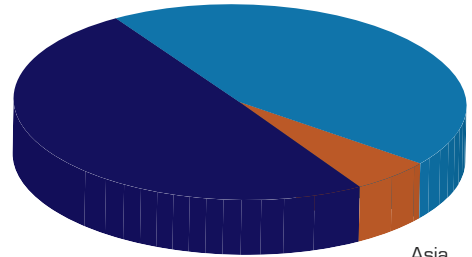
Sales for 2009 distributed by two business area and geographically:

HEXPOL Engineered Products 23%



HEXPOL Compounding 77%

NAFTA 45%

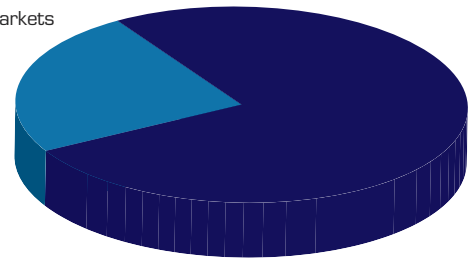


Europe 49%

Asia 6%

Geographic distribution of production in 2009:

Emerging markets (China, Sri Lanka, Czech Republic, Mexico) 26%



Other markets 74%





The Group is organised in two business areas: **HEXPOL Compounding** and **HEXPOL Engineered Products**, with four product areas: **Compounding, Gaskets, Wheels and Profiles**. The organisation is streamlined in an effort to provide short and prompt decision-making processes, with clear, decentralised responsibility. The operating structure is presented in the diagram on the right.

HEXPOL is a world-leading polymers group with solid global market positions in advanced rubber compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of polyurethane, plastic and rubber materials for forklifts and castor wheel applications (Wheels). Customers are mainly systems suppliers to players in the global automotive industry and OEM manufacturers of plate heat exchangers and forklifts.

The Group is organised in two business areas: **HEXPOL Compounding** and **HEXPOL Engineered Products**, and has production units in eight countries. Customers outside Sweden account for more than 90 percent of invoiced sales, and seven of the Group's 14 production units are situated in expansive regions of Asia, Mexico and Eastern Europe. The workforce totals more than 1,800 employees, mainly in Asia, the US and Sweden.

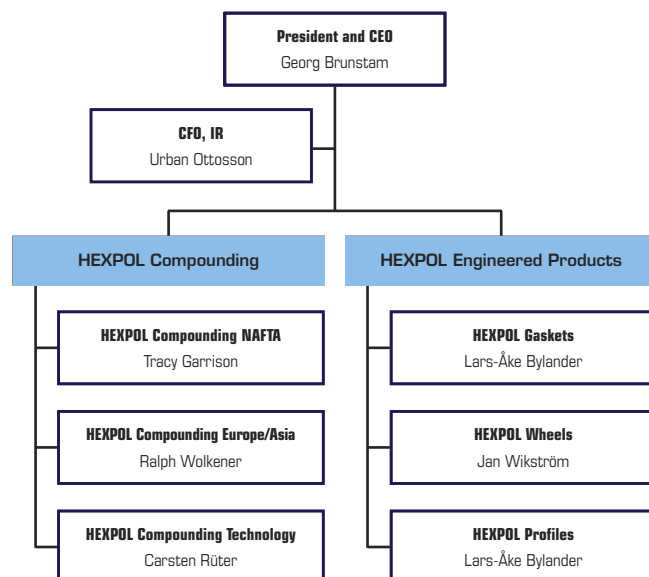
Most of the plants are relatively new and all of them are well invested. The high technology level, combined with far-ranging production and technological coordination, provides cost-effectiveness, high and uniform quality and the ability to smoothly relocate production among the units.

### BUSINESS CONCEPT

The business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of polymer products. HEXPOL shall be the most attractive partner for customers in key industries, such as automotive and construction, energy and material handling industries, based on its offering of innovative and specialised polymer products and solutions.

### VISION

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



### OPERATIONAL STRATEGY

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

#### 1. Focus on product development

The Group possesses in-depth and wide-ranging polymer and applications expertise. In the HEXPOL Compounding business area, for example, 80 percent of the products marketed in Europe are based on unique proprietary formulas and the Group offers its customers technological cooperation for future development. Product development is conducted at each production unit and the HEXPOL Compounding business area has a corporate technology department in Belgium. Overall, more than 5 percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified chemists and technicians.

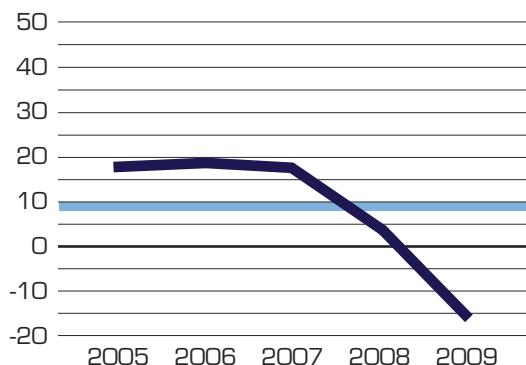
#### 2. Most cost-effective company in the industry

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

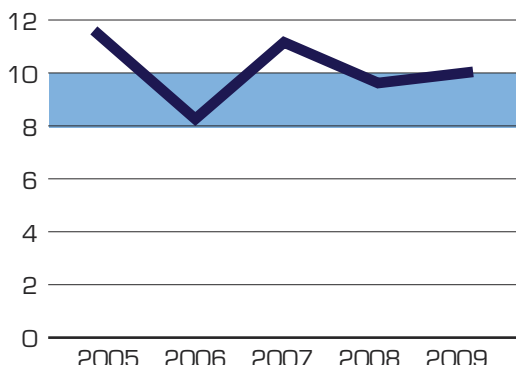
#### 3. Efficient supply management

The Group continuously focuses on finding cost-effective supply solutions that enable the exploitation of benefits resulting from high volume and advanced technologies. Close cooperation with customers through a local presence also provides opportunities for effective solutions.

**Organic sales growth % (Target: 7-10%)**



**Operating margin\* % (Target: 8-10%)**



\*Excluding items affecting comparability

**4. Superior management expertise**

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

**5. Speed Management**

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

**GROWTH STRATEGY**

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

**Organic growth**

The Group's principal markets and customers are showing favourable growth. One example is the market for plate heat exchangers, which is showing favourable growth driven by the quest for energy savings and in which HEXPOL supplies key components to all major OEM manufacturers. Another example is the automotive industries long-term growth in Asia, Mexico and Eastern Europe. In these areas, HEXPOL has established state-of-the-art facilities for satisfying the technological and demand requirements of customers. The strategy continues to be to capitalise on the opportunities that arise when manufacturers of rubber compounds have to decide whether to switch to outsourcing or continue with their compounding operations in-house, with the resulting investment and renovation requirements. The materials-handling industry is also growing globally, as a result of sharply increasing freight volumes, which entails higher demand for forklifts and thus increased demand for HEXPOL's products in the form of wheels.

**HEXPOL's acquisition strategy**

The Group's strategy is to continue to acquire companies in the polymer field, primarily in current business areas but also including a broadening of application

areas and geography. Potential acquisition targets are monitored continuously in accordance with a distinct acquisition model, whereby attractive targets are analysed on the basis of a series of strategic parameters. The Group has a strong cash flow and healthy financial position which, together with committed lines of credit, generate the financial preparedness required for acquisitions.

**BRANDS**

HEXPOL markets its products via a number of well-established brands. For example, the Gislaved Gummi brand is well-known and highly reputed far beyond the confines of Sweden. In addition GoldKey, Stellana and Elastomeric are recognised brands in the their own product areas and geographical markets.

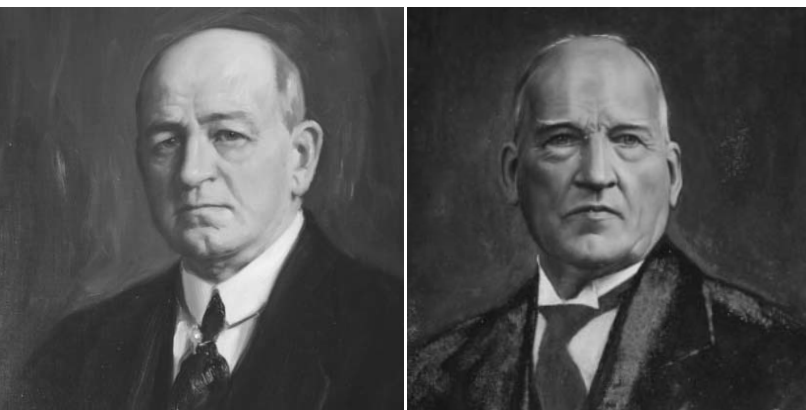
**FINANCIAL OBJECTIVES**

The Board of Directors has established the following financial objectives over a business cycle: The aim is that organic sales growth will average 7-10 percent annually and that the operating margin will average at least 8-10 percent annually.

**TARGET FULFILMENT**

The charts above illustrate target fulfilment over the past five years.

HEXPOL has met its targets in terms of operating margin over the past five years. The operating margin in 2009 was 10 percent, excluding items affecting comparability (target: 8-10). The target for organic sales growth was not exceeded in 2008 and 2009. The weak market trend in 2009 was the reason for the negative sales growth. The financial objectives are designed to reflect development over a business cycle and the average for the past five years has exceeded the target, both in terms of organic growth and operating margin.



Carl Gislow and his brother Wilhelm.

### HISTORY

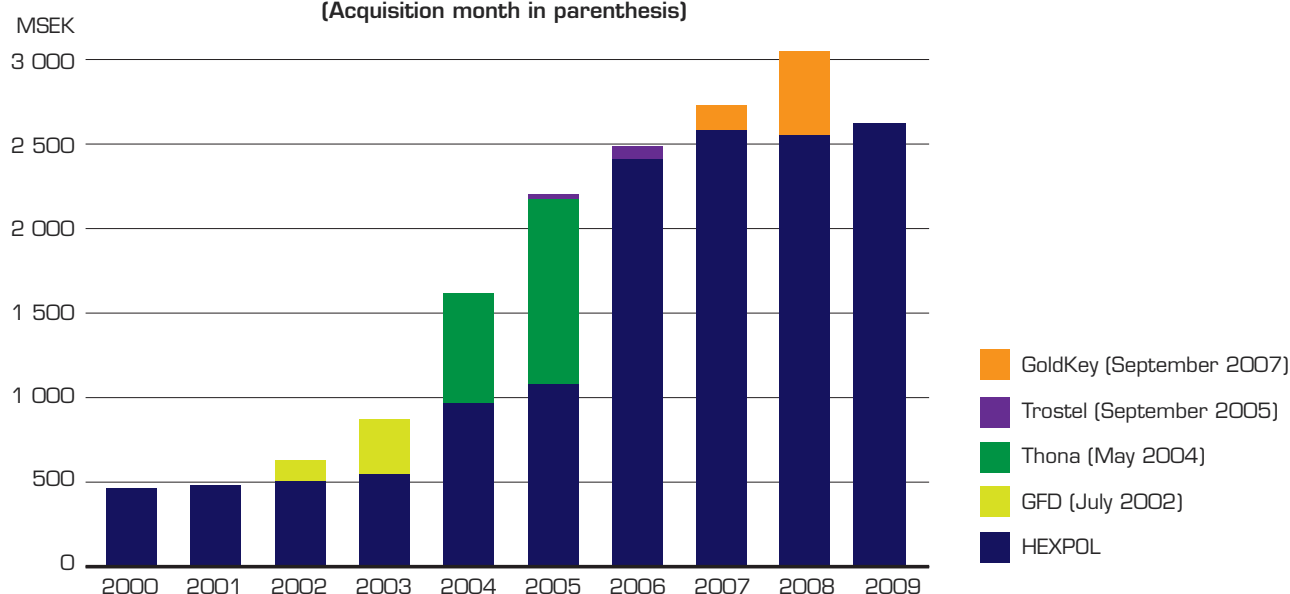
HEXPOL has its origins in Svenska Gummifabriks AB, a Swedish industrial company established towards the end of the 19th century.

This segment of the once highly diversified Gislaved Group with operations focused on rubber composite materials and technical products was acquired by Hexagon in 1994. Operations have since been developed through investments in product development and acquisitions of complementary companies. By far the largest and principal single step in this development was the acquisition of the Thona group in 2004.

### The principal phases in the development into the current HEXPOL have been:

- 1893 The Gislow brothers form a rubber factory in Gislaved
- 1966 A new factory for the product known as Technical Rubber is built
- 1990 The Technical Rubber division becomes Gislaved Gummi AB
- 1991 Production of gaskets for plate heat exchangers is acquired
- 1994 Hexagon AB acquires the Company
- 1995 Stellana AB in Laxå is acquired
- 1998 Elastomeric Engineering Co Ltd in Sri Lanka is acquired
- 2002 GFD Technology GmbH in Germany is acquired
- 2004 Thona group of Belgium, with operations in Belgium, Czech Republic, Canada and the US, is acquired
- 2005 Trostel SEG in the US is acquired
- 2007 Establishment of three new plants for rubber compounds, wheels and gaskets in China and a new plant for rubber compounding in Mexico
- 2007 GoldKey Processing Ltd in the US is acquired
- 2008 Change in corporate identity from Hexagon Polymers to HEXPOL
- 2008 Distribution of HEXPOL to Hexagon's shareholders and listing of the share on the NASDAQ OMX Nordic Exchange Stockholm.
- 2009 Restructuring programme and closure of the compounding operation in Magog, Canada.

Contribution to sales made by acquisitions in the past ten years  
(Acquisition month in parenthesis)



The acquired units are displayed in different colours representing the consolidated sales in the year of acquisition and subsequent years.

# The share and shareholders



Share price trend in 2009 (SEK)





## THE HEXPOL SHARE

HEXPOL AB was listed on NASDAQ OMX Nordic Stockholm on 9 June 2008 and the Class B share is quoted on the Mid Cap list in the industrial sector. The share capital in HEXPOL AB amounts to 53 103 954 SEK, represented by 26 551 977 shares. Of these, 1 181 250 are Class A shares and 25 370 727 Class B shares. Each Class A share carries ten voting rights and a Class B share one voting right. All shares carry equal rights to the company's assets and earnings.

## SHARE PRICE TREND AND TRADING VOLUME

The price of the HEXPOL Class B share rose during the year by 403 percent and the closing price at the close of 2009 was 86.50 SEK, which was the highest closing price during the year. The lowest closing price during 2009 was 15.30 SEK (29 January). During 2009, 17.8 million (10.0) HEXPOL shares were traded on the Stockholm Exchange. Average trading per day in the share was 70 777 shares (70 065). The number of shares traded represented 67 (38) percent of the total number of shares.

## OWNERSHIP STRUCTURE

As of 31 December 2009, HEXPOL AB had 8 281 shareholders (8 864). The proportion of shares held by Swedish institutions and funds at 31 December 2009 corresponded to 40 percent (35) of the capital. The number of shares held by non-Swedish shareholders totalled 9 percent (18) of the capital. The ten largest shareholder groups accounted for 59 percent (72) of the capital and 71 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 25–50 percent of after-tax net earnings for the year will be distributed as a dividend to HEXPOL's shareholders, provided the company's financial position is deemed satisfactory.

## OPTIONS PROGRAMME

In August 2008, an extraordinary meeting of shareholders authorised HEXPOL AB to introduce a warrants programme for Group Management and other senior executives and key people in the Group by means of a limited share issue of 1 325 000 warrants. In total, 1 108 250 warrants have been granted to senior executives and key people, as identified by the Board, for payment of 8 SEK per warrant and 216 750 have been reserved for the future recruitment of senior executives and key people to the Group. Each warrant entitles the holder to subscribe for one Class B share in HEXPOL AB during the period from 1 March 2011 through 1 September 2011. The share price for new share subscriptions through the exercise of the warrants corresponds to that arising from a market-based valuation based on the set warrant payment in accordance with the Black & Scholes method. The warrants issue entails a total maximum dilution effect of approximately 4.99 percent in relation to the number of shares in the company.

## SHAREHOLDER VALUE AND ANALYSTS

HEXPOL's executive management works consistently to develop the company's financial information as part of efforts to create favourable conditions for valuing the company in the most accurate manner possible. This includes working actively through meetings with analysts, share saver organisations and the media.

During the year, the HEXPOL share was monitored and analysed by the following analysts:

- Ålandsbanken, Carl-Johan Blomqvist  
carl-johan.blomqvist@alandsbanken.se
- SEB Enskilda, Daniel Schmidt  
daniel.schmidt@enskilda.se
- Swedbank, Ola Södermark  
ola.sodermark@swedbank.se  
Johan Dahl  
johan.dahl@swedbank.se

## The 20 largest shareholders, 31 Dec. 2009

Name	Number of Class A shares	Number of Class B shares	Holding (%)	Voting rights (%)
MELKER SCHÖRLING AB	1 181 250	6 041 731	27,20	48,02
DIDNER & GERGE AKTIEFOND	0	2 324 697	8,76	6,25
AFA SJUKFÖRSÄKRINGS AB	0	1 182 823	4,45	3,18
FJÄRDE AP-FONDEN	0	1 167 901	4,40	3,14
VERDIPAPIRFOND ODIN SVERIGE	0	868 800	3,27	2,34
SWEDBANK ROBUR SMÅBOLAGSFOND NORDEN	0	745 512	2,81	2,00
SWEDBANK ROBUR SMÅBOLAGSFOND SVERIGE	0	631 222	2,38	1,70
SEB SVERIGEFOND	0	569 918	2,15	1,53
SKANDIA FOND SMÅBOLAG SVERIGE	0	559 100	2,11	1,50
NORDEA SVERIGEFONDEN	0	461 889	1,74	1,24
HANDELSBANKEN SVENSKA SMÅBOLAGSFOND	0	445 500	1,68	1,20
SWEDBANK ROBUR SVERIGEFOND MEGA	0	439 252	1,65	1,18
LÄNSFÖRSÄKRINGAR SMÅBOLAGSFOND	0	398 468	1,50	1,07
SWEDBANK ROBUR SVERIGEFOND	0	338 900	1,28	0,91
CARLSON SMÅBOLAGSFOND	0	337 112	1,27	0,91
BONNIER, SIMON	0	322 743	1,22	0,87
DIDNER & GERGE SMÅBOLAG	0	310 899	1,17	0,84
AKSJEFONDET ODIN SVERIGE II	0	279 900	1,05	0,75
AFA TRYGGHETSFÖRSÄKRING AB	0	265 277	1,00	0,71
SIX SIS AG, W8IMY	0	154 206	0,58	0,41
<b>Total for the 20 largest shareholders</b>	<b>1 181 250</b>	<b>17 845 850</b>	<b>71,67</b>	<b>79,75</b>
<b>Total for other shareholders</b>	<b>0</b>	<b>7 524 877</b>	<b>28,33</b>	<b>20,25</b>
<b>Total</b>	<b>1 181 250</b>	<b>25 370 727</b>	<b>100,00</b>	<b>100,00</b>

## Distribution of ownership, 31 Dec. 2009

Shareholder	Number of shareholders	Share- holders (%)	Holding (%)	Voting rights (%)
Individuals	7 324	88,44	12,56	8,97
<i>Of whom, domiciled in Sweden</i>	<i>7 245</i>	<i>87,49</i>	<i>11,17</i>	<i>7,98</i>
Legal entities	957	11,56	87,44	91,03
<i>Of whom, domiciled in Sweden</i>	<i>602</i>	<i>7,27</i>	<i>80,01</i>	<i>85,72</i>
<b>Total</b>	<b>8 281</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>
<i>Of whom, domiciled in Sweden</i>	<i>7 847</i>	<i>94,76</i>	<i>91,18</i>	<i>93,70</i>

Domiciled in Sweden	7 847	94,76	91,18	93,70
Other Nordic countries	81	0,98	0,61	0,43
Rest of Europe (excl. Sweden/Nordic region)	241	2,91	6,27	4,47
US	47	0,57	1,44	1,03
Rest of the world	65	0,78	0,50	0,36
<b>Total</b>	<b>8 281</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>

## Number of shares per shareholder, 31 Dec. 2009

	Number of shareholders	Number of Class A shares	Number of Class B shares	Holding (%)	Voting rights (%)
1 - 500	6 804	0	736 097	2,77	1,98
501 - 1000	687	0	544 368	2,05	1,46
1001 - 5000	593	0	1 233 798	4,65	3,32
5001 - 10000	64	0	479 936	1,81	1,29
10001 - 15000	32	0	421 580	1,59	1,13
15001 - 20000	12	0	206 606	0,78	0,56
20001 -	89	1 181 250	21 748 342	86,35	90,26
<b>Total</b>	<b>8 281</b>	<b>1 181 250</b>	<b>25 370 727</b>	<b>100,00</b>	<b>100,00</b>

## Shareholder categories, 31 Dec., 2009

Shareholder	Number of Class A shares	Number of Class B shares	Holding (%)	Voting (%)
Financial companies	0	10 523 891	39,64	28,30
<i>Of whom, banks and funds</i>	0	8 488 574	31,97	22,83
<i>Of whom, insurance companies and pension institutions</i>	0	2 035 317	7,67	5,47
Other finance companies	0	700	0,00	0,00
Social insurance funds	0	1 232 940	4,64	3,32
State	0	117 740	0,44	0,32
Municipal sector	0	2 601	0,01	0,01
Interest organisations	0	362 922	1,37	0,98
Other Swedish legal entities	1 181 250	6 591 293	29,27	49,49
Uncategorised legal entities	0	1 230 682	4,64	3,31
Foreign-domiciled individuals	0	2 341 809	8,82	6,30
Swedish individuals	0	2 966 149	11,17	7,97
<b>Total</b>	<b>1 181 250</b>	<b>25 370 727</b>	<b>100,00</b>	<b>100,00</b>

# Business area HEXPOL Compounding

## Strong earnings in a very difficult and turbulent market

### HEXPOL Compounding in brief

#### Operations

HEXPOL Compounding is one of the world's leading companies in the development and production of advanced, high-quality rubber compounds.

#### Market

The market is global and the largest end user is the automotive industry. Other key segments are construction and infrastructure, cable, water treatment and pharmaceutical sectors, as well as the energy and oil industries.

#### Customers

Manufacturers of rubber products who impose rigorous demands on performance and global delivery capacity.

**Sales** 2 020 MSEK (2 425)

#### Operating profit

231 MSEK (224) excluding items affecting comparability  
155 MSEK (224) including items affecting comparability

**Average number of employees:** 682 (801)

#### Operating units

- HEXPOL Compounding Belgium, Eupen, Belgium  
MD: Nico Weber
- HEXPOL Compounding Sweden, Gislaved, Sweden  
MD: Lars-Åke Bylander
- HEXPOL Compounding Germany, Hückelhoven, Germany  
MD: Thomas Rong
- HEXPOL Compounding China, Qingdao, China  
MD: Han Lee
- HEXPOL Compounding Czech Republic, Unicov, Czech Republic  
MD: Milos Pitela
- HEXPOL Compounding Mexico, Aguascalientes, Mexico  
MD: Saul Reyes
- HEXPOL Compounding North Carolina, Statesville, USA  
VD: Shannon Smith
- GoldKey Processing, Middlefield, USA  
MD: Randy Simpson
- HEXPOL Compounding Canada, Magog, Canada  
(closed in summer 2009)





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

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

#### **MARKET**

HEXPOL Compounding's customers comprise manufacturers of rubber products that impose stringent demands on performance and global delivery capabilities. The largest market segment is the automotive industry. Other key segments are construction and infrastructure, cable, water treatment and pharmaceutical sectors, as well as the energy and oil industries.

The automotive industry currently accounts for about 54 percent (60) of HEXPOL Compounding's sales.

A modern passenger car contains hundreds of rubber

components and a premium car, for example, contains more than 50 metres of sealing strips. For many car manufacturers, particularly in the premium segment, high-quality sealing strips represent a key component, since the strip often influences the end-customer's quality impressions in the form of quiet performance. HEXPOL Compounding is a leading supplier of synthetic rubber compounds in areas such as sealing strips for the automotive industry.

All major manufacturers in the automotive industry and their system suppliers are active globally. These factors favour HEXPOL Compounding, which focuses on global delivery capabilities for the market's best products, offering identical quality regardless of the production unit.

The long-term trend in the global automotive market reflects increasing growth. The number of light vehicles manufactured in the next few years is expected to increase, mainly due to greater demand from emerging markets such as China and India. However, 2009 was a challenging year, with a decline in vehicle production. According to statistics from CSM, 57.2 million (65.9) new light vehicles were manufactured in 2009. Although production in the automotive industry declined during 2009, North American output is expected to increase in the next few years. Strong growth is anticipated





Magog, Canada



Eupen, Belgium



Hückelhoven, Germany



Gislaved, Sweden



Unicov, Czech Republic



Aguascalientes, Mexico



Middlefield, USA



Statesville, USA



Qingdao, China

## HEXPOL Compounding's operating units

Unit	Location	Number of employees 31. Dec 2009	Area m <sup>2</sup>	Production capacity, tonnes
HEXPOL Compounding Belgium	Eupen, Belgium	67	3 400	16 000
HEXPOL Compounding Sweden	Gislaved, Sweden	41	9 200	16 000
HEXPOL Compounding Germany	Hückelhoven, Germany	77	5 420	35 000
HEXPOL Compounding China	Qingdao, China	41	4 500	12 000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	99	8 590	32 000
HEXPOL Compounding Mexico	Aguascalientes, Mexico	100	6 500	18 000
HEXPOL Compounding North Carolina	Statesville, USA	81	3 400	16 000
HEXPOL Compounding Canada	Magog, Canada	2	–	–
GoldKey Processing	Middlefield, USA	154	14 864	40 000
<b>Total</b>		<b>662</b>	<b>55 874</b>	<b>185 000</b>



in China and the markets in southern Asia, and South America. According to forecasts by CSM, global production of light vehicles in 2010 is projected at about 63 million new units, equal to an increase of nearly 10 percent.

At the same time, the industry is undergoing comprehensive changes. Many manufacturers are gradually transferring parts of their production operations to low-cost countries and to new, more expansive markets such as Eastern Europe, China, India and Mexico. Due to this trend, customers are demanding that their suppliers follow suit and offer production in these new markets. As a result, HEXPOL Compounding has established units in Mexico and China. Operations were already established in the Czech Republic, where the business area has its largest production plant, which supplies the markets in Central and Eastern Europe.

In addition to the business expansion outlined above, Japanese and Korean automotive manufacturers are also increasing their global and regional production operations. HEXPOL Compounding has positioned itself favourably to meet these market changes.

## ORGANISATION

HEXPOL Compounding's operations are divided geographically into three regions comprising Europe, NAFTA and Asia, and include eight production plants. Sales in Europe and Asia are managed from Belgium, while sales in NAFTA are coordinated from the US.

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

- research and development (coordination between production plants and development of new materials and products),
- global customer agreements (global solutions in all parts of the world),
- global delivery agreements (strategic supplier choices, price negotiations),

- engineering (design of equipment to meet requirements),
- information and communications technology (certain critical software, information databases),
- quality systems (best practices, continued improvement),
- training.

Although all production units are structured as separate companies with complete organisational functions for sales, product development and production, they also cooperate closely with each other in all areas. Services to major customers are also coordinated globally with Key Account Managers.

## OPERATING UNITS

All HEXPOL Compounding plants maintain world-class standards, and several units are completely new. The plants are also similar in terms of technological capabilities. All parts of the Group possess excellent knowledge and experience of working with production equipment, which facilitates service and improvement efforts. Transfers of production operations are also facilitated by the uniform technical standards applied in various parts of the world.

The relatively recently acquired company GoldKey Processing in Middlefield, Ohio, in the US, specialises in advanced elastomeric applications outside the automotive industry, including applications for the aerospace, pharmaceutical packaging and textile industries. Accordingly, GoldKey complements the Group's other units and, as a result, achieved stable business development in 2009.

The Group's growing unit in the Czech Republic is favourably positioned to meet market demand from Central and Eastern Europe.

During the autumn of 2007, HEXPOL started operations at a new plant in Mexico. Some production equipment from the plant in Canada was transferred to the new unit and an additional compounding line was installed



Tracy Garrison, President  
HEXPOL Compounding  
NAFTA



Ralph Walkener, President  
HEXPOL Compounding  
Europe/Asia



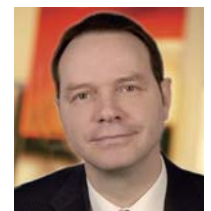
Carsten Rüter, President  
HEXPOL Compounding  
Technology



Nico Weber, MD  
HEXPOL Compounding  
Belgium



Lars-Åke Bylander, MD  
HEXPOL Compounding  
Sweden



Thomas Rong, MD  
HEXPOL Compounding  
Germany



Han Lee, MD  
HEXPOL Compounding  
China



Milos Pitela, MD  
HEXPOL Compounding  
Czech Republic



Saul Reyes, MD  
HEXPOL Compounding  
Mexico



Shannon Smith, MD  
HEXPOL Compounding  
N.C.



Randy Simpson, MD  
GoldKey Processing



Image: Sunsong

## HEXPOL Compounding China strengthens cooperation with a large and important Chinese customer

Qingdao Sunsong Company Ltd has named HEXPOL Compounding China exclusive, long-term supplier of rubber compounds.

Sunsong is one of China's largest manufacturers of hoses for the automotive industry, including brake and power steering hoses, hoses for climate installations and various other types of automotive hoses. Sunsong was established in 1980 and has always operated its own compounding plant. The customer initiated its operations as an independent supplier, with deliveries of components to the aftermarket, and gradually expanded to become one of the key manufacturers of hoses and hose accessories for the automotive industry. It is one of the fastest growing hose manufacturers, with annual revenues in the range of 70 MUSD. With a leading position in the Chinese automotive industry, the client company is strengthening its presence in the global OEM market to include North America and Europe.

Sunsong and HEXPOL Compounding have formed this alliance as part of efforts to increase growth through a stronger presence in the global OEM market for the automotive industry and to meet the market's fluctuating needs.

In November 2008, a team of engineers from Sunsong and HEXPOL Compounding started working on a project to develop the customer's first rubber compound. Since then, two teams have worked in close cooperation over the past 12 months and completed more than 20 compounding projects. A number of quality improvement and cost-saving measures have also been introduced for the mutual benefit of both the supplier and the customer. With only a few projects now pending completion, HEXPOL Compounding Qingdao and Sunsong are moving forward towards a full-scale joint project focused on successful long-term operations.

HEXPOL Compounding Qingdao has two full-time employees. Jifei Dong is the chief chemist and the person who works closest to the customer. Through the recently recruited technical manager Paul Campbell, HEXPOL is striving to improve cooperation with the customer and achieve continuous improvements in its internal technical capacity.

Today, HEXPOL Compounding Qingdao delivers more than 20 different rubber compounds to Sunsong for various application areas in the automotive industry.





in the summer of 2008. The plant now delivers high-quality compounds to a growing number of discerning customers.

HEXPOL's plant in China was placed on stream during the summer of 2007. The purpose of the investment was to also offer existing customers deliveries to their operations in China. Operations today are firmly established and well positioned in the fast-growing Chinese market, with the automotive industry as the largest customer segment. Total production capacity for all Group units amounts to about 185,000 tonnes of rubber compounds annually.

### COMPETITORS

Only a few large manufacturers of rubber compounds have international operations. These include Excel Polymers, which is owned by a private equity company and conducts operations in the US, Mexico and China, AirBoss, a publicly listed Canadian company with operations in North America, and the family-owned German company Kraiburg, with operations concentrated mainly in Europe and China.

There are also many, smaller manufacturers that operate locally. The competition also consists partly of customers with proprietary rubber compounding operations. Due to cost and process-technology considerations, however, there is a general trend whereby small and midsize rubber companies are facing growing difficulties in maintaining proprietary production of rubber compounds. Such companies opt instead to outsource a growing percentage of their production operations to HEXPOL Compounding's plants.

HEXPOL Compounding's potential to offer a global

concept and cost-effective production of rubber compounds is highly competitive, compared with local and regional competitors, or the customers' in-house production operations.

### TECHNOLOGY AND PRODUCTS

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

HEXPOL Compounding's production plants have sophisticated quality-assurance systems. The entire production process is completely computerised to ensure efficiency and quality. Mixing in a closed mixer is what is termed a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe, or formula. All different weighing stages are monitored by an IT system to ensure maximum weighing precision and enable tracing of the entire batch.

Since the formula and the mixing process are both critically important to product quality, HEXPOL Compounding's research and development personnel are responsible for composing the formulas and for the mixing process in accordance with the intended application, ingredients and quality requirements.

HEXPOL Compounding does its utmost to promote the technological development of the filtration methods that are built into the process flow so that extremely pure rubber compounds are produced. With advanced technologies, the plants can easily adapt their processes to meet specific customer requirements. Capitalising on

its advanced technological skills and expertise, HEXPOL Compounding is able to offer a number of different rubber compounds with various product forms, such as strip and rubber granulate.

Modern IT systems and state-of-the-art test instruments are used in quality inspections. After final approval, the products are prepared for onward transport together with quality assurance certification and transport documents.

### BUSINESS MODEL

Production is primarily order-based and focused on a limited number of raw materials. The important rubber compound formulas are often developed in close cooperation with customers and unique expertise is required to achieve optimal production results. For example, about 80 percent of the compounds used in Europe today are based on HEXPOL's own recipes. In most cases, the recipes are HEXPOL's property. Since the raw materials are largely oil-based and exposed to sharp price fluctuations, pricing is renegotiated several times every year. Sales are invoiced mainly through HEXPOL's own sales force.

The concept "Think global, act local" accurately describes how HEXPOL Compounding functions.

### STRATEGY

#### Focus on innovation and cost effectiveness

HEXPOL Compounding's operations focus on production and sales of high-quality products developed in close cooperation with discerning customers. The business area aims consciously to develop products that reduce the total production costs of customers.

#### Further growth in existing and new markets

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

#### High-quality products for demanding applications

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

#### Close relations with strong customers

Growth is further boosted by cooperation with customers operating in expansive markets such as the automotive market, which is growing when viewed overall. How-

ever, it is also important to serve as a supplier to automotive manufacturers that are increasing their market shares. HEXPOL Compounding has a well-balanced customer structure that includes substantial deliveries to expansive Japanese and Korean manufacturers.

#### Continuous improvements

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

### BRANDS

HEXPOL Compounding serves customers under two brands: HEXPOL and GoldKey. The HEXPOL brand is used globally in all markets. GoldKey is a well-established brand in its niche sectors of the North American market.

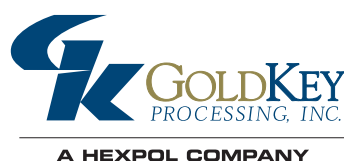
### OPERATIONS IN 2009

2009 was a turbulent year for HEXPOL Compounding. Volumes declined due to the global financial and automotive crises, but substantial costs savings and higher market shares enabled the Group to achieve strong operating profit. Sales decreased 17 percent to 2 020 MSEK (2 425) and the operating profit adjusted for items affecting comparability rose 3 percent to 231 MSEK (224). The adjusted operating margin rose to 11.4 percent (9.2).

HEXPOL is one of the few truly global players in the segment for advanced rubber compounds and its leading position was strengthened during the year through higher market shares and business growth in markets such as China and Mexico. In Mexico, new customers are seen working mainly with the international automotive industry, which has sharply increased its presence in the country. Our unit in China continues to grow, primarily with customers in the rapid-growth automotive industry. We also increased our market shares in Eastern Europe, primarily attributable to the expansive automotive industry. In the US, we continued to successfully develop the operations of GoldKey Processing, which was acquired towards year-end 2007. GoldKey, which has most of its client companies outside the automotive sector, including substantial volumes in the pharmaceutical, aerospace, oil and energy sectors, developed favourably in 2009.

In Europe, demand for all Group companies was weak up to the end of the third quarter, although improved volumes were noted at the end of the year, primarily in the automotive industry.

## Brands within the business area





## Successful partnership in Mexico

Being a sub-supplier, especially in the automotive industry, is increasingly challenging for all companies. Creative ways to do business generates a variety of opportunities for those who are successful in developing strong relationships with its customers, vendors and associates.

Cooper Std Sealing Mexico (CSA) and HEXPOL Compounding Mexico have a shared goal of reaching a true Partnership. The two companies have several strengths that facilitate building such a relationship, starting with the people and their commitment to work as one team. In addition, they share core values and strategic views at all levels, which forms a solid foundation for a working partnership. The aim is to design cost-effective solutions, rather than simply engaging in a customer-vendor relationship.

In the fourth quarter of 2009, more than 20 different compounds were transitioned to HEXPOL Compounding and were put into production in just three to four weeks. This would not have been possible without an open communication and true partnership focus, combined with a disciplined approach.

We believe this will mark the start of many years of joint success that will certainly help both companies to become more competitive and capitalize on the opportunities that the Mexican Industry continues to offer.





Sharp reductions were made in the workforce and in overall Group costs during 2009. Due to several years of weak demand, we were also forced to close our compounding operations in Magog, Canada. Volumes have been transferred successfully to our other plants in NAFTA.

The technology and process departments, which are extremely critical aspects of operations, were fully maintained during the year, and no cutbacks were implemented.

**FUTURE OUTLOOK AND PRIORITIES**

HEXPOL Compounding aims to strengthen its position as a global market leader in the development and supply of high-quality rubber compounds to customers with meticulous demands, as exemplified by the automotive industry. The strategy also focuses on increasing sales in other demanding application areas, such as the cable, water-management, pharmaceuticals, energy and oil industries. One challenge facing the business area today is the ability to manage the volatile raw material environment through continued efforts to develop more cost-effective solutions, or by adjusting prices in the market.

HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

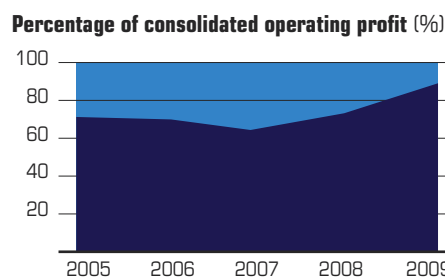
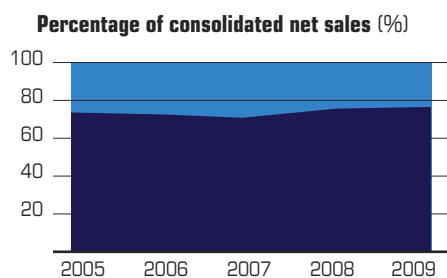
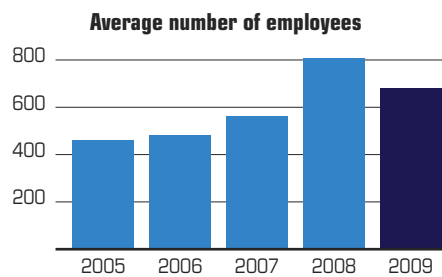
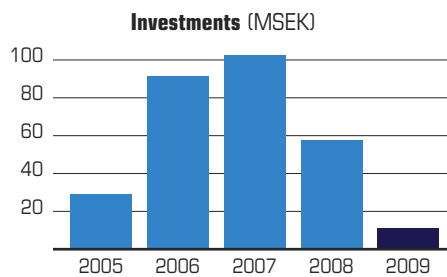
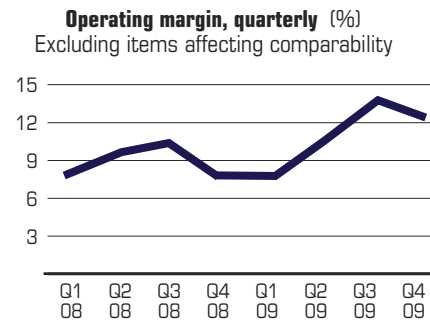
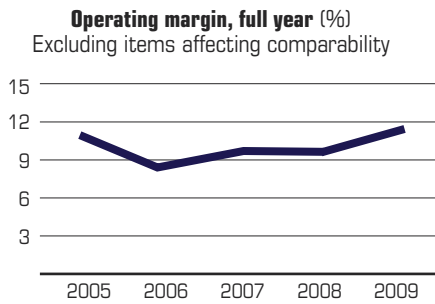
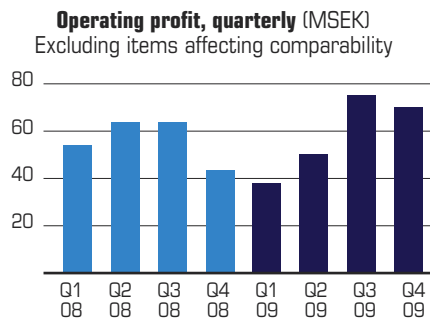
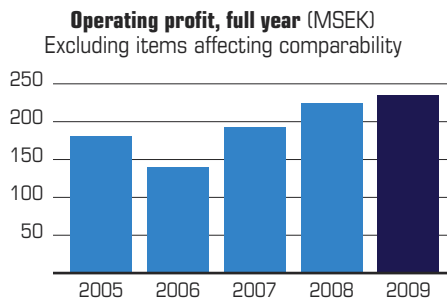
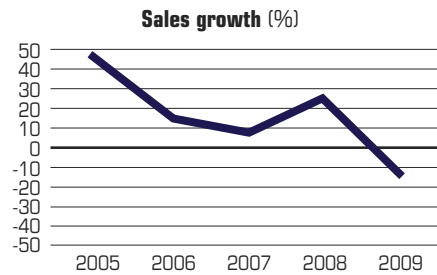
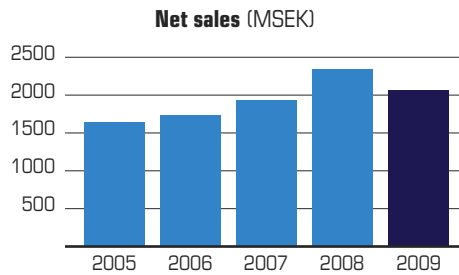
However, 2010 will be another challenging year when the focus will be on increasing market shares through technological and process development. Special priority will continue to be assigned to efforts to grow in emerging markets, such as Mexico, China and Eastern

Europe. In addition, HEXPOL Compounding’s market shares outside the automotive sector will continue to increase as a result of applications in many new areas. In addition, eco-management systems (ISO 14001) will continue to be introduced in all of the business area’s units.





## HEXPOL Compounding over five years



# Business area HEXPOL Engineered Products

## Pressure on prices and sharp decline in demand

### HEXPOL Engineered Products in brief

**Operations** HEXPOL Engineered Products is one of the world's leading suppliers of advanced products such as gaskets for plate heat exchangers and wheels for the forklift truck industry. Moreover, the business area is a major player in rubber profiles in the Scandinavian market.

**Market** The market for gaskets and wheels is global. HEXPOL has production units in Europe and Asia, as well as in North America for wheels. The market for profiles is Scandinavian.

**Customers** Manufacturers of plate heat exchangers, forklift trucks and castor wheels, as well as construction and engineering industries for profiles

**Sales** 588 MSEK (765)

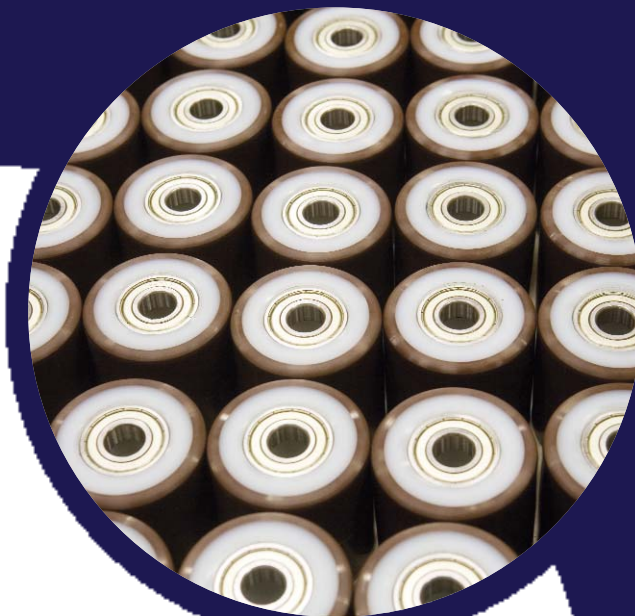
### Operating profit

30 MSEK (86) excl. items affecting comparability  
8 MSEK (86) incl. items affecting comparability

**Average number of employees** 1 122 (1 508)

### Operating units

- Gislaved Gummi Gaskets, Gislaved, Sweden  
MD: Lars-Åke Bylander
- Elastomeric Gaskets, Bokundara, Sri Lanka  
MD: Roger Jonsson
- Gislaved Gummi China, Qingdao, China  
MD: Jeff Liu
- Stellana Sweden, Laxå, Sweden  
MD: Jan Wikström
- Stellana US, Lake Geneva, USA  
MD: Larry Johnston
- Elastomeric Wheels, Horana, Sri Lanka  
MD: Roger Jonsson
- Stellana China, Qingdao, China  
MD: Kalle Liu
- Gislaved Gummi Profiles, Gislaved, Sweden  
MD: Lars-Åke Bylander



**Supported by comprehensive expertise in polymers and the production of rubber, plastic and polyurethane products, HEXPOL Engineered Products has secured a position of global leadership as a supplier of sophisticated products such as gaskets for plate heat exchangers and wheels for the forklift industry.**

HEXPOL Engineered Products has a long history as a manufacturer of rubber and plastic components. Based on compounds produced in-house, the Group manufactures finished rubber components through various production methods such as form pressing and extrusion.

## MARKET

The market for HEXPOL Gaskets consists mainly of manufacturers of plate heat exchangers. The market is highly expansive, since widespread interest in energy savings and environmental issues is driving demand for products manufactured by the product area's customers.

During 2009, HEXPOL Gaskets noted weaker demand in most segments and markets. As a result of lower demand combined with declining world market prices for oil and gas, investments in alternative energy sources such as biofuels have declined. Reduced demand for sea transports has led to a decline in investments and orders for new vessels. As an effect of the lower demand, lead times from packaging to installation have also shortened. Demand was weak for major projects during 2009, which mainly impacted sales of large plate heat exchangers. Business trends for small and midsize plate heat exchangers were more stable, but still notably weaker than in the preceding year. HEXPOL Gaskets is currently a supplier to all major OEM manufacturers of plate heat exchangers. Overall, the global market is dominated by about ten major manufacturers. In addition, rapid growth is now being achieved in China, where a number of manufacturers are established. The aftermarket is believed to account for about one fourth of today's total market.

In the HEXPOL Wheels product area, customers are mainly manufacturers of forklift trucks and castor wheels. A consolidation process is now in progress in the expansive forklift truck market, which is dominated by a

handful of major players. Global sales of new trucks declined sharply in 2009 to about 520 000 units (825 000), divided between counterbalanced trucks and electric warehouse trucks. Although a decline was also noted in the aftermarket for spare parts and new wheels, the downturn here was not as weak as in the segment comprising new forklifts.

The market for warehouse trucks is dominated mainly by Western European and North American manufacturers, although several of these companies are owned by Japanese business interests. The market for castor wheels is not characterised by the same degree of consolidation and, in addition to a limited number of major players, includes a large number of locally active companies in all parts of the world.

For HEXPOL Profiles, the market consists mainly of Scandinavian manufacturers of products for the construction industry and other engineering sectors.

## ORGANISATION

The business area is divided into three product areas: Gaskets, Wheels and Profiles. It is managed from the Group's head office in Malmö, with the Gaskets and Profiles product areas managed from Gislaved, Sweden, and the Wheels product area from Laxå, Sweden.

## STRATEGY

The business strategy of HEXPOL Engineered Products is to focus strictly on niche sectors that offer potential for the business area to become one of the leading players. The strategy is also formulated specifically to refrain from product segments where HEXPOL Engineered Products could run the risk of competing with the group's customers in rubber compounds.

## BRANDS

HEXPOL Engineered Products' customer interface is via a number of well-established brands. HEXPOL Gaskets uses the Gislaved Gummi brand, which is well-known and highly reputed throughout the global market. HEXPOL Wheels uses the Stellana and Elastomeric brands internationally. HEXPOL Profiles uses the Gislaved Gummi brand.

## Brands within the business area





Lake Geneva, US  
HEXPOL Wheels



Laxå, Sweden  
HEXPOL Wheels



Gislaved, Sweden  
HEXPOL Gaskets



Gislaved, Sweden  
HEXPOL Profiles



Bokundara, Sri Lanka  
HEXPOL Gaskets



Horana, Sri Lanka  
HEXPOL Wheels



Qingdao, China  
HEXPOL Wheels



Qingdao, China  
HEXPOL Gaskets

### HEXPOL Engineered Products operating units

Unit	Location	Number of employees 31. Dec 2009	Area m <sup>2</sup>
<b>HEXPOL GASKETS</b>			
Gislaved Gummi Gaskets	Gislaved, Sweden	128	8 000
Elastomeric Gaskets	Bokundara, Sri Lanka	440	7 000
Gislaved Gummi China	Qingdao, China	24	8 000
<b>Total</b>		<b>592</b>	<b>23 000</b>
<b>HEXPOL WHEELS</b>			
Stellana Sweden	Laxå, Sweden	71	8 000
Stellana US	Lake Geneva, US	54	6 660
Elastomeric Wheels	Horana, Sri Lanka	405	16 590
Stellana China	Qingdao, China	11	1 080
<b>Total</b>		<b>541</b>	<b>32 330</b>
<b>HEXPOL PROFILES</b>			
Gislaved Gummi Profiles	Gislaved, Sweden	27	5 700
<b>Total</b>		<b>27</b>	<b>5 700</b>



## OPERATING UNITS

HEXPOL Gaskets has three operation units: one in Bokundara, in Sri Lanka and one in Qingdao, in China. The unit in China was placed in operation during the second half of 2009. All production units are equipped with modern machinery that meets the requirements for rational and cost-effective production with stringent demands on high standards of quality.

HEXPOL Wheels has four operating units: Laxå in Sweden, Lake Geneva in the US, Horana in Sri Lanka and Qingdao in China.

HEXPOL Profiles' operations are conducted in close association with compounding operations in Gislaved, Sweden.

## COMPETITORS

In addition to HEXPOL Gaskets, the product segment includes only a few major suppliers, the most prominent of which is the family-owned UK company TRP. Some OEM manufacturers of plate heat exchangers also have proprietary gasket production operations. In this context, the HEXPOL Group's overall compounding and polymers expertise is a critical competitive advantage.

HEXPOL is one of the world's largest players in the Wheels product segment. There are about ten major manufacturers of polyurethane wheels worldwide, including HEXPOL Wheels. The primary competitors are the German family-owned companies Räder-Vogel and Wicke in Europe, with the latter also owning a castor wheel plant in China, and the family-owned company Thombert in North America. Other competitors consist mainly of locally active, family-owned companies. The relatively fragmented market offers opportunities for continued growth through acquisitions.

The Scandinavian market served by the Profiles product area is dominated by Trelleborg. HEXPOL Profiles is positioned number two in the Scandinavian market.

## OPERATIONS IN 2009

2009 was a year marked by sharply lower demand due to global financial and industrial crises. Sales totalled 588 MSEK (765) and operating profit, excluding items affecting comparability, declined to 30 MSEK (86). The adjusted operating margin fell to 5.1 percent (11.2).

The decline in earnings was due mainly to the sharply lower volumes, low capacity utilisation in the production plants and price pressure.

Volumes in gasket operations and the number of major project-related orders declined during 2009. During the latter part of the year, however, the market showed some signs of stabilisation. Lead times were reduced sharply throughout the entire supply chain.

Volumes for polyurethane wheels for the truck industry and castor wheels were considerably lower due to a sharp decline in demand, which led to low capacity utilisation in all HEXPOL Wheels production units. Stellana's Smoothy™ wheels, which were introduced in North America, gained favourable market acceptance, and increased demand from customers was noted.

Demand for our profiles from construction-related customers in Scandinavia also declined. The decrease was offset partly by the emergence of new customers in this segment. We increased our market share during the year through active development work in cooperation with customers.

The workforce was reduced during the year in all of the business area's units.

## OUTLOOK AND PRIORITIES

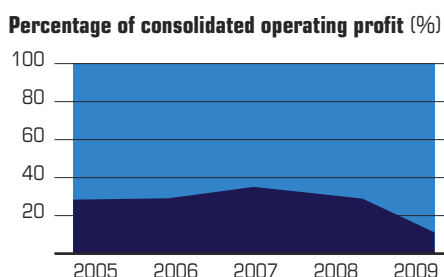
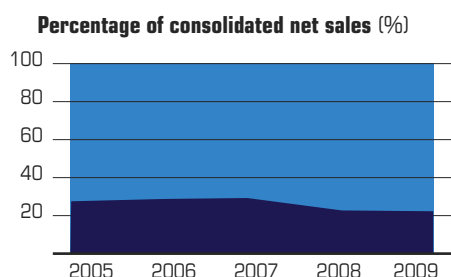
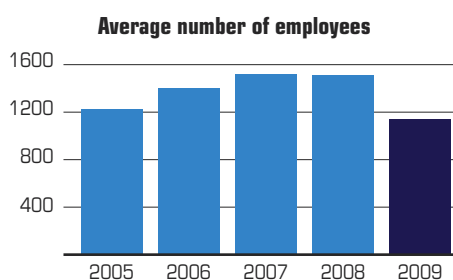
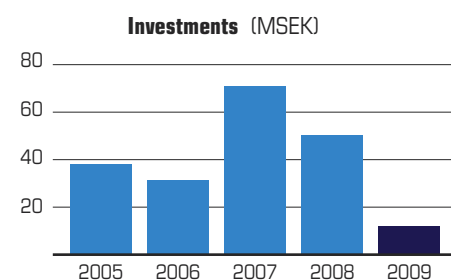
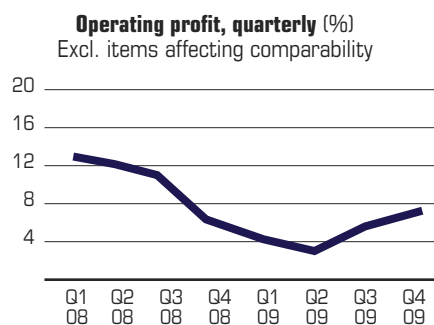
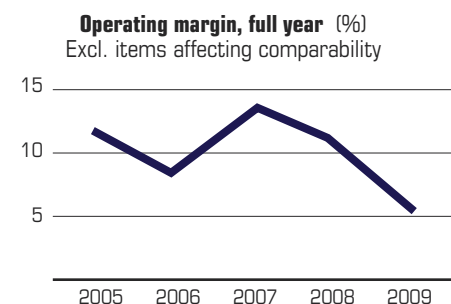
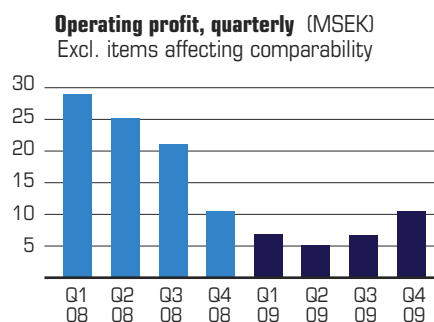
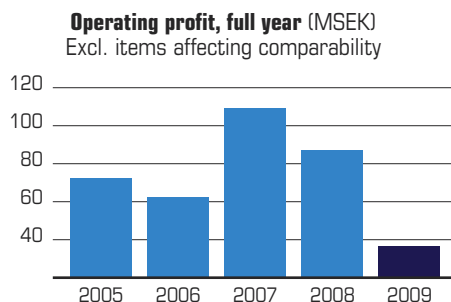
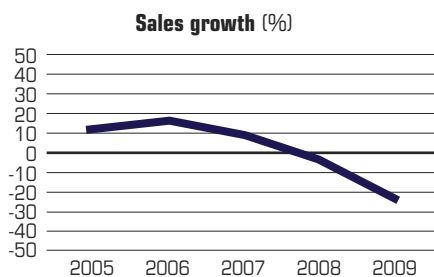
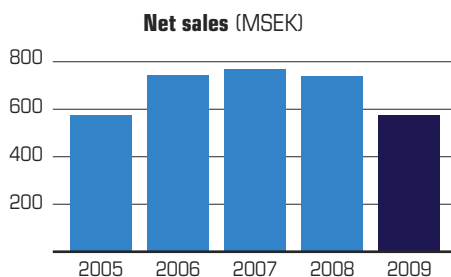
Demand for energy-effective solutions is rising over the long term. This trend is favouring demand for gaskets for plate heat exchangers. During 2010, we will assign priority to increasing our market shares and further broadening our sales geographically. An intensive and focused sales programme has been started in the Chinese market, strongly supported by our local production. Our customer focus is on global international companies with advanced, state-of-the-art levels of technology, as well as smaller companies that are expected to achieve positions of global market leadership.

Demand for materials handling is showing long-term growth in parallel with ever-larger volumes of goods, a trend that favours demand for our wheels. In wheel operations, we will continue our expansion in China through concerted efforts to attract new customers. Other priorities include higher market shares for polyurethane wheels among OEM manufacturers, a stronger focus on the aftermarket and continued product development.





HEXPOL Engineered Products, five-year trends





## HEXPOL Gaskets

### TECHNOLOGY AND PRODUCTS

Gaskets for plate heat exchangers comprise the largest segment of the product area. The gaskets are manufactured through form moulding.

Stringent demands on product quality present a challenge for manufacturers of gaskets for plate heat exchangers. Accordingly, HEXPOL Gaskets makes determined efforts to continuously improve the quality control systems in production. The product area is certified in accordance with ISO 9001/14001. All rubber materials used in the production of gaskets are developed in-house and verified under test conditions over long periods of time before they are placed into series production. Development and tests of rubber material can extend over several years. All process parameters that are critical for product quality and performance are also controlled through technical coordination, and the gaskets are identical regardless of production site. Throughput times from order booking to series deliveries are minimised through proprietary production of gasket tools/moulds in Sri Lanka.

### BUSINESS MODEL AND STRATEGY

The constituent rubber compounds needed for the product area's manufacturing operations are produced in Gislaved, Sweden, and refined to create products that are sold to OEM manufacturers. Low-volume products – characterised by a high level of customer adaptation – account for a small percentage of total sales. Such short series items are produced directly to customer order. Production planning for volume products is based on customer forecasts, thus minimising inventory costs, and deliveries are made directly from warehouses. Through Internet-based solutions, customers are able to access inventory balance figures, which provide

increased opportunities to plan their own production. Gaskets are produced in large volumes in Sri Lanka, while gaskets in smaller volumes and advanced material qualities are produced in Sweden. Production in China is utilised primarily in the local Chinese market, but the unit is well-prepared to implement a rapid expansion to meet any sharp increase in global demand.

### ORGANISATION

The product area's management team is situated in Gislaved, Sweden, which also serves as the base for global sales management activities. Sales personnel have been recruited to work at the unit in Qingdao, China, which develops sales in the Chinese market. Deliveries to other markets in Asia are managed directly from the plant in Bokundara, Sri Lanka, or from Qingdao, China. All other gaskets manufactured in Sri Lanka are shipped first to the central warehouse in Gislaved before distribution to customers, along with gaskets produced in Gislaved.

### OPERATING UNITS

HEXPOL Gaskets has three gasket production units currently in operation, one in Gislaved, Sweden, one in Bokundara, Sri Lanka, and one in Qingdao, China. All production units are equipped with modern production machinery, which provides the conditions for rational and cost-effective production that meets the most stringent customer requirements.

Asia has been the fastest growing market for plate heat exchangers for several years. Today, many of the product area's customers are already established there and receive their gasket supplies from HEXPOL Gaskets in Gislaved, Sweden. The current trend indicates that even more customers will establish proprietary production in China. Domestic production of plate heat exchangers in China

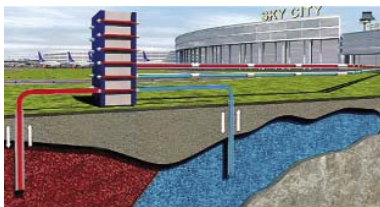
## New aquifer will reduce Arlanda's carbon dioxide emissions

To further reduce its CO<sub>2</sub> emissions, Arlanda International Airport is building the world's largest energy storage facility to supply the airport with heat during the winter and cool air during the summer.

Arlanda is using an aquifer, a geological formation that stores groundwater, to create a large underground container that will function very much like a thermos flask. In the summer, cold water will be pumped through plate heat exchangers that are connected to Arlanda's cooling system. The heated return water will then be pumped back into the ground, to be used during the winter to melt snow in the airport's parking areas and heat the airport's ventilation air.

The new system will reduce the airport's annual CO<sub>2</sub> emissions by thousands of tonnes. It will generate annual energy savings at the Stockholm airport totalling 19 GWh, which corresponds to the annual energy consumption of 1 000 private homes.

Alfa Laval has supplied the heat exchangers for the aquifer system. Gislaved Gummi AB has been a global supplier of gaskets for plate heat exchangers produced by Alfa Laval for several decades.



The aquifer, or geological formation that stores groundwater under Arlanda Airport, has a capacity of approximately three million cubic metres. By storing energy from the warm water in the ground, the system will be the world's largest storage facility for energy. A simplified illustration of the system is shown above. (Source: Sweco/Alfa Laval)



## Gislaved Gummi's gaskets achieve favourable acceptance among China's leading manufacturers of plate heat exchangers

Gislaved Gummi is the global market leader for rubber gaskets used in plate heat exchangers. The production plant in China was placed in operation during the second half of 2009. "Although we started production in China just recently, we are not a newcomer to this market," says Lars-Åke Bylander, President of HEXPOL Gasket. "Gislaved Gummi is a well-known name in the Chinese plate heat exchanger industry. Shortly after we started production here, Gislaved Gummi was selected as OEM supplier to Lanzhou LS, a widely known company with more than 40 years of experience as a manufacturer of different types of heat exchangers."

Long before Gislaved Gummi established its presence in China, Lanzhou LS was familiar with Gislaved Gummi's reputation and position as a world-leading manufacturer of gaskets for plate heat exchangers. "In 2007, shortly after Gislaved Gummi established operations in Qingdao, China, we decided that Lanzhou would be one of the customers we would visit. After contacting each other on several occasions, Lanzhou and Gislaved soon decided to sign a strategic cooperation agreement,"

says Jeff Liu, Managing Director of Gislaved Gummi China.

In 2008, Lanzhou decided that three plate heat exchangers would be placed in Gislaved's plant in Qingdao to conduct a series of functional tests on the gaskets. The tests were conducted over a four-month period at steam temperatures in the range of 150° C. As expected, the tests showed exceptional results for Gislaved's products, compared with competing products. "We have now seen it with our own eyes and have complete confidence in Gislaved's products. We have decided to install Gislaved's gaskets in all plate heat exchangers delivered to atomic power industry and other high-tech applications," says Zhang Manli, Managing Director of Lanzhou LS. During 2009, Lanzhou LS was awarded orders for several projects related to atomic power plants in China which, during the next few years, will require deliveries of hundreds of plate heat exchangers. The orders will definitely strengthen and improve future cooperation between Gislaved and Lanzhou.



is growing rapidly, but the gaskets are often low-performance products. Through the establishment of proprietary operations in China, HEXPOL Gaskets will narrow the gap to existing customers with their own production in the country, but also gain much better access to the domestic market. For customers with high demands on product quality, the establishment of operations by HEXPOL Gaskets will provide a welcome alternative to the present domestic production. From a geographical perspective, the plant in China is situated in a central location that provides access to most domestic manufacturers of plate heat exchangers.

HEXPOL Gaskets established a functional laboratory in China some years ago to provide on-site examples of the quality differences between different gasket producers. Results of tests conducted by the product area have verified the significant quality differences between the various gaskets available on the market. HEXPOL

Gaskets signed several new contracts during 2009 for deliveries of gaskets to domestic manufacturers of plate heat exchangers in China.



Lars-Åke Bylander, President HEXPOL Gaskets, CEO, Gislaved Gummi



Roger Jonsson, MD Elastomeric Gaskets



Jeff Liu, MD Gislaved Gummi China

## Stopping blistering in car paints: Plate heat exchangers ensure constant temperatures in paint shop dipping baths



Silver, black, blue and red are the favourite colours for cars in Germany, and white is currently experiencing a comeback. And to make sure that the car finish stays as bright for as long as possible, cathodic dip painting has become established as standard in the automobile industry. GEA PHE Systems, an important customer and partner to Gislaved Gummi (HEXPOL Gaskets), supplies the plate heat exchangers (PHEs) for the painting lines of renowned car manufacturers. From VW, Audi, Mercedes, BMW through Ferrari, General Motors and Skoda up to Renault, GEA PHEs from Sarstedt in Germany – particularly the NT Series – are used in automotive painting lines throughout the world.

In addition to improved wrap-around, cathodic dip painting offers optimum corrosion and edge protection – the system is economic, eco-friendly and reliable. This is an electrochemical painting process, where the car body is coated in a dipping bath. This so-called body-in-white is submerged into an electrically conductive aqueous dipping lacquer and a direct-current field is applied between the body and a counterelectrode. The basic principle of cathodic dip painting is to deposit water-

soluble bonding agents on the coatable surface switched as electrode, thus generating an enclosed adhesive film of paint. For this to succeed the body-in-white has to previously pass through a number of other dipping baths. Constant temperatures during operation and fast heating-up of the baths after plant downtimes are of crucial importance. Up to ten plate heat exchangers can be used in a painting line, with a minimum of five, to guarantee constant temperatures in the individual baths. Modern painting lines comprise the following sections: degreasing, rinsing, phosphatizing and cathodic dip painting.

With its NT Series and gaskets supplied by Gislaved Gummi (HEXPOL Gaskets), GEA PHE Systems has successfully implemented innovative research results in the plate heat exchanger market. This new plate generation sets economic standards, typified by low costs for investment, operation and maintenance. New installation and gasket technologies simplify maintenance and ensure a perfect fit of the gaskets and plate pack.

Images: GEA PHE Systems.





## HEXPOL Wheels

### TECHNOLOGY AND PRODUCTS

HEXPOL Wheels offers customers a broad product palette of wheels in several different materials with various properties, such as polyurethane, natural rubber, thermoplastic and thermosets.

By combining first-class raw materials with continuous supervision of the entire production process, extremely high-quality products are produced. Modern production equipment and a high degree of automation provide efficient production that result in cost-effective products.

Five types of products are produced by HEXPOL Wheels:

- Polyurethane wheels
- Thermoplastic wheels
- Rubber wheels and tyres
- Solid rubber tyres
- Various special products comprising the materials presented above.

Depending on the intended purpose of the wheel, widely varying demands can be imposed. For warehouse trucks, Vulkollan is the market-leading polyurethane material in Europe. The material is highly wear resistant and can cope with heavy loads without being deformed. The Vulkollan brand is owned by Bayer Material Science. HEXPOL Wheels is one of the leading producers of Vulkollan wheels for industrial truck manufacturers.

HEXPOL Wheels' laboratory is equipped with a testing device that simulates how a forklift truck is driven. The equipment enables HEXPOL Wheels to actively support the development of wheels for new forklift models.

### BUSINESS MODEL AND STRATEGY

In its capacity as a product specialist, the business concept of HEXPOL Wheels is to develop, manufacture and market wheels for transport and materials-handling applications. The business model includes the aim of being a natural choice mainly for large manufacturers of forklift trucks and offer competitive products for replacing used wheels on existing trucks.

HEXPOL Wheels has many years of experience in the industry and of programmes of cooperation with key customers. As opposed to most of its competitors, HEXPOL Wheels has a global presence that enhances the company's value as a business partner in the expansion plans of its customers. One of the reasons for the establishment of a production plant in China was to support a multi-year agreement with a customer who also wanted HEXPOL to serve as its supplier in the Chinese market. With these operations as the base, the domestic Chinese market can now be developed locally.





## Stellana China starts deliveries to Noblelift

During 2009, after a long period of hard work, Stellana China was successful in its efforts to establish a foothold with Noblelift. This provides a solid start and means a great deal to HEXPOL Wheels in the rapid-growth Chinese market.

Noblelift Equipment Joint Stock Co has been one of the world's largest manufacturers of hand pallet trucks since 2003, with a 35% share of the global market

and 45% of the EU market. During 2009, Noblelift produced more than 500 000 hand pallet trucks, more than 80% of which were sold in export markets. Noblelift has invested strongly in the segment comprising electric warehouse trucks. Noblelift's new production plant has an annual capacity of 25 000 trucks, which will further increase the company's standing in the world's materials handling industry. HEXPOL Wheels'

strong focus on product development, quality, delivery reliability and global presence will generate added value for Noblelift's customers, which will also secure long-term business growth.

Images: Noblelift/Stellana

## Success for Smoothy® in North America

HOM Furniture, a large furniture company in the Midwest region of the US, uses Raymond® trucks to move furniture in its various stores.

At the HOM Furniture store in Coon Rapids, Minnesota, the company was satisfied with the functionality of Raymond's 5600 model forklift truck, but wanted to find an alternative that offered greater durability. HOM Furniture had been using the 5600 model trucks to unload products such as sofas, dining tables, bedroom furniture and cupboards. But it wanted load wheels with longer life spans.

In the past, HOM Furniture had used load wheels supplied by another manufacturer, which continued to be used until the early part of 2008. The wheels had

been in operation for 1 800 hours when they were replaced. The useful life of other tyres used on the company's fork lift trucks averaged about 1 100 hours.

In June 2008, Associated Material Handling Equipment presented the Smoothy load wheel to HOM Furniture.

Smoothy load wheels, with spare parts number 632-131/008, were installed on HOM's Raymond trucks. They lasted more than a year and were driven 3 021 operating hours before they needed to be replaced in August 2009. Smoothy nearly trebled the useful life of previously used wheels, which exceeded HOM Furniture's expectations. HOM Furniture is extremely satisfied and will continue to use Smoothy load wheels.

Smoothy is a registered trademark for Stellana U.S. in the US.

Right: Smoothy drive wheels after having been used for more than 3 000 hours on a Raymond forklift truck operated by HOM Furniture.



**ORGANISATION**

HEXPOL Wheels consists of four units and is managed from Laxå, Sweden. Most marketing operations are conducted regionally, with Stellana in Sweden assuming responsibility for Europe while the NAFTA market is managed by the unit in the US and Elastomeric Wheels in Sri Lanka manages marketing operations in Asia. The Chinese market is developed from the unit in China.

**OPERATING UNITS**

HEXPOL Wheels has four operating units: Laxå in Sweden, Lake Geneva in USA, Horana in Sri Lanka and Qingdao in China. Stellana Sweden, situated in Laxå, Sweden, is a major player in the global market for wheels for electric trucks and forklifts. A comprehensive test data bank has been developed through many years of experience in designing wheels, and the company also has a state-of-the-art wheels laboratory. Supported by the laboratory, HEXPOL Wheels can be a part of the development of new truck models at an early stage and is able to optimise all properties of truck wheels. Cast polyurethane (including Vulkollan) and polyamide wheels are produced in Laxå, as are limited volumes of rubber and thermoplastic wheels.

Stellana US in Lake Geneva, Wisconsin, in the US, is a major supplier in the North American market for tyres and cast polyurethane wheels for electric trucks and general industrial applications. During recent years, Stellana US has attracted attention in the US through several new product launches, including Smoothy™.

Elastomeric Wheels, situated in Horana, Sri Lanka, manufactures and delivers rubber wheels for castors and solid rubber tyres to customers in all parts of the world. The plant encompasses the entire spectrum of machinery for the production of cast rubber products, including proprietary mixing equipment and form-moulding machines for the production of complete wheels with thermoplastic hubs.

Stellana China, situated in Qingdao, China, manufactures thermoplastic polyamide wheels. Its main customers are global truck manufacturers with production operations in China, but the company also sees strong potential for growth in cooperation with local Chinese truck manufacturers.



Jan Wikström, President  
HEXPOL Wheels,  
CEO Stellana Sweden



Roger Jonsson, MD  
Elastomeric Wheels



Kalle Liu, MD  
Stellana China



Larry Johnston, MD  
Stellana US







## HEXPOL Profiles

### TECHNOLOGY AND PRODUCTS

The niche market segment for HEXPOL Profiles comprises thin-walled, rubber and silicone profiles manufactured through a modern extrusion process to meet customer-specific requirements. Production also includes spliced gasket washers for ventilating tubes. Products manufactured by HEXPOL Profiles are characterised by high quality standards that are verified continuously in the production process. All production is based on rubber materials developed by HEXPOL Compounding. Development of most new materials has been driven by new customers and new applications. Increased demands for automation and the work environment have necessitated the development of new methods featuring reduced friction.

### BUSINESS MODEL AND STRATEGY

The rubber compounds used in the extrusion process are produced within the HEXPOL Group. HEXPOL Profiles strives to be perceived by the market as a cost-effective manufacturer that creates added value through quality, expertise and delivery reliability.

Competitive advantages are also created through HEXPOL's unique materials expertise, which provides cost and performance advantages. HEXPOL Profiles offers its customers individually customised logistics solutions ranging from traditional customer order-controlled production to solutions whereby HEXPOL Profiles replenishes customer inventories.

### ORGANISATION

Operations are concentrated in Gislaved, Sweden, where the business area has a proprietary organisational structure for the entire production flow and sales. Overall business management is shared with other operations in Gislaved, however.

### OPERATING UNITS

The operations are conducted in close affiliation with compounding operations in Gislaved, Sweden.



Lars-Åke Bylander,  
President HEXPOL Profiles,  
MD Gislaved Gummi

# Corporate responsibility

## Respect and responsibility in business relations







**Responsible enterprise is part of the tradition at HEXPOL and is a key component in the long-term creation of value and profitability for shareholders.**

For HEXPOL, responsible enterprise entails responsibility and respect in relation to the Group's stakeholders, such as employees and their families, society in general, customers, suppliers and investors.

### LEGISLATION AND GUIDELINES

With operations on three continents and in eight countries, HEXPOL faces a number of legislated requirements. HEXPOL assumes responsibility for complying with legislation and regulations, and also seeks to act as role model in our industries. The Group shall comply with all applicable ordinances and legislation in all of its business activities. Compliance with export and import ordinances governing international transactions is essential, as is compliance with trade embargoes and economic sanctions as regards particular countries. Representatives of the Group may not give, offer, accept or demand bribes or other inappropriate or unethical benefits. The Code of Conduct applies to all employees of the HEXPOL Group and encourages the reporting of deviations from the guidelines.

### SOCIETY

HEXPOL affects the environment and the societies where we have manufacturing operations. The environmental impact of the Group's activities and products should be as low as possible and we must obviously comply with legislation. Locally, our companies are important employers and generate employment for a number of suppliers. Our objective is for the Group to be a responsible partner to customers, suppliers, business partners, and other players in society, as well as a good employer for our employees. HEXPOL endeavours to utilise its market position in a responsible manner and accordingly supports and participates in local projects to improve the communities in which the Group is active. These projects are decided on and organised at the local level and by the particular local company.

### EMPLOYEES

The skills and experience of our workforce represent a key factor for successfully being able to set and achieve goals in day-to-day operations.

Corporate culture plays a major role in efforts to conduct successful production, marketing, research and development. This involves the right approach and attitude. Individuals must dare to risk failure in order to be successful. It is the task of executive management to create a favourable working climate in a true entrepreneurial spirit that promotes creativity and innovation. HEXPOL encourages participation and endeavours to involve all employees in efforts to improve efficiency.

Considerable emphasis is placed on creating a non-bureaucratic culture with prompt decision-making channels.

### GLOBAL GROUP WITH A LOCAL PRESENCE

HEXPOL' management philosophy is based on professionalism and confidence. Attaining higher profitability and meeting financial targets requires excellent leadership and motivated employees. The Group's companies constitute the daily work environment of a few thousand employees from all parts of the world and people from ten countries are represented in the management teams of the various business and product areas. This demonstrates an approach to regional and local competencies that is a prerequisite for success on the global plane, and particularly in the various geographic markets. For us, diversity is all about mutual respect and professionalism. Expertise, ambition, loyalty and creativity are fundamental elements in our corporate culture.

The average number of employees in HEXPOL in 2009 was 1 809 (2 315). The number of Group employees at year-end was 1 827 (2 230). At year-end, HEXPOL Compounding had 662 (774) and HEXPOL Engineered Products 1 160 (1 450) employees. The Parent Company had five employees (6). Employees outside Sweden constituted 85 percent (85) of the workforce.

The global economic crisis impacted employment in the Group and, as is apparent from the above figures, a significant number of employees had to leave the company during the year. One result of the recession was that the compounding operations conducted in Magog, Canada, were closed during 2009.

### RECRUITMENT AND SKILLS DEVELOPMENT

The Group's employees work involves highly qualified duties in production, product development, marketing, sales and administration. The company's advanced technological level requires qualified and well-educated employees. As a result of HEXPOL's conviction of the importance of a true local presence in any geographic market, recruitment is mainly conducted at the local level. HEXPOL's employees are entitled to form and affiliate to trade unions and are entitled to collective negotiations. Employees also have complete insight, as well as the right of codetermination in line with the provisions in national legislation.

HEXPOL links occupational skills development to the individual's situation. Senior executives undergo individual management development programmes. In an effort to take greater advantage of the Group's combined skills, there are a number of networks among its companies and across business area boundaries. Employees from operations worldwide are regularly brought together to discuss Group-wide development and purchasing projects. Another example is the annual

executive conference at which the Group's senior executives gather in order to share experiences of operations, development projects and geographical markets.

## WORK ENVIRONMENT, EQUALITY AND DIVERSITY

The work environment of Group companies shall be safe, stimulating and promote individual development. Naturally, it must also meet relevant legislative requirements in the work environment field. No employee should be treated differently on the basis of gender, religion, age, functional disability, sexual orientation, nationality, political opinions or origin. Prevention activities to ensure employee health and safety are conducted in accordance with the requirements of each country's work environment legislation, the Group's own ambitions, and the technical and financial conditions. Activities to improve health and safety at the workplaces are conducted on a cooperative basis between employers, employees and trade unions.

HEXPOL supports and respects internationally recognised human rights and, in our ethical guidelines, we encourage diversity. The company opposes all forms of discrimination. During the year, no factors emerged that indicate that we breached these principles.

Issues concerning equality are addressed in a decentralised manner in each company. However, the proportion of women remains low and amounted to 13 percent (15) in 2009. The largest proportion of women is in Sweden (43 percent) and China (28 percent). The proportion of women on the Board of Directors is 14 percent (14), in Group management 0 percent (0) and in management in the subsidiaries 10 percent (12).

## REMUNERATION

Since the right person can be of crucial importance to HEXPOL's success in a business segment or in a geographic market, it is vital that remuneration at HEXPOL is market-based and competitive. The wages and salaries set within HEXPOL comply with legislation, at least match the minimum wage in the countries concerned and are fully competitive. Variable remuneration linked to the earnings trend that a person can influence is paid in certain parts of the Group. Personnel expenses totalled 430 MSEK (468) in 2009.

## CUSTOMERS AND COMPETITORS

In order to satisfy market requirements and demands, we work continuously to develop and improve our products. Development work is often performed in collaboration with customers. Professionalism and a high level of service are hallmarks of customer relations. Business decisions are made on the basis of HEXPOL's interest and not on the basis of personal considerations or relations. We aim to maintain a high level of business ethics and compete honestly in its business operations, as well as in our marketing and advertising. Naturally, the Group complies with local competition rules in the geographic markets we serve.

## SUPPLIERS

When selecting suppliers, the determining factor is the

competitiveness of their offering. This naturally pertains to many different technical, supply and financial criteria that have to be fulfilled. However, we also regard it as important to cooperate with suppliers and other subcontractors whose business ethics and work routines comply with HEXPOL's policy and ethical guidelines. In accordance with the Group's environmental policy, our assessments of and contacts with suppliers also include considerations concerning sustainable development.

## SHAREHOLDERS AND INVESTORS

Our aim is to supply the capital market, shareholders and other stakeholders with relevant information that offers a basis for an accurate assessment of the company. The objective is to apply a candid and factual approach and provide a high level of service in financial reporting. This is aimed at strengthening confidence in the company and encouraging interest in HEXPOL among existing and potential shareholders.

HEXPOL complies with customary accounting principles, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinance and listing agreements. The Group applies a policy of transparency in its reporting and – in line with the Group's communication policy – provides the market with well-based, comprehensive information. HEXPOL's corporate governance is described in the Corporate Governance Report on page 42 and is also available on our website. The website also includes all published financial information such as presentations, press releases, financial reports and annual reports.

## SUSTAINABLE DEVELOPMENT

We are convinced that a responsible, proactive approach to issues concerning sustainable development generate value for society, shareholders and customers. This concerns the environmental, social and economic aspects of the Group's operations and products.

## ETHICAL GUIDELINES AND ENVIRONMENTAL POLICY

HEXPOL strives to conduct responsible business based on the Group's Code of Conduct and policies. The Code of Conduct was adopted in 2008 and stipulates the principles that govern our relationship to employees, business partners and other stakeholders. The Code is based on assumptions expressed in international conventions and agreements. The ethical guidelines provide guidance to executives and employees as regards legal issues, reporting, conflicts of interest, work environment issues, equality, discrimination, relations with suppliers and issues involving business ethics.

The environmental policy was adopted in 2008 and comprises commitments regarding the management of natural resources, the phasing out of chemical substances hazardous to human health and the surrounding environment, the reduction of emissions to the environment and the amount of waste, as well as commitment to continuous improvement. The Code of Conduct and environmental policy apply to all employees and the Group's Board of Directors. Suppliers, consultants and other business partners are also encouraged to comply with the guidelines and the environmental policy.



In 2008, all senior executives were offered the opportunity to study the Code of Conduct and the environmental policy. In 2009, this information was further distributed in the Group and we judge that the majority of the employees have actively studied the guidelines.

**DELEGATED ENVIRONMENTAL RESPONSIBILITY**

Preventive environmental work is one of the foundation pillars in the Group’s long-term efforts on sustainable development. The main focus lies on reducing the environmental impact from production plants, as well as gradually making environmental adaptations to the products. Responsibility for environmental efforts has been delegated to the business areas where the managers for the various companies and production plants have the local environmental responsibility.

**CONTINUOUS IMPROVEMENT OF ENVIRONMENTAL MANAGEMENT SYSTEM**

To work systematically on environmental issues, HEXPOL is introducing the ISO 14001 environmental management system at all production facilities. Gislaved Gummi and Stellana in Laxå are already environmentally certified, which resulted in valuable experience for the introduction of environmental management in the Group. During 2009, the production plants in Sri Lanka and Gislaved Gummi’s and Stellana’s plants in China were certified, as was the plant for the production of rubber compounds in Eupen, Belgium. This means that 50 percent (13) of the production plants were environmentally certified at the end of 2009. The remaining facilities are in the process of introducing ISO 14001 and plan to be certified in 2010.

A key prerequisite for the environmental work is to apply the best technology available to the furthest possible extent. Accordingly, HEXPOL’s newer production plants are equipped with efficient systems for energy recycling and air purification, closed cooling water systems and efficient waste management. The requirements for minimising environmental impact are constantly growing and, as a part of work on continuous improvements, the

production plants set up long and short-term environmental targets. The environmental targets result in a number of challenges and in 2009, it can be noted that:

- Many plants work with energy efficiency enhancement. Such activities include heat recovery, shorter cycle periods in manufacturing rubber compounds, and more energy efficient lighting and ventilation.
- Other usual environmental targets concern reduced spillage and amounts of waste, the phase-out of environmentally and health hazardous chemicals and the introduction of environmental management systems.

**SUSTAINABILITY REPORTING**

Since the Group’s commitment includes openly reporting to the stakeholders how we work on issues involving sustainable development, HEXPOL has chosen to report in accordance with international sustainability reporting guidelines (Global Reporting Initiative; GRI). The Group reports at the C level under GRI and the main part of this information is available on pages 55-59. Supplementary information and a self-declaration of the reporting level are available on the website.



**Global Reporting Initiative™**

The Global Reporting Initiative (GRI) comprises the normative international guidelines for sustainability reporting used by more than 1 150 organisations worldwide.

The objective of the GRI is to create uniformity and comparability for sustainability reporting, thus making it easier to assess and compare companies from a social, environmental and financial perspective.



# Corporate Governance Report





HEXPOL applies a transparent approach to the dissemination of information to shareholders and capital markets. The company is governed in accordance with HEXPOL's Articles of Association, the Swedish Companies Act, the listing agreement and other applicable Swedish and international legislation and regulations.

#### GROUP GOVERNANCE AND APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

The governance of the HEXPOL Group proceeds on the basis of HEXPOL's Articles of Association, the Swedish Companies Act and other relevant legislation, the Articles of Association, the listing agreement with NASDAQ OMX Nordic and the Swedish Code of Corporate Governance (the Code). In accordance with the listing agreements with NASDAQ OMX Nordic, HEXPOL applies the Code as of the listing date of 9 June 2008. Deviation from the code is noted in the table below. This Corporate Governance Report has not been reviewed specifically by the company's auditors.

#### ARTICLES OF ASSOCIATION

HEXPOL's current Articles of Association were adopted on 5 May 2009. The Articles of Association state that the objective of the company's operations is to acquire, own and actively manage shares in industrial, trading and service companies. The company shall also own and manage securities, sell services in the administrative area and pursue other operations compatible therewith. The Articles of Association formalise issues such as shareholders' rights, the number of Board Members and auditors, the fact that the Annual General Meeting (AGM) is to be held within six months of the end of the financial year; how the notice convening the AGM is to be undertaken; 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.

#### ANNUAL GENERAL MEETING

The Annual General Meeting is HEXPOL's supreme executive body, which all shareholders may attend. Shareholders unable to attend personally may participate by proxy. The Annual General Meeting (AGM) addresses such matters as the company's development. Resolutions are made on a number of key issues such as the adoption of the income statement and balance sheet, the dividend to be paid, changes in the company's Articles of Association, discharge from liability for the Board and President, election of the Board for the period until the next AGM and the setting of remuneration for the Board and auditors. The company's auditor attends the meeting. The AGM appoints auditors every fourth year. HEXPOL's most recent AGM was held on 5 May 2009.

#### NOMINATION COMMITTEE

HEXPOL's AGM in 2009 passed a resolution to the effect that HEXPOL shall have a Nomination Committee consisting of four members representing the largest shareholders in terms of voting and elected the following people up to the 2010 AGM:

- Mikael Ekdahl, Melker Schörling AB (Chairman)
- Anders Algotsson, AFA Försäkring
- Henrik Didner, Didner & Gerge Fonder
- Åsa Nisell, Swedbank Robur

In the event that a shareholder who is represented by one of the members of the Remuneration Committee ceases being one of the largest shareholders in HEXPOL, or if a member of the committee is no longer employed by such a shareholder or for any other reason leaves the committee prior to the 2010 AGM, the committee is entitled to appoint another representative from among the major shareholders to replace such a member. During the year, the committee held one minuted meeting during which the chairman presented an account of its evaluation work. The Nomination Committee discussed the desired changes and decided on proposals that would be submitted ahead of the 2010 AGM in respect of the

#### Deviation from the Swedish Code for Corporate Governance

Rule	Rule in the Code	Comments
10.1	The Board shall set up an Audit Committee consisting of at least three members	To create a vigorous and effective Board, HEXPOL has elected to choose a limited number of Board members. As a result of this, the Audit Committee comprises fewer than three members.

## The Board of Directors HEXPOL AB

	Birth year	Nationality	Elected	Audit Committee	Remuneration Committee	Independent in relation to the company and management	Independent in relation to major shareholders	Number of A shares	Number of B shares	Number of warrants
Melker Schörling Chairman	1947	Swedish	2007		Chair	Yes	No	1 181 250 <sup>1</sup>	6 041 731 <sup>1</sup>	
Georg Brunstam President and CEO	1957	Swedish	2007			No	No	–	–	225 000
Alf Göransson	1957	Swedish	2007			Yes	No	–	–	
Malin Persson	1968	Swedish	2007			Yes	Yes	–	–	
Ulrik Svensson	1961	Swedish	2007	Chair	Member	Yes	No	–	–	
Jan-Anders E. Månson	1952	Swedish	2008			Yes	Yes	–	–	

<sup>1</sup> Through companies.

election of the chairman of the meeting, election of the Chairman and other Board members, director fees and remuneration for committee work.

### BOARD MEMBERS AND BOARD ORGANISATION

The Board members represent solid financial expertise and broad international experience of industrial operations. A detailed description of all of the Board members is presented on page 84 and they can be contacted via HEXPOL's head office. According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members. The Board is elected annually at the AGM for the period up until the next AGM. The AGM on 5 May 2009 resolved to re-elect a Board consisting of Melker Schörling (Chairman), Georg Brunstam, Alf Göransson, Malin Persson, Ulrik Svensson and Jan-Anders E. Månson. The Board was re-elected for the period up to the end of the 2010 AGM.

### 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 for the Group's organisation and management pursuant to the Swedish Companies Act. The Board also appoints the President and CEO as well as the Audit Committee and Remuneration Committee, and also decides on matters involving the salary and other remuneration of the President and CEO. The activities of the Board and division of responsibility between the Board and executive management are governed by the Board's work procedures. Work procedures include instructions for the President and CEO in respect of financial reporting as well as instructions for the Audit Committee and Remuneration Committee. These are reviewed and set annually.

## BOARD COMMITTEES

### Audit Committee

The Board has appointed an Audit Committee, which, on behalf of the Board, has the task of preparing matters involving the procurement of auditing services and auditing fees, monitoring the work of the auditors and the company's internal control system, as well as the current risk profile, following up external auditing and the company's financial information and other issues that the Board assigns the committee to prepare. The Audit Committee is to meet regularly with HEXPOL's auditors and report back to the Board. The committee has no authority to make decisions but instead presents its findings and proposals to the Board for decisions. The Board appoints the members of HEXPOL's Audit Committee annually. According to the Swedish Code of Corporate Governance, the Board must establish an Audit Committee consisting of at least three board members.

Currently, the committee consists of just one member. As part of efforts to create a vigorous and effective Board, HEXPOL has elected to have a limited number of Board members. As a result, the Audit Committee consists of fewer than three members. The Audit Committee for 2009 comprises Ulrik Svensson (member and Chairman). In 2009, the Audit Committee held three minuted meetings.

### Remuneration Committee

The Board established a Remuneration Committee to deal with questions involving salaries, bonus payments, options, pensions and other forms of remuneration for Group executive management. The Remuneration Committee may also address issues related to other management levels, should the Board decide in this respect, as well as other similar issues that the Board assigns the committee to prepare. The committee has no authority to make decisions, but instead presents its findings and proposals to the Board for a decision. The Board appoints the members of HEXPOL's Remuneration Committee annually. For 2009, the committee consists of Melker Schörling (Chairman) and Ulrik Svensson. The Remu-



neration Committee held two minuted meetings during 2009.

### BOARD ACTIVITIES IN 2009

In 2009, the Board held six minuted meetings, in addition to the statutory Board meeting. At all meetings, the CEO provides the Board members with information concerning the Group's financial position and significant events concerning the company's operations.

During 2009, the Board dealt with important issues such as:

6 February	2008 year-end report and debriefing from auditors
22 March	Decision concerning company signatories
5 May	Interim report for Q1 2009 and Statutory Board Meeting
23 July	Interim report, Q2 2009
22 October	Interim report Q3 2009 and strategic plan for 2010-2012
15 December	Budget for 2010 and visit to subsidiary

During 2009, Board members elected by the AGM attended Board meetings as presented below:

	Feb	Mar	May	July	Oct	Dec
Melker Schörling	X	X	X	X	X	X
Georg Brunstam	X	X	X	X	X	X
Alf Göransson	X	X	X	X	X	X
Malin Persson	X	X	X	X	X	X
Ulrik Svensson	X	X	X	X	X	X
Jan-Anders E. Månson	X	X	X	X	X	X

### AUDITORS

On the behalf of the shareholders, the company's auditors are responsible for examining the annual report and accounting records, as well as the administration of the Board and President. HEXPOL's auditors have been elected up to year-end 2011. The elected auditors comprise the registered auditing firm, Ernst & Young AB, with the authorised public accountant Ingvar Ganestam as auditor-in-charge, with deputy auditors Stefan Engdahl, authorised public accountant, and Johan Thureson, authorised public accountant, who are employed by Ernst & Young AB and are members of FAR SRS (Swedish accounting organisation). All auditors may be contacted at Ernst & Young AB, Torggatan 4, SE-211 40 Malmö, Sweden.

### GROUP MANAGEMENT

The President and CEO, the CFO and the company's business and product area managers constitute HEXPOL's Group Management. Group Management has overriding responsibility for the Group's operations in line with the strategy and long-term objectives set by HEXPOL's Board of Directors. 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 company level. The organisation is designed to provide short and prompt decision-making processes, with a distinct, decentralised responsibility. Group Management is presented on page 86, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

### INFORMATION ON REMUNERATION

Refer to Note 4 on page 69 for information on remuneration, pensions and other benefits for the Board, President and other senior executives.



## FINANCIAL REPORTING

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

The company's information policy is reviewed annually. The policy complies with the information requirements imposed by the stock market and is designed to conform with the recommendations of NASDAQ OMX Nordic as a supplement to the listing agreement. Among other features, the information policy deals with such issues as who should represent the company as spokesperson; who should assess what is share price-sensitive information; how share price-sensitive information should be managed; as well as the information content and communications methods vis-à-vis financial market players. HEXPOL regularly discloses financial information in Swedish and English in the form of interim reports, annual reports, press releases and news and share price-sensitive events. The company's website provides information on HEXPOL's progress, other information for the stock market as well as other key data.



## The Board of Directors' report on internal control pertaining to financial reporting for the 2009 financial year

In accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for internal control. The Code stipulates that the Board of Directors must submit a report on how internal control in respect of financial reporting is organised in HEXPOL. Internal control in terms of financial reporting is a process that involves the Board, corporate executive management and personnel. The process has been designed so that it provides reasonable assurance of the reliability of external reporting. According to a generally accepted framework that has been established for this purpose, internal control is usually described from five perspectives. These five perspectives serve as subheadings below. The company's auditors have not examined this section.

### CONTROL ENVIRONMENT

HEXPOL's organisation is designed to facilitate rapid decision-making. Accordingly, operational decisions are taken at the business area or subsidiary level, while decisions concerning strategies, acquisitions and divestments and overall financial matters are taken by the company's Board and Group Management. The organisation is characterised by well-defined allocation of responsibility and well-functioning and well-established governance and control systems, which apply to all HEXPOL units. The basis for the internal controls pertaining to financial reporting comprises an overall control environment in which the organisation, decision-making routes, authorities and responsibilities have been documented and communicated in control documents, such as in HEXPOL's finance policy and financial reporting instructions and in accordance with the authorisation arrangements established by the CEO.

HEXPOL's financial control functions are integrated by means of a Group-wide reporting system. The Group's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board's monitoring of the company's assessment of its internal control includes contacts with the company's auditors. HEXPOL has no internal audit function, since the functions described above satisfy this need. 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.

### RISK ASSESSMENT

The significant risks affecting the internal control of financial reporting are identified and managed at Group, business area, subsidiary and unit level. Within the Board, the Audit Committee is responsible for ensuring that significant financial risks and the risk of error in financial reporting are identified and managed in a manner that ensures correct financial reporting. Special priority has been assigned to identifying processes that, relatively speaking, give rise to a higher risk of significant error due to the complexity of the process or of the contexts in which major values are involved.

### CONTROL ACTIVITIES

The risks identified with respect to the financial reporting process are managed via the company's control activities, which are designed to prevent, uncover and rectify errors and non-conformities. Their management is conducted by means of manual controls in the form of, for example, reconciliations and audits, automatic controls using IT systems and general controls conducted in the underlying IT environment. Detailed analyses of financial results and follow-ups in relation to budget and forecasts supplement the business-specific controls and provide general confirmation of the quality of financial reporting.

### INFORMATION AND COMMUNICATION

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

### FOLLOW-UP

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

# Board of Directors' report





## HEXPOL AB (publ), Corp. Reg.: 556108-9631

The Board of Directors and President of HEXPOL AB (publ) registered in Malmö, Sweden, hereby present the annual report and consolidated financial statements for the 2009 financial year. The income statements and balance sheets, specification of shareholders' equity, cash flow statements and the presentation of the applied accounting principles and notes comprise HEXPOL's formal financial reporting.

### OWNERS AND LEGAL STRUCTURE

HEXPOL AB (publ), corporate registration number 556108-9631, is the Parent Company of the HEXPOL Group. HEXPOL's class B shares are listed on the Stockholm Mid Cap industrial segment of NASDAQ OMX Nordic. HEXPOL had 8,281 shareholders on 31 December 2009. The largest shareholder is Melker Schörling AB with 27 percent of the capital and 48 percent of the voting rights. The 20 largest shareholders own 72 percent of the capital and 80 percent of the voting rights.

### OPERATIONS AND STRUCTURE

HEXPOL is a leading global polymers group with solid market positions in advanced rubber compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of polyurethane, plastic and rubber materials for forklifts and castor wheel applications (Wheels). Customers are mainly OEM manufacturers of plate heat exchangers and forklifts and systems suppliers to players in the global automotive industry. The Group is organised on the basis of two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had some 1 800 employees in nine countries at year-end 2009. Additional information is available at [www.hexpol.com](http://www.hexpol.com).

## Financial Year 2009

### SALES AND OPERATING PROFIT

The Group's full-year sales amounted to 2,608 MSEK (3,190), down 18 percent. Exchange-rate fluctuations had a positive impact of 264 MSEK, primarily due to a substantial depreciation of the Swedish krona (SEK) against the US dollar and euro during the first half of the year. The Group accelerated its cost-saving programme in March and implemented a restructuring project during the year, which resulted in the reporting of an item affecting comparability amounting to 98 MSEK. The project mainly entailed the closure of the compounding plant in Canada, but also involved other parts of the Group's operations. Operating profit amounted to 261 MSEK (310), adjusted for the restructuring costs, corresponding to an operating margin of 10.0 percent (9.7). Exchange-rate fluctuations had a positive impact of 22 MSEK on operating profit.

In business area HEXPOL Compounding, sales decli-

ned 17 percent to 2,020 MSEK (2,425), while operating profit rose 3 percent to 231 MSEK (224), adjusted for items affecting comparability. Accordingly, the operating margin was 11.4 percent (9.2). Sales in the business area declined during the first six months of the year but then rose sequentially during the third and the fourth quarter. In Europe, demand was weak during the first and second quarters, particularly in Eastern Europe among customers in the automotive industry. During the third and fourth quarters, the situation changed, in part due to stimulus packages in the automotive industry, which gave rise to sequentially increased growth in volumes and thus in increased sales. In NAFTA, volumes were weak during the early part of the year but then improved gradually. In NAFTA, a closure of the plant in Canada was implemented during the year through the gradual transfer of operations to other units in NAFTA. In Asia, the plant in Qingdao, China, steadily increased its volumes during the year, particularly to customers in the automotive segment.

Sales in business area HEXPOL Engineered Products amounted to 588 MSEK (765). Operating profit amounted to 30 MSEK (86), adjusted for items affecting comparability, corresponding to an operating margin of 5.1 percent (11.2). During the first quarter, demand in the market for gaskets for plate heat exchangers remained favourable, but then declined during the remainder of 2009. The market in the Gaskets product area was characterised by price pressure, fewer project orders and weak demand during the year. In HEXPOL Wheels, volumes were low throughout the year, with a slight recovery noted towards year-end. Pressure on prices also increased for the Wheels product area which, combined with weak sales, resulted in unsatisfactory profitability during 2009.

### FINANCIAL INCOME AND EXPENSES

The Group's net financial expenses during the year totalled 23 MSEK (52). The decline derived from lower market interest rates for the Group's financing, as well as from sharply reduced net debt.

### TAX EXPENSE

The Group's tax expenses during the year amounted to 38 MSEK (75). Adjusted for the effects of restructuring costs, tax expenses amounted to 66 MSEK (75), corresponding to a tax rate of 27.7 percent (29.1). Tax costs were impacted by the fact that a substantial share of operating profit is generated in subsidiaries in countries in which the tax rate differs from that in Sweden.

### NET PROFIT FOR THE YEAR

Consolidated profit after tax totalled 102 MSEK (183), corresponding to earnings per share of 3.84 SEK (6.89). Adjusted for items affecting comparability, profit after tax amounted to 172 MSEK (183), corresponding to earnings per share of 6.48 SEK (6.89).

### INVESTMENTS AND DEPRECIATION

HEXPOL's net investments during the year totalled 23 MSEK (105) and mainly comprised investments in the

finalisation of ongoing projects in China and Mexico. Depreciation, amortisation and impairments during the year totalled 118 MSEK (93), of which impairments accounted for 34 MSEK.

## PROFITABILITY

Return on average capital employed amounted to 10.3 percent (13.2), adjusted for items affecting comparability. The main reason for the change was that operating profit was somewhat lower than in the preceding year. Return on average shareholders' equity was 14.5 percent (16.8), adjusted for items affecting comparability.

## CASH FLOW

During the year, cash flow from operating activities before changes in working capital amounted to 256 MSEK (280). Cash flow from operating activities totalled 359 MSEK (393). Operating cash flow amounted to 462 MSEK (411). The operating cash flow includes the positive effects of inventory reductions and a low rate of investment.

## FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio was 43.7 percent (36.1). The Group's total assets amounted to 2 788 MSEK (3 201). Net debt amounted to 760 MSEK (1 193), whereby the net debt/equity ratio amounted to a multiple of 0.6 (1.0). The decrease was mainly attributable to the Group's strong cash flow during the year. Interest cover ratio was a multiple of 7.1 (4.2). In May 2008, the Group signed a five-year credit agreement totalling 1.7 billion SEK with a number of Nordic banks. At year-end, the unutilised portion of the credit agreement amounted to 699 MSEK (331).

Since goodwill may no longer be amortised according to plan, the value of goodwill and similar fixed assets is impairment tested at least once annually. Such an analysis was performed and did not reveal any need for impairment. At year-end, consolidated goodwill amounted to 1 228 MSEK (1 266). The principles for the analysis are presented on page 66 under the section accounting policies.

## PRINCIPLES UNDERLYING REMUNERATION OF SENIOR EXECUTIVES

The 2009 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives. Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension. The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be maximised in relation to fixed salary. Pension benefits shall comprise either defined-benefit or defined-contribution solutions, or a combination of both, based on an individually set retirement age, although never less than 60 years.

The Board's Remuneration Committee deals with matters related to remuneration of Group Management as well as that for other management levels if the Committee so wishes. The Committee reports its proposals to the Board, which makes all decisions on such matters.

## PERSONNEL

The average number of employees during the year declined to 1 809 (2 315). During the year, the workforce was reduced in many subsidiaries, primarily in Canada, Sweden and Sri Lanka. At the end of the year, 17 employees had been served employment-termination notices.

During the year, the Group has employees in Sweden, Germany, Belgium, the Czech Republic, the US, Canada, Mexico, Sri Lanka and China. Of the total workforce, 85 percent is outside Sweden. At year-end, the HEXPOL Group had 1 827 (2 230) employees, of whom HEXPOL Compounding accounted for 662 (762) and HEXPOL Engineered Products for 1 160 (1 462), with 5 (6) employees in the Parent Company.

## EVENTS AFTER THE BALANCE-SHEET DATE

No significant events occurred during the period between the balance-sheet date and the date upon which the annual accounts were signed.

## 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 from the preceding year	326 835
Net loss for the year	-14 905
<b>Total unrestricted funds</b>	<b>311 930</b>

The Board proposes that the unappropriated funds be disposed of as follows. That the shareholders be paid a dividend of 1.00 SEK per share.

Total dividend from earnings brought forward	26 552
To be carried forward	285 378
<b>Total</b>	<b>311 930</b>

# Risk Factors

## INDUSTRY AND MARKET RISKS

The HEXPOL Group is involved in worldwide operations that depend on both the general economic trend and political situation in the world and conditions that are unique for a certain country or region.

Risk management in the Group is determined by established policies and procedures that are revised continuously by the Board of Directors. The Parent Company's Board has overall responsibility for identifying, monitoring and managing risk. The CEO provides regular reports on the status of risk issues.

### Impact of economic trends

As is the case for all business operations, the general economic climate affects the propensity to investment and investment capacity of HEXPOL's existing and potential customers. Accordingly, a weak economic trend in all or parts of the world could result in 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 of the current and future demands, requirements and wishes of both direct and end customers. To reduce the risk of economic impact, HEXPOL cooperates closely with customers, conducts comprehensive business intelligence work and continuously reviews its selected strategies. Although HEXPOL's operations have a wide geographic spread, and otherwise an extensive customer base, HEXPOL's sales and operations are exposed to a potential risk of being adversely affected by weak economic conditions.

### Competition and price pressure

HEXPOL's operations are conducted in sectors subject to competition and are thus affected by, for example, severe price pressure, which in turn drives demand for cost-effective solutions. Competing companies with operations in Asia and other low-cost regions – through improvements of their technology and production expertise – may begin to produce at low cost and compete with HEXPOL's products. HEXPOL's future competitive capacity is dependent on its ability to utilise the Company's leading-edge expertise in rubber compounds and rubber and plastic products and to transform this know-how into attractive products and customised solutions at competitive prices. To ensure the Company's competitiveness, investments will be required to maintain the Group's prominent position in the area of product development. While constantly striving to adapt to changes in the competitive situation, HEXPOL may also be forced to

implement costly restructuring measures to be able to retain the Company's market position and profitability.

## STRATEGIC AND OPERATIONAL RISKS

HEXPOL's business is dependent on a number of factors, each of which could significantly affect the Group's earnings either positively and negatively.

### Technological progress and market development

Portions of HEXPOL's operations are conducted in industries subject to price pressure and rapid technological advances. To reduce these risks, HEXPOL's ability to compete in this market environment by developing new products that offer improved functionality while reducing costs for new and existing products is of great importance. Being able to attract the right skills for research, product development, marketing and sales is critical for success.

### Materials and energy costs

In recent years, trends in many raw materials markets have resulted in higher purchasing prices for raw materials that are crucial for HEXPOL. To offset continued increases in raw materials prices, HEXPOL devotes considerable effort to increasing production efficiency, developing more cost-effective processes and passing on price increases to customers. Given the competitive market situation, however, there is a risk that HEXPOL will not be able to increase prices sufficiently to fully offset higher costs, thus resulting in reduced margins.

### Suppliers

HEXPOL's products consist of raw materials and goods from several different suppliers. To be able to manufacture, sell and deliver products, HEXPOL is dependent on external supplies meeting agreed requirements with respect to factors such as quantity, quality and delivery time. Incorrect, delayed or missing deliveries from a company supplier may in turn mean that HEXPOL's





deliveries are delayed, deficient or incorrect, which could result in reduced sales and have a negative impact on the Group's earnings.

In HEXPOL's view, the Company is not dependent on any single supplier, meaning that interruption of deliveries would not result in any long-term consequences for HEXPOL's operations. No single supplier accounts for more than 10 percent of the Group's purchases and all major suppliers are also replaceable.

**Customers**

HEXPOL's operations are conducted in a large number of geographic markets with many customer categories. No single customer accounts for more than 10 percent of the Group's total sales. HEXPOL is thus not dependent on any single customer and has a favourable risk spread in this respect. The largest single group of customers are systems suppliers to the automotive industry. A decline or a weak trend in the automotive industry could have a negative effect on HEXPOL's business. In the Company's assessment, however, the division of the automotive industry into different segments – combined with the industry's geographic diversity – entails a more limited overall risk exposure than might be apparent from the aggregate volume sales to the automotive industry.

**Political risks**

Political risk pertains to the risk that public authorities in the countries in which the Group is active make political decision or exercise their authority so that the operation of Group activities becomes impeded, more costly or impossible to maintain. The Group is mainly active in countries where the political risk is adjudged to be low.

**Key personnel**

HEXPOL's future success is in large part dependent on its ability to recruit, retain and develop qualified managers and other key personnel. Being an attractive employer is thus an important success factor. If key persons leave the company and successors cannot be recruited,

this could have a negative effect on the company's operations.

**LEGAL RISKS**

Through its global operations, HEXPOL is affected by laws, directives, regulations, agreements and guidelines, including many that relate to the environment, health, safety, trade restrictions, competition legislation and currency regulation.

**Legislation and regulation**

To counter the legal risks, HEXPOL closely monitors the rules and regulations applying in each market and works to quickly adapt its operations to identified future changes in this area. However, changes in legislation, customs regulations and other obstacles to trade, price and currency controls and other government guidelines in the countries in which HEXPOL operates could limit the Group's operations.

**Tax risks**

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

**Disputes**

HEXPOL is occasionally involved in disputes as part of its normal business operations. Major and complicated disputes could be costly in terms of time and resources and could interfere with normal business operations.



Neither can it be precluded that the result of such disputes could have a negative impact on HEXPOL's earnings and financial position.

#### Intellectual property rights

According to a licence agreement with Bayer 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 Bayer extends for one-year periods, with a notice period of three months. Notice of termination of the agreement by Bayer would have a negative impact, since Vulkollan currently accounts for a large share of the sales of the subsidiary Stellana AB.

HEXPOL sells products under several well-known brands. It is of great importance for the company that these brands can be protected against unauthorised use by competitors and that the goodwill associated with the brands can be maintained.

To meet market requirements, HEXPOL must continuously develop new technical solutions and applications. To guarantee a return on the resources that HEXPOL invests in research and development, it is of the utmost importance that new technology can be protected against unauthorised use by competitors.

It is not certain that applications for protection of patents, brands and other intellectual property rights will be granted or, if they are granted, that they will provide satisfactory protection that cannot be circumvented by competitors. Nor is there any guarantee that HEXPOL will not be considered to infringe on other companies' intellectual property rights or that HEXPOL's rights will not be questioned or contested by others. In addition, HEXPOL's competitors could develop or acquire intellectual property rights that could prove to be essential for portions of HEXPOL's operations. Furthermore, HEXPOL depends on know-how that falls outside the realm of protectable intellectual property rights. It cannot be precluded that competitors could develop the corresponding know-how or that HEXPOL will not succeed in protecting its expertise effectively.

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

#### FINANCIAL RISKS

In its capacity as a net borrower and through its extensive operations outside Sweden, HEXPOL is exposed to various financial risks. The Group's financial policy provides guidelines for financial exposure and how these risks are to be managed in the Group. The financial policy is established each year by the Board of Directors. When managing its financial risks, HEXPOL's goal is to limit their impact on business operations and on the consolidated balance sheet.

HEXPOL's financial operations are centralised in the parent company's treasury department, which is responsible for coordinating currency and interest expo-

sure. The treasury department is also responsible for the Group's internal and external financing. Centralisation results in significant economies of scale, lower financing costs and better control and management of the Group's financial risks. The treasury department does not have any mandate to conduct commercial trading with currency or interest instruments. Credit risk at the customer level is managed by the relevant subsidiary, but is consolidated and fed back at Group level.

#### Currency risk

In its operations, HEXPOL is exposed to various financial risks, of which currency risk is the dominant one. Currency 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).

Major contracted currency flows are hedged in their entirety. Expected flows in excess of contracted flows are hedged by between 40 and 75 percent with a horizon of twelve months. The Group's translation exposure in the balance sheet is managed through currency hedging via loans or forward contracts in the currency of the net asset.

#### Interest-rate risk

HEXPOL is also affected by interest rate fluctuations. Changes in interest rates affect the Group's net interest income and/or cash flow negatively. Based on the average fixed interest period in the Group's total loan portfolio at year-end 2009, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect on full-year earnings of about 11 MSEK before tax. This is also viewed as reflecting the situation for the current year.

#### Credit risk

The financial risks to which HEXPOL is exposed also include credit risks, meaning the risk that a customer or other business party will not be able to settle its obligations to HEXPOL. There is no significant concentration of credit risks, either geographically or to any given customer segment.

#### Liquidity risk

The risk of difficulties in fulfilling commitments tied to the company's financial liabilities is considered to be limited. HEXPOL has considerable available liquidity on the balance sheet. With the aim of reducing the risk of liquidity, the foremost factor is having a good cash flow, which was the case during the financial year.

#### Acquisitions and financing of acquisitions

HEXPOL has long worked with an active acquisition strategy, resulting in a number of successful acquisitions. Strategic acquisitions will also be a part of the growth strategy in the future. It cannot be guaranteed, however, 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 company. This could result in reduced or declining growth for HEXPOL.

The completion of acquisitions also entails risks. In addition to the company-specific risks, the acquired company's relations with customers, suppliers and key persons may 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 whole or in part fail to materialise.

#### **Future capital requirements**

In the assessment of HEXPOL's Board of Directors, the Group's future financial position is favourable, and its operations generate strong cash flow. If the Group's development deviates from what is anticipated, however, it cannot be precluded that a situation could arise in the future in which new capital must be procured. There is no guarantee that HEXPOL will be able to acquire the necessary capital on terms that are favourable to the company. In this respect, the general market conditions for raising capital are of considerable importance.

## **EQUITY MARKET RISKS**

#### **Share price performance**

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

#### **Future dividends**

Future dividends will be proposed by HEXPOL's Board of Directors. In its assessment, the Board of Directors will take into consideration several factors, including business development, earnings, cash flow, financial position and expansion plans. See also the section "Dividend policy" on page 13. There are risks that could affect the Company's earnings negatively, and there are no guarantees that HEXPOL will be able to generate earnings that permit a dividend to be paid to shareholders for each financial year in the future.



# Sustainability work

## ENVIRONMENTAL RESPONSIBILITY

### SYSTEMATIC ENVIRONMENTAL WORK

HEXPOL's environmental policy outlines the level of ambition of environmental work. The overall environmental standard within the Group is considered to be good. This is a result of many of the production plants having been constructed in recent years on the basis of sound environmental technology, ongoing internal improvement work and requirements from environmental authorities and customers. Certified environmental management systems in accordance with ISO 14001 are in place at 50 percent of the facilities and are about to be introduced in all companies. Environmental efforts are evaluated in regular internal and external environmental audits. Once a year, information is gathered from all companies regarding their performance in the field of sustainability. Reporting of sustainability work is done in accordance with the guidelines of the Global Reporting Initiative (GRI, see page 41).

### ENVIRONMENTAL ASPECTS

HEXPOL has 14 production facilities in eight countries and issues concerning the environment and work environment are part of the company's responsibility. Immediate responsibility for these matters rests locally with the management of each company and the work is coordinated at Group level. The most significant environmental aspects are energy consumption, the utilisation of fossil raw materials, management of chemicals hazardous to health and the environment, emissions of contaminants and climate-impacting gases to the atmosphere, as well as the creation of waste. Suppliers' activities, the transport of raw materials and finished products, as well as the use of our products are examples of key indirect environmental aspects.

### ENVIRONMENTAL LEGISLATION

HEXPOL complies with applicable laws and provisions concerning the environment and work environment areas in the countries in which the Group conducts operations. In addition to this, stricter requirements are imposed whenever they are justified from an environmental viewpoint and if the measures are perceived as being technically possible and financially feasible. The facilities in Sweden are subject to official approval pursuant to the Swedish Environmental Code and compliance is monitored through measurements and inspections, the results of which are regularly reported to the supervising authority.

The following matters involving authorities are of interest in Sweden:

- At the plant in Gislaved, environmental authorities have directed their attention to emissions of fume by products formed when rubber material is vulcanised. Here, we are investigating the technical possibilities of reducing these emissions.
- At Stellana in Laxå, actions have been taken to increase the efficiency of the emission abatement equipment

used to minimise emissions of diisocyanates to the atmosphere.

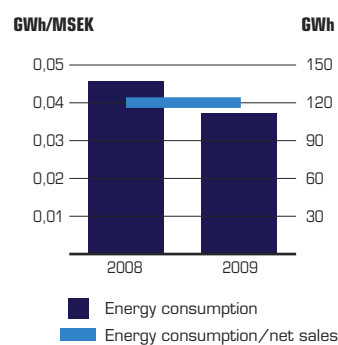
The plants in the Czech Republic, Belgium, Germany, the US, Mexico, Sri Lanka and China have an environmental approval that encompasses either the entire operations or that applies to specific environmental aspects. None of the plants believe that current or future applications for environmental licences will require any special measures.

### ENERGY CONSUMPTION

Manufacturing rubber compounds and products of polymer materials requires relatively large amounts of energy. Of energy consumption in the Group, 70 percent (69) consists of indirect energy, mainly in the form of purchased electricity, district heating and steam, and 30 percent (31) consists of direct energy in the form of fuel oil and natural gas. The combined energy consumption is 111 GWh (139). The decrease in consumption is a result of a combination of energy enhancements and lower production volume. The Group's energy costs during 2009 totalled approximately 60 MSEK (70).

A number of the plants are working on energy-saving projects with measures involving production equipment, lighting and ventilation. In Statesville, North Carolina in the US, a project is under way in cooperation with the energy supplier with the aim of replacing lighting in the production facilities with modern fixtures with low energy consumption, installing motion detectors for lighting and implementing other measures in the area of energy. In Germany, a project is under development involving participation with universities, manufacturers of gear boxes and other manufacturers of components for rubber compounding equipment. The objective is to be able to mix rubber in a more energy efficient manner and thereby reduce energy costs and climate impact. The Group's energy consumption measured as GWh/MSEK of sales was 0.04 (0.04) in 2009.

Energy consumption  
Energy consumption/net sales



**RAW MATERIALS AND CHEMICAL PRODUCTS**

Rubber polymers, process oils, isocyanates, metal components, paints and various additives are the raw materials for HEXPOL's production. Of the polymer materials, more than 85 percent comprise synthetic rubber, 9 percent natural rubber and 5 percent various types of plastic. The use of recycled plastic and rubber raw material comprises a few percent of the total volume and use of this type of raw material has grown somewhat. In the manufacture of rubber compounds, the predominant part (about 99 percent (90)) of the process oils used contain less than 3 percent of hazardous polyaromatic hydrocarbons (PAH). Work to replace the environmentally and health hazardous chemicals in the products is being conducted in many places in the Group. In addition to the ambition to reduce risks in the Group's own operations, the customers' environmental requirements are a strong driving force.

**EMISSIONS OF CLIMATE-CHANGING GASES**

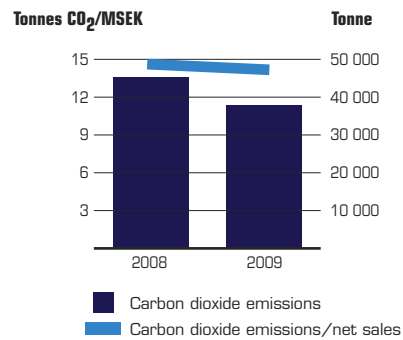
The emission of carbon dioxide – a climate-changing gas – occurs through the use of fuel oil, natural gas, district heating and electricity. Aggregate emissions of carbon dioxide during 2009 totalled about 37,000 tonnes (47,000), with the indirect emission of carbon dioxide accounting for more than 78 percent (75). CO<sub>2</sub> emissions measured as tonnes of CO<sub>2</sub>/MSEK of sales amounted to 14.0 (14.6). This decrease in emissions is a result of a combination of energy enhancements and lower production volume. None of HEXPOL's plants are affected by the EU Emission Trading Directive for carbon dioxide.

Transportation of raw materials, products and people also contributes to emissions of carbon dioxide, but at this moment in time we have no data regarding these emissions. At some plants, measures have been undertaken to reduce the environmental impact from transports, such as the coordination of the transports and ensuring that the lorries are fully loaded.

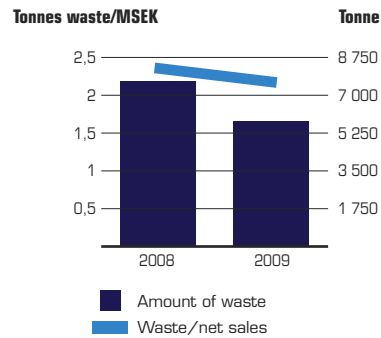
**OTHER EMISSIONS TO THE ATMOSPHERE**

Other emissions to the atmosphere totalled approximately 43 tonnes (60) of sulphur dioxide and nitrogen oxides. The use of heavy fuel oil at the units in Sri Lanka is the main source of the emissions. Emissions of volatile organic compounds (VOC) from paints and solvents totalled approximately 9 tonnes (5). No complaints from neighbours or other stakeholders regarding the emission of substances into the atmosphere were received during the year.

**Carbon dioxide emissions**  
Carbon dioxide emissions/net sales



**Amount of waste**  
Waste/net sales



## DISCHARGES TO WASTEWATER

In 2009, the consumption of municipal water amounted to approximately 75 000 m<sup>3</sup> (103 000). In addition to this, approximately 9,500 m<sup>3</sup> water from our own wells was used. The cost of water amounted to 1.1 MSEK (1.1).

To reduce water consumption, most of the cooling systems are closed systems with re-circulated water that is cooled by cooling towers. At the plant in Gislaved, Sweden, approximately 180 000 m<sup>3</sup> of water from a nearby body of water was used to cool the water in the closed cooling system through heat exchangers.

Emissions to wastewater consist mainly of organic materials and nutrients from sanitary facilities and from the cleaning of premises. Emissions of cooling water and rainwater from roofs and land areas also occur. Production plants are connected to the municipal wastewater treatment plants or equivalent. Measurements of the composition of the wastewater taken at a few of the facilities showed that emissions remained within permitted levels.

## WASTE

Total waste during 2009 amounted to approximately 5 800 tonnes (7 600), of which 93 tonnes (330) were hazardous waste. More than 55 percent (50) of the waste was recycled as energy or materials at external waste processing plants. The cost of external waste management totalled 4.6 MSEK (5.1). Waste measured as total tonnage/MSEK of sales was 2.2 (2.4).

## ENVIRONMENTAL REQUIREMENTS ON SUPPLIERS

Within the framework of the environmental management system used at HEXPOL, demands are imposed on suppliers' environmental programmes. The requirements and their monitoring consist, for example, of an assessment of the environmental status in connection with the conclusion of contracts, environmental surveys for suppliers and on-site visits.

## GOOD FOR THE ENVIRONMENT CAN GENERATE FINANCIAL BENEFITS

At many places in the Group, environmental projects are being conducted that aim to reduce the consumption of resources. This could, for instance, involve reducing water and energy consumption or using various materials more efficiently. The type of approach and the initial investments vary between the plants, but ultimately it usually proves that what is good for the environment can also be good financially.

During 2009, HEXPOL invested 0.5 MSEK (3.1) in measures that benefit the environment and work environment. The largest individual investments were in equipment for the reduction of emissions to the atmosphere, energy savings and measures designed to improve the work environment. Costs during the year totalled 7.5 MSEK (6.3) and were dominated by waste-management fees. The reported savings in the environmental area totalled approximately 4 MSEK (1).

## PRODUCTS THAT CONTRIBUTE TO A BETTER ENVIRONMENT

The Group's product range includes a number of products that contribute to a better environment and benefit from the growing interest in society in energy and climate issues.

Here are a few examples:

- In many countries, demand is growing for ethanol from corn, sugar cane, forest raw materials and other renewable materials. The end product is environment-friendly vehicle fuel. Gaskets made of polymer material from HEXPOL for plate heat exchangers comprise puzzle pieces in the transition to a sustainable society.
- District heating is another expansive area and, here too, effective gaskets in plate heat exchangers play an important role. This benefits both the environment and the Gaskets product area.
- The automotive industry is working to reduce the weight and thereby the fuel consumption of vehicles. Here, HEXPOL Compounding manufactures porous rubber material that contributes to lower vehicle weight.

## Positive experiences from environmental management in Sri Lanka

The environmental management standard ISO 14001 is used worldwide. The basic idea of the environmental management system is to identify the principal environmental issues and reduce environmental impact through continuous improvements.

Certification is conducted through regular environmental audits by independent certification bodies. "At HEXPOL's facilities in Sri Lanka, ISO

14001 meant that we focused more on issues concerning waste and energy," confirms Robert Knutsson, Product Manager at Elastomeric Gaskets. "Moreover, the attitude towards environmental issues has changed at all levels in the company. We have also increased pressure on the authorities to obtain an improvement of the systems for the processing of hazardous waste," he concludes.







## Reduced risks of chemicals

Reducing the risks of the use of hazardous chemical substances continues to be of great interest. The REACH chemicals legislation in particular will compel the supply chains to make risk assessments and phase out particularly hazardous substances. HEXPOL's chemists monitor developments and have already been able to contribute to a reduction in or termination of the use of certain substances.

Examples of this continuous work include a reduction in the use of zinc oxide; the almost total elimination of lead as an input; introduction of nitrosamine-free vulcanisation systems; replacement of high-aromatic oils (HA oils) by paraffin oils; and the phase-out of certain phthalates (such as DOP).

There are also a number of inputs in rubber compounds that are on the way to be phased out for environmental and health reasons.

- In terms of the continuous work to reduce the risks of chemical substances in the products, the Group has made considerable progress. For example, we have long complied with demands from the automotive industry stipulating that rubber and other polymers must be free from certain specified substances that are hazardous to the environment and health.

HEXPOL has also made considerable progress with regard to measures to reduce the risks of chemical products.

We have long complied with demands from the automotive industry to the effect that rubber and other polymers must be free from certain specified substances that are hazardous to the environment and health.

### ENVIRONMENTALLY RELATED RISKS AND UNDERTAKINGS

The introduction of new environmental legislation and other authority-related requirements in respect of preventive environmental programmes and the restoration of a contaminated environment could lead to substantial costs for individual companies. Examples include the remediation of polluted soil and the cleaning of hazardous substances (such as asbestos, PCB and radon) from buildings and installations. In addition, risks from a business perspective have received growing attention in recent years. Examples include risks concerning climate change, risks associated with the suppliers' environmental impact and social conditions, and the risk that the products' attractiveness will decline due to undesirable environmental performance. Within HEXPOL, continuous overall risk assessments are conducted in the above areas.

### ENVIRONMENTAL LEGISLATION AND OTHER PUBLIC REQUIREMENTS

HEXPOL's production plants have the permits necessary for operations and the risk inventory has not identified any current matters or requirements that could give rise to significant costs. In 2008, the REACH chemicals legislation was introduced in the EU with extensive consequences for industrial operations. To ensure that the chemicals used in the Group were registered for their specific use, the company contacted all relevant suppliers in order to obtain a written assurance that the registration was done. The risk is assessed as very small that any critical chemical has not been registered for HEXPOL's areas of application.

### POLLUTED SOIL

Most of HEXPOL's facilities are relatively newly built on land that was not previously used by contaminating operations. Underground tanks are not used and no emissions, leakage, accidents with oils, solvents or chemicals of significance to the environment were registered. In connection with corporate acquisitions, assessments of the risk of soil pollutants and other environmental damage have been performed. During 2008, a small amount of oil pollution was identified at one of the plants in Sri Lanka and cleaning and prevention measures have been carried out. Rented premises in Gislaved, Sweden, show signs of soil contamination from petroleum hydrocarbons and other substances. There are no legal requirements for remediation of this land.

## HAZARDOUS SUBSTANCES IN BUILDINGS AND INSTALLATIONS

As regards asbestos, it is very unlikely that this material is present in the new installations. At the older facilities, an asbestos survey has been conducted in some cases, which has concluded that asbestos is present in the form of painted tiles in the ceiling of the laboratory in Gislaved, Sweden. Polychlorinated biphenyls (PCB) are present in the window joints in buildings at the Gislaved plant. The sealing compounds will be remediated in accordance with legislative requirements, not later than 2013.

## ACCIDENTS AND UNCONTROLLED EMISSIONS TO THE ENVIRONMENT

Within the scope of the environmental management systems and the legislative requirements, procedures are in place to reduce the risk of fire, leakage and other accidents. During 2009, a small fire, a minor spillage of process oil and a breakdown of a dust filter at the production plants occurred. During the year, no complaints were reported in the environmental area from neighbours or other stakeholders.

## CLIMATE-RELATED RISKS

None of HEXPOL's facilities are located on sites where future climate changes are forecast to cause landslides, flooding, extreme weather situations or other climate-related problems. However, since knowledge in this area is gradually growing, the Group is monitoring with interest the risk and vulnerability analyses conducted by authorities in various countries. Climate-related risks are taken into account in connection with corporate acquisitions.

## ENVIRONMENTAL ADAPTATION OF PRODUCTS

Interest in environmentally adapted and climate-smart products is growing in society. By following developments in this area, HEXPOL reduces the risk that the product range includes products that are less advantageous from an environmental viewpoint. We do so through cooperation with universities and research institutions, but primarily through contacts with the Group's customers.

## SOCIAL RESPONSIBILITY

### WORK ENVIRONMENT

In the work environment area, exposure to dust, hazardous chemicals, noise, heavy lifting, repetitive work and accidents are examples of factors that must be managed preventively. A good work environment is ensured through a high technical standard as well as measures such as risk analyses, training and safety rounds. Formal work safety committees are active at 11 of the 14 production plants.

### OCCUPATIONAL ACCIDENTS AND ILLNESS

During 2009, 45 (74) occupational accidents were registered that resulted in more than one day's absence from work. Total absenteeism attributable to occupational accidents amounted to 240 (379) days. The most common causes underlying injuries were machinery and equipment, heavy lifting, repetitive work, falls and slipping, as well as cuts. One accident involving a tubing contractor occurred during 2009 and 3 (3) work-related illnesses were also noted.

### TRAINING

During the year, there were approximately eight training hours/employee (seven) at the production plants. Environmental, work-environment and safety training was carried out at all facilities and averaged 3.3 hours/employee.

### COLLECTIVE AGREEMENTS

HEXPOL's Code of Conduct recognises the employees' right to be represented by trade unions or other employee representatives, as well as the right to collective negotiations and agreements. The extent of the collective agreements varies from 0 to 100 percent, depending on local conditions in the countries in which we are active. All employees are covered by collective agreements at 30 percent of the plants.

### SOCIAL COMMITMENT

The Group participates in various social activities in the countries in which we are active. A handful of the plants were visited by students from schools and universities during the year. At a number of plants, projects have been conducted in cooperation with universities and university colleges. These involve trainee positions, thesis work and other activities. This commitment can also be expressed in sponsorship with a focus on public benefit.

# Financial reports





## Consolidated income statements

MSEK	Note	2009	2008
Net sales	1	2 608	3 190
Cost of goods sold		-2 185	-2 655
<b>Gross profit</b>		<b>423</b>	<b>535</b>
Sales costs		-61	-65
Administration costs		-168	-144
Research and development costs		-31	-28
Other income and expenses		0	12
<b>Operating profit</b>	1,3,4,5,9	<b>163</b>	<b>310</b>
Financial income	6	8	28
Financial expenses	6	-31	-80
<b>Profit before tax</b>		<b>140</b>	<b>258</b>
Tax	7	-38	-75
<b>Profit after tax</b>		<b>102</b>	<b>183</b>
<b>Earnings per share, SEK</b>			
- Before dilution		3,84	6,89
- After dilution		3,84	6,89
<b>Earnings per share, SEK</b>			
- Before dilution, excluding items affecting comparability		6,48	6,89
- After dilution, excluding items affecting comparability		6,48	6,89
<b>Average number of shares, thousands</b>			
- Before dilution		26 552	26 552
- After dilution		26 552	26 552

## Consolidated statement of comprehensive income

MSEK	2009	2008
Profit for the year	102	183
Cash-flow hedges	28	-26
Cash-flow hedges, tax	-7	7
Translation difference	-64	151
<b>Comprehensive income</b>	<b>59</b>	<b>315</b>
Of which, attributable to the Parent Company's shareholders.	59	315

## Consolidated balance sheets

MSEK	Note	2009	2008
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets	8	1 237	1 279
Tangible fixed assets	9	712	843
Financial fixed assets		1	1
Deferred tax assets	7	27	44
<b>Total fixed assets</b>		<b>1 977</b>	<b>2 167</b>
<b>Current assets</b>			
Inventories	10	204	340
Accounts receivable	11	246	310
Current tax receivables		16	5
Other non interest-bearing receivables		15	16
Prepaid expenses and accrued income	12	13	21
Cash and cash equivalents		317	342
<b>Total current assets</b>		<b>811</b>	<b>1 034</b>
<b>TOTAL ASSETS</b>		<b>2 788</b>	<b>3 201</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		53	53
Other reserves		172	215
Profit brought forward		890	706
Profit for the year		102	183
<b>Total shareholders' equity</b>	13	<b>1 217</b>	<b>1 157</b>
<b>Non current liabilities</b>			
Interest bearing liabilities	14	1 001	1 372
Deferred tax liabilities	7	30	27
Pension provisions	15	11	11
<b>Total non current liabilities</b>		<b>1 042</b>	<b>1 410</b>
<b>Current liabilities</b>			
Interest-bearing current liabilities	14	127	163
Accounts payable		287	305
Current tax liabilities		8	10
Other current liabilities		10	23
Other provisions	16	15	-
Accrued expenses and deferred income	17	82	133
<b>Total current liabilities</b>		<b>529</b>	<b>634</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2 788</b>	<b>3 201</b>
Pledged assets	18	4	5
Contingent liabilities	18	4	4

## Consolidated changes in shareholders' equity

MSEK	Share capital		Other reserves		Profit brought forward		Total equity	
	2009	2008	2009	2008	2009	2008	2009	2008
Opening balance, 1 January	53	0	215	83	889	942	1 157	1 025
Comprehensive income	-	-	-43	132	102	183	59	315
Bonus issue	-	53	-	-	-	-53	-	0
Dividend	-	-	-	-	-	-181	-	-181
Premium for options programme	-	-	-	-	1	7	1	7
Expenses in connection with introduction to the stock exchange	-	-	-	-	0	-9	0	-9
<b>Closing balance, 31 December</b>	<b>53</b>	<b>53</b>	<b>172</b>	<b>215</b>	<b>992</b>	<b>889</b>	<b>1 217</b>	<b>1 157</b>

## Consolidated cash flow statements

MSEK	Note	2009	2008
<b>Cash flow from operations</b>	19		
Operating profit		163	310
Adjustment for non-cash items		182	93
Net financial items		-39	-54
Tax paid		-50	-69
<b>Cash flow from operations before changes in working capital</b>		<b>256</b>	<b>280</b>
<b>Cash flow from changes in working capital</b>			
Changes in operating receivables		175	76
Changes in operating liabilities		-35	37
Utilisation of structural reserve		-37	-
<b>Cash flow from operations</b>		<b>359</b>	<b>393</b>
<b>Investing activities</b>			
Investments in tangible fixed assets		-21	-105
Sales of tangible fixed assets		0	5
Investments in intangible fixed assets		-2	-5
Acquisitions of subsidiaries		0	0
<b>Cash flow from investing activities</b>		<b>-23</b>	<b>-105</b>
<b>Financing activities</b>			
Loans raised		0	142
Amortisation of liabilities		-359	-150
Dividend		0	-181
Expenses in connection with the introduction to the stock exchange		0	-12
Premium for options		1	7
<b>Cash flow from financing activities</b>		<b>-358</b>	<b>-194</b>
<b>Cash flow for the year</b>		<b>-22</b>	<b>94</b>
Cash and cash equivalents at January 1		342	228
Exchange-rate differences in cash and cash equivalents		-3	20
<b>Cash and cash equivalents at December 31</b>		<b>317</b>	<b>342</b>

## Operating cash flow, Group

MSEK	2009	2008
Operating profit, excluding items affecting comparability	261	310
Depreciation/amortisation	84	93
Change in working capital	140	113
Investments	-23	-105
<b>Operating cash flow</b>	<b>462</b>	<b>411</b>



## Accounting policies

HEXPOL's consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements by the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the EC Commission for application within the EU.

Furthermore, recommendation RFR 1.2, Supplementary accounting rules for corporate groups, issued by the Swedish Financial Reporting Board has been applied.

The Parent Company applies the Annual Accounts Act and RFR 2.2, 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 67.

As of 1 January 2009, the following new or revised accounting policies are applied:

- IFRS 8 Operating Segments
- IAS 23 Borrowing Costs
- IAS 1 Presentation of Financial Statements

The application of these standards had no impact on the Group's financial earnings or position. However, they gave rise to changes in the presentation of financial statements.

As of 1 January 2010, the following revised accounting policies will become relevant for application by the Group:

- IFRS 3R Business Combinations
- IAS27R Consolidated Financial Statements

The changes in these revised accounting policies could have an impact on the recognition of future acquisitions and divestments.

No accounting policies are applied in advance.

### **BASIS OF REPORTING FOR THE PARENT COMPANY AND THE GROUP, INCLUDING CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

Assets and liabilities are reported at historical cost with the exception of certain financial instruments (derivatives), which are reported at fair value.

Preparing the reports in accordance with IFRS requires that company management and the Board of Directors carry out accounting estimates and assumptions that affect the application of the accounting policies and the reported figures for assets, liabilities, revenues and expenses. The actual outcome could deviate from these accounting estimates. Certain accounting matters involve a larger degree of subjectivity or complexity, which results in a higher risk of deviation from the

accounting estimates and assumptions applied. Such matters include the outcome of complicated legal disputes, assessment of the present value of forecast cash flows during analyses of possible impairment requirements.

### **CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements consolidate the Parent Company and the other companies in which the Parent Company has a direct or indirect controlling influence.

The consolidated financial statements have been prepared in accordance with the purchase method, which means that the Parent Company's acquisition value of shares in subsidiaries is eliminated against subsidiaries' shareholders' equity at the time of acquisition. The shareholders' equity of acquired subsidiaries is determined on the basis of a market valuation of assets and liabilities at the time of acquisition including those not reported earlier by the acquired company. In those cases where the acquisition value of shares in subsidiaries exceeds the acquired shareholders' equity as stated above, the discrepancy is accounted as goodwill in the balance sheet. If the acquisition value is less than the fair value of the acquired net assets, the difference is recognised directly in profit and loss. In connection with the purchase of minority interests, the difference between the purchase consideration and the minority share of the acquired subsidiary's shareholders' equity is recognised as goodwill.

In accordance with IFRS, goodwill amortisation on a straight-line basis is not permissible. Impairment testing is conducted annually or more frequently if there is an indication of a value decline.

Divested companies are consolidated up to their date of time when HEXPOL's controlling interest over them ceases, while acquired companies are consolidated from the time of acquisition onwards, meaning from the time when a controlling interest was attained.

The current method is used for the translation of foreign subsidiaries, meaning that balance sheets are translated from the subsidiaries' functional currency to the Group's reporting currency, which is SEK, at the exchange rate prevailing on the balance-sheet date. The subsidiaries' income statements are translated to SEK at average exchange rates, which represent an approximation of the exchange rates prevailing at the various transaction dates. The resulting translation differences are recognised in other comprehensive income. The value of the net assets of foreign subsidiaries, including goodwill and other intangible assets, is hedged, mainly through foreign-currency loans, or alternatively through currency forward contracts.

In the consolidated financial statements, the after-tax effects of hedging are offset against those translation differences that were recognised in other comprehensive income regarding the foreign subsidiaries.

The Group has lending in foreign currency to certain subsidiaries, in which the loans represent an enduring portion of the Parent Company's financing of these companies. These loans are recognised at the exchange rate

prevailing on the balance-sheet date, whereby the exchange-rate differences on the loans are recognised in other comprehensive income.

### ASSOCIATED COMPANIES

The equity method is applied for associated companies. Associated companies are those companies over which the Parent Company, directly or indirectly, has a material influence. Any differences between the acquisition value and equity value at the time of acquisition are termed goodwill, and are included in the acquisition value.

In the consolidated balance sheet, holdings in associated companies are recognised at acquisition value adjusted for dividends, shares in earnings/losses during the holding period and any impairment losses on goodwill. The consolidated income statement includes shares in associated companies' earnings after elimination of any inter-company gains. Associated company taxes are included in the Group's tax expenses. At the close of every reporting period, the carrying amounts for associated companies, including implicit goodwill values, are impairment tested.

### SEGMENT REPORTING

For the HEXPOL Group, lines of business (business areas) represent the basis of division into operating segments. Internal billings between business areas occur at market value.

### REVENUES

HEXPOL applies the following principles for revenue recognition:

#### Sale of goods

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

Revenues can be reliably calculated. It is likely that the financial benefits for the seller that are associated with the transaction will arise for the seller. The expenditure that has arisen or is expected to arise as a consequence of the transaction can be reliably calculated.

#### Interest income

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

### RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalised as follows: Capitalisation of development expenses in the Group are only applied to new products where significant development costs are involved, where the products have a probable earnings potential that the Company

may benefit from, and the costs are clearly distinguishable from ongoing product development expenditure.

### LEASING

The HEXPOL Group has entered into both financial and operational leases. The agreements are classified in accordance with their financial implication when they were entered into. Financial leases are not material. For operational leases, the lease payments are expensed straight-line over the shorter of the asset's useful life period and the lease period. For financial leases the leased asset is carried on the balance sheet with a corresponding liability for future lease payments. The leased asset is depreciated over the same period as for assets of the same kind owned by the Group. The liability for future lease payments is interest bearing.

### OTHER OPERATING REVENUES/EXPENSES

Other operating revenues/expenses primarily consist of capital gains/losses from sales of fixed assets and non-recurring items.

### FINANCIAL INSTRUMENTS

Financial instruments are measured and recognised in accordance with the rules of IAS 39. Financial assets and liabilities are recognised in, and deducted from, the balance sheet applying settlement-date accounting.

With certain exceptions, financial assets and liabilities are entered at acquisition value. Changes in the fair value of financial derivative instruments are recognised in profit and loss, apart from cases where the derivative fulfils the requirement for cash flow hedging, in which case the change in value is recognised directly in shareholders' equity until the hedged transaction has been recognised. When establishing fair value, official market listings on the balance-sheet date are used. If no such listings are available, a valuation is conducted based on the discounting of future cash flows to the listed market interest rate for the particular maturity. Currency swaps and currency forward contracts are valued at the listed market rate. Translation to SEK is based on the listed exchange rate on the balance-sheet date.

Receivables resulting from own lending and assets held to maturity are valued at the accrued acquisition value, applying the effective interest rate method. Accounts receivable and accounts payable are recognised at accrued acquisition value.

Financial liabilities are mainly measured at accrued acquisition value, applying the effective interest rate method.

Balances and transactions are hedged, and hedge accounting is applied if the hedging actions taken have the stated objective of constituting a hedge, have a direct correlation to the hedged item and effectively hedge the item. An effective hedge generates financial effects that offset those that arise through the hedged position. When hedging fair value, the change in the fair value of the hedging instrument is recognised in the income statement together with the change in the value of the liability or asset to which the risk hedging applies.

When hedging cash flow, the change in value of the

hedging instrument is recognised in other comprehensive income until the hedged transaction has been recognised.

Borrowing costs for qualified assets are included in the asset's acquisition value. Other borrowing costs are charged against earnings during the period to which they apply. Costs for raising loans are accrued over the maturity of the loan.

### PENSION AND SIMILAR COMMITMENTS

Expenditure for defined contribution plans are expensed as incurred. Expected expenditure under defined benefit plans are recognised as a liability calculated in accordance with actuarial models. Differences between expected and actual development of this liability are not expensed as long as the deviations remain within the so-called corridor. Pension expense for the year consists of pensions vested, interest expense during the period and – if applicable – accrued actuarial gains and losses. A deduction is made for the yield on plan assets intended to cover the obligation. The net cost is recognised in the income statement. Obligations related to defined benefit plans are recognised net in the balance sheet, meaning after a deduction of the value of any plan assets.

Defined benefit plans for which the insurer (Alecta in Sweden) cannot specify the Group's share of the total plan assets and, pending this information becoming available, pension obligations are recognised as defined contribution plans.

### PROVISIONS

The Group recognises provisions when the Group has a legal or informal undertaking as a result of the occurrence of an event and it is likely that an outflow of resources will be required to settle the undertaking and a reliable estimate can be made of the amount. A provision for restructuring is recognised when a detailed formal action plan has been established and expectations have been created among those who will be affected by the actions. Provisions are not recognised for future operating losses.

### INCOME TAXES

Income tax expenses for the year consist of current and deferred tax, and shares in the tax of associated companies.

Income taxes comprise:

Current tax, meaning the tax calculated on taxable earnings for the period, and adjustments regarding prior periods.

Deferred tax represents 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 calculated applying tax rates that have been decided or announced on the balance-sheet date. Temporary differences on shares in subsidiaries are not recognised

because it is not probable that these will be utilised in the foreseeable future. Deferred tax assets are recognised insofar as it is probable that future taxable surpluses will be available to offset them against.

### RECEIVABLES AND LIABILITIES

Provisions for loss risks are posted on a case-by-case basis.

Foreign-currency receivables and liabilities are recognised at the exchange rates prevailing on the balance-sheet date. The exchange-rate difference on current receivables and current liabilities is recognised in operating profit, while the exchange-rate difference on financial receivables and liabilities is recognised in net financial items.

### INVENTORIES

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

### GOODWILL

Goodwill comprises the difference between the acquisition cost and the fair value of the Group's share of the identified net assets of acquired subsidiaries on the date of acquisition.

### TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

### DEPRECIATION/AMORTISATION ACCORDING TO PLAN

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

Applied depreciation/amortisation plans:

Development work	3-10 years
Patents and trademarks	20 years
Other intangible assets	3-10 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

## IMPAIRMENT LOSSES

Impairment tests are conducted annually or more frequently if there is an indication of a decline in value, meaning if the carrying amount of an asset exceeds its recoverable value. If an impairment need is identified, the item is impaired to an amount corresponding to the recoverable value.

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

The basic assumptions used to determine whether or not there is an impairment requirement are as follows: When calculating the present value of future cash flows, a cost of capital of 11.0 percent (8.9) has been applied. This rate was determined in relation to an independent assessment of a reasonable cost of capital. The calculation is based on an internal assessment of the next five years. The definition of cash-generating units complies with the Group's organisation and comprises the Group's two business areas. According to the calculations, there is no impairment requirement.

## ACCOUNTING POLICIES IN THE PARENT COMPANY

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

The Parent Company does not apply IAS 39.

The Parent Company normally recognises Group contributions issued and received, and the corresponding tax effect, directly in unrestricted shareholders' equity. However, in those cases where Group contributions received can be considered as dividends, the Group contribution is recognised as financial income, and the tax effect is recognised in income tax for the year in the income statement.

In the Parent Company, shares in Group companies are recognised at acquisition value before any impairment losses.

The Parent Company applies hedge accounting for loans in foreign currencies that are effectively hedged by a counter-item in foreign currencies. Accordingly, changes in exchange rates are not reported for loans raised to finance acquisitions of foreign subsidiaries.



## Notes of the group

## Note 1 Segment reporting

## Information about operating segments

The Group's operations are reported in two business areas, HEXPOL Compounding and HEXPOL Engineered Products. HEXPOL Compounding manufactures advanced rubber compounds.

HEXPOL Engineered Products manufactures gaskets for plate heat exchangers, wheels for trucks and castor wheel applications.

Assets and liabilities included in each business area pertain to operating assets, such as accounts receivables, inventories, other receivables and tangible and intangible fixed assets, as well as operating liabilities, such as accounts payable, other liabilities, other provisions and accrued expenses. Cash and cash equivalents, taxes and loans are not reported by business areas.

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2009	2008	2009	2008	2009	2008
Net sales	2 020	2 425	588	765	2 608	3 190
Operating profit	155	224	8	86	163	310
Operating profit, excluding items affecting comparability	231	224	30	86	261	310
Operating margin, %	7,7	9,2	1,4	11,2	6,3	9,7
Operating margin, excluding items affecting comparability, %	11,4	9,2	5,1	11,2	10,0	9,7
Net financial items					-23	-52
Tax					-38	-75
<b>Profit for the year</b>					<b>102</b>	<b>183</b>
Operative assets	1 981	2 247	433	563	2 414	2 810
Operative liabilities	305	345	90	127	395	472
<b>Operative capital</b>	<b>1 676</b>	<b>1 902</b>	<b>343</b>	<b>436</b>	<b>2 019</b>	<b>2 338</b>
Investments	10	58	13	52	23	110
Depreciation/amortisation	51	64	33	29	84	93

Geographic markets MSEK	Net sales per recipient country		Operative capital	
	2009	2008	2009	2008
Europe	1 296	1 864	780	969
NAFTA	1 167	1 187	955	1 040
Asia	145	139	284	329
<b>TOTAL</b>	<b>2 608</b>	<b>3 190</b>	<b>2 019</b>	<b>2 338</b>

## Note 2 Transactions with related parties

Transactions between Group companies occur on market-based conditions. The Group purchased energy for 15 MSEK (14) from the associated company Megufo AB in Sweden. The Group has a liability of 2 MSEK (2) to this associated company.

## Note 3 Items affecting comparability

MSEK	2009	2008
Impairment of fixed assets	-34	-
Restructuring costs	-64	-
<b>Total</b>	<b>-98</b>	<b>-</b>
<b>Distribution by function</b>		
Cost of goods sold	-70	-
Selling costs	-7	-
Administrative costs	-18	-
Research and development costs	-3	-
<b>Total</b>	<b>-98</b>	<b>-</b>
<b>Distribution by business area</b>		
HEXPOL Compounding	-76	-
HEXPOL Engineered Products	-22	-
<b>Total</b>	<b>-98</b>	<b>-</b>

## Note 4 Employee and personnel costs

### Costs for remuneration to employees

MSEK	2009	2008
Salaries and remuneration, etc.	345	369
<b>Total</b>	<b>345</b>	<b>369</b>
To the Board and Presidents, of which bonus and similar items	36 8	30 5
Pension costs	11	17
Social security costs	74	82
<b>Total</b>	<b>85</b>	<b>99</b>

### Average number of employees

	2009	of which are men	2008	of which are men
Sweden	259	57%	403	55%
Belgium	65	88%	81	89%
Czech Republic	96	95%	124	92%
Germany	78	94%	87	92%
Mexico	76	76%	73	58%
Canada	54	81%	67	84%
USA	286	86%	301	88%
China	72	72%	59	76%
Sri Lanka	823	98%	1 120	98%
<b>Total</b>	<b>1 809</b>	<b>87%</b>	<b>2 315</b>	<b>85%</b>

### Personnel costs per country

MSEK	2009	2008
Sweden	153	177
Belgium	42	40
Czech Republic	16	24
Germany	34	41
Mexico	10	10
Canada	17	23
USA	130	122
China	7	6
Sri Lanka	21	25
<b>Total</b>	<b>430</b>	<b>468</b>

### Gender distribution in the Board of Directors

	2009-12-31	2008-12-31
<b>Distribution between men and women</b>		
Women	1	1
Men	5	5
<b>Total</b>	<b>6</b>	<b>6</b>

### Gender distribution in group management

	2009-12-31	2008-12-31
<b>Distribution between men and women</b>		
Women	0	0
Men	7	7
<b>Total</b>	<b>7</b>	<b>7</b>

### Remuneration of the Board of Directors

KSEK	Board fee		Committee fee		Total	
	2009	2008	2009	2008	2009	2008
Melker Schörfling, Chairman	400	400			400	400
Alf Göransson	200	200			200	200
Jan-Anders E. Månson	200	200			200	200
Malin Persson	200	200			200	200
Ulrik Svensson	200	200	150	150	350	350
<b>Total</b>	<b>1 200</b>	<b>1 200</b>	<b>150</b>	<b>150</b>	<b>1 350</b>	<b>1 350</b>

Board fees are not payable to employees of the Group.

### Remuneration to senior executives

KSEK	Basic salary		Variable salary*		Pension costs		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Georg Brunstam, President and CEO	4 200	4 000	2 520	2 900	1 722	1 763	233	98	8 675	8 761
Other members of Group management, 6 persons (6)	12 664	10 531	4 666	2 148	1 963	1 208	787	561	20 080	14 448
<b>Total</b>	<b>16 864</b>	<b>14 531</b>	<b>7 186</b>	<b>5 048</b>	<b>3 685</b>	<b>2 971</b>	<b>1 020</b>	<b>659</b>	<b>28 755</b>	<b>23 209</b>

\* The variable remuneration paid to the President and CEO in 2008 included a fixed bonus of 1,700 KSEK that was disbursed in connection with the stock-exchange listing of the company and for which a provision was posted in 2007. Other variable remuneration pertains to 2008 and was disbursed in 2009. Variable remuneration for 2009 will be disbursed during 2010. Two members of Group management resigned during the year and were replaced, which affected the amounts in the table above.

### Principles for remuneration of the Board 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 and the return on capital employed. Between the company and President, the President is entitled to employment termination notice of six months. If employment termination is initiated by the company, the period of notice is 24 months. For other senior executives, the period of notice is six months and from the company the norm is 12 months. There are no agreements concerning severance pay and there are no outstanding pension obligations.

Note 4, Continued

**Warrants**

On 18 August, 2008, an Extraordinary General Meeting resolved to introduce an incentive programme, 2008/2011, and a designated issue of warrants. The option premium is market-valued and paid by the people receiving the options.

Number of warrants	1 325 000
Options paid for during 2008	933 250
Options paid for during the year	175 000
Number of shares per option	1
Option premium, SEK	8,00
Exercise period	1 March 2011 to 1 September 2011
Exercise price for options paid for in 2008, SEK	65,70
Exercise price for options paid for during the year, SEK	56,60

**Note 5 Fees and cost remuneration to auditors**

MSEK	2009	2008
Ernst & Young		
Audit assignment	4	3
Other assignments	0	0
Other auditors		
Audit assignment	0	0
Other assignments	1	0
<b>Total</b>	<b>5</b>	<b>3</b>

Audit assignment refers to the review of the Annual Report and the accounting records as well as the management by the Board of Directors and President, other assignments that fall upon the Company's auditors to perform and advice or other assistance resulting from observations at such review or implementation of such other assignments. Other items pertain to other assignments.

**Note 6 Financial income and expenses**

MSEK	2009	2008
Interest income	1	9
Other financial income	7	19
<b>Financial income</b>	<b>8</b>	<b>28</b>
Interest expense	-23	-74
Other financial expense	-8	-6
<b>Financial expense</b>	<b>-31</b>	<b>-80</b>
<b>Net financial expense</b>	<b>-23</b>	<b>-52</b>

**Note 7 Tax**

MSEK	2009	2008
<b>Current tax expense</b>		
Tax expense on profit for the year	-38	-68
<b>Total</b>	<b>-38</b>	<b>-68</b>
<b>Deferred tax expense</b>		
Deferred tax pertaining to temporary differences	-2	-7
Utilised/revaluation of loss carryforwards	2	0
<b>Total</b>	<b>0</b>	<b>-7</b>
<b>Total recognised tax expense</b>	<b>-38</b>	<b>-75</b>

Note 7, Continued

**Reconciliation of effective tax**

MSEK	2009		2008	
		%		%
Earnings before tax	140		258	
Tax according to applicable tax rate for the Parent Company	-37	-26	-72	-28
Effect of other tax rates for foreign subsidiaries	-7	-5	-7	-3
Non-deductible expenses	-1	-1	-1	0
Non-taxable income	0	0	0	0
Deductible goodwill amortisation	7	5	6	2
Revaluation of loss carryforwards/temporary differences	0	0	-6	-2
Tax attributable to prior years	0	0	5	2
<b>Total reported tax expense</b>	<b>-38</b>	<b>-27</b>	<b>-75</b>	<b>-29</b>

**Deferred tax receivable/liability**

MSEK	Opening balance		Profit/loss		Recognised in other comprehensive income		Translation difference		Closing balance	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Tangible assets	-24	-22	-9	-3	-	-	-1	1	-34
Current assets	0	2	5	-2	-	-	0	0	5	0
Operating liabilities	0	0	3	0	-	-	0	0	3	0
Loss carryforwards	1	6	2	-6	-	-	0	1	3	1
Liabilities	39	0	0	0	-19	39	0	0	20	39
Others	1	-6	-1	4	-	3	0	0	0	1
<b>Total</b>	<b>17</b>	<b>-20</b>	<b>0</b>	<b>-7</b>	<b>-19</b>	<b>42</b>	<b>-1</b>	<b>2</b>	<b>-3</b>	<b>17</b>

**Note 8 Intangible fixed assets****Accumulated acquisition value**

MSEK	Goodwill		Other intangible assets		Total	
	2009	2008	2009	2008	2009	2008
Opening balance on 1 January	1 276	1 132	32	26	1 308	1 158
Investments	1	-	1	5	2	5
Disposal/Impairment losses	-	-	-5	0	-5	0
Reclassification	-	-	0	-3	0	-3
Translation difference	-39	144	-2	4	-41	148
<b>Closing balance on 31 December</b>	<b>1 238</b>	<b>1 276</b>	<b>26</b>	<b>32</b>	<b>1 264</b>	<b>1 308</b>

**Accumulated amortisation**

MSEK	Goodwill		Other intangible assets		Total	
	2009	2008	2009	2008	2009	2008
Opening balance on 1 January	-10	-10	-19	-14	-29	-24
Amortisation according to plan for the year	-	-	-4	-3	-4	-3
Disposal/Impairment losses	-	-	4	0	4	0
Translation difference	0	0	2	-2	2	-2
<b>Closing balance on 31 December</b>	<b>-10</b>	<b>-10</b>	<b>-17</b>	<b>-19</b>	<b>-27</b>	<b>-29</b>
<b>Carrying amount on 31 December</b>	<b>1 228</b>	<b>1 266</b>	<b>9</b>	<b>13</b>	<b>1 237</b>	<b>1 279</b>



Note 8 Continued

Goodwill distributed by operating segment	Goodwill	
MSEK	2009	2008
HEXPOL Compounding	1 202	1 237
HEXPOL Engineered Products	26	29
<b>Closing balance on 31 December</b>	<b>1 228</b>	<b>1 266</b>

Goodwill and other assets are impairment tested annually or more 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 an asset's net realisable value and its value in use, meaning the discounted present value of future cash flows.

When calculating the present value of future cash flows, an assumed capital cost of 11 percent before tax has been used. Reconciliation has been conducted against an external estimation of a fair capital cost. The calculation is based on an internal estimation of the five years ahead. The calculations did not indicate any need for impairing assets.

## Note 9 Operational leasing and tangible fixed assets

### Operational leasing

#### Non-cancellable leasing payments amount to

MSEK	2009	2008
Within one year	9	8
Between one and five years	8	6
Longer than five years	0	0
<b>Total</b>	<b>17</b>	<b>14</b>

#### Leasing expenses

MSEK	2009	2008
Minimum leasing fees	10	10
<b>Total</b>	<b>10</b>	<b>10</b>

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

### Tangible fixed assets

Accumulated acquisition value	Land and buildings		Machinery and equipment		Total	
MSEK	2009	2008	2009	2008	2009	2008
Opening balance on 1 January	386	329	1 337	1 136	1 723	1 465
Investments	5	10	16	95	21	105
Divestments, disposals and impairment losses	-21	-4	-143	-6	-164	-10
Reclassification	31	9	-31	-6	0	3
Translation difference	-19	42	-50	118	-69	160
<b>Closing balance on 31 December</b>	<b>382</b>	<b>386</b>	<b>1 129</b>	<b>1 337</b>	<b>1 511</b>	<b>1 723</b>

## Note 9 Continued

Accumulated depreciation MSEK	Land and buildings		Machinery and equipment		Total	
	2009	2008	2009	2008	2009	2008
Opening balance on 1 January	-124	-100	-756	-630	-880	-730
Depreciation according to plan for the year	-12	-13	-68	-77	-80	-90
Divestments, disposals and impairment losses	13	0	118	6	131	6
Translation difference	5	-11	25	-55	30	-66
<b>Closing balance on 31 December</b>	<b>-118</b>	<b>-124</b>	<b>-681</b>	<b>-756</b>	<b>-799</b>	<b>-880</b>
<b>Carrying amount on 31 December</b>	<b>264</b>	<b>262</b>	<b>448</b>	<b>581</b>	<b>712</b>	<b>843</b>

Tax assessed value for building and land in Sweden is 25 MSEK (25).

**Distribution of depreciation/amortisation of tangible and intangible assets for the year**

MSEK	2009	2008
Cost of goods sold	74	84
Sales costs	0	0
Administration costs	8	7
Product development costs	1	1
Others	1	1
<b>Total</b>	<b>84</b>	<b>93</b>

**Note 10 Inventories**

MSEK	2009	2008
Raw materials	121	237
Goods in production	16	20
Finished goods	67	83
<b>Total</b>	<b>204</b>	<b>340</b>

**Note 11 Accounts receivables**

Age distribution of accounts receivables		
MSEK	2009	2008
Not due	208	191
Past due, 1-60 days	38	111
Past due, more than 60 days	0	8
<b>Accounts receivables</b>	<b>246</b>	<b>310</b>

Provisions for bad debt losses		
MSEK	2009	2008
Opening balance	-23	-8
Provision for the year	-11	-21
Actual losses	0	6
<b>Closing balance</b>	<b>-34</b>	<b>-23</b>

**Note 12 Prepaid expenses and accrued income**

MSEK	2009	2008
Prepaid leasing costs	2	1
Accrued income	1	2
Accrual expenses	1	7
Others	9	11
<b>Total</b>	<b>13</b>	<b>21</b>

## Note 13 Shareholders' equity

### Changes in the number of shares

	Class A shares		Class B shares		Total	
	2009	2008	2009	2008	2009	2008
Opening balance on 1 January	1 181 250	0	25 370 727	100	26 551 977	100
Split 500:1	-	-	-	49 900	-	49 900
Bonus issue	-	1 181 250	-	25 320 727	-	26 501 977
<b>Closing balance on 31 December</b>	<b>1 181 250</b>	<b>1 181 250</b>	<b>25 370 727</b>	<b>25 370 727</b>	<b>26 551 977</b>	<b>26 551 977</b>

### Average number of shares before and after dilution

Thousands	2009	2008
Average number of shares before dilution	26 552	26 552
Estimated average number of potential shares pertaining to the options programme	-	-
Average number of shares after dilution	26 552	26 552

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

	Class A shares	Class B shares	Total
Number of votes	11 812 500	25 370 727	37 183 227

## Note 14 Interest-bearing liabilities

### Non current liabilities

MSEK	2009	2008
Liabilities to credit institutions	1 001	1 369
Other liabilities	0	3
<b>Non current liabilities</b>	<b>1 001</b>	<b>1 372</b>

### Current liabilities

MSEK	2009	2008
SEB, Mexico	127	155
Other liabilities	0	8
<b>Current liabilities</b>	<b>127</b>	<b>163</b>

The total credit framework on the syndicated loan is 1 700 MSEK, of which 699 MSEK was unutilised on 31 December 2009. The syndicated loan is raised in USD, EUR and SEK and bears floating interest rates. The syndicated loan is free from amortisation and falls due in May 2013. The SEB Mexico loan falls due in December 2010 and carries floating interest rates. This loan has a credit framework of 20 MUSD, corresponding to 144 MSEK, of which 17 MSEK was unutilised on 31 December 2009. No interest or currency derivatives existed on 31 December 2009 pertaining to external loans.

## Note 15 Pension provisions

MSEK	2009	2008
Provisions for pensions (interest-bearing)	8	8
Provisions for pensions (non-interest-bearing)	3	3
<b>Provisions</b>	<b>11</b>	<b>11</b>

### Changes in provisions

MSEK	2009	2008
Opening balance on 1 January	11	10
Provisions for the year	0	1
<b>Closing balance on 31 December</b>	<b>11</b>	<b>11</b>

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

## Note 16 Other provisions, provisions for the restructuring programme

MSEK	2009	2008
Opening balance	-	-
Provisions during the year	52	-
Utilised during the year	-37	-
<b>Closing balance</b>	<b>15</b>	<b>-</b>

**Note 17 Accrued expenses and prepaid revenues**

MSEK	2009	2008
Personnel-related expenses	58	73
Prepaid expenses	2	2
Bonus to customers	2	1
Others	19	18
Interest	0	13
Derivative instruments	1	26
<b>Total</b>	<b>82</b>	<b>133</b>

**Note 19 Cash flow statement**

Interest received and paid MSEK	2009	2008
Financial income received	11	28
Financial expenses paid	-50	-82
<b>Adjustments for non-cash items</b>		
MSEK	2009	2008
Depreciation	84	93
Structural costs	98	0
<b>Total</b>	<b>182</b>	<b>93</b>

**Note 18 Pledged assets and contingent liabilities**

Pledged assets MSEK	2009	2008
Fixed assets	0	1
Current assets	4	4
<b>Total</b>	<b>4</b>	<b>5</b>

Contingent liabilities MSEK	2009	2008
Guarantee to the benefit of associated companies	4	4
<b>Total</b>	<b>4</b>	<b>4</b>

**Note 20 Financial instruments and risk management**

To manage the Group's transaction exposure, future payment flows are currency hedged using currency forward contracts. All forward contracts fall due within one year.

Outstanding sell forward contracts at 31 December.

MSEK	2009		2008	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	72	70	186	208
Currency distribution	Nominal value	Average hedging price	Nominal value	Average hedging price
EUR/SEK	72	10,83	140	9,58
USD/CAD	-	-	5	1,21
EUR/CZK	-	-	41	25,13



Note 20 Continued

In order to manage the Parent Company's exposure to intra-Group loans and receivables in foreign currency, these are hedged using forward contracts. The revaluation is recognised in profit and loss. All forward contracts mature within one year.

## Outstanding buy forward contracts at 31 December

MSEK	2009		2008	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	346	345	181	178
<b>Currency distribution</b>	<b>Nominal value</b>	<b>Average hedging price</b>	<b>Nominal value</b>	<b>Average hedging price</b>
EUR/SEK	72	10,36	28	10,931
CZK/SEK	249	0,3936	153	0,4188
USD/SEK	25	7,16		

## Outstanding sell forward contracts at 31 December

MSEK	2009		2008	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	-	-	213	213
<b>Currency distribution</b>	<b>Nominal value</b>	<b>Average hedging price</b>	<b>Nominal value</b>	<b>Average hedging price</b>
EUR/SEK	-	-	73	10,985
USD/SEK	-	-	140	7,7

## Note 21 Quarterly data

MSEK	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales	703	651	607	647	697	795	846	852
Operating profit	80	81	54	-52	54	85	88	83
Operating profit, excluding items affecting comparability	80	81	54	46	54	85	88	83
Profit after tax	68	57	32	-55	31	48	54	50

## Income statements for the Parent Company

MSEK	Note	2009	2008
<b>Net sales</b>	22	<b>31</b>	<b>30</b>
Administrative costs		-33	-30
Other expenses		-	-3
<b>Operating loss</b>	23, 24	<b>-2</b>	<b>-3</b>
Financial income	25	10	19
Financial expense	25	-29	-73
<b>Loss before tax</b>		<b>-21</b>	<b>-57</b>
Tax	26	6	8
<b>Loss after tax</b>		<b>-15</b>	<b>-49</b>

## Balance sheets for the Parent Company

MSEK	Note	2009	2008
<b>ASSETS</b>			
<b>Fixed assets</b>			
Tangible fixed assets	27	1	1
Other intangible fixed assets		0	0
Financial fixed assets	29	1 493	1 476
Deferred tax assets		3	3
<b>Total fixed assets</b>		<b>1 497</b>	<b>1 480</b>
<b>Current assets</b>			
Intra-Group operating receivables		8	7
Interest-bearing intra-Group receivables		383	517
Prepaid expenses and accrued income		5	5
Cash and cash equivalents		169	146
<b>Total current assets</b>		<b>565</b>	<b>675</b>
<b>TOTAL ASSETS</b>		<b>2 062</b>	<b>2 155</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		53	53
Accumulated earnings		327	359
Net loss for the year		-15	-49
<b>Total shareholders' equity</b>		<b>365</b>	<b>363</b>
<b>Non current liabilities</b>			
Interest-bearing liabilities to credit institutions		924	1 254
<b>Total non current liabilities</b>		<b>924</b>	<b>1 254</b>
<b>Current liabilities</b>			
Accounts payable		1	3
Interest-bearing intra-Group liabilities		758	508
Other current liabilities		1	12
Accrued expenses and prepaid revenues	28	13	15
<b>Total current liabilities</b>		<b>773</b>	<b>538</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2 062</b>	<b>2 155</b>
Pledged assets		None	None
Contingent liabilities		None	None

## Change in shareholders' equity for Parent Company

MSEK	Share capital		Non-restricted equity		Total shareholders' equity	
	2009	2008	2009	2008	2009	2008
Opening balance, 1 January	53	0	310	581	363	581
Dividend	-	-	-	-181	-	-181
Expenses in connection with introduction to the stock exchange	-	-	0	-9	0	-9
Bonus issue	-	53	-	-53	-	0
Group contribution after tax	-	-	17	21	17	21
Net loss for the year	-	-	-15	-49	-15	-49
<b>Closing balance, 31 December</b>	<b>53</b>	<b>53</b>	<b>312</b>	<b>310</b>	<b>365</b>	<b>363</b>

## Cash flow statements for the Parent Company

MSEK	Note	2009	2008
<b>Cash flow from operations</b>			
Operating profit		-2	-3
Adjustments for non-cash items, depreciation		0	0
Financial income received		10	19
Financial expenses paid		-29	-73
Tax paid		0	0
<b>Cash flow from operations before changes in working capital</b>		<b>-21</b>	<b>-57</b>
<b>Cash flow from changes in working capital</b>			
Changes in current receivables		-1	-10
Changes in current liabilities		-15	21
<b>Cash flow from operations</b>		<b>-37</b>	<b>-46</b>
<b>Investing activities</b>			
Gross investments in tangible fixed assets		0	-1
Sales of tangible fixed assets		0	5
Gross investments in financial fixed assets		0	0
Intra-Group acquisition of subsidiaries	30	0	-132
<b>Cash flow from investing activities</b>		<b>0</b>	<b>-128</b>
<b>Financing activities</b>			
Expenses in connection with introduction to the stock exchange		0	-12
Change in interest-bearing receivables		134	-367
Change in interest-bearing liabilities		-80	858
Group contributions received		23	29
Dividend		0	-181
Shareholder contribution		-17	-7
<b>Cash flow from financing activities</b>		<b>60</b>	<b>320</b>
<b>Cash flow for the year</b>		<b>23</b>	<b>146</b>
Cash and cash equivalents on 1 January		146	0
<b>Cash and cash equivalents on 31 December</b>		<b>169</b>	<b>146</b>

**Note 22**

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

**Note 23 Employees and personnel expenses****Average number of employees**

	2009	2008
Women	2	3
Men	4	3
<b>Total</b>	<b>6</b>	<b>6</b>

**Wages, salaries, other remuneration and social security costs**

MSEK	2009	2008
Board of Directors	1	1
CEO	7	7
Other employees	5	4
Social security costs, pension costs and payroll tax	7	7
<b>Total</b>	<b>20</b>	<b>19</b>

Total sickness absence in the Parent Company amounted to 0 percent (0).

**Note 24 Fees and expense reimbursement to auditors**

TSEK	2009	2008
Ernst & Young		
Audit	367	300
Other assignments	188	55
<b>Total</b>	<b>555</b>	<b>355</b>

**Note 27 Tangible fixed assets**

Accumulated acquisition value MSEK	Buildings		Land		Equipment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Opening balance, 1 January	-	4	-	1	2	1	2	6
Investments	-	0	-	0	0	1	0	1
Closing balance, 31 December	-	-4	-	-1	0	0	0	-5
<b>Carrying amount</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

Accumulated depreciation MSEK	Buildings		Land		Equipment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Opening balance, 1 January	-	0	-	0	-1	-1	-1	-1
Depreciation for the year	-	0	-	-	0	0	0	0
Divestments and disposals	-	0	-	-	0	0	0	0
<b>Closing balance, 31 December</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
<b>Carrying amount, 31 December</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

**Note 25 Financial income and expenses**

MSEK	2009	2008
Interest income	0	2
Interest income from Group receivables	10	16
Exchange rate gains	0	0
Other financial income	0	1
<b>Financial income</b>	<b>10</b>	<b>19</b>
Interest expense	-19	-61
Interest expense for Group liabilities	-8	-9
Exchange rate loss	0	-2
Other financial expense	-2	-1
<b>Financial expenses</b>	<b>-29</b>	<b>-73</b>

**Note 26 Taxes**

MSEK	2009	2008
<b>Current tax expense</b>		
Tax expense for the period	6	8
Tax adjustment attributable to prior years	0	0
<b>Total</b>	<b>6</b>	<b>8</b>
<b>Deferred tax expense</b>		
Deferred tax pertaining to temporary differences	0	0
Utilisation/revaluation of losses carried forward	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>Total recognised tax expense</b>	<b>6</b>	<b>8</b>



## Note 28 Accrued expenses and prepaid revenues

MSEK	2009	2008
Personnel-related expenses	11	10
Unrealised exchange-rate differences	1	4
Other	1	1
<b>Total</b>	<b>13</b>	<b>15</b>

## Note 29 Group companies

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

MSEK		Registered	Proportion	2009	2008
Subsidiaries	Corp. Reg. No.	office	of equity		
Gislaved Gummi AB	5561 12-2382	Gislaved, Sweden	100,0%	101	101
Megufo AB	556421-2453	Gislaved, Sweden	50,0%		
Stellana AB	556084-8870	Laxå, Sweden	100,0%	29	29
Elastomeric Engineering Co., Ltd		Sri Lanka	99,6% 1)	58	58
Elastomeric Technologies (Pvt) Ltd		Sri Lanka	100,0%		
Elastomeric Tools & Dies (Pvt) Ltd		Sri Lanka	100,0% 2)		
HEXPOL Compounding HQ Sprl		Belgium	100,0%	469	469
HEXPOL Compounding Sprl		Belgium	100,0%		
HEXPOL Compounding s.r.o		Czech Republic	100,0%		
HEXPOL Compounding NC Inc		USA	100,0%	75	75
Stellana U.S. Inc.		USA	100,0%	4	4
HEXPOL Compounding (Qingdao) Co., Ltd		China	100,0%	56	41
HEXPOL Compounding S.A de C.V		Mexico	100,0%	0	0
Gold Key Processing Inc.		USA	100,0%	361	361
Gislaved Gummi (Qingdao) Co., Ltd		China	100,0%	33	33
Stellana (Qingdao) Co., Ltd		China	100,0%	7	7
Thona Canada BV		Netherlands	100,0%	166	166
HEXPOL Compounding ULC		Canada	100,0%		
HEXPOL Compounding GmbH		Germany	100,0%	134	132
<b>Total carrying amount in the Parent Company</b>				<b>1 493</b>	<b>1 476</b>

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

2) Elastomeric Technologies Ltd owns 69.6 percent and Elastomeric Engineering Company Ltd 30.4 percent of the shares.



## Proposed distribution of unappropriated earnings

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

From profit brought forward from the preceding year	326 835
Net loss for the year	-14 905
<b>Total non-restricted funds</b>	<b>311 930</b>

The Board proposes that the unappropriated funds be disposed of as follows: A dividend to the shareholders of 1.00 SEK per share.

Total dividend from earnings brought forward	26 552
To be carried forward	285 378
<b>Total</b>	<b>311 930</b>

The undersigned give their assurances that the consolidated financial statements and the Annual Report were prepared in accordance with international accounting standards, IFRS, as adopted by the EU, and generally accepted accounting principles and provides a fair view of the Group's and the Parent Company's position and earnings, and that the Board of Directors' 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 significant risks and uncertainties facing the companies included in the Group.

Malmö, 9 March, 2010

Melker Schörling  
Chairman of the Board

Alf Göransson  
Board Member

Malin Persson  
Board Member

Ulrik Svensson  
Board Member

Jan-Anders E. Månson  
Board Member

Georg Brunstam  
President and CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 9 March 2010. 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 7 May 2010 for adoption.

Our audit report was submitted on 9 March 2010.

ERNST & YOUNG AB

Ingvar Ganestam  
Authorised Public Accountant

Stefan Engdahl  
Authorised Public Accountant

# Auditors' Report

To the annual meeting of the shareholders of HEXPOL AB (publ)  
Corporate identity number 556108-9631

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of HEXPOL AB (publ) for the year 2009. The company's annual report and consolidated accounts are included in the printed version of this document on the pages 48-82. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and for the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Our audit report was submitted on 9 March 2010.

ERNST & YOUNG AB

Ingvar Ganestam  
Authorised Public Accountant

Stefan Engdahl  
Authorised Public Accountant



# Board of Directors, auditors and Group management

## Board of Directors of HEXPOL AB

	Birth year	Nationality	Elected	Audit Committee	Remuneration Committee	Independent in relation to the company and management	Independent in relation to major shareholders	Number of A shares	Number of B shares	Number of warrants
Melker Schörling Chairman of the Board	1947	Swedish	2007		Chair	Yes	No	1 181 250 <sup>1</sup>	6 041 731 <sup>1</sup>	
Georg Brunstam President and CEO	1957	Swedish	2007			No	No	–	–	225 000
Alf Göransson	1957	Swedish	2007			Yes	No	–	–	
Malin Persson	1968	Swedish	2007			Yes	Yes	–	–	
Ulrik Svensson	1961	Swedish	2007	Chair	Member	Yes	No	–	–	
Jan-Anders E. Månson	1952	Swedish	2008			Yes	Yes	–	–	

<sup>1</sup> Through companies.



### Melker Schörling

Born in 1947, B.Sc. (Econ.)  
Chairman and Member of the Board since 2007

**Other assignments/positions:** Member and Chairman of the Board of Hexagon AB, Melker Schörling AB, AAK AB and Securitas AB. Member of the Board of Hennes & Mauritz AB.

**HEXPOL shareholding:**

1 181 250 Class A shares and 6 041 731 Class B shares, through Melker Schörling AB.



### Georg Brunstam

Born in 1957, M.Sc. (Eng.)  
President and Chief Executive Officer, employed in 2007

**Other assignments/positions:** Various Board assignments within the HEXPOL Group. Member of the Board of Nibe Industrier AB, DIAB Group AB and AB Wilh Becker.

**HEXPOL shareholding: -**

**HEXPOL warrants:** 225 000 Class B shares.



### Alf Göransson

Born in 1957, B.Sc. (Econ.)  
Member of the Board since 2007

**Other assignments/positions:** Member of the Board, President and CEO of Securitas AB. Chairman of the Board of Loomis AB. Member of the Board of Axel Johnson Inc., USA.

**HEXPOL shareholding: -**



**Malin Persson**

Born in 1968, M.Sc. (Eng.)  
Member of the Board since 2007

**Other assignments/positions:** President and Chief Executive Officer of Volvo Technology. Member of the Board of Volvo Information Technology AB, Volvo Lastvagnar AB, Volvo Technology Transfer AB, KCI Konecranes Plc., Universeum AB.

**HEXPOL shareholding:** -



**Ulrik Svensson**

Born in 1961, B.Sc. (Econ.)  
Member of the Board since 2007

**Other assignments/positions:** President of Melker Schörling AB. Member of the Board of ASSA ABLOY AB, Loomis AB, AAK AB, Niscayah Group AB, and Flughafen Zürich AG.

**HEXPOL shareholding:** -



**Jan-Anders E. Månson**

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

**Other assignments/positions:** Vice President of Ecole Polytechnique Fédérale de Lausanne. Chairman of the Board of AISTS. Member of the Board of Konstruktions-Bakelit AB, CSEM SA, DECISION SA, EELCEE SA and FIT.

**HEXPOL shareholding:** -

**Auditors**

At the Extraordinary General Meetings held on 2 April 2008 and 21 April 2008, the registered accounting firm Ernst&Young AB, with Authorised Public Accountant Ingvar Ganestam as auditor-in-charge and Authorised Public Accountant Stefan Engdahl, with Authorised Public Accountant Johan Thuresson as deputy auditor, active at Ernst & Young AB and members of FAR SRS, were elected for the current year up to the end of 2011. All auditors can be reached at Ernst & Young AB, Torggatan 4, SE-211 40 Malmö, Sweden



**Ingvar Ganestam**

Born in 1949. Authorised Public Accountant and member of FAR SRS.

**Other audit assignments:** Lindab International AB, the Bergendahl Group and AB Tetra Pak.



**Stefan Engdahl**

Born in 1967. Authorised Public Accountant and member of FAR SRS.

**Other audit assignments:** ITAB Shop Concept AB, KABE AB, XANO Industri AB and Liljendahlsbolagen.

## Senior executives



### Georg Brunstam

Born in 1957, M.Sc. (Eng.)  
President and Chief Executive Officer,  
employed in 2007

**Other assignments/positions:**  
Various Board assignments within the  
HEXPOL Group. Member of the Board  
of Nibe Industrier AB, DIAB Group AB  
and AB Wilh Becker.

**Previous positions:** Chief Executive  
Officer of Nolato AB 2003-2007. Presi-  
dent of Trelleborg Engineered Systems  
within Trelleborg AB and member of  
Trelleborg's Group Management 1997-  
2003. President of Trioplast AB 1992-  
1997 and senior positions within  
Perstorp AB 1983-1992.

**HEXPOL shareholding: -**

**Warrants in HEXPOL:**  
225 000 Class B shares



### Urban Ottosson

Born 1961, B.Sc. (Econ.)  
Chief Financial Officer, employed in  
2009.

**Previous positions:** CFO, Beijer  
Electronics 2006-2009, CFO Öresunds-  
kraft 1999-2006, Group Accounting  
Manager, Business Controller, Treasury  
Controller, Scancem Group and Finan-  
cial Manager Scancem Treasury SA  
1991-1999. Financial controller, group  
accounting, Trelleborg AB 1987-1991.

**HEXPOL shareholding:**

10 000 Class B shares

**Warrants in HEXPOL:**

100 000 Class B shares



### Lars-Åke Bylander

Born in 1965, Technician  
President of the Gaskets and Profiles  
product areas, employed in 2000

**Other assignments/positions:** Mem-  
ber of the Board and President of  
Gislaved Gummi AB. Member of the  
Board of Anicho Invest AB, Cue Dee  
Produkt AB and MEGUFO AB.

**Previous positions:** Marketing Mana-  
ger, Gislaved Gummi AB 2000-2004,  
Business Area Manager Forsheda AB  
(TI Group) 1997-2000, Sales Manager  
Forsheda AB 1994-1997, Sales Engineer  
Forsheda AB 1990-1994.

**HEXPOL shareholding:**

155 Class B shares.

**Warrants in HEXPOL:**

75 000 Class B shares.



### Tracy Garrison

Born in 1967, Engineer  
Head of Compounding NAFTA,  
employed in 2002

**Previous positions:** Vice President of  
Thona North America 2002-2004. Sales  
Director at North America, Rhein Che-  
mie Corporation 1999-2002. Manage-  
ment assignments, including Regional  
Accounts and Senior Sales, Technical  
and Quality Insurance Management  
at: Elastochem Inc., MA Hanna Rubber  
Compounding and Colonial Rubber  
Works Inc. 1990-1999. Cooperative  
Education, Research and Development,  
Colonial Rubber Works Inc. 1985-1990.

**HEXPOL shareholding: -**

**Warrants in HEXPOL:**

95 000 Class B shares.



### Jan Wikström

Born in 1972, M.Sc. (Eng.)  
President of Compounding Technology,  
employed in 1997

**Previous positions:** President Nolato  
Sunne AB 2007-2009. President AQ  
Holmbergs AB 2005-2007. Executive  
positions at Flextronics 2000-2005.

**HEXPOL shareholding: -**

**Warrants in HEXPOL:**

75,000 Class B shares



### Carsten Rüter

Born in 1971, M.Sc. (Eng.)  
President of Compounding Techno-  
logy, employed in 1997

**Previous positions:** Vice President  
Technology at Hexagon Polymers Com-  
pounding 2004-2005. Technical Direc-  
tor at Thona Belgium 1997-2004.

**HEXPOL shareholding: -**

**Warrants in HEXPOL:**

60 000 Class B shares.



### Ralph Wolkener

Born in 1971, B.Sc. (Econ.)  
President of Compounding Europe &  
Asia, employed in 1997

**Previous positions:** Vice President  
Marketing at Hexagon Polymers Com-  
pounding 2004-2005. Marketing Direc-  
tor at Thona Belgium 1997-2004.

**HEXPOL shareholding: -**

**Warrants in HEXPOL:**

35 000 Class B shares

# Shareholder information

## Annual General Meeting

The Annual General Meeting will be held on 7 May 2010 at 3:00 p.m. in Malmö (Börshuset, Skeppsbron 2). The 2009 Annual Report will be distributed to shareholders not later than during week 16 and will then also be available on HEXPOL's website and at the head office. Shareholders who wish to participate at the Annual General Meeting must be registered in the shareholders' register maintained by Euroclear Sweden AB no later than 30 April 2010 and notify their intention to participate to HEXPOL's head office no later than 30 April at 12:00 noon. Shareholders whose shares are registered with a trustee must temporarily register the shares in their own name to be entitled to participate in the General Meeting. This re-registration process must be completed no later than 30 April.

## Dividend proposal

The Board of Directors will propose to the Annual General Meeting on 7 May that a dividend of 1.00 SEK (-) be paid.

## Calendar for financial information:

HEXPOL AB will submit financial information on the following dates:

Activity	Date
2009 Annual Report, published	April 2010
Interim report first quarter 2010	7 May 2010
Annual General Meeting	7 May 2010
Six-month report 2010	21 July 2010
Interim report, third quarter 2010	22 October 2010
Year-end report 2010	February 2011

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

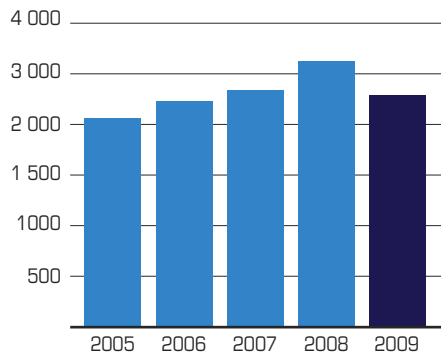
For more information, please contact:

- Georg Brunstam, President and CEO  
Tel: +46 708-55 12 51
- Urban Ottosson, CFO/IR  
Tel: +46 767-855 144

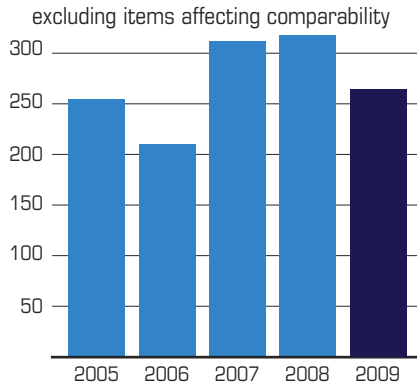


# Five-year summary

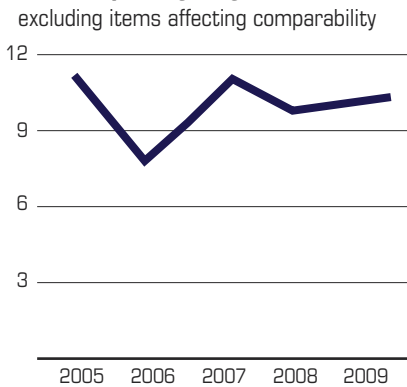
**Net sales (MSEK)**



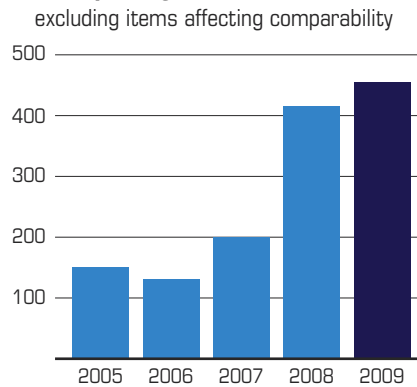
**Operating profit (MSEK)**



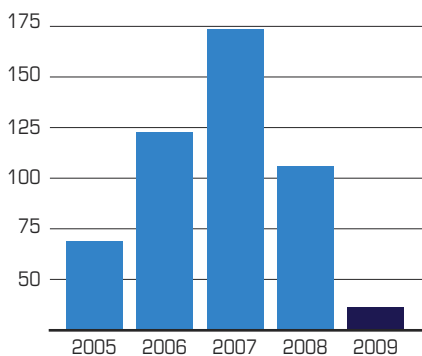
**Operating margin (%)**



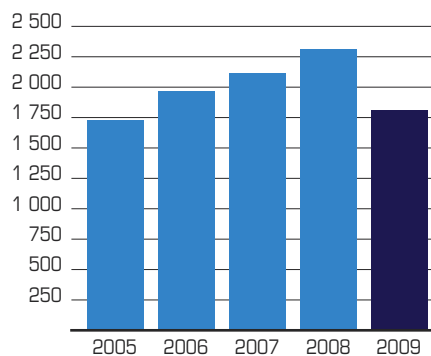
**Operating cash flow (MSEK)**



**Investments (MSEK)**



**Average number of employees**



MSEK	2009	2008	2007	2006	2005
<b>Condensed INCOME STATEMENTS</b>					
<b>Net sales</b>	<b>2 608</b>	<b>3 190</b>	<b>2 730</b>	<b>2 488</b>	<b>2 205</b>
Operating expenses	-2 445	-2 880	-2 425	-2 283	-1 950
<b>Operating profit</b>	<b>163</b>	<b>310</b>	<b>305</b>	<b>205</b>	<b>255</b>
Net financial items	-23	-52	-50	-39	-23
<b>Profit before tax</b>	<b>140</b>	<b>258</b>	<b>255</b>	<b>166</b>	<b>232</b>
Tax	-38	-75	-69	-48	-70
<b>Profit after tax</b>	<b>102</b>	<b>183</b>	<b>186</b>	<b>118</b>	<b>162</b>
<b>Condensed BALANCE SHEETS</b>					
<b>Assets</b>					
Fixed assets	1 977	2 167	1 871	1 340	1 377
Current assets	494	692	696	571	547
Cash and cash equivalents	317	342	228	116	79
<b>Total assets</b>	<b>2 788</b>	<b>3 201</b>	<b>2 795</b>	<b>2 027</b>	<b>2 003</b>
<b>Shareholders' equity and liabilities</b>					
Shareholders' equity	1 217	1 157	1 025	883	881
Interest-bearing liabilities	1 128	1 535	1 386	828	810
Other liabilities and provisions	443	509	384	316	312
<b>Total shareholders' equity and liabilities</b>	<b>2 788</b>	<b>3 201</b>	<b>2 795</b>	<b>2 027</b>	<b>2 003</b>
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	359	393	265	179	135
Net investments in tangible and intangible fixed assets	-23	-105	-173	-124	-67
Acquisitions of operations	0	0	-350	-	-25
Cash flow from financing activities	-358	-194	370	-18	-52
<b>Cash flow for the year</b>	<b>-22</b>	<b>94</b>	<b>112</b>	<b>37</b>	<b>-9</b>
Cash and cash equivalents, January 1	342	228	116	79	88
Exchange rate difference in cash flow	-3	20			
<b>Cash and cash equivalents, December 31</b>	<b>317</b>	<b>342</b>	<b>228</b>	<b>116</b>	<b>79</b>
<b>Key figures</b>					
Average shareholders' equity, MSEK	1 187	1 091	953	882	830
Average capital employed, MSEK	2 530	2 562	2 136	1 757	1 571
Profit margin before tax, %	5,4	8,1	9,3	6,7	10,5
Return on shareholders' equity, %	8,6	16,8	19,5	13,4	19,6
Return on capital employed, %	6,4	13,2	15,1	12,1	16,8
Net sales growth, %	-18,2	16,8	9,7	12,8	36,6
Operating margin, %	6,3	9,7	11,2	8,2	11,6
Earnings per share, SEK	3,84	6,89	7,01	4,44	6,10
Net debt/equity ratio, times	0,6	1,0	1,1	0,8	0,8
Equity/assets ratio, %	43,7	36,1	36,7	43,6	44,0
Average number of employees	1 809	2 315	2 120	1 933	1 691
Number of employees at year end	1 827	2 230	2 327	2 016	1 760
Sales per employees, MSEK	1,44	1,38	1,29	1,29	1,30
<b>Key figures excluding items affecting comparability</b>					
Operating profit, MSEK	261	310	305	205	255
Operating margin, %	10,0	9,7	11,2	8,2	11,6
Profit before tax, MSEK	238	258	255	166	232
Profit margin before tax, %	9,1	8,1	9,3	6,7	10,5
Profit after tax, MSEK	172	183	186	118	162
Earnings per share, SEK	6,48	6,89	7,01	4,44	6,10
Return on shareholders' equity, %	14,5	16,8	19,5	13,4	19,6
Return on capital employed, %	10,3	13,2	15,1	12,1	16,8

# Definitions

## Financial definitions

**Capital employed** Total assets less non-interest-bearing liabilities.

**Cash flow** Cash flow from operating activities after change in working capital.

**Cash flow per share** Cash flow from operating activities after change in working capital, divided by average number of shares.

**Earnings per share** Net profit after tax divided by average number of shares.

**Equity ratio** Shareholders' equity as a percentage of total assets.

**Interest cover ratio** Profit before tax financial expenses divided by financial expenses.

**Investments** Purchases less sales of tangible and intangible fixed assets, excluding those included in acquisitions and divestitures of subsidiaries.

**Net indebtedness** Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets.

**Net debt/equity ratio** Interest-bearing liabilities less cash and cash equivalents and interest bearing assets divided by shareholders' equity.

**Operating cash flow** Operating profit less depreciation/amortisation and investments, plus change in working capital.

**Operating margin** Operating profit as a percentage of net sales for the year.

**Profit margin before tax** Profit before tax as a percentage of net sales for the year.

**Return on capital employed** Profit before tax plus financial expenses as a percentage of average capital employed.

**Return on equity** Net earnings as a percentage of average shareholders' equity.

**Shareholders' equity per share** Shareholders' equity divided by the number of shares at year-end.

## Business definitions

**CSM** CSM Worldwide is the company that provides forecasts and market information to suppliers to the automotive industry.

**HA oils** High Aromatic oils contain several chemical substances (polycyclic aromatic hydrocarbons, PAHs) that are carcinogenic and often resistant to decomposition in the environment.

**NAFTA** North American Free Trade Agreement is a free-trade agreement between Mexico, Canada and the US. In the text of the annual report, NAFTA refers to the region comprising Mexico, Canada and the US.

**OEM** Original Equipment Manufacturer is a term for companies that manufacture the end-product to be sold on the open market. The product may consist exclusively of proprietary components or, most commonly, a combination of proprietary components and components purchased from sub-suppliers that are assembled by the OEM company for the end product.

**Outsourcing** means that a company lets another company handle one or more processes.

**PAHs** Polycyclic aromatic hydrocarbons or polyaromatics, often abbreviated as PAHs, are a group of substances found in black coal and petroleum. Different refining methods contribute to increasing PAHs. There are thus many PAHs in heavy fuel oil, for example.

**PCBs** 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.

**PHE** Plate Heat Exchanger

**Tier 1** The tier structure is a traditional description of the relationship between vehicle manufacturers and suppliers. A tier 1 supplier (first-line supplier) develops, manufactures and delivers what are often complex modules directly to the OEM. Tier 1 suppliers in turn purchase from tier 2 suppliers that purchase from tier 3 suppliers and so on.

**TIT** Total Indicated Runout, an absolute measurement of the roundness of a wheel.

**VOC** Volatile Organic Compounds are a group of organic compounds that easily vaporize at room temperature. Half of the volatile hydrocarbons in the atmosphere have health and environmental effects, including a significant role in the formation of ground-level ozone.





Photography: HEXPOL's subsidiaries, Future Image Bank  
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Art Director: Anders Ohrgren, G-byrån AB  
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# Addresses to Group companies



Head office:  
HEXPOL AB  
Skeppsbron 3  
SE-211 20 Malmö  
Sweden  
Tel: +46 (0)40-25 46 60  
Fax: +46 (0)40-25 46 89  
info@hexpol.com  
www.hexpol.com



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



HEXPOL Compounding GmbH  
Ottostrasse 34  
DE-41836 Hückelhoven  
Germany  
Tel: +49 24 33 9755 0  
Fax: +49 24 33 97 55 99  
info@hpc-de.com  
www.hexpolcompounding.com



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



HEXPOL Compounding s.r.o  
Sumperska 1344  
CZ-78391 Ústí nad Labem  
Czech Republic  
Tel: +420 585 004 011  
Fax: +420 585 053 568  
info@hpc-cz.com  
www.hexpolcompounding.com



HEXPOL Compounding ULC  
Magog, Canada  
  
Closed summer 2009.



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



HEXPOL Compounding  
(Qingdao) Co., Ltd  
899 Qingdao Middle Road  
CN-266431 Jiaonan,  
Qingdao China  
Tel: +86 532 81731118  
Fax: +86 532 81731119  
info@hpc-cn.com  
www.hexpolcompounding.com



HEXPOL Compounding SA de CV  
AV. Japon # 302  
Parque Industrial San Francisco  
San Francisco de Los Rómos,  
Ags. CP 20304, Mexico  
Tel: +52 449 139 3270  
Fax: +52 449 139 3289  
info@hpc-mx.com  
www.hexpolcompounding.com



GoldKey Processing, Inc  
14910 Madison Rd.  
Middlefield, Ohio 44062  
USA  
Tel: +1 440 632 0901  
Fax: +1 440 632 0929  
info@goldkey-us.com  
www.goldkey-us.com



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



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



Stellana (Qingdao) Co., Ltd  
899 Qingdao Middle Road  
CN-266431 Jiaonan,  
Qingdao, China  
Tel: +86 532 81731167  
Fax: +86 532 81731128  
info@stellana-cn.com  
www.stellana-cn.com



Elastomeric Engineering  
Co Ltd  
51-54, IDB Industrial Estate  
Horana Sri Lanka  
Tel: +94 34 226 1050  
Fax: +94 34 226 2045  
eeng@elastomeric.lk  
www.elastomericgroup.com



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



Gislaved Gummi (Qingdao) Co., Ltd  
899 Qingdao Middle Road  
CN-266431 Jiaonan,  
Qingdao China  
Tel: +86 532 81731166  
Fax: +86 532 81731006  
info@hpg-cn.com  
www.hpg-cn.com



Elastomeric Technologies  
(Private) Ltd  
371 Colombo Road  
Piliyandala Sri Lanka  
Tel: +94 11 421 2722  
Fax: +94 11 421 2758  
eeng@elastomeric.lk  
www.elastomericgroup.com

## Sales Offices:

Sales Office UK, David Mottershead, tel: +44 7540 698877, david.mottershead@hpc-de.com  
Sales Office Italy, Enrico Panatano, tel: +39 333 791 6944, enrico.panatano@hpc-de.com



 **HEXPOL**  
A Material Difference

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

