

HEXPOL AB (publ)

Annual Report 2013



A Material Difference



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

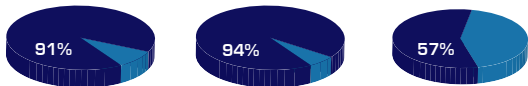
HEXPOL in brief

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

Business area HEXPOL Compounding

The business area's share of the HEXPOL Group (2013):

Sales Operating profit Number of employees



Operations HEXPOL Compounding is one of the world's leading suppliers in the development and manufacture of advanced, high-quality polymer compounds. HEXPOL Compounding focuses primarily on two key segments of the polymer market:

- Rubber Compounding
 - Thermoplastic Elastomer (TPE) Compounding
- HEXPOL Compounding supports customers globally through 24 manufacturing units in Europe, Asia and NAFTA.

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

Customers Manufacturers of polymer components who impose rigorous demands on performance, quality and global delivery capacity.

Sales 7,345 MSEK (7,270)

Operating profit 1,177 MSEK (996)

Number of employees at 31 December 1,958 (1,956)

Business area HEXPOL Engineered Products

The business area's share of the HEXPOL Group (2013):

Sales Operating profit 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 industry. The business area is also a major player in rubber profiles, mainly for the construction and engineering industries.

Market The market for gaskets and wheels is global, with HEXPOL's production units located in Europe and Asia and for wheels also in North America. The market for profiles is primarily Nordic.

Customers For gaskets, the customers are manufacturers of plate heat exchangers; for wheels, manufacturers of forklifts and castor wheels and, for profiles, the construction and engineering industries.

Sales 691 MSEK (737)

Operating profit 78 MSEK (73)

Number of employees at 31 December 1,470 (1,371)



THE GROUP IN BRIEF

HEXPOL is a world-leading polymers group with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklifts and castor wheel applications (Wheels). Customers are primarily system suppliers to the global automotive and engineering industry, the energy, oil and gas sector, medical equipment manufacturers and OEM manufacturers of plate heat exchangers and forklifts. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. Customers outside Sweden account for more than 95 percent of invoiced sales and 11 of the Group's 32 production units are situated in the expansive regions of Asia, Mexico and Eastern Europe.

OPERATIONS AND MARKET

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

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

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

FINANCIAL OBJECTIVES

During the year, the Board adopted revised financial targets, whereby the following targets are measured at a yearly average over a business cycle: sales growth (adjusted for currency effects) is to exceed 10 percent and the operating margin (adjusted for items affecting comparability) is to exceed 12 percent.

DIVIDEND POLICY

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

BUSINESS CONCEPT

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

VISION

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

STRATEGY

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

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

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

VALUE ENHANCING AND SUCCESS FACTORS

Since 2002, Group operations have expanded from annual sales of 631 MSEK to 8,036 MSEK, with strong and improved operating margins. This favourable trend is the result of deep and comprehensive product development skills, cost-effective production plants and successful new establishments and company acquisitions. The Group is also well positioned in segments characterised by healthy growth. The corporate culture is strong, with skilled and experienced employees led by experienced management teams with short and prompt decision-making routes. During the year, Robbins, the company that was acquired in the end of 2012, was successfully integrated. In addition, capacity investments in HEXPOL Rubber Compounding Mexico and in HEXPOL TPE Compounding were implemented.

2013 in brief

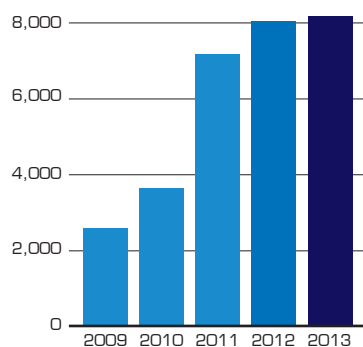
- Sales amounted to 8,036 MSEK (8,007)
- Operating profit increased 17 percent to 1,255 MSEK (1,069)
- The operating margin improved to 15.6 percent (13.4)
- Profit after tax rose to 930 MSEK (753)
- Earnings per share increased 24 percent to 27.02 SEK (21.88)
- Operating cash flow rose to 1,418 MSEK (1,209)
- The Board of Directors proposes a dividend of 9.00 SEK per share (6.00)

Significant events per quarter:

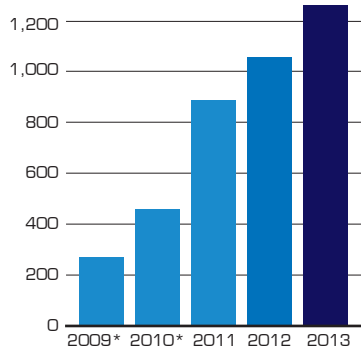
- **Q1:** The US rubber compound company Robbins, acquired in November 2012, was successfully integrated
- **Q2:** Another strong quarter
- **Q3:** Best quarter to date in terms of earnings. Start up of a new rubber compounding line in Mexico
- **Q4:** Strong growth with sales and volume growth in all geographic regions

Key figures	2013	2012	
Sales, MSEK	8,036	8,007	
Operating profit (EBIT), MSEK	1,255	1,069	+ 17%
Operating margin, %	15.6	13,4	
Profit before tax, MSEK	1,236	1,047	
Profit after tax, MSEK	930	753	
Earnings per share, SEK	27.02	21.88	+ 24%
Equity/assets ratio, %	61.5	49.2	
Return on capital employed, %	27.0	24.0	
Operating cash flow, MSEK	1,418	1,209	

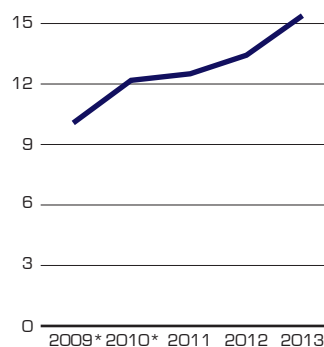
Sales, MSEK



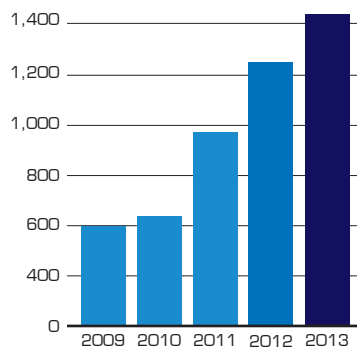
Operating profit, MSEK



Operating margin, %



Operating cash flow, MSEK



*Excluding items affecting comparability

CEO comments on the year
**Another strong year
– our best so far**



Georg Brunstam
President and CEO
HEXPOL AB

DEAR SHAREHOLDER,

2013 was yet another strong year for the HEXPOL Group. We continued to strengthen our market positions on all primary markets and further improved our financial results. Our strategy of organic and acquired growth in existing areas, combined with strong cash flows is successful and stands firm.

The acquisitions completed in 2012, Müller Kunststoffe and Robbins, developed well during 2013. Müller Kunststoffe had strong sales and earnings development, and the integration of Robbins' progressed faster than planned, leading to better result than plan. We increase the possibility for successful acquisitions by having a well-prepared and well-proven integration plan, and by always acquiring companies in well-known areas.

Another feature of our strategy is to raise volumes and sales on emerging markets and in growth areas. Consequently, it is gratifying to see that during 2013 we noted positive growth on emerging markets such as China and Mexico, where we are also investing in increased capacity. We also saw a positive development at HEXPOL TPE Compounding, thanks to sales and marketing efforts and capacity expansion.

During the 2013 we increased our volumes, with volume growth becoming stronger during the second half of the year. Sales totalled 8,036 MSEK (8,007) but were impacted by lower sales prices due to falling prices for our primary raw materials, coupled with adverse currency effects.

During 2013, we sharply improved our earnings per share, which rose to 27.02 SEK per share – an increase of 24 percent. Our consistent focus on the handling of working capital also generates results in the form of solid operating cash flow, and a good return of 27.0 percent (24.0) on capital employed.

It is gratifying to note that the HEXPOL share performed well and increased by 40 percent during the year.

A key component of our strategy is the continuing focus on developing the competencies in the Group. During the year, we conducted extensive programmes with this aim at local, regional and central levels. The strategy of internal recruitment continues and many positions were filled by in-house candidates.

The HEXPOL Group has a strong financial position, thanks to high earnings and the efficient management of working capital. The net debt/equity multiple is low, 0.1 times, and the equity/assets ratio is high, 61.5 percent. Combined, these factors provide a solid platform for continued expansion.

CONTINUING GROWTH AND FURTHER IMPROVED MARGINS

Our strategy is to grow both organically and through acquisitions, but always with good margins and strong operating cash flows. All of the companies we acquire are active in our core businesses and we have usually followed the target company for a lengthy period, providing us with detailed insight. All our acquisitions are integrated into our existing organisation and structure. We have consistently acquired companies on markets in which we are already established and we have built new proprietary units in emerging markets, for example, China and Mexico.

We have grown organically and through acquisitions from sales of almost 500 MSEK in 2001 to sales of 8,036 MSEK in 2013. Expansion has been combined with vastly improved operating margins, thanks to extensive internal efficiency enhancement programmes through which all units are measured and compared with each other.

During 2012, we completed two major acquisitions in our core businesses, both of which progressed well in 2013. Early in 2012, we acquired Müller Kunststoffe which, with its two operating units in southern Germany and some 90 employees, reported annual sales of some 46 MEUR at that time. At the close of 2012, we acquired the US rubber compounding company, Robbins, with its approximately 240 employees at three units in the US. Robbins' annual sales were about 100 MUSD in 2012. Robbins broadened and strengthened our rubber compounds operations through new end-customer segments, such as agriculture and the mining industry.

COMPETENCY DEVELOPMENT AND INTERNAL RECRUITMENT – OUR BASE FOR DEVELOPMENT

Our strategy is based on broad-based and in-depth expertise in polymers and application know-how, combined with advanced commercial and ethical competencies. We consistently develop our motivated workforce either through local company training programmes, individual programmes or our Group scheme called HEXPOL LEADERSHIP DEVELOPMENT PROGRAMME. We always prioritise internal recruitment and, thus, conducted a large number of such appointments during the year. An internal recruitment always emits positive signals to the organisation and is a key strategy for the HEXPOL Group. By means of our acquisition strategy, we also gain many new competent employees in the Group. A large number of our senior executives and several members of Group Management derive from acquired operations. Our organisation develops continuously but has a stable foundation with very few organisational changes.

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

We have growing customers and are active in geographic markets characterised by expansion. We see growth in the automotive, engineering and energy segments. In the energy segment, we note particularly sharp development in the shale gas area, for which we have developed many proprietary formulas for our customers. In the TPE area, we also see strong growth in many consumer applications (such as caps and closures). In addition, we also see geographic growth, primarily in China, Mexico and Eastern Europe, we are increasing our investments in capacity in these markets. We have doubled our rubber-compounding capacity in Qingdao, China, and are sharply expanding rubber-compounding capacity in Mexico. We have also added to pressing capacity for PHE gaskets in China and, in 2012, we started up a plant for polyurethane wheels in China; on top of our construction of an entirely new plant for TPE compounds in Foshan, China. All of these developments have been undertaken as part of efforts to grow with our customers and to have a powerful presence in emerging markets.

We have customers in segments that are expanding rapidly, such as energy, oil and gas, and medical technology. The automotive industry, our largest market segment, is also growing on a global basis. After the acquisition of Robbins, the automotive segment represents about 33 percent of Group sales. Of the HEXPOL Group sales, the NAFTA region accounts for 64 percent; and Europe for 31 percent, with the emphasis on Central Europe (mainly Germany) and Eastern Europe.

STRONG FINANCIAL POSITION

HEXPOL has a business model that functions both in good and bad times. This was demonstrated not least in 2009 when the financial and automotive crises emerged. Like all others, we lost sales but nonetheless reported an operating margin for that year of 10.0 percent (excl. items affecting comparability). We generate strong operating cash flows and this factor, combined with strong earnings and sound financing, gives us a strong balance sheet capable of coping with expansion – both organic and via acquisitions – as well as with dividends. During 2013 and on attractive terms, we replaced a five-year credit agreement that matured during the year. We are complying with our dividend policy of paying dividends of 25-50 percent of net profit, and the Board's proposal for dividend payment is 9.00 SEK per share (6.00).

PRIORITIES FOR 2014

In the 2012 Annual Report, I promised we would focus on raising our market shares by focusing efforts on development and sales. I feel that overall, and despite a cautious business climate, we have advanced our positions on all main markets. We have never had so many and such extensive development projects with current and future customers. I also promised that we would continue to be acquisition oriented and continue our proactive sustainability and social responsibility programmes. During 2013, we successfully integrated Robbins, the US rubber compounding company we acquired at the close of 2012. We also worked with additional acquisitions but without making any in 2013. Our sustainability work continued unrelentingly, and we report it transparently in this Annual Report and in the separate Sustainability Report.

During 2014, we will continue our focus on competence and employee development. We will also continue to give undivided attention to growth through increased and focused market and development efforts. We see favourable potential for this at, for example, HEXPOL TPE Compounding and in the oil, gas and energy segment. We have also strengthened our sales organisation on a number of geographic markets, such as the French market. Our acquisition orientation remains in place and our proactive sustainability and social responsibility programmes will continue relentlessly.

Finally, I would like to extend my sincere thanks to customers, suppliers and shareholders for their confidence and excellent cooperation during 2013. Our employees have made admirable efforts – thank you all. Today, we have a larger HEXPOL Group with strong market positions, in-depth competencies and a solid financial position. I am convinced that we can continue to develop the HEXPOL Group in a positive direction.

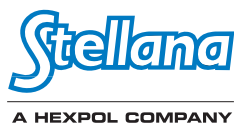
Malmö, Sweden, March 2014

Georg Brunstam
President and CEO



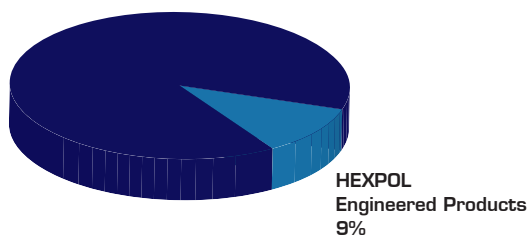
About the HEXPOL Group

The Group's brands

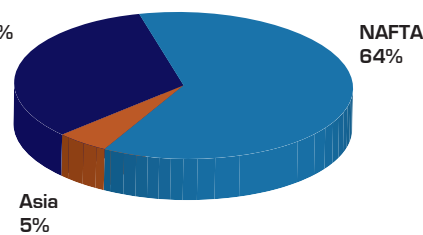


Sales for 2013 distributed by business area and geographically

HEXPOL
Compounding
91%



Europe 31%



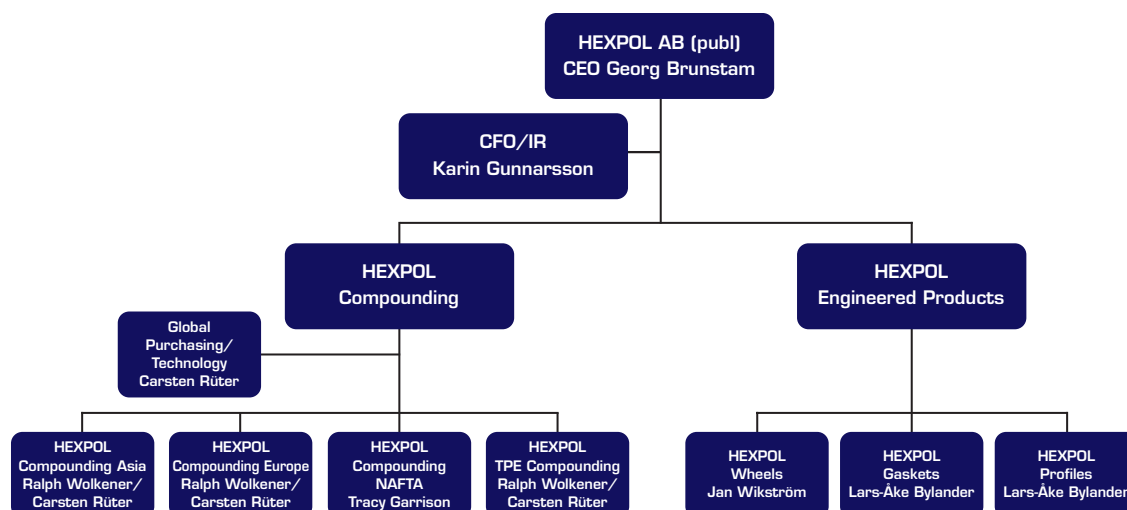
The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. HEXPOL Compounding consists of one product area, HEXPOL TPE Compounding, and three geographic regions: HEXPOL Compounding NAFTA, HEXPOL Compounding Europe and HEXPOL Compounding Asia. HEXPOL Engineered Products has three product areas: HEXPOL Gaskets, HEXPOL Wheels and HEXPOL Profiles. The organisation is structured to facilitate short and prompt decision-making processes, with clear, decentralised responsibility. The operating structure is presented in the diagram below.

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

and rubber materials for forklifts and castor wheel applications (Wheels). Customers are mainly OEM manufacturers of plate heat exchangers and forklifts, systems suppliers to players in the global automotive and engineering industries and the energy sector, as well as the medical-equipment sector.

More than 95 percent of sales are to customers outside Sweden. In addition, 11 of the Group's 32 production units are situated in the expansive regions of Asia, Mexico and Eastern Europe. The workforce totals slightly more than 3,400 employees, mainly in Asia and the US.

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



BUSINESS CONCEPT

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

VISION

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

OPERATIONAL STRATEGY

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

In order to attain the company's vision, the following 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. HEXPOL Gaskets has a central technology department in Gislaved, Sweden, and HEXPOL Wheels has its central technology department in Laxå, Sweden. Overall, approx-

imately five percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.

2. Most cost-effective company in the industry

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

3. Efficient supply management

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

4. Superior management expertise

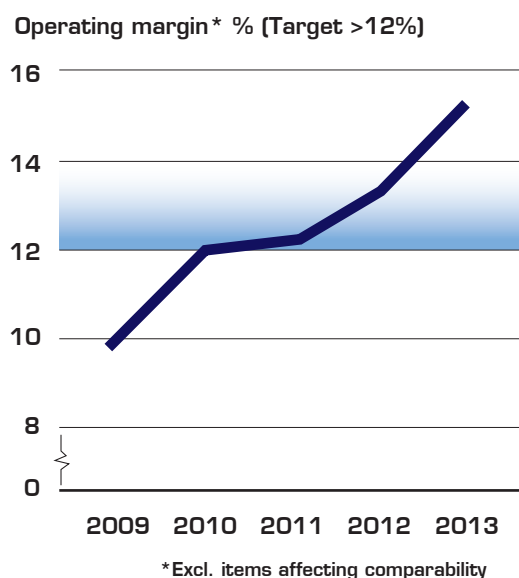
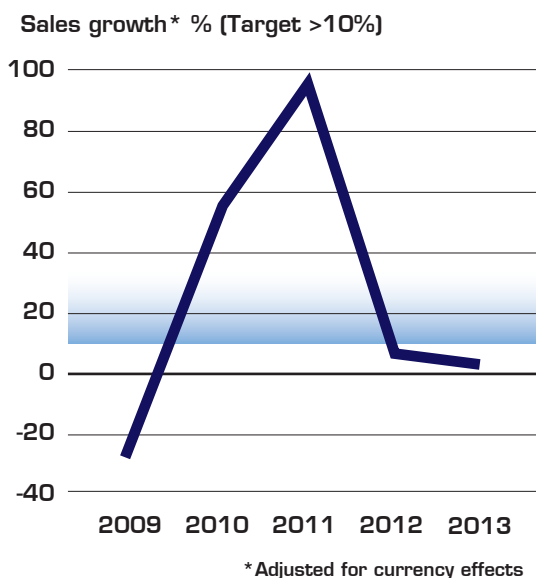
Skilled and experienced management teams working on the basis of global coordination and a continuous exchange of experience enable all the units to adapt to the best practice in the Group and the industry.

5. Speed Management

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

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





GROWTH STRATEGY

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

Organic growth

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

Acquisition strategy

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

BRANDS

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

FINANCIAL TARGETS

During the year, the Board adopted revised financial targets, whereby the following targets are measured at a yearly average over a business cycle: sales growth (adjusted for currency effects) is to exceed 10 percent and the operating margin (adjusted for items affecting comparability) is to exceed 12 percent.

TARGET FULFILMENT

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

The financial targets 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 sales growth and operating margin.

HEXPOL has met its targets for the operating margin over the past four years. The operating margin in 2013 was 15.6 percent and the average for the period 2009–2013 was 12.7 percent. The objective for sales growth was comfortably exceeded during the years 2010 and 2011, but was not achieved in 2009, 2012 and 2013. Sales growth for 2013 was 3 percent and the average for the period 2009–2013 was 28 percent.

HISTORY

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

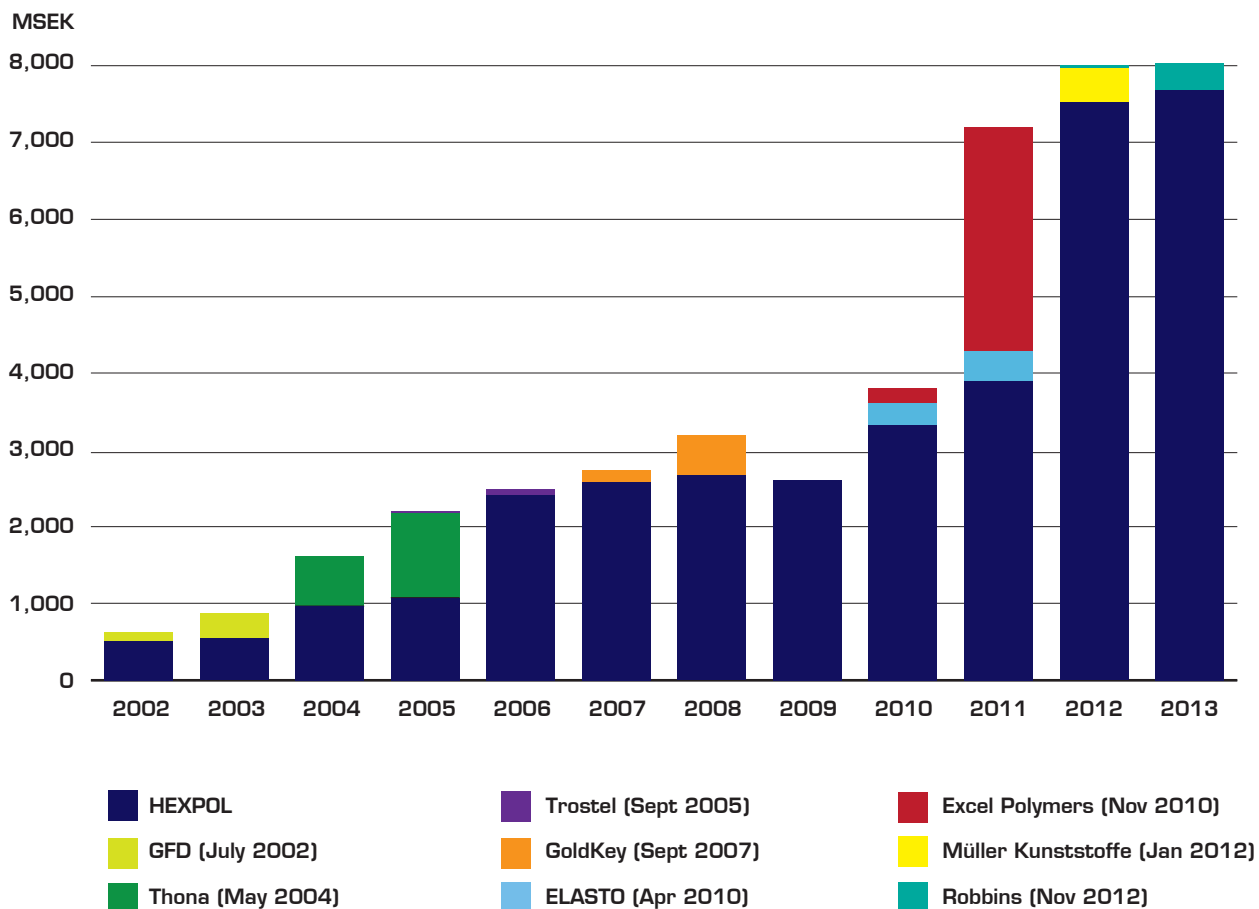
Up to 2008, HEXPOL was part of the Hexagon group. In 2008, HEXPOL was spun off to Hexagon's shareholders and was listed as a separate company, HEXPOL AB, on NASDAQ OMX Nordic.

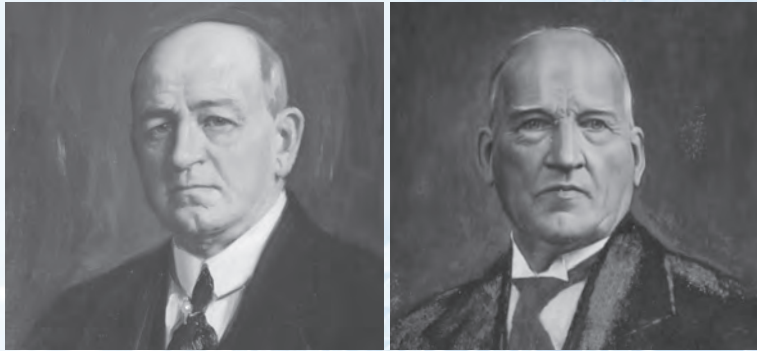
During 2010, two major acquisitions were completed: ELASTO Group in order to broaden the material base with thermoplastic elastomers (TPE); and Excel Polymers Group, which made HEXPOL the number one in rubber compounding in global terms.

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

STRONG GROWTH

Contributions to sales made by acquisitions in 2002–2013. (Acquisition month in parenthesis.)





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

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

- 1893 The Gislow brothers form a rubber factory in Gislaved
- 1966 A new factory for the product known as Technical Rubber is built
- 1990 The Technical Rubber division becomes Gislaved Gummi AB
- 1991 Production of gaskets for plate heat exchangers is acquired
- 1994 Hexagon AB acquires the Company
- 1995 Stellana AB in Laxå, Sweden is acquired
- 1998 Elastomeric Engineering Co Ltd in Sri Lanka is acquired
- 2002 GFD Technology 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
- 2009 Restructuring programme and closure of the compounding operation in Canada
- 2010 ELASTO Group with operations in Sweden and the UK is acquired
- 2010 The global rubber compounds group, Excel Polymers, with operations in the US, China, the UK and Mexico, is acquired
- 2011 Excel Polymers is re-branded as Burton Rubber Processing, Colonial Rubber Works, Chase Elastomer and HEXPOL Compounding
- 2012 The German TPE compounding company, Müller Kunststoffe, is acquired
- 2012 Capacity investments in the emerging markets Mexico and China
- 2012 Robbins, a leading US rubber compounding company, is acquired
- 2013 Acquired Robbins is successfully integrated. Capacity investments in HEXPOL Rubber Compounding in Mexico and China and in HEXPOL TPE Compounding

The share and shareholders

As of January 2 2014, HEXPOL AB belongs to the NASDAQ OMX Stockholm Large Cap segment. We are of course proud to now be one of the major companies on the NASDAQ OMX Stockholm. During the recent years, we have had a very positive development in terms of both sales and profit.

Georg Brunstam, President and CEO of HEXPOL AB (publ).

Share price trend in 2013 (SEK)



Average price per trading day. Source: NASDAQ OMX.

THE HEXPOL SHARE

HEXPOL AB was listed on NASDAQ OMX Nordic on 9 June 2008 and the Class B share was quoted on the Stockholm Mid Cap list in the industrial sector. On 2 January 2014, the Class B share was moved up from the Mid Cap to the Large Cap segment. The share capital in HEXPOL AB totals 68,840,256 SEK, represented by 34,420,128 shares. Of these, 1,476,562 are Class A shares and 32,943,566 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 by 40 percent during 2013 and the closing price at the end of the year was 482 SEK. The highest closing price was SEK 506 (25 October). The lowest closing price during the year was SEK 322 (15 January). During 2013, 10.3 million (19.8) HEXPOL shares were traded. Average trading per day in the share was 41,168 shares (79,080). The number of shares traded represented 30 percent (58) of the total number of shares.

OWNERSHIP STRUCTURE

As of 31 December 2013, HEXPOL AB had 7,878 shareholders (7,917). The proportion of shares held by Swedish institutions and funds at 31 December 2013 corresponded to 26 percent (29) of the capital. The number of shares held by non-Swedish shareholders totalled 31 percent (28) of the capital. The 20 largest shareholders accounted for 62 percent (64) of the capital and 73 percent (74) of the voting rights.

DIVIDEND POLICY

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

SHAREHOLDER VALUE AND ANALYSTS

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

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

- SEB Enskilda, Daniel Schmidt, Olof Larshammar
daniel.schmidt@enskilda.se, olof.larshammar@seb.se
- Handelsbanken Capital Markets, Mikael Doepel
midi01@handelsbanken.se
- Swedbank, Mats Liss
mats.liss@swedbank.se
- Erik Penser Bankaktiebolag, Johan Dahl
johan.dahl@penser.se
- Carnegie Investment Bank, Agnieszka Vilela
agnvil@carnegie.se
- ABG Sundal Collier, Johan Edvardsson
johan.edvardsson@abgsc.se

MAJOR SHAREHOLDERS, DECEMBER 31 2013

Owner/manager/custodial bank	Number of Class A shares	Number of Class B shares	Share capital (%)	Votes (%)
Melker Schörling AB	1,476,562	7,563,715	26.26	46.80
Didner & Gerge Fonder Aktiefbolag	0	2,160,000	6.28	4.53
Swedbank Robur fonder	0	1,819,960	5.29	3.81
Afa Försäkring	0	1,366,756	3.97	2.86
Handelsbanken fonder AB RE JPMEL	0	722,763	2.10	1.51
SSB and Trust Com., Boston	0	707,250	2.05	1.48
SSB and Trust Com., Boston	0	644,413	1.87	1.35
BP2S London/Saudi Arabian Monetary, Agency	0	580,552	1.69	1.22
Andra AP-fonden	0	485,146	1.41	1.02
Gamla Livförsäkringsaktiefbolaget	0	477,690	1.39	1.00
Enter fonder	0	470,059	1.37	0.99
AMF - Försäkringar och Fonder	0	443,810	1.29	0.93
SEB Investment Management	0	441,040	1.28	0.92
Bonnier, Simon	0	383,428	1.11	0.80
SSB CL Omnibus AC OM03 (0 PCT)	0	334,478	0.97	0.70
Mellon US TAX Exempt Account	0	329,070	0.96	0.69
JPM Chase NA	0	289,070	0.84	0.61
Odin Sverige Aksjefondet	0	268,646	0.78	0.56
JPM Chase NA	0	263,200	0.76	0.55
Nordea Investment Funds	0	260,563	0.76	0.55
Total of the 20 largest shareholders	1,476,562	20,011,609	62.43	72.89
Total other shareholders	0	12,931,957	37.57	27.11
Total	1,476,562	32,943,566	100.00	100.00

SHAREHOLDING BY COUNTRY, DECEMBER 31 2013

Country	Share of the total number of shares (%)
Sweden	68.59
USA	11.85
United Kingdom	7.75
Luxembourg	2.31
Switzerland	1.90
Other	7.60
Total	100.00

Source: Euroclear Sweden.

OWNER STRUCTURE, DECEMBER 31 2013

Shareholder	Number of shareholders	Shareholder (%)	Holding (%)	Votes (%)
Physical persons	6,922	87.86	11.24	8.11
<i>of whom living in Sweden</i>	<i>6,834</i>	<i>86.75</i>	<i>10.00</i>	<i>7.22</i>
Legal entities	956	12.14	88.76	91.89
<i>of whom living in Sweden</i>	<i>475</i>	<i>6.03</i>	<i>58.59</i>	<i>70.12</i>
Total	7,878	100.00	100.00	100.00
<i>of whom living in Sweden</i>	<i>7,309</i>	<i>92.78</i>	<i>68.59</i>	<i>77.34</i>

Living in Sweden	7,309	92.78	68.59	77.34
Other Nordic countries	126	1.60	1.10	0.79
Rest of Europe	287	3.64	14.98	10.81
USA	100	1.27	11.85	8.55
Rest of the world	56	0.71	3.48	2.51
Total	7,878	100.00	100.00	100.00

NUMBER OF SHARES PER SHAREHOLDER, DECEMBER 31 2013

	Number of shareholders	Number of Class A shares	Number of Class B shares
1-500	6,347	0	807,826
501-1,000	612	0	458,362
1,001-5,000	624	0	1,276,258
5,001-10,000	80	0	580,184
10,001-15,000	39	0	483,752
15,001-20,000	17	0	302,303
20,001-	159	1,476,562	29,039,881
Total	7,878	1,476,562	32,943,566

SHAREHOLDER CATEGORIES, DECEMBER 31 2013

Shareholder	Number of Class A shares	Number of Class B shares	Holding (%)	Votes (%)
Financial companies	0	9,065,784	26.34	19.00
<i>of which, banks and funds</i>	<i>0</i>	<i>6,609,367</i>	<i>19.20</i>	<i>13.85</i>
<i>of which, insurance companies and pension institutions</i>	<i>0</i>	<i>2,456,417</i>	<i>7.14</i>	<i>5.15</i>
Other financial companies	0	22,059	0.06	0.05
Social insurance funds	0	810,274	2.35	1.70
Swedish government	0	27,978	0.08	0.06
Municipality sector	0	8,741	0.03	0.02
Associated organisations	0	82,923	0.24	0.17
Other Swedish legal entities	1,476,562	8,042,490	27.66	47.81
Non-categorised legal entities	0	630,149	1.83	1.31
International shareholders	0	10,810,527	31.41	22.66
Other Swedish physical persons	0	3,442,641	10.00	7.22
Total	1,476,562	32,943,566	100.00	100.00

Source: Euroclear Sweden.

Business area HEXPOL Compounding

Continued growth with improved margins



HEXPOL Compounding in brief

Operations

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

Market

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

Customers

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

Sales 7,345 MSEK (7,270)

Operating profit 1,177 MSEK (996)

Number of employees at 31 December 1,958 (1,956)

Operating units

- HEXPOL Compounding Aguascalientes, Mexico
- HEXPOL Compounding Statesville, NC, USA
- GoldKey Processing Middlefield, OH, USA
- HEXPOL Compounding – Burton Rubber Processing, (Burton), OH, USA
- HEXPOL Compounding – Colonial Rubber Works, TN, USA
- HEXPOL Compounding – Burton Rubber Processing (Jonesborough), TN, USA
- Chase Elastomer, TX, USA
- HEXPOL Compounding – California, CA, USA
- HEXPOL Compounding Queretaro, Mexico
- Robbins Muscle Shoals, AL, USA
- Robbins Findlay, OH, USA

- HEXPOL Compounding Eupen, Belgium
- HEXPOL Compounding Gislaved, Sweden
- HEXPOL Compounding Hückelhoven, Germany
- HEXPOL Compounding Unicov, Czech Republic
- HEXPOL Compounding UK, Manchester, UK

- HEXPOL Compounding Qingdao, China
- HEXPOL Compounding Foshan, China
- Elastomeric Group, Bokundara, Sri Lanka

- ELASTO Sweden, Åmål, Sweden
- ELASTO UK, Manchester, UK
- Müller Kunststoffe Plant 1, Lichtenfels, Germany
- Müller Kunststoffe Plant 2, Lichtenfels, Germany
- HEXPOL TPE Compounding Foshan, China

Senior executives within the business area



Tracy Garrison, President
HEXPOL Compounding NAFTA



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



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

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

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

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

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

- Rubber compounding
- Thermoplastic Elastomer (TPE) compounding

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

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

ORGANISATION

HEXPOL Compounding's operations include 24 production units with production, sales and development operations. The units are divided into four areas: the geographic regions of NAFTA, Europe and Asia, as well as the HEXPOL TPE Compounding product area.

A global unit in Belgium 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 delivery agreements (strategic supplier choices, price negotiations)
- Engineering (design of equipment to meet requirements)
- Information and communications technology (certain critical software, information databases)

Although most 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. Major global customers are also served on a worldwide basis through Key Account Managers.

MARKET

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

The largest customer segments for thermoplastic elastomer compounds (TPE Compounding) are medical technology, general industry and consumer industries.

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

The HEXPOL Group's portion of sales to industries other than the automotive industry significantly increased following the acquisition of ELASTO Group, Excel Polymers Group, Müller Kunststoffe and Robbins. The Group's share of sales to the automotive industry is about 33 percent (2012: 33%; 2011: 37%; 2010: 50%). For many car manufacturers, particularly in the premium segment, high-quality sealing strips, for example, represent a key component, since the strip often influences the end-customer's quality impressions in the form of quiet performance. HEXPOL Compounding is a leading supplier of rubber compounds in areas such as sealing strips for the automotive industry. The major manufacturers in the automotive industry and their system suppliers are active globally. These factors favour HEXPOL Compounding, which focuses on global delivery capabilities for the market's best products, offering identical quality regardless of the production unit.



Santa Fe Springs, USA



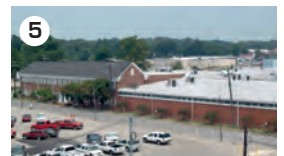
Kennedale, USA



Aguascalientes, Mexico



Queretaro, Mexico



Dyersburg, USA



Jonesborough, USA



Burton, USA



Middlefield, USA



Statesville, USA



Muscle Shoals, USA



Findlay, USA



Manchester, UK



Manchester, UK



Eupen, Belgium



Hückelhoven, Germany



Lichtenfels, Germany



Lichtenfels, Germany



Åmål, Sweden



Gislaved, Sweden



Unicov, Czech Republic



Bokundara, Sri Lanka



Foshan, China



Foshan, China



Qingdao, China

Operating units HEXPOL Compounding

Unit	Location	Number of employees Dec 31, 2013	Area m ²	Production capacity, tonnes
HEXPOL Compounding North Carolina	Statesville, USA	93	3,400	20,000
GoldKey Processing	Middlefield, USA	169	14,900	40,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	219	19,900	55,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	105	9,800	50,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	226	38,200	150,000
Chase Elastomer	Kennedale, USA	77	7,200	18,000
HEXPOL Compounding – California	Santa Fe Springs, USA	37	2,900	13,500
Robbins	Muscle Shoals, USA	108	20,900	12,000
Robbins	Findlay, USA	35	26,900	22,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	101	6,500	24,000
HEXPOL Compounding Queretaro	Queretaro, Mexico	113	8,300	20,000
HEXPOL Compounding Belgium	Eupen, Belgium	81	3,400	16,000
HEXPOL Compounding Sweden	Gislaved, Sweden	58	9,200	16,000
HEXPOL Compounding Germany	Hückelhoven, Germany	60	5,400	35,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	94	8,600	35,000
HEXPOL Compounding UK	Manchester, UK	51	2,500	5,500
HEXPOL Compounding Qingdao	Qingdao, China	75	5,900	20,000
HEXPOL Compounding Foshan	Foshan, China	38	6,350	20,000
Elastomeric Group	Bokundara, Sri Lanka	(56) ¹	2,000	6,000
ELASTO Sweden	Åmål, Sweden	58	5,300	20,000
ELASTO UK	Manchester, UK	40	4,500	13,000
Müller Kunststoffe Plant 1	Lichtenfels, Germany	34	3,600	10,000
Müller Kunststoffe Plant 2	Lichtenfels, Germany	74	6,300	20,500
HEXPOL TPE Compounding Foshan	Foshan, China	12	750	5,000
Total		1,958	222,700	646,500

¹ Organisationally included in HEXPOL Engineered Products.

Managers at HEXPOL Compounding's operating units



Randy Simpson,
COO HEXPOL
Compounding, NAFTA



Lars-Åke Bylander
Managing Director
HEXPOL Compounding
Sweden, Sweden



Joey Young,
General Manager Chase
Elastomer, USA



Tom Freshly,
General Manager Chase
Elastomer, USA



Ed Dowdall,
Managing Director
HEXPOL Compounding UK



Kjell Fagerström,
Managing Director
ELASTO Sweden



Mark George,
Managing Director
HEXPOL Compounding
North Carolina, USA



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



Georg Ender,
Managing Director Müller
Kunststoffe, Germany



René Herbiet,
Managing Director
HEXPOL Compounding
Belgium and Germany



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



Milos Pitela,
Managing Director
HEXPOL Compounding
Czech Republic



Saul Reyes,
Managing Director
HEXPOL Compounding
Aguascalientes, Mexico



Jerry Saxion,
Managing Director
GoldKey Processing, USA



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



Fransisco Viliesid,
Managing Director Hexpol
Compounding Queretaro,
Mexico



Andrew Wallace,
General Manager HEXPOL
Compounding – California,
USA



Jeremy Francken,
General Manager HEXPOL
Compounding Foshan, China



Dominic Philpot,
Managing Director
ELASTO, UK



Chris Poirer,
General Manager
Robbins, Muscle Shoals,
USA



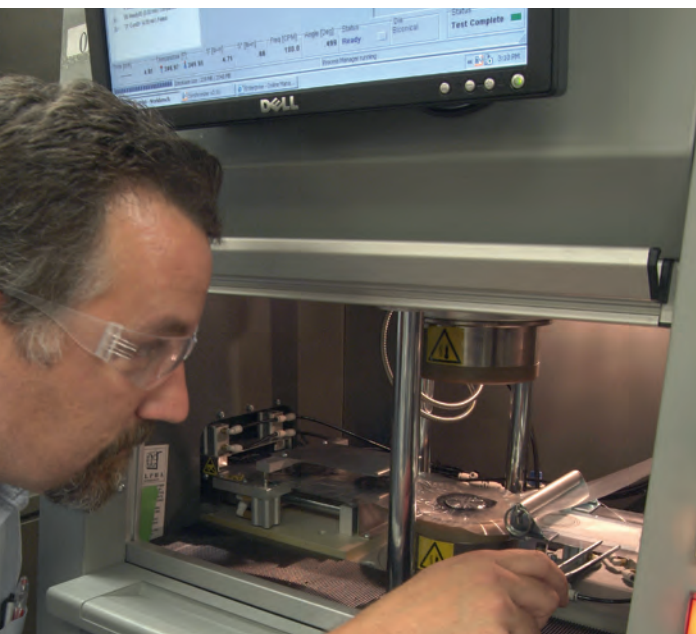
Bob Thewes,
General Manager
Robbins, Findlay, USA



Gareth Jefferson,
Regional Director Asia,
HEXPOL Compounding
Managing Director
HEXPOL Compounding
Qingdao, China

In the wake of the strong economic downturn in the second half of 2008 and 2009, the production of passenger cars declined sharply, by a total of 11.9 percent in 2009 on a global basis. In 2010, the market recovered and global production rose compared to the preceding year. According to the market institute IHS Global Insight, a total of 72.2 million light vehicles were produced in 2010. In 2011, the market grew by 6.6 percent to 77 million light vehicles and in 2012 the growth continued at a rate of 5.7 percent to 81.2 million light vehicles. During 2013, production increased to 84.5 million light vehicles. The number of light vehicles manufactured is expected to rise in the coming years, primarily as a result of increased demand in emerging markets such as China. For 2014, growth of 4.8 percent is expected, with even greater increases in China and other emerging markets. Accordingly, many automotive producers are increasing manufacturing in these expansive markets. For system suppliers, this trend, combined with requirements for proximity as well as export and import tariffs, is leading customers to demand that HEXPOL follow suite and offer manufacturing in these markets.

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



COMPETITORS

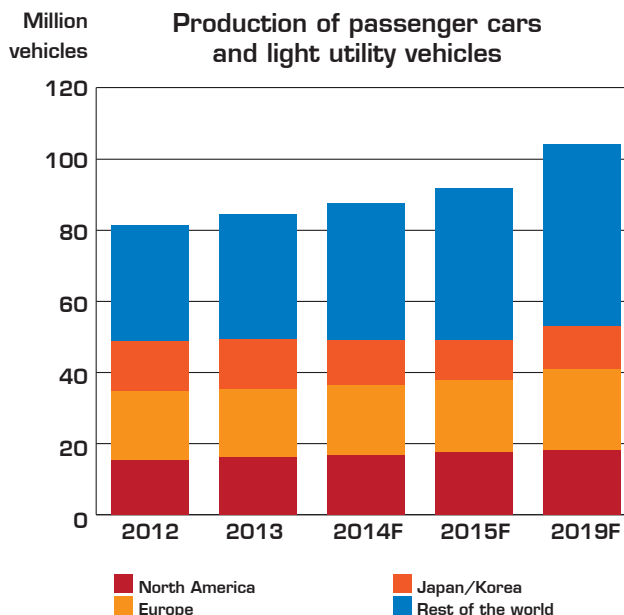
Only a small number of large manufacturers of rubber and TPE compounds have true international operations, with AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS and Kraiburg, as notable examples. There are also a significant number of smaller manufacturers that operate locally. In rubber compounding,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

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

BUSINESS MODEL

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

Sales are handled mainly through HEXPOL’s own sales organisation with technical support. The concept “Think global, act local” accurately describes how HEXPOL Compounding functions.



Source: IHS Global Insight



STRATEGY

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 globally. However, 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 global deliveries to Japanese, German, American and Korean system suppliers to the automotive industry.

Focus on innovation and cost efficiency

HEXPOL Compounding's operations focus on production and sales of high-quality products developed in close cooperation with discerning customers. The business area aims consciously to develop products that 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 largest customer segments are the automotive, engineering, construction, energy, oil and gas sectors. Customers in the automotive industry are not the automotive manufacturers themselves, but rather large system suppliers to vehicle manufacturers (Tier 1). However, it is essential for these system suppliers to meet the automotive industry's meticulous demands.

Continuous improvements

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

BRANDS

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

OPERATIONS IN 2013

2013 was another strong year of growth for HEXPOL Compounding. Volumes rose in a number of markets and in many units. Sales were strong to the global automotive industry's system suppliers and the engineering industry, with other markets segments, such as the energy, oil and gas sector, experiencing very strong growth. The US, Chinese and Mexican units reported the strongest sales increases while the European units were again impacted by the general economic downturn. Sales amounted to 7,345 MSEK (7,270) and operating profit increased to 1,177 MSEK (996), resulting in the operating margin rising to 16.0 percent (13.7).



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

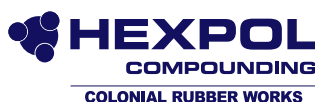
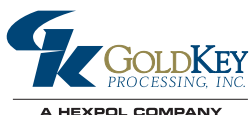
At the end of 2012, Robbins, a US rubber compounding manufacturer, was acquired to strengthen the presence in the US in end-customer segments such as agriculture and mining.

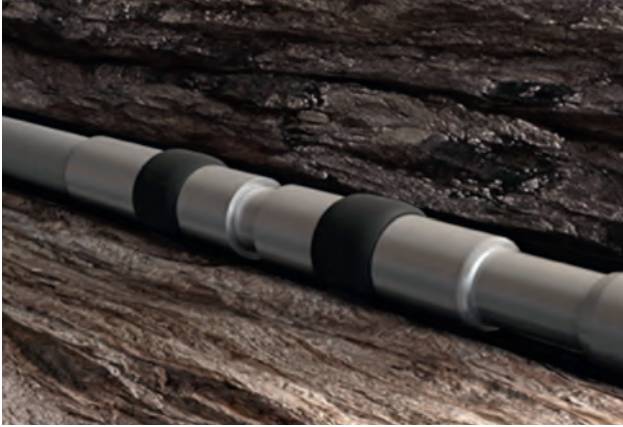
OUTLOOK AND PRIORITIES

HEXPOL Compounding aims to offer customers local service in all markets and to be a development partner on a global and local basis. With 24 production and development units in nine countries, our structure is unique for the industry and provides our global customers with local service. HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

2014 will be another exciting year characterised by intensive efforts to increase market shares through technological and process advancements in cooperation with customers. HEXPOL assigns priority to continued initiatives in the areas of medical equipment, energy, oil and gas applications, combined with continued activities in emerging markets such as China, Mexico and Central and Eastern Europe. HEXPOL Compounding will also continue to introduce the ISO 14001 environmental management system in all units. During 2014, HEXPOL's production capacity for rubber compounds will be increased in Queretaro, Mexico, and capacity at Müller Kunststoffe in Lichtenfels, Germany, will be further increased. Also in 2014, HEXPOL will be building a new technical laboratory in Lichtenfels, Germany.

Brands in the business area





Strong growth in Oil & Gas exploration

As oil and gas exploration in North America continues to accelerate from the shale gas reserves in the US mainland and the offshore exploration in the Gulf, HEXPOL Compounding continues to expand its leading position in custom made elastomer compounds. HEXPOL is a leading supplier of custom rubber compounds with over 40 years of service to the oil and gas industry. HEXPOL's compounds are found in rubber components on blow-out preventers, stators, and packers, as well as in an array of wire and cable, hoses, seals, and pipe wrappings.

An ongoing growth area for HEXPOL is in various packer applications during the completion and service of an oil or gas well. Packers are used in a variety of ways, the most common of which are:

- Isolation of reservoir zones in a well. Usually to isolate the perforations created in the fracturing process. Normally this isolation creates a seal between production zones.
- Protection of the casing in the wall of the wellbore as high pressure can exist during hydraulic fracturing.
- Temporarily plug the well to seal off zones while work is done up the hole.

Rubber-covered packers can be utilized as a mechanical application requiring the rubber compound to expand up to seven times in a mechanical process then recover back to its original state. Other rubber packers have a chemical reaction to "swell" when exposed to oil or water based fluids and can expand 3-5 times their original state.

The packer will many times replace the use of cement in the wellbore. Using rubber to act in these many positions allows a more rapid recovery of the resources and production of the well. HEXPOL has aligned with its customers in ongoing support to evolve products and to improve production.

Robbins successfully integrated into the HEXPOL Group

In November 2012, HEXPOL acquired Robbins LLC, a leading US rubber compounding company with a strong position in mining and agriculture based on their years of knowledge and experience in application and formulation. Robbins LLC is also recognized globally as the leading manufacturer of quality envelopes and curing tubes for tires, from small industrial, passenger and truck, to large OTR (Off-the-Road) tires for the retreading market. As new tire sizes come into the market place, Robbins LLC quickly develops and adds envelopes and curing tubes for use with those tires. This unique positioning attracted HEXPOL to Robbins LLC because it was a perfect complement to HEXPOL's breadth of technology, existing capabilities, and industry knowledge. Robbins LLC also strengthened HEXPOL's position for example in the energy end user segment.

The HEXPOL NAFTA management team had a plan, based on knowledge developed from previous acquisitions, in place to make the integration as seamless as possible and the plan was effectively executed. The integration team was made up of experienced associates from each function. Amongst others the integration plan included that new top management was put into place, the headquarter offices was closed, the Tallapoosa business was dispersed to other facilities, new financial controls were put into place, inventory levels were adjusted to reflect the business model and cost reductions were implemented in our Findlay, Ohio, facility.

The Robbins LLC sales team was integrated with our existing HEXPOL NAFTA sales team. Under the leadership of new Managing Director Christopher Poirier, the Muscle Shoals, Alabama, team passed their ISO audit with flying colors and also performed well on their recent financial audit. These changes enabled Muscle Shoals to be named "the plant with best improvements of the year" within the group.

Christopher Poirier is proud of his team's achievements, "Our associates worked hard to make improvements and meet the standards of HEXPOL. By helping each other and being willing to adjust we made it happen."

The Robbins brand is also being introduced to other facilities as part of our "round and black" sales team. This team focuses on many aspects of servicing the tire industry, including tire compounds, molded envelopes, curing tubes, and specialty solutions. With the expansion, customers can now draw from our Robbins LLC expertise across all NAFTA facilities.

Müller Kunststoffe expands TPE Compounding capacity and builds a new technical centre in Germany

Müller Kunststoffe, the German arm of HEXPOL TPE Compounding, expands capacity with an additional TPE production line.

The new line is expected to come on stream in the first half of 2014 and will increase TPE capacity by around 4,800 tonnes per annum. This implies that estimated capacity of the HEXPOL TPE Compounding, which also includes the ELASTO businesses in Sweden, UK and China, will increase to more than 65,000 tonnes per annum.

The new line will increase capacity for the group's TPE brands Lifoflex and Dryflex. The product portfolio includes several fully customisable series including halogen-free flame retardant, conductive, adhesion grades for multi-component applications, food contact grades and compounds offering improved compression set performance.

In addition to the new production line, the investment also includes the construction of a new 600 sqm building to expand the technical centre at Müller Kunststoffe in Lichtenfels, Germany. The technical centre will be used for the development of customised TPE's including TPS, TPO and TPU. The centre will house Müller Kunststoffe's R&D, product safety, analytics and process technology departments.

The construction of the new building is forecast to be completed by Autumn 2014. The centre will include profile extruders, film extruders and various injection moulding machines together with advanced polymer testing and analytical equipment.

Georg Ender, managing director at Müller Kunststoffe explained, "Our speciality is tailored solutions delivered efficiently and quickly. We create bespoke products for our customers whom come to us with a problem and we solve it. We also place a strong importance on product safety and reliability. The new technical centre and its specialist equipment will increase our capacity to perform diagnostic, processing and quality assurance testing. The production expansion and investment in technical resources is a result of our growth over recent years and will ensure continued fast and responsive customer support, as well as the development of new polymer combinations and compounds."

The investment is another sign of HEXPOL TPE Compounding's progress as a key and growing player in the TPE market. The group opened its production unit; HEXPOL TPE Compounding Foshan, in China during 2013 and capacity expansion and technology investment have also been made at ELASTO's sites in Sweden and the UK.



HEXPOL Compounding investing in Mexico

A new mixing line for HEXPOL Compounding Aguascalientes, Mexico has been installed and is in operation. Associates from Europe, US and Mexico have participated in the installation and start up of the line that will allow HEXPOL to offer the market the capacity that its growth demands.

The installed new line is equipped with state of the art technology for rubber mixing and allows HEXPOL Compounding in Mexico to satisfy the growing demands of the market concerning cost efficient products of high quality.

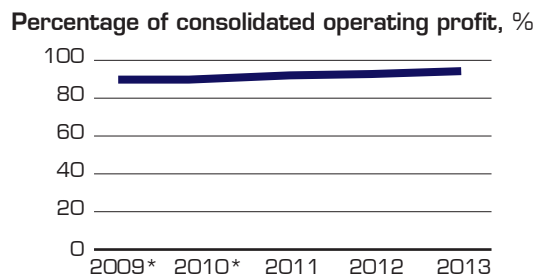
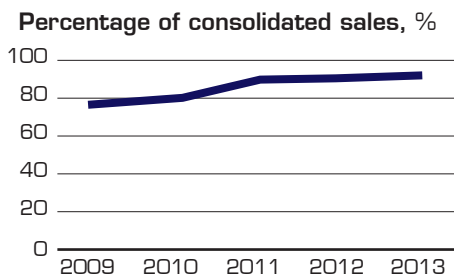
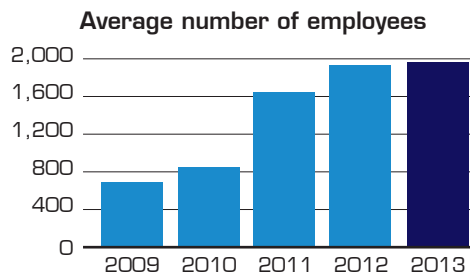
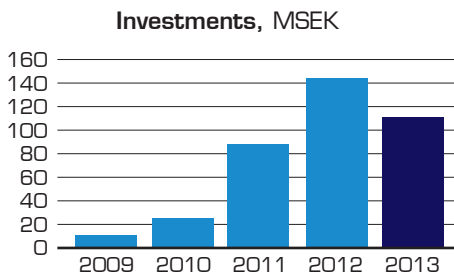
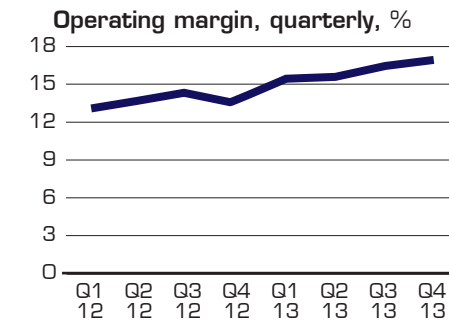
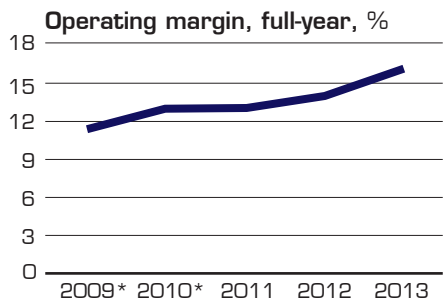
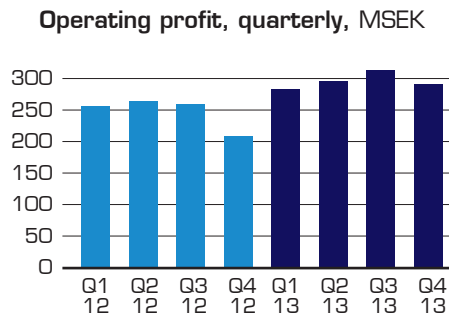
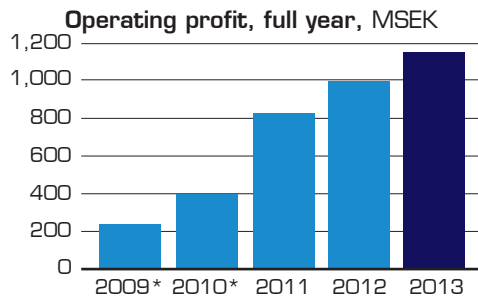
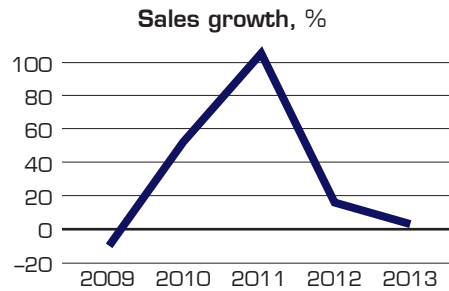
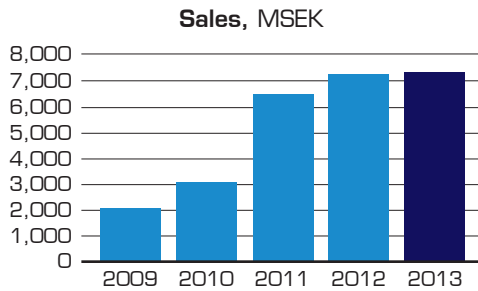
September 19th, HEXPOL Compounding officially inaugurated this new mixing line with customers, suppliers and associates. This is a further step in HEXPOL's growth in Mexico.

Representatives of the San Francisco de los Romo County and Aguascalientes State governments expressed their gratitude for the confidence granted to the State and mentioned the importance of these investments to keep generating jobs and growth.

The traditional ribbon was cut and tours of the Plant were offered to the visitors. After the ceremony, a lunch was offered in Hacienda Los Pocitos, a beautiful place surrounded with gardens. The guests enjoyed a delicious meal accompanied with Mexican music.



HEXPOL Compounding over five years



*Excluding items affecting comparability



HEXPOL Rubber Compounding

ORGANISATION

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

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

In November 2012, HEXPOL further strengthened its position with the acquisition of Robbins – a leading US rubber compounder. This was yet another acquisition in the core rubber compounding area, which expanded both HEXPOL's customer offering and the product portfolio.

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

TECHNOLOGY AND PRODUCTS

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

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

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

HEXPOL Rubber Compounding's production plants have sophisticated quality assurance systems. The production process is computerised to ensure efficiency and quality. Mixing rubber in a closed mixer is what is termed as a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe or formula. The various weighing stages are monitored by IT systems to ensure maximum precision and enable traceability of the entire batch. Since the formula and the mixing process are both critically important to product quality, HEXPOL Compounding's research and development engineers are responsible for creating the formulas and for the mixing process in accordance with the intended application, ingredients and quality requirements.

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

HEXPOL – A “Top Work Place”

The Plain Dealer, Cleveland's daily newspaper, honored HEXPOL's GoldKey Processing Inc., located in Middlefield, Ohio, as a Top Workplace in 2013. The 2013 Northeast Ohio list, which features a mix of the best large, mid-sized and small companies, was published on June 16. GoldKey was ranked 11th on the Top 35 list of mid-sized companies and was the 1st manufacturing company listed.

The achievement is based on an extensive GoldKey associate survey, conducted by Workplace Dynamics, on company leadership, competitive compensation, career development, growth potential, family-friendly policies and more. Workplace Dynamics recognizes companies with the highest levels of organizational health, defined as strong execution, direction and connection with associates. Over the past year, more than 5,000 organizations turned to Workplace Dynamics to better understand what's on the minds of their employees.

“We are honored to have received this Top Work Places achievement, which directly represents our belief that alone we can do so little but together we can do so much. This achievement would not be possible without the hard work and dedication of each of our associates at all levels of the organization working as a team and focused on daily growth of our associates, business, customers and the community. Thank you to all our associates and their families.” Jerry Saxion, Managing Director, GoldKey Processing said.

GoldKey's 162,000 sq. ft. state-of-the-art rubber compounding facility is equipped with four mixers and a full development laboratory. The facility has grown to world-class status and the benchmark for the rubber compounding industry with the support of the community, the exceptionally committed workforce and the highly dedicated management team. GoldKey Processing offers customers advanced polymer compounds and world-class services backed by a family of associates who are dedicated to personal, professional, community and customer growth. Market segments serviced by GoldKey Processing include automotive, building, construction, wire and cable, aerospace, water management, pharmaceutical, high performance tires and oil, gas and green energy industries.



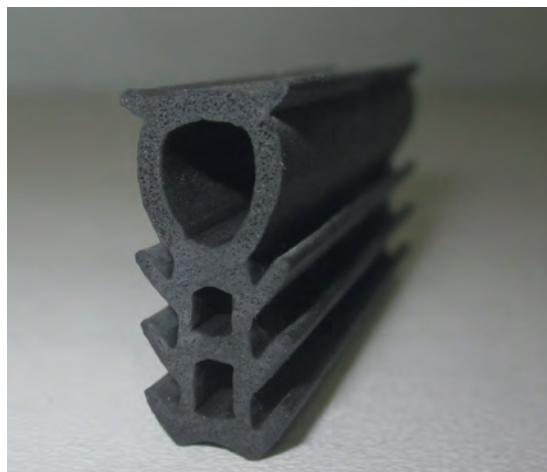
HEXPOL Compounding Burton Rubber Processing – Develops Specialty Products

Burton Rubber Processing regularly explores new ways to serve existing markets and open up new market opportunities. HEXPOL's team in Burton, Ohio, US was recently challenged to optimize the use of some of our existing capacity. During a meeting with Sales and Engineering, the team decided to focus on filled polyolefins, compounds that can be mixed with only minor modification to traditional processing equipment.

This group of compounds has base polymers of CPE, high and low-density polyethylene (sometimes blended with EPDM) and EVAs. Process temperatures are higher than usual, which required Engineering, headed by Jerry Carroll, and the Burton Maintenance crew, led by Steve Groff, to equip the mixer and mill with TCUs (temperature control units) capable of handling these higher temperatures.

After the Commercial Team, led by Don Picard, discussed with customers they identified a need for the compound to be in pellet form, instead of the usual strips or slabs. This led the team to bring an existing dicer system back into service. Subsequent modification to the dicer/classifier system (a classifier ensures that miss-cut pellets are diverted back for reprocessing) improved productivity. The finished diced product is uniform, enabling customers to use traditional color-concentrate metering equipment at their facilities. The design of the line allows for quick color changes and cleanliness, ensuring every pellet is purged from the system before a new run begins.

Customer trials were extremely encouraging, and feedback was positive. The flow-through design of the process prevented long high-temperature residence time of CPE products, which often leads to degradation. One wire & cable manufacturer converted all jacket-grade CPE products over to the HEXPOL Burton plant, and is planning to develop additional grades. A second customer is qualifying HEXPOL Burton as an overflow/backup source to its own plastics processing operation. Additional customer trials are in progress, many of which are in the Wire & Cable market which demands compounds that can tolerate high load and are flame-retardant.



The picture above shows an example of a typical profile for rolling stock applications.

HexFlame Compounds – New flame retarding development

New European legislations in the field of fire safety have triggered the development of innovative rubber compounds for rolling stock applications. In order to eliminate trade barriers between European countries, the new EN 45 545-2 standard will harmonize fire testing and thereby allow for free exchange of goods within Europe. A strong driving force for the new legislations has been that the market should move away and avoid halogenated flame retardants. Although these flame retardants are known as being very effective, there is an increasing concern for health and environmental reasons. In addition, these products generate smoke and toxic gases in a fire event. Flammability and toxicity of fire gases and smoke generation are important criteria's when assessing fire safety of rubber compounds.

Mineral based flame retardants are known as being effective alternatives for rubber applications. The fact that higher loadings of mineral in a rubber compound are necessary to achieve a good flame retardant rating is not a difficult hurdle to overcome for extruded solid profiles. However, sponge compounds with a low density are more combustible and smoke release is more difficult to control at the same time as keeping the sponge structure at higher filler loadings.

New HexFlame compounds from HEXPOL which comply with the new EN 45 545-2 standard (rating R22/R23/R24/R25) for solid and sponge profiles have been developed and introduced during 2013. Although the focus is on rolling stock applications, primarily for trains, these compounds can be used in other areas.



HEXPOL Compounding Colonial Rubber works – 60 years in Tennessee

HEXPOL Compounding Colonial Rubber Works, located in Dyersburg, Tennessee, US, recently reached the impressive milestone of 60 years in business. An open house and dinner was held in December to celebrate the achievement. Over 100 guests attended, including customers, vendors, retirees, and local government officials.

Shannon Smith, Managing Director, gave a short presentation about the history and current status of the Dyersburg facility. Willard Wickersham started the business 60 years ago in Logan, Indiana. The business was relocated to Dyersburg, moving into a former furniture factory, after a fire destroyed the Logan facility. Primary products included shock pads for automobiles, as well as gaskets for refrigerators, radios, and televisions. The initial Dyersburg location provided employment for 300 people and occupied 4,500 sqm. Expansion followed quickly. Currently, the location covers 38,200 sqm and focuses on black and color compounding, calendaring, and specialty products.

A major reason for Dyersburg facility's success is the "Rule of FIVE," which helps associates to focus on customers, equipment, safety, quality, and productivity. Another key aspect of Colonial Rubber Works' success is

HEXPOL's development program for associates. Consistent with the HEXPOL corporate-wide philosophy, we use multiple staff development tools, such as the John Maxwell Leadership Program and the Welch Way, along with a number of on-line resources. This helps us challenge our associates and recognize them for performance and a job well done, resulting in many long-term careers at Colonial Rubber Works. Quite a number of our associates have over 20, 30, and sometimes even 40 years of service.

Colonial Rubber Works has been an integral part of Dyersburg for many years. As one of the area's largest employers, HEXPOL take our role in the community seriously. The unit stresses the importance of "giving back" and encourages volunteer activities in many areas, both on a company basis and through individual associate involvement. We are proud to support national organizations as well as local food banks, schools, and athletics.



HEXPOL TPE Compounding

ORGANISATION

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

In January 2012, HEXPOL completed the acquisition of Müller Kunststoffe. The manufacturer has two production units in Germany, which complement the units in the UK and Sweden. In response to growing demand, HEXPOL increased the capacity at the German plant with a new production line that came on stream in the first quarter of 2013. During 2013, a decision was taken to further expand capacity at Müller Kunststoffe and also to build a new technical laboratory. With the integration of ELASTO and Müller Kunststoffe, HEXPOL has now established a robust European organisation for TPE Compounding, with progressive solutions, a very high level of technical expertise and ideally positioned to capture growth.

HEXPOL has started TPE compounding operations in southern China. The new production facility will operate from HEXPOL Compounding's existing Foshan site in the expansive Guangzhou area, a key location for polymer component manufacturing.

HEXPOL TPE Compounding has supplied customers in Asia for a number of years, initially to European and US manufacturers with local business in the area but increasingly to locally owned producers. As sales to Asia continue to grow, it is important that our existing and new customers benefit from the same high-quality production, technical expertise and local support as our European customer base.

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

In the caps and closures area, HEXPOL TPE Compounding consolidated its product offering in July 2012 by taking over the business activities of European Plastic Sealants (EPS) based in Germany. EPS specialise in the development of compounds for beverage caps and closures. Sales are worldwide under the EPSeal® product brand to a range of closures markets including beverage sealants in crown corks, aluminium and plastic closures. The sales development was favourable in 2013.

TECHNOLOGY AND PRODUCTS

The TPE market includes a number of material classes, each based on different chemistries and technologies. The various classes display different properties and end-use applications.



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

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

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

A number of the markets in which HEXPOL TPE Compounding is active, for example, the markets for medical, toy and food contact, require the highest level of production control, material traceability and consistency. HEXPOL operates state-of-the-art compounding and product development facilities in Europe and Asia with a strong emphasis on operational excellence and optimisation. HEXPOL invests in high-quality compounding technology and supporting sub-systems, while also operating extremely versatile processes that have allowed HEXPOL to develop a comprehensive product offering.

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

With European and Asian production facilities and sales offices, HEXPOL TPE Compounding is ideally placed to provide flexible, local support to its

customers and to quickly respond to demand. Since a number of customers operate across both Europe and Asia, they now partner with HEXPOL on a global scale.

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

Another result of this customer-focused activity has been the development of a number of speciality compounds that have creatively addressed the challenges our customers are facing. This work is supported by the close cooperation HEXPOL Compounding has with its suppliers. As new raw materials and technologies are brought to market, HEXPOL's experience and know-how allows the engineering of new combinations which our customers can capitalise on.

Close personalised service, a diversified product offering and high-technology operations translate into high value solutions for HEXPOL's customers, thus facilitating the achievement of widened margins and growth opportunities.

HEXPOL TPE Compounding offers solutions for automotive mats

HEXPOL TPE Compounding have developed several grades of thermoplastic elastomers (TPEs) specifically engineered to address the requirements for automotive mats.

The range, known as Dryflex AM, combines the performance of rubbers with the processability of plastics and includes grades based on SBS and SEBS which are available in hardnesses from 50 to 75 Shore A. The range also includes high flow grades which have been designed for complex mouldings with a large surface area such as trunk liners. Other applications for Dryflex AM materials include floor mats, coin mats and fascia mats.

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

Dryflex AM materials are low odour and fogging. They require no vulcanisation and are 100 percent recyclable during production. This means less energy is used and production is faster and more cost-efficient compared to traditional process of rubber manufacturing.

Sven-M. Druwen, European sales coordinator for HEXPOL TPE Compounding commented, "Our teams work hand-in-hand with our automotive customers to develop solutions that address new and emerging demands. With governments' world-wide enacting fuel efficiency and carbon emissions laws, one of the ways car manufacturers are addressing these regulations is vehicle light weighting. By reducing the weight of each component they can look to reduce the weight of the whole vehicle. That is one of the reasons we have developed our TPEs for automotive mats. they have a lower specific gravity compared to several alternative materials, you can therefore create lighter-weight parts and produce more parts per kilogram of material."



The material Mediprene TPE selected for Seal One Compression Device

The Seal One device from Perouse Medical (Ivry Le Temple, France) allows for precise adjustment and control of compression levels of the radial artery. ELASTO Sweden developed two grades of Mediprene TPE for the wrist strap and transparent compression pad.

The radial Compression device Seal One is used in interventional imaging, indications for coronarography and angioplasty. It targets the radial artery and has been designed to limit the risk of radial artery occlusion while ensuring no compression of the ulnar artery. It is a complete solution, with no further accessories required.

It features a compression/decompression knob with scale, a decompression safety button and a time indicator for display of positioning time. The special two-step decompression design also helps to limit the risk of unintended decompression, simplifies handling for the health-care practitioner and allows for easier monitoring of decompression protocol.

The crystal clear transparency of the Mediprene TPE grade used in the compression pad gives enhanced visibility of the puncture site, allowing for better visible control. A grade of Mediprene TPE was also developed to give the soft touch required for the wrist strap.

Mediprene TPEs have been engineered to address the demands of the medical device industry. Representative grades have passed cytotoxicity tests according to ISO 10993-5 and biocompatibility tests according to USP Class VI. The materials are latex free, which reduces the risk of allergic reactions; Mediprene TPEs have been classified as non-sensitizers. Mediprene TPEs are sterilizable with gamma, EtO and steam.

Henley Royal Regatta Success for Kavia's 2K Bow Ball in TPE Dryflex

Kavia Moulded Products, the UK based manufacturer of plastic injection tooling and components, selected ELASTO UK, part of HEXPOL TPE Compounding, to work with them on their innovative 2K Bow Ball used in rowing and sculling. The product, which is manufactured in two different grades of Dryflex, was used by a number of racing crews at this year's Henley Royal Regatta.

A bow ball is a soft ball which is attached to a rowing or sculling boat's bow. It is primarily intended for safety and protection in case of collision but can also help decide which boat crossed the finish line first. The brainchild behind the product is Iain Hill, Kavia's business development manager, an experienced rower who has first-hand knowledge with over 13 years of competitive rowing.

In traditional bow balls UV sunlight degradation can cause the material to weaken, crack and tear. Rowing and sculling boat bow balls also get repeated loading from everyday use, a sculler often uses only one trestle and then rests the boat on the bow ball. When returning to a landing stage the bow ball often glances in a sideways load, which also can result in tearing around the mounting hole.

Hill worked with the product engineers at ELASTO UK to develop TPE compounds that help address these issues. Two grades of Dryflex TPE are used, in a complex over-moulding of a harder strengthened TPE core covered with a softer TPE. This helps to protect the performance core from UV degradation and reduces the tearing around the fixing hole.

As well as good UV stability, the Dryflex TPE provides for a cohesive chemical bond as well as the engineered mechanical bond between the two components. The TPE is also easy to colour, allowing Kavia to offer colour-matched branding for boat makers livery or club colours. This is done by three visible stripes giving a sporting message whilst also showing the centre stripe coming first. It is the white bow ball that is used as the identifier in photo finishes.

Iain Hill commented "Although the bow ball has just gone into production we had our product on a number of racing crews at Henley Royal Regatta, including Leander Club with their unique salmon pink coloured core and Nottingham Rowing Club. We're delighted with the high levels of interest we've received since the launch of the 2K Bow Ball. We have enquiries from across the globe, stretching from Europe to South Africa and Australia. It is a great example of creative design combined with quality materials and intelligent manufacturing."



Pictured is the Nottingham RC Wyfold coxless four winning a round against London RC at Henley Royal Regatta.

ELASTO and MGS Technical Plastics collaborate on Bicycle Wrap

ELASTO UK, the UK arm of HEXPOL TPE Compounding, and MGS Technical Plastics, a leader in technical injection moulding and product development, have collaborated on the latest innovation from Cycloc – the bike wrap. The wrap can be used in combination with the award winning Cycloc bike storage system or on its own to fix jackets and belongings to your bike frame.

The wrap is produced from a special grade of Dryflex TPE developed by ELASTO. The material needs to be elastic, with very good recovery. It has high tear strength and needs to be easy to colour as MGS Technical Plastics manufacture the product in a range of colours. The TPE also has good UV and weather resistance and is 100 percent recyclable. The TPE is used for the wrap and polypropylene for the fastener. MGS Technical Plastics provides a full service solution for Cycloc, from tool design, manufacture, assembly, packaging and delivery.

Speaking about the project John Sturgess, director at MGS Technical Plastics said, "We are very happy with

the support from ELASTO UK. Their materials expertise combined with our tooling and injection moulding knowledge allowed us to develop a grade that gave us the exact properties and performance we wanted. This means that the Cycloc bike Wrap has been designed, developed and manufactured in the UK, showcasing the best of British manufacturing".



Business area HEXPOL Engineered Products

Strong market positions and improved margins



HEXPOL Engineered Products in brief

Operations

HEXPOL Engineered Products is one of the world's leading manufacturers of rubber gaskets for plate heat exchangers, as well as rubber and plastic wheels for forklifts. HEXPOL also holds a strong market position in castor wheels and the extrusion of rubber profiles.

Market

HEXPOL Engineered Products is active in global niche markets with a high technical content. HEXPOL is the market leader in rubber gaskets for plate heat exchangers, as well as rubber and plastic wheels for forklifts. In both of these markets, HEXPOL is one of a few players with a global presence. In the market for extruded rubber profiles, HEXPOL focuses on the Nordic region.

Customers

HEXPOL focuses mainly on OEM customers, as well as on major distributors for whom service, technical competency and long-term relations are of great importance. In many cases, HEXPOL's customers in the markets for plate heat exchangers, forklifts and castor wheels, as well as profiles for the construction and engineering industries, are market leaders.

Sales 691 MSEK (737)

Operating profit 78 MSEK (73)

Number of employees at 31 December 1,470 (1,371)

Operating units

- Gislaved Gummi Gaskets, Gislaved, Sweden
- Gislaved Gummi Lanka, Bokundara, Sri Lanka
- Gislaved Gummi Qingdao, China

- Stellana Laxå, Sweden
- Stellana Lake Geneva, Wisconsin, USA
- Elastomeric Wheels, Horana, Sri Lanka
- Stellana Qingdao, China

- Gislaved Gummi Profiles, Gislaved, Sweden

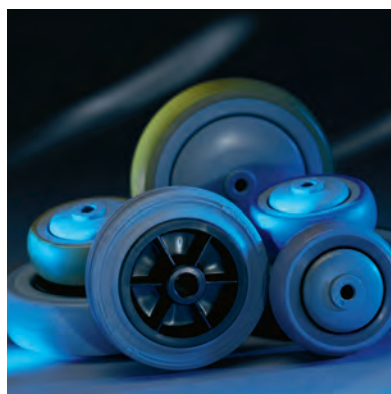


Lars-Åke Bylander,
President HEXPOL Gaskets
President HEXPOL Profiles



Jan Wikström,
President HEXPOL Wheels

Brands in the business area





1
Lake Geneva, USA
HEXPOL Wheels



2
Laxå, Sweden
HEXPOL Wheels



3
Gislaved, Sweden
HEXPOL Gaskets



4
Gislaved, Sweden
HEXPOL Profiles



5
Bokundara, Sri Lanka
HEXPOL Gaskets



6
Horana, Sri Lanka
HEXPOL Wheels



7
Qingdao, China
HEXPOL Wheels



8
Qingdao, China
HEXPOL Gaskets

Operating units HEXPOL Engineered Products

Unit	Location	Number of employees December 31, 2013	Area m ²
HEXPOL GASKETS			
Gislaved Gummi Gaskets	Gislaved, Sweden	99	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	525	7,000
Gislaved Gummi China	Qingdao, China	142	8,000
Total		766	21,000
HEXPOL WHEELS			
Stellana Sweden	Laxå, Sweden	78	8,000
Stellana US	Lake Geneva, USA	64	6,660
Stellana China	Qingdao, China	36	1,080
Elastomeric Wheels	Horana, Sri Lanka	501	16,590
Total		679	32,330
HEXPOL PROFILES			
Gislaved Gummi Profiles	Gislaved, Sweden	25	2,500
Total		25	2,500
Total HEXPOL Engineered Products		1,470	55,830

HEXPOL Engineered Products offers a unique combination of material and application technology in polymer materials and special components. Controlling the entire development process from polymer compounds to finished products enables HEXPOL to deliver cost-effective solutions that are technologically superior to the competition. This approach influences operations throughout HEXPOL Engineered Products.

The manufacturing processes at HEXPOL Engineered Products have been refined and optimised over a long period of time. The same thoroughness is applied in the process regardless of whether it applies to casting, compression moulding or extrusion. Continuous improvements in quality and process optimisation are pursued relentlessly within the framework of local LEAN projects at the different units. All units are certified in accordance with ISO 9001/14001.

ORGANISATION

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

MARKET

The market for gaskets for plate heat exchangers is a global niche. The market has its emphasis on the three continents of Europe, Asia and North America. The Asian market is becoming increasingly important, and is expected to continue to outgrow the markets in Europe and North America in the years ahead. HEXPOL has strategically well-positioned production units and distribution centres in Europe, North America and Asia.

The market for forklift wheels is also global, although it is strongly differentiated regionally due to varying material preferences and quality standards. HEXPOL Wheels is the only forklift wheel manufacturer with production units in Europe, North America and Asia. In the market for profiles, HEXPOL has opted to focus on the Nordic region, which also entails deliveries outside the Nordic region to Nordic customers with manufacturing in other countries.

HEXPOL Gaskets' customers consist primarily of leading global OEM manufacturers of plate heat exchangers in Europe, the US and Asia. The market is growing sustainably, driven by energy conservation and an increased focus on environmental issues. Other factors fuelling demand are increased living standards, more rigorous demands concerning the indoor climate and an upswing in global commodity trading (marine transports).

The global gasket market was stable in 2013, with the exception of a shortage of major projects primarily in the marine segment. The continued, relatively high global market prices for oil and gas have resulted in a more efficient use of energy and increased investments in alternative energy sources. The market is currently driven by maintenance investments in existing facilities, but also by healthy demand for gaskets for small and mid-sized plate heat exchangers.

During the year, the market was hallmarked by considerable price pressure, short lead times and relatively small order volume. HEXPOL Gaskets is currently a supplier to all major OEM manufacturers of plate heat exchangers. The aftermarket is currently believed to account for about one-fourth of the total market. HEXPOL Gaskets has consolidated its position as market leader and is well-equipped to satisfy an increase in demand.



HEXPOL Wheels operates in the expansive market for wheels and castor wheels for electric and hand pallet forklifts. The market is dominated by a handful of major players in Europe and North America. During 2013, global sales of new forklifts rose compared with the preceding year. The aftermarket for forklift wheels also increased somewhat and is dominated by OEM manufacturers of forklifts and independent distributors. A forceful consolidation process has been under way in the warehouse forklift market in recent years and it is now dominated by a handful of Western European and North American manufacturers, in several cases with Japanese owners. The castor wheel market is more diversified with a few major players and a large number of local manufacturers. HEXPOL Wheels is the only global player in the forklift wheel market and is well-positioned to capture additional market shares.

HEXPOL Profiles is a strong player in the Nordic market for rubber profiles. HEXPOL's profiles are predominantly sold to OEM customers active in the construction industry. The products are primarily used as sealings for windows, doors, gates, facades, patios and ventilation facilities, but also to some extent in engineering-related industries in the Nordic region. The market was weak during the year, largely due to continued slack conditions in the construction industry.

STRATEGY

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

BRANDS

HEXPOL Engineered Products conducts operations under the Gislaved Gummi (gaskets and profiles), Stellana (wheels) and Elastomeric (wheels) brands, which are established and well-renowned in Europe and North America. These brands are also used in the Asian market. In a number of cases, existing customers are active in Europe and North America, including HEXPOL's customers in the Asian market.

OPERATING UNITS

HEXPOL Gaskets has production plants in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka, and Qingdao, China). The production units are modern and feature local development resources and well-functioning quality systems. Production is conducted cost-effectively with centralised production planning and logistics. During the year, a logistics centre was also opened in the US.

HEXPOL Wheels has production facilities in Europe (Laxå, Sweden), the US (Lake Geneva, WI) and Asia (Horana, Sri Lanka, and Qingdao, China). The plants are well-adapted to local markets conditions.

The unit in Sri Lanka, however, is geared toward exports to Europe, the US and Asia.

HEXPOL Profiles conducts operations in Gislaved, Sweden, and focuses mainly on the Nordic market.

COMPETITORS

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

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

The Nordic market for rubber profiles is dominated by Trelleborg. HEXPOL Profiles is positioned number two in the market.

OPERATIONS IN 2013

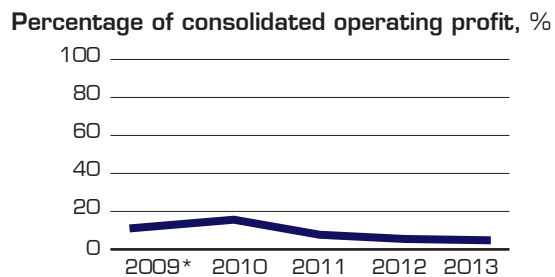
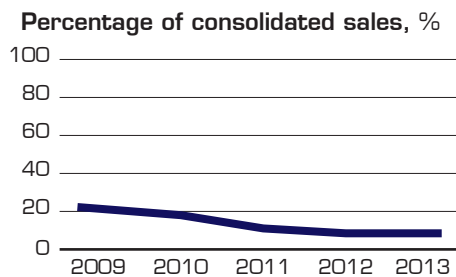
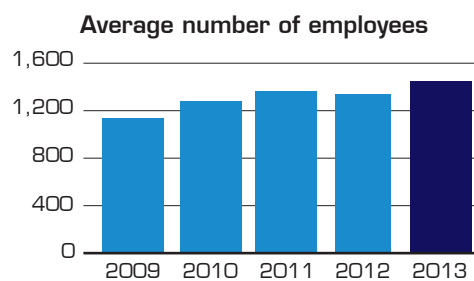
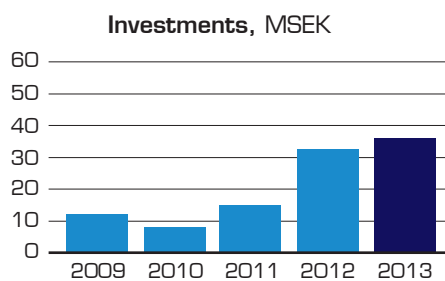
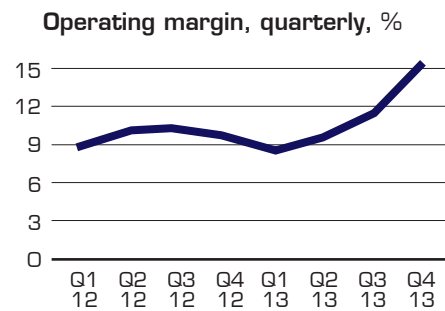
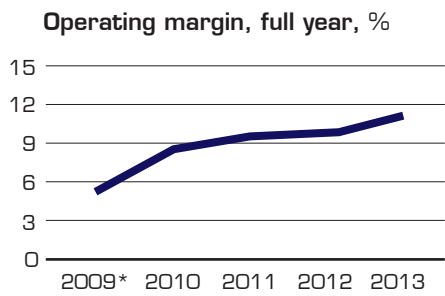
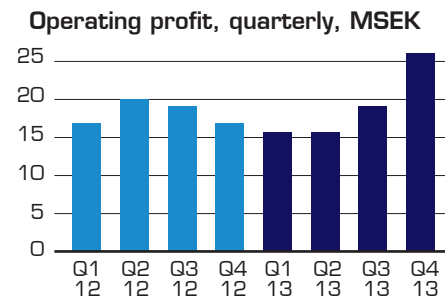
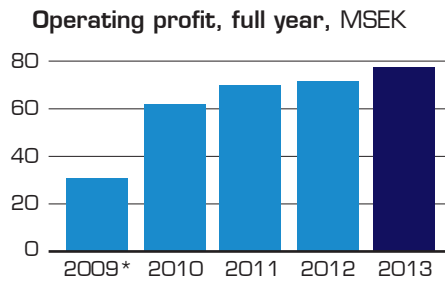
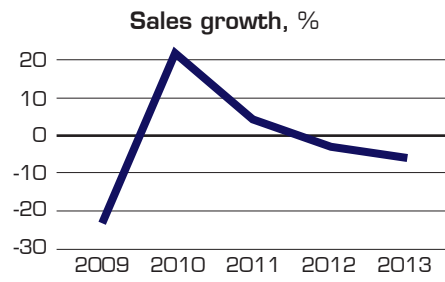
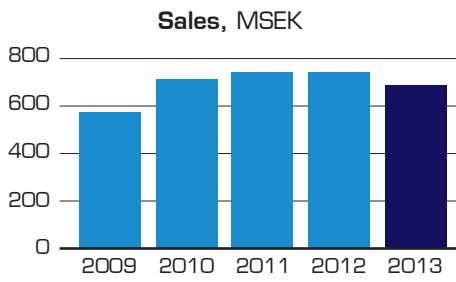
Sales in the HEXPOL Engineered Products business area amounted to 691 MSEK (737) in 2013, which was slightly lower than in the preceding year. Sales were adversely affected by a fire at HEXPOL Wheels' facility in Laxå, Sweden. Operating profit during the same period amounted to 78 MSEK (73). Insurance compensation for rebuilding the fire-damaged production line at HEXPOL Wheels' facility in Laxå had a positive impact of 7 MSEK on operating profit during the year. The operating margin increased to 11.3 percent (9.9).

In the gaskets segment, demand during the year was on a par with the preceding year. Activity in the marine, nuclear power and biofuel areas increased slightly during the year, at the same time as the share of major projects remained low. The Asian market continues to grow in importance and HEXPOL's sales in the region increased.

Lead times remain short. Rapid deliveries and a high service level are prerequisites for success in the market. During the year, price pressure remained high.

The market for forklift and castor wheels grew during 2013. The price pressure remains high especially in the market for wheels for warehouse forklifts in Europe. HEXPOL Wheels noted a favourable development in all markets apart from Europe, where delivery capacity was adversely affected by a fire at the production unit in Laxå, Sweden.

HEXPOL Engineered Products over five years



*Excluding items affecting comparability

Although the market for profiles slackened during the year, primarily due to continued weak conditions in the construction industry, HEXPOL Profiles defended its market position.

OUTLOOK AND PRIORITIES

HEXPOL Gaskets is pursuing the objective of being a main supplier to all leading OEM manufacturers of plate heat exchangers. The market for gaskets for plate heat exchangers is growing long term, as a result of high energy costs and increasing demand for energy-efficient solutions. HEXPOL Gaskets is driving technological and logistics development in the industry which, in combination with cost-effective and scalable manufacturing, is creating competitive advantages.

HEXPOL Gaskets' effort to cultivate new markets in Asia and North America is continuing. During the year, the increased moulding capacity in China was commissioned. HEXPOL can now offer a complete locally produced range of products in the Asian market. In the North American market, a new logistics centre was opened in Muscle Shoals, AL, US, which enables faster deliveries and improved customer support.

HEXPOL Wheels again continued to invest in and optimise its operations during 2013. A decision was taken to rebuild the fire-damaged production line for polyurethane wheels in Laxå, Sweden, which is scheduled to again become operational during the first quarter of 2014. During the year, HEXPOL Wheels also gained access to capacity for polyurethane wheels in China, through the new production line that came on stream in Qingdao, China, at the end of 2012.

We are of the opinion that the currently fragmented wheel market will enter a consolidation phase. HEXPOL is well positioned to play an active part in possible structural projects. In our opinion, continued efforts involving customer service and product development will be critical success factors for 2014.

HEXPOL Profiles defended its market positions in the Nordic market, where conditions in the construction industry remained weak. Ahead of 2014, HEXPOL Profiles is well positioned to actively cultivate new customers and markets in the Nordic region.





HEXPOL Gaskets

ORGANISATION

The HEXPOL Gaskets product area is organised as a separate part of HEXPOL Engineered Products. Management for the product area is located in Gislaved, Sweden, directly adjacent to the Swedish manufacturing unit.

TECHNOLOGY AND PRODUCTS

HEXPOL Gaskets has developed a unique process for the development and manufacturing of compression moulded gaskets for plate heat exchangers. Customers impose high technical requirements and HEXPOL is often commissioned as a development partner to its customers. A prerequisite for being able to drive technical advancement is HEXPOL's fundamental polymer expertise which, combined with a global presence, a modern machinery fleet and efficient processes, form the cornerstones of HEXPOL's customer offering. Developing a new rubber material for gaskets can occasionally entail several years of extensive materials development. HEXPOL Gaskets continuously conducts advanced development projects to strengthen the product portfolio and its market position.

Manufacturing is largely standardised and the products are identical in terms of quality and performance, regardless of the production location. An integrated business system ensures rapid and correct information and communications between the manufacturing units. To further ensure quality and repeatability, HEXPOL offers proprietary production of injection-moulding tools. Control of all production and logistics enables HEXPOL to offer customers short lead times. All manufacturing units are ISO 9001 and ISO 14001 certified.

BUSINESS MODEL AND STRATEGY

HEXPOL Gaskets is a global product specialist that develops, manufactures and markets high-quality gaskets for plate heat exchangers under the Gislaved Gummi brand. The strength of the business model lies in a combination of advanced rubber expertise, efficient scalable production and a globally effective logistics solution featuring short lead times. The manufacturing unit in Gislaved, Sweden, focuses on technologically advanced rubber materials and the production of gaskets, primarily in short series. Volume products are mainly manufactured in Sri Lanka. The Chinese manufacturing operation offers a complete range of products and is dimensioned to satisfy rising local demand from both Chinese and Western manufacturers of plate heat exchanges.

Market communications and technical support are managed from Gislaved, Sweden with the exception of the Chinese market, where HEXPOL has a local organisation. Central coordination enables HEXPOL Gaskets to rapidly and effectively satisfy both specific customer requirements and general undertakings.

As a result of efficiently functioning ISO-certified quality systems, strictly controlled manufacturing parameters and skilled staff, HEXPOL Gaskets can offer identical products regardless of production location. HEXPOL Gaskets provides a variety of online tools to simplify the work of customers, such as a customer portal, VMI, Kan-ban, EDI solutions and materials databases. Efficiency and simplicity in contact with customers are watchwords for HEXPOL Gaskets.

OPERATING UNITS

HEXPOL Gaskets currently has gasket production plants in Gislaved, Sweden, in Bokundara, Sri Lanka, and Qingdao, China. The plants are highly standardised, while simultaneously also adapted for different focuses in terms of product portfolio and flexibility.

HEXPOL makes regular investments in new production equipment to remain at the forefront of process efficiency and quality.

Much of the volume growth for gaskets for plate heat exchangers is occurring in Asia, driven by China. Domestic Chinese manufacturers of plate heat exchangers have largely used locally produced, low-cost gaskets, while Western companies established in China primarily deploy high-performance gaskets. However, progress for the domestic manufacturers of plate heat exchangers has been rapid in terms of new applications and rising quality requirements. HEXPOL is well positioned to capture shares of this new, fast growing market. Geographically, the plant in China is strategically located

close to the major manufacturers of plate heat exchangers. To additionally gear the market toward a higher level of quality, HEXPOL has invested in a comprehensive testing laboratory capable of very clearly demonstrating the advantages of using high-quality gaskets.



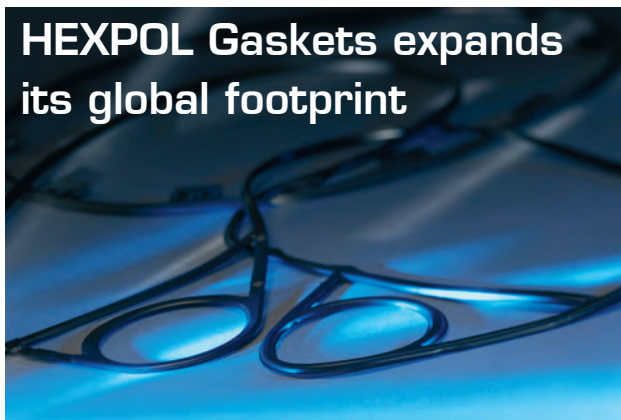
Lars-Åke Bylander,
President HEXPOL Gaskets,
Managing Director
Gislaved Gummi, Sweden



Roger Jonsson,
Managing Director
Gislaved Gummi Lanka,
Sri Lanka



David Jia,
Managing Director
Gislaved Gummi China



Gislaved Gummi, the brand of HEXPOL Gaskets, continuous to develop and make the global supply chain more efficient. During 2013, Gislaved Gummi built a new central warehouse in Sri Lanka in connection with its production unit for gaskets. From the new warehouse gaskets for plate heat exchangers, primarily for the Asian market, is now distributed. During the autumn 2013, Gislaved Gummi also set up a new distribution warehouse in the US for the North American market. As before, the European market is supplied mainly from the central warehouse in Sweden. Since several years, Gislaved Gummi has a production unit in China that supplies the Chinese market with gaskets for plate heat exchangers.

"We are now able to distribute gaskets locally on the three dominating continents for gaskets, which mean that our customers' stocks can be reduced through shorter lead times. The customer will also receive a cost reduction by significantly shorter transports", says Lars-Åke Bylander, President HEXPOL Gaskets.

The complexity lies in having the right gaskets at the right time and at the right place. Gislaved Gummi has worked closely with its customers to improve and develop the supply chain throughout the years. In addition to build a global distribution network for HEXPOL Gaskets, efficient communication between units is essential. Today's production units in Sweden and China are fully integrated in terms of IT. The production unit in Sri Lanka will be fully integrated into the common IT platform during spring 2014. A common system allows the internal administration processes to be more time efficient, which directly affects lead times in a positive way. In practise, a customer order entered into the system immediately creates an internal need for dispatch as well initiating production and procurement of raw materials. No additional manual transactions between the production units are required. During 2013, a new customer web portal was launched, which means that Gislaved Gummi can provide customers real-time access to detailed information about orders, inventory situation, consignments and more.



HEXPOL Wheels

ORGANISATION

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

TECHNOLOGY AND PRODUCTS

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

Five types of products are produced by HEXPOL Wheels:

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

The global forklift wheel market is highly differentiated in terms of product requirements and the selection of materials. In the European market, the market-leading polyurethane material is Vulkollan™, which is licensed from Bayer Material Science. The material is highly wear resistant and can cope with heavy loads without being deformed. HEXPOL is one of the leading suppliers of Vulkollan wheels in Europe. In other markets, polyurethane is used as more of a generic term, although a large selection of various material types is offered.

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

BUSINESS MODEL AND STRATEGY

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

HEXPOL Wheels also offers a comprehensive range of replacement wheels in the aftermarket. Most aftermarket sales are conducted through OEM manufacturers of forklifts, although independent distributors are used to gain greater access to the market. Several major customers are increasing production capacity to rapidly expanding Asian markets. HEXPOL Wheels' global presence enables it to monitor customers and quickly offer quality products in the local market.

OPERATING UNITS

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

The Swedish unit cooperates closely with European OEM manufacturers of forklifts and is often involved in development of new products. An extensive test databank and an advanced wheel lab enable the wheel's properties to be simulated and optimised at an early stage of the development process. The Swedish unit manufactures wheels in cast polyurethane (including Vulkollan) and polyamide, as well as smaller quantities of rubber and thermoset wheels.

The US unit in Lake Geneva is one of the largest suppliers of polyurethane tires and cast wheels in the North American market. Here, product development is also conducted in close cooperation with major OEM manufacturers. Wheels are tested in wheel laboratories to be able to adjust the wheel's properties to the desired results at an early stage in the development process.

The plant in Horana, Sri Lanka, manufactures rubber castor wheels, injection-moulded thermoplastic wheels and solid tires. The unit has an extensive machinery fleet and proprietary rubber compounding equipment. It also has development resources with access to advanced testing equipment. Unlike the product area's other units, all sales are conducted on an export basis. Most products are exported to Europe, but also to Asia, Africa, the Middle East, Australia and the US.

The Chinese unit in Qingdao has earlier been geared toward injection-moulded thermoplastic polyamide wheels. The Asian market for electric-powered warehouse forklifts is growing strongly and all major global manufacturers are expanding their manufacturing capacity in China. Local Chinese forklift manufacturers are gradually raising their level of quality and will be attractive partners for HEXPOL. To satisfy increasing demand, HEXPOL has invested in a new production line for polyurethane wheels at the plant in Qingdao, which was placed on stream at the end of 2012.



Jan Wikström,
President HEXPOL Wheels,
Managing Director
Stellana Sweden



Roger Jonsson,
Managing Director
Elastomeric Wheels,
Sri Lanka



Peter Li,
Managing Director
Stellana China



Mark Shea,
Managing Director
Stellana US

HEXPOL Wheels broadens product range

Elastomeric Wheels expands its Industrial Solid Tire range by introducing Max Press on Band (POB) Solid tires, which has unveiled new market opportunities in new segments. This will further reinforce and add strength to the HEXPOL Wheels business to consolidate its position in this untapped segment for POB.

Elastomeric strongly believes that the addition of the solid tires into the product range will open new opportunities in the North American Industrial Tire Market.

Market study has revealed that the North American market demands more POB than Resilient Tires. As per statistical evidence the POB market segment is almost 70 percent of the total North American Solid tire Market and the balance 30 percent is made up from Cushion Solid Tires, which is the opposite to the demand in the Europe and Asia Pacific.

It is important to note that the POB project will open new avenues for sustainable growth for both Elastomeric and Stellana globally as this is a common product specifically the Stellana US could package into their product range easily. This will help Stellana US to expand their offers to direct dealers in North American Market in order to strengthen their distribution network while Elastomeric Wheels exploring new market opportunities in Europe and Asia Pacific Markets independently.

The product will follow the current brand strategy and sold under the brand named "Elastomeric Max" in Europe and Asia Pacific and Stella R Max in North America, aiming to position the product as a premium quality product but competitively priced. Elastomeric Max is starting off with 14 fast moving product dimensions covering 80 percent of the market demand in both Smooth and Treaded sectors.



HEXPOL Wheels – Growing in new wheel segments

HEXPOL Wheels have made increasing business outside the fork lift wheel and tire industry one of the focus points in their strategic plan. The challenge is to identify new markets and its specific customers. Early in the process, HEXPOL Wheels realized that they take advantage of contacts and information existing at each unit within the group around the world.

One such example is when Stellana China identified a large potential market for polyurethane wheels in automotive assembly plants in the US. Stellana China contacted its sister company in the US, Stellana US. Stellana US analyzed the information and the engineering and the sales team started to contact existing and potential customers.

Through an existing customer, which supplies equipment to several manufacturers within the automotive industry, located in Michigan, Stellana US got in contact with a large supplier that was interested in Stellan's polyurethane rollers used in the automation systems throughout the automotive assembly plants.

Wheels delivered by Stellana US passed the initial test protocols and are scheduled for operational testing in one plant in Michigan. "Though the project is still in an early stage, we are optimistic about it growing in this market segment to a significant business in the US as well as globally" says Mark Shea, Managing Director at Stellana US.

The customer, who is in charge for maintenance at a number of automotive plants around the world are also seeing the benefits of working with Stellana globally. Through cooperation have Stellana taken an opportunity that was identified in China and made it a success in the US and potentially for HEXPOL Wheels as whole.

New production line for Polyurethane wheels at Stellana Sweden

Nine months after a fire destroyed the production line for Vulkollan wheels at Stellana Sweden in Laxå, Sweden, the production in the new production line was started. The new state of the art Vulkollan production line has been installed in a record time thanks to a lot of hard work from the Stellana team in combination with close cooperation with suppliers.

Very early in the planning process the decision was made to replace the destroyed line with two lines in order to split the production flows depending on size and order volume. This enables the production more flexible to meet our customers' demands as well as improve quality as the process can be adjusted and optimised for different types of wheels.

Attention has been paid to ensure a healthy workplace with fresh air, comfortable temperatures, good lighting and ergonomics for the operators. The new modern ovens will also contribute to a lower energy consumption for the production of Vulkollan wheels.

“It has been a challenge to keep production running on the other much smaller production line but thanks to a strong contribution from all employees our customers have received deliveries of Vulkollan wheels with minimum interruption. With the new production line Stellana is now well positioned to recover the position as a leading supplier of Vulkollan wheels to the material handling industry,” said Jan Wikström, President HEXPOL Wheels and Managing director at Stellana Sweden.



HEXPOL Profiles

ORGANISATION

HEXPOL Profiles is organised as a separate part of HEXPOL Engineered Products. The operation is concentrated to Gislaved, Sweden, where the product area's management is also located.

TECHNOLOGY AND PRODUCTS

HEXPOL Profiles specialises in manufacturing thin-walled solid profiles made from rubber and silicone. The products are highly specialised for various OEM applications.

Manufacturing is conducted with modern equipment in a continuous vulcanization process with integrated surface treatment and marking. The rubber compounding material is supplied from HEXPOL's proprietary operations in Gislaved. HEXPOL Profiles is ISO 9001 and ISO 14001 certified.

HEXPOL Profiles has a stable customer base with strong market positions. Its customers are generally highly quality conscious and have a high degree of automation in their proprietary manufacturing, which imposes strict requirements on quality, tolerances and repeatability in each delivery. The customers are mainly active in the Nordic market.

BUSINESS MODEL AND STRATEGY

HEXPOL Profiles offers customised quality products at competitive prices combined with efficient logistics and service.

HEXPOL Profiles focuses on establishing long-term relations with a number of major customers, enabling the product area to grow together with the customer. The unique material expertise possessed by Gislaved Gummi is a major competitive advantage in connection with new customer projects. The ties to other HEXPOL operations in Gislaved also enable HEXPOL Profiles to capitalise on well-functioning processes and advanced IT support.

OPERATING UNITS

Operations are located in Gislaved, Sweden.



Lars-Åke Bylander,
President HEXPOL Profiles,
Managing Director
Gislaved Gummi, Sweden



Gislaved Gummi receives an award from VELUX

VELUX is a Danish global company with market leading positions in, amongst others, roof windows and skylights with production units all around the world. Gislaved Gummi, a strategic supplier of rubber profiles to VELUX since many years, has as a selected supplier participated in a VELUX initiated project in purpose of analyzing, evaluating and improving the supply chain to find common cost savings.

The project called "FLOW" was initiated by the Group management of VELUX. The purpose of the project was to minimise non-value adding activities, reduce inventories and shorten throughput times in the entire chain, i. e. from placed order of extruder rubber profile to delivery of finished window to end customer.

The project lasted for some two years and resulted in significantly reduced working capital, shorter lead times and world class delivery performance. Gislaved Gummi was awarded the VELUX Supplier Collaboration Certificate for excellent collaboration for optimization of supply chain through "Value Stream Mapping".



Lajos Egervölvyi and Sören Jung, VELUX,
Michael Eidhall, Christian Paulsson and Jens Ekdahl,
Gislaved Gummi, Allan Munk Nielsen, VELUX.

Corporate responsibility Prerequisite for long-term value creation



Issues involving environmental compatibility, social responsibility and business ethics are attracting ever-increasing attention in society, thereby affecting business and industry in no uncertain manner. With 32 facilities and operations in ten countries, the concept of corporate responsibility has very tangible implications for us and our stakeholders. This applies to both day-to-day activities and the long-term strategy. Corporate responsibility is part of HEXPOL's corporate culture and a prerequisite for long-term value creation on behalf of our stakeholders. During the past year, we drew up the document "Materializing Our Values", which establishes our guidelines and policies in corporate responsibility.

In connection with the public listing of HEXPOL in Sweden in 2008, the first version of the company's own guidelines and policies governing business ethics, information, environment and related areas was presented. Application of the guidelines has had a major impact throughout the Group – as already reported in earlier annual and sustainability reports. World changes and progress in sustainable development are advancing at a fast pace and, thus, during 2013 we presented the updated compilation of these guidelines and policies, adding some complementary material. The documents, compiled under the name "Materializing Our Values", builds on international guidelines and initiatives, and offers support and a compass for our employees. We have already completed a considerable information effort centred on "Materializing Our Values", a process that will continue during 2014.

"Materializing Our Values" summarises the Group's basic stance and is supplemented with guidelines and policies in such areas as business ethics, information, the environment and the work environment.

The ultimate responsibility for application of the values lies with the President & CEO of Group, but

responsibility in day-to-day activities lies with the managing directors and all executives at HEXPOL. Application will be monitored regularly and communicated in such presentations as the Annual Report and the Sustainability Report.

MATERIALIZING OUR VALUES

"Materializing Our Values" represents the Group's Code of Conduct and states the principles governing relations with employees, business partners and other stakeholders. The guidelines offer direction to those active in the Group in respect of legal, finance and accounting, conflicts of interest, labour conditions, and social aspects as well as good business ethics.

Zero tolerance to deviations applies to certain areas covered by "Materializing Our Values", including the observance of legislation, respect for human rights, non-acceptance of bribes and other forms of corruption, and compliance with competition legislation. In other areas, the Code of Conduct indicates an approach based on preventive measures and continuous improvements such as in terms of the environment and work environment. The presentation below offers an overview of the Group's Code of Conduct and policies.

LEGISLATION AND OTHER REQUIREMENTS MUST BE OBSERVED

Because Group operations must comply with many laws and other requirements, the company and individual employees must identify and comply with provisions, regulations and legislation that affect the business operations. Examples include conformance with the ban on cartels and export and import provisions governing international business transactions, trade embargoes and economic sanctions. In the sustainability area, we note increasing requirements from customers – and, by extension, from consumers – a trend representing a constructive contribution to the development of our sustainability programmes.



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

COMPLIANCE PROGRAMME FOR BUSINESS ETHICS

HEXPOL's "Compliance Programme" is designed to ensure that our employees observe the Group's guidelines set out in "Materializing Our Values". Combined with the Business Ethics Guideline, the programme provides detailed directions on what is permissible and what is impermissible in business contacts with customers, suppliers, competitors and distributors. The most senior executives in the Group have been briefed on the application of the programme and each executive must provide his/her signature to confirm that he/she are following the guidelines.

SUSTAINABLE DEVELOPMENT INTEGRATED INTO OPERATIONS

The Group regards sustainable development as a natural component of business operations and has, among moves, integrated considerations concerning the environment and social responsibility into strategic planning. As shown in the illustration below, we have taken several actions in recent years aimed at developing sustainability efforts. The environmental policy offers support in this respect, and in this policy we point out the importance of working to achieve continuous improvements. This applies, for example, to areas involving energy consumption, risks involved with chemicals, emissions to the atmosphere, waste, risk minimisation and environmentally compatible product development. In a number of areas, we concretise environmental policy through Group-wide, long-term goals.

STAKEHOLDERS' VIEWPOINTS ARE CRUCIAL

We take heed of the opinions of stakeholders and, whenever possible, we participate in dialogues and an exchange of views. The purpose is to understand and fulfil the expectations and demands imposed on HEXPOL and our workforce. Key stakeholders include:

- Customers and suppliers in many countries worldwide.
- The capital market – shareholders, investors, analysts, banks and media.
- The Group's 3,400 employees in ten countries.
- Neighbours, government agencies, mass media, schools, universities and other community stakeholders.

RELEVANT INFORMATION FOR SHAREHOLDERS AND INVESTORS

HEXPOL's aim is to furnish shareholders and other players on the capital market with relevant information to provide a basis for an accurate assessment of the Group. The objective is to apply openness, objectivity and a high service level in financial reporting, so as to strengthen confidence and interest in the Group among existing and potential shareholders.

The Group complies with generally accepted accounting principles, applies internal control and drives processes to ensure that accounting and reporting conform to legislation, provisions and listing agreements. HEXPOL applies transparency in reporting and, in accordance with the Group's information policy, provides the market with soundly based, comprehensive information. Corporate governance is described in the Corporate Governance Report on page 78–83 and is available at www.hexpol.com. Published financial information such as presentations, press releases, financial reports and annual reports, is also available on the website.

GOOD CUSTOMER RELATIONS

HEXPOL's customer relations are characterised by professionalism, a high service level and quality awareness. According to the guidelines set out in "Materializing Our Values", sound business ethics and complete honesty are to be applied in business operations, including marketing and advertising. We comply with local competition rules in geographic markets in which we are active. Business decisions are made on the basis of the Group's interests and are not based on individual considerations or relations. In the area of sustainable development, 85 (80) percent of companies report that their customers impose requirements in respect of the environment and social responsibility. The requirements depend on the industry in which the customers are active, but may involve certified management systems, guarantees that products do not contain certain hazardous chemicals and that we apply a Code of Conduct with the same requirements as specified by the customer. During the year, customers conducted requirement monitoring at about two-thirds of the facilities. The results from questionnaires and audits were positive.

CONTINUOUS IMPROVEMENTS

We wish to encourage our employees to assume responsibility and contribute to continuous impro-

EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

2008

- Environmental surveys at facilities.
- Business ethics guidelines and environmental policy are developed.
- Decision to implement ISO 14001.
- Training programmes in environmental management.
- Reporting system for sustainability issues.

2009

- ISO 14001 was widely implemented.
- Sustainability Report according to the GRI (C level).
- Guidelines for environmental due diligence when making acquisitions are developed.

2010

- Sustainability Report according to GRI (B level).
- Climate impact reporting according to CDP.
- 80 percent of facilities certified in accordance with ISO 14001.
- Sustainability matter included in the strategic planning process.
- Projects to increase energy efficiency are implemented.

vements in all areas. Product quality is a key competition factor and quality assurance programmes are pursued in accordance with the requirements of the ISO 9001 international standard and other management systems. All units are certified under ISO 9001 and, in many cases, the quality system is integrated with the environmental system. Since the aim of quality programmes is that products maintain the appropriate quality, meet safety and legislative requirements and surpass customer requirements and expectations, customers and suppliers are frequently involved during the development process.

SUPPLIER REQUIREMENTS

Supplier assessments include a number of mandatory criteria involving technology, quality, delivery capacity and financial status. It is also important to cooperate with suppliers capable of displaying sound business ethics and who assume responsibility in applications affecting the environment and social conditions. Within the framework of ISO 14001 and our sustainability programmes, we developed supplier assessments in respect of the environment and social responsibility during 2013. Read more on page 73.

DIVERSITY, COMPETENCE, COMMITMENT AND WELL-BEING

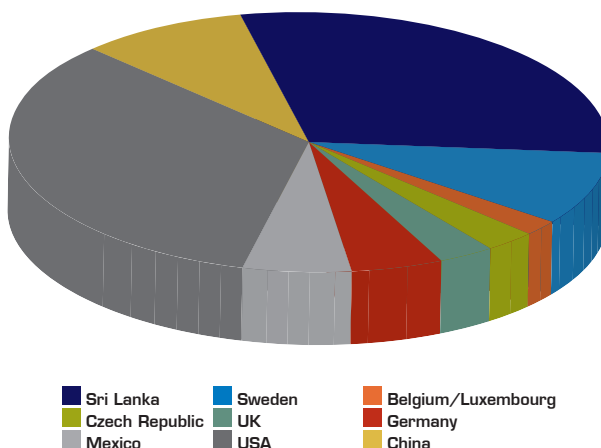
Employees in ten countries

The average number of employees totalled 3,411 (3,112) during 2013. At year-end, the number of employees was 3,433 (3,332), of whom 1,958 (1,956) worked at HEXPOL Compounding and 1,470 (1,371) at HEXPOL Engineered Products. The Parent Company had five employees (5).

We pursue operations in large parts of the world, with 91 percent (89) of employees based outside Sweden. The workforce is relatively evenly spread across the US/Mexico, Europe and Asia, meaning that multi-cultural diversity is a natural feature of our day-to-day activities. The Group’s presence on global markets entails that a blend of skills is a key condition for domestic and international success. A local presence on various geographic markets is particularly important and, thus, we seek to recruit the necessary competence in each region or country.

For us, diversity encompasses a full-spectrum perspective, respect and professionalism, aspects that are supported by our open corporate culture, the guidelines in “Materializing Our Values” and the continuous endeavour to improve. Skilled leadership

Number of employees by country



is a prerequisite for success, and the work climate should encourage responsibility, creativity and innovative ideas. We encourage participation and seek to involve all employees in improvement schemes. Considerable importance is attached to creating a culture with rapid decision-making paths with no unnecessary bureaucracy.

Training and exchange of experience

The development of our operations and our products requires committed, experienced and competent employees. Accordingly, training and competency development are a feature of everyday operations and, during 2013, our employees participated in training programmes amounting to more than 55,000 hours. The leadership development programme “Materializing the Difference” is provided for career executives.

Because working in networks also enhances the accumulated competencies, many projects are completed with participants from different cultures with expertise in varying areas. This may apply, for example, to technology and product development, purchases, marketing. The annual conferences for senior executives deal with topics such as strategic issues, project results, administration and accounting, markets, products and sustainable development.

Healthy work environment and respect for human rights “Materializing Our Values” contains the Group’s business ethics guidelines and policies; documents that

2011

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

2012

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

2013

- Introduction of “Materializing Our Values”.
- Increased use of biofuel.
- Efforts to increase energy streamlining generate positive results.
- Continued phase-out of hazardous chemicals.
- Activities implemented to attract students to the polymers industry.
- Adaption to GRI G4 initiated.

trace their roots to internationally accepted treaties governing human rights, social responsibility and sustainable development, among others UN Global Compact. The Group requirements entail that workplaces must be safe, conducive to development and comply with work environment and labour rights legislation. No employee may be treated differently due to gender, religion, age, functional disability, sexual orientation, nationality, political standpoint or origin. We encourage diversity and object to all forms of special treatment. Issues that affect equality are conducted on a decentralised basis, and employees are entitled to form and affiliate to trade unions with entitlement to collective bargaining. They also have complete insight and co-determination rights in line with provisions in national legislation.

In the occupational health and safety area, we are working on a preventive approach through risk analyses, training programmes and technological improvement. It is particularly important to highlight incidents and take preventive action. The creation of a favourable work environment and well-being at work is the responsibility of executive management and improvement programmes are pursued in cooperation with employees and employee representatives. More detailed information on occupational health and safety programmes is available on page 77.

“Materializing Our Values” was introduced in late 2013, leading to information and training programmes at most of our companies, with the purpose of recapping on what has long been applicable and providing information on new features. It is planned that all employees will have been informed during 2014.

During the year, nothing emerged to indicate that we had infringed any guidelines relating to human rights, equality and diversity. However, certain circumstances can only be influenced gradually. Our industry has long been male-dominated and the proportion of female employees is low, amounting to 14 percent (13) in 2013. The proportion of women is highest in Sweden and China, at about 40 percent. In Sri Lanka and the Czech Republic, however, only one in every twenty employees is a woman, with men accounting for more than 90 percent of the workforce at certain facilities. The percentage of women on the Board is 17 percent (17), with 14 percent (14) active in Group management, while the equivalent figure among executive management at subsidiaries is 10 percent (10).

Personal development and remuneration

Job satisfaction, security of employment and the potential for personal development mean a great deal for most of us. At the same time, of course, it is important that remuneration levels are market-based and competitive. The basic principles for HEXPOL are that pay formation meets legislation, at least matches the social minimum wage level in the countries in which we are active and that it is completely market-based. Parts of the Group offer

variable pay linked to the earnings trend, which individuals can influence. Personnel costs in 2013 amounted to 894 MSEK (848).

Social commitment

HEXPOL is part of the community and we participate at the local level in numerous social activities, involving, for example, recreational activities for employees and families, financial support for sports, health care and associations. From a long-term perspective, we feel it is very important to create driving forces that encourage youth to seek a path to our industry. Consequently, we have contacts with schools and universities, and completed more than 20 such activities during 2013. Companies in the US are active in contacts with students pursuing courses in polymers technology at university level. Study visits, development projects, examination work and work-experience positions are a few examples of activities. Another long-term project, under way at ELASTO in Åmål in Sweden in cooperation with schools, is aimed at attracting upper-secondary girl pupils to apply for technology professions. Among other results, two girls from Åmål received practical work experience at the Group's facility in Belgium during the year.

Another example in which HEXPOL offers social utility is a social project that has been in progress for a number of years in the US in cooperation with the YMCA. Elastomeric in Sri Lanka contributes financial support for schoolbooks for the children of employees.

SUSTAINABLE GROWTH

RESPONSIBILITY FOR PEOPLE AND THE ENVIRONMENT

Goals for sustainable development

Assuming responsibility for people and the environment is self-evident for us, while sustainability work is both a natural feature of day-to-day procedures and a component of the Group's long-term strategy. We work systematically to achieve continuous improvements in many areas. Particularly important aspects are increased energy efficiency, reduced climate impact, safe management of chemical substances, introduction of environmental management systems and a favourable work environment. In these areas, we have formulated overriding goals through which each facility establishes detailed objectives and action plans. The objectives are challenging and trigger many local activities.

Overall, we see a positive trend and the potential to attain goals. However, it should be noted that the Group's key performance indicators (KPIs) are expressed in relation to net sales and not to production volume. Production volume rose in 2013, but lower raw materials costs resulted in lower sales prices and, thus, limited growth in net sales. This affects the trend in KPIs for energy consumption and carbon-dioxide emissions.

Area	Goal	Current status	Trend
Energy	Energy consumption (GWh/net sales) is to be reduced by 10 percent by 2014 compared with the average for 2010 – 2011.	Measures designed to increase energy efficiency under way at many facilities.	▲
Climate	Carbon-dioxide emissions (tonnes/net sales) from energy consumption are to be reduced by 10 percent by 2014 compared with the average for 2010 – 2011.	Measures designed to increase energy efficiency under way at many facilities. Higher consumption of renewable energy (biofuel, and green electricity, etc.).	▲
Environmental management system	ISO 14001 at all facilities.	One facility was certified during 2013. Some 90 percent of units are certified.	▲
Hazardous chemicals	The consumption of hazardous chemicals on the REACH list of prioritised substances is to be reduced or cease.	Reduction or phasing out of several dangerous chemicals. Plans for additional measures.	▲
Safe work-places	The number of accidents by workplace is to be reduced. All facilities are to introduce systems to register incidents.	The frequency of accidents resulting in absence from work decreased slightly, but number of workdays lost, increased. Incident-reporting systems in place at 85 percent of the units.	▲

▲ Goal accomplished. ▲ Positive development, the goal is achievable. ▲ Negative development, the goal is not achieved.

Decentralised responsibility and preventive programmes

Responsibility for sustainability work is decentralised and delegated to the legal entities. Executives at companies and production facilities are responsible for leading and monitoring activities involving the environment, work environment and social responsibility. Issues involving strategy, risks, monitoring and sustainability accounting, as well as sustainability issues connected to corporate acquisitions, are managed at the Group level.

Preventive environmental work and occupational health and safety programmes are important both in respect of technological solutions relating to resource utilisation, treatment equipment, waste management and so forth, and also by involving our employees and offering relevant training.

We have positive experience of working with certified environmental management systems, and can confirm that risks and costs are declining and that ISO 14001 contributes to raising confidence among our stakeholders. Recurring internal and external environmental audits lead to progress in environmental programmes, and 116 (100) internal and 35 (36) external audits were completed during the past year. A facility in the UK was certified in 2013, while an additional three facilities are scheduled for certification during the years ahead. The OHSAS 18001 occupational health and safety standard is also deployed in the Group and the facilities in Sri Lanka are certified according to this standard. Some of the facilities have commenced work aimed at introducing ISO 50001, a standard for energy management systems.

Sustainability Report

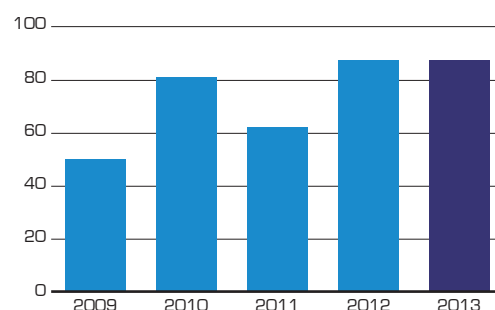
At Group level, we monitor several parameters relating to the environment, occupational health and safety and social responsibility. Among other appli-

cations, this information is utilised to identify risks, shape objectives and establish long-term strategies. At the same time, it is important for us to be open in communications concerning the progress of sustainability programmes and, thus, we report according to guidelines stated in GRI (Global Reporting Initiative) adaption to GRI G4 has been initiated. Some of the information is available on pages 70–77. Detailed data is presented in HEXPOL's sustainability accounting for 2013, which is available on the website. We also participate in the reporting of climate issues according to the guidelines in the CDP (Carbon Disclosure Project).

Risk analyses

The Group's risk analyses include the consequences of developments in the legislative area, stakeholder requirements and expectations and scientific progress in the sustainability area. A priority area is environmental risks associated with the acquisition of other companies. Considerations in this context include land contamination and breaches of environmental legislation. Further reading on environmental risks is presented on page 74.

The number of facilities certified in line with ISO 14001 (% of total number of facilities)



HEXPOL makes people grow – An example from HEXPOL Compounding NAFTA

Strategic thinking, planning and execution are vital to a healthy organization. A key component of strategic planning is the growth and development of our associates throughout all areas of the business. An organization's most impressive stages of growth are typically associated with the growth, maturity, and the investment in its most appreciable asset – people.

Recognizing the concept "You Grow an Organization by Growing Its People," has been instrumental in creating development opportunities within HEXPOL. Our focus over the last three years has centered on succession planning, adding bench strength to our sales, technical, quality, engineering and management positions and growing Leaders in all areas of the business.

Recruit External Talent and Strengthen the Academic/Co Op Bridge

HEXPOL have been actively recruiting talent within the industry and outside the industry as we strengthen our Team. In HEXPOL we believe it is critical to our long-term success to continue to add different strengths to our Team.

HEXPOL in North America has also been very successful in creating strong relationships with universities throughout the regions in which we do business. The Academic Program that began in May 2012 has grown significantly. There were a total of thirty-one co-operative assignments in 2013 involving seventeen students from various disciplines of study, which includes Chemical, Mechanical, Electrical and Electrical Engineering, along with Information Technology. The thrust of this program is to infuse young talent into the organization.

Promote from Within

As HEXPOL train, equip, and with intentionality grow our people, opportunities in all areas of the business unveil themselves. It is important to us as an organization that we create these opportunities and that we have talented people equipped to take on new responsibility.

Sales Training and Equipping

In June of 2013 four of HEXPOL's Sales Directors started a program with an Executive Coach, where they have weekly coaching calls, which was the key to starting a comprehensive Sales Training Program for all sellers. In November of 2013 this training started with weekly sessions taught by an outside Sales Executive Coach.

HEXPOL fully believe that we are a "Sales Driven" organization and deserve to have the best-equipped sales team in the rubber industry. We believe this sales training will take us to another level in developing our Sales Team, build our culture and develop the organization.

Technical Service Training

In early 2013 HEXPOL started designing Field Technical Training modules. This has been completed and roll out of this training began in January of 2014. All "Market Facers" will participate in this training, including all technical, quality and sales associates.

The modules will take about a year to complete and will help us service our customers better and help us develop business faster than our competition, enabling us to help customers solve problems, make their operations more efficient, and speed launches on new products. This is just one of the differentiators that makes HEXPOL the best of the best as we continue to grow our organization by investing in people.

Leadership Development

Two and a half years ago a NAFTA Leadership Development Program was started. The thrust of the program, was to grow people and add width and depth to our organization. In June of 2011 we started with four people. Today there are over 100 people in the NAFTA structured program and over 650 people throughout the organization in other Leadership Development Programs. There are active programs at every site. This program includes study and application in numerous leadership subjects. The impact over this short period of time is that we see our people growing both professionally and personally.

In HEXPOL, we have a theme called "Pay It Forward," meaning after we teach an associate, it is his or her responsibility to teach another group. Our goal is to provide some type of Leadership training to every associate in NAFTA. The program focuses on personal and professional growth. You grow an organization by growing its people. We will continue to invest our people.

Global Leadership

The Global Leadership program "Materializing the Difference" is managed by HEXPOL Group. HEXPOL Compounding NAFTA has designated six to eight people to participate in the year-long program. The theme of this program is Teamwork and Project Management. The program gives the participant exposure to other areas of the business, different cultures in different countries, and the opportunity to work as a Team to solve some of our biggest business opportunities. After completion of the program we see the participants grow and take on different roles in the organization.



Graduation of the second class in Materializing the Difference

The second class in HEXPOL's leader development program "Materializing the Difference" graduated in May 2013. This marks the end of a very intense 17 month long journey for 13 of our managers.

In HEXPOL we strongly believe in finding our recruiting internally and developing our own people for managerial positions is a key success factor for us. A big part of the program is dedicated to strengthen the participants' skills in accounting, finance and strategy. They also enhance their leadership and team skills.

The second class worked on three important managerial projects. Team one, with team members Tina Darnel, Joey Young, Sébastien Dubois, David Richter and Gabriela Karlsson, took on the assignment of finding ways to deve-

lop the global TPE business within HEXPOL. Team two, with team members Kiet Ong, Ernesto Gutierrez, Guido Heinen and Ajith Weeratunga, developed a tool for analyzing working capital. This management tool is already in use throughout HEXPOL. Team three, with group members Terry Elgin, Kevin Park, Lars Rubensson and Chamara Peiris, addressed strategies for our Performance Additives business.

Materializing the Difference will continue and we are already assembling the third class starting in beginning of 2014.

New products for production of sustainable energy

Stellana Sweden is widening its strategy and market, from being a supplier of wheels for mainly forklifts hand pallet trucks, to also include wheels for general industry and other production of technical parts in Polymeric materials.

The flexibility of the new state of the art production equipment being installed in Laxå, Sweden goes well in line with the company's strategy and has already paid off in orders to e.g. a global producer of equipment for production of sustainable energy. A pre series of custom made polyurethane has been delivered and if the evaluation of the project during this year goes as planned there will be big demand for these products in the future.

Both the new production equipment in Laxå, Sweden and the new business are activities that contributes to HEXPOL's strategy to create business value combined with reduced impact on our environment.



Board of Directors' Report



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

The Board of Directors and the President of HEXPOL AB (publ) registered in Malmö, Sweden, hereby present the annual report and consolidated financial statements for the 2013 financial year. The following income statements and balance sheets, statements of changes in shareholders' equity, cash flow statements, statements of comprehensive income and the presentation of the applied accounting policies and notes comprise HEXPOL's formal financial reporting.

OWNERS AND LEGAL STRUCTURE

HEXPOL AB (publ), Corporate Registration Number 556108-9631, is the Parent Company of the HEXPOL Group. HEXPOL's Class B shares were previously listed on the Stockholm Mid Cap segment of the NASDAQ OMX Nordic exchange but were moved to the Large Cap segment on 2 January 2014. HEXPOL had 7,878 shareholders on 31 December 2013. The largest shareholder is Melker Schörling AB with 26 percent of the share capital and 47 percent of the voting rights. The 20 largest shareholders own 62 percent of the share capital and 73 percent of the voting rights.

OPERATIONS AND STRUCTURE

HEXPOL is one of the world's leading polymer groups, with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklifts and castor wheel applications (Wheels). Customers are mainly systems suppliers to players in the global automotive and engineering industries, the energy, oil and gas sectors, medical technology and OEM manufacturers of plate heat exchangers and forklifts. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 3,433 employees in ten countries at year-end 2013.

Financial year 2013

SALES AND OPERATING PROFIT

The Group's sales for the year amounted to 8,036 MSEK (8,007). Currency effects had a negative impact of 217 MSEK on sales, primarily due to a weakening of the USD. Sales were positively impacted by our most recent acquisition, Robbins (November 2012). Organic growth (adjusted for currency effects and acquisitions) was minus 1 percent, including the effects of lower prices for our principal raw materials in all geographic regions. However, volumes increased compared with the preceding year.

Operating profit rose 17 percent to 1,255 MSEK (1,069), resulting in the operating margin improving to 15.6 percent (13.4). Currency effects had a negative impact of 44 MSEK on operating profit, primarily due to a weakening of the USD.

The HEXPOL Compounding business area's sales increased to 7,345 MSEK (7,270). Operating profit rose 18 percent to 1,177 MSEK (996), resulting in the operating margin improving to 16.0 percent (13.7). Sales in NAFTA were strong to energy, oil, gas and automotive-related customers, while sales to the mining industry and export-related customers were weak. Sales in Europe were lower year-on-year, primarily due to weak demand from automotive-related customers. The HEXPOL TPE Compounding product area performed well during the year. Robbins, a leading US manufacturer of rubber compounds, was acquired in late November 2012. The integration of the Robbins operation, which was completed during the first quarter of 2013, proceeded faster and generated better earnings than plan.

The HEXPOL Engineered Products business area's sales amounted to 691 MSEK (737). Operating profit amounted to 78 MSEK (73), entailing an operating margin of 11.3 percent (9.9). Sales were relatively stable, except for the HEXPOL Wheels facility in Laxå, Sweden, which was affected by the fire occurred in early April.

FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 19 MSEK (expense 22).

TAX EXPENSES

The Group's tax expenses amounted to 306 MSEK (294), corresponding to a tax rate of 24.8 percent (28.1). The lower tax rate was due to effects of a changed legal structure following acquisitions in recent years.

NET PROFIT FOR THE YEAR

The Group's profit after tax rose to 930 MSEK (753), corresponding to earnings per share of 27.02 SEK (21.88), up 24 percent.

INVESTMENTS, DEPRECIATION AND AMORTISATION

The Group's investments amounted to 145 MSEK (177). Most of the investments are maintenance investments primarily attributable to the US, in addition to capacity investments in HEXPOL Rubber Compounding in China and Mexico as well as in HEXPOL TPE Compounding. Depreciation and amortisation for the year totalled 156 MSEK (152).

PROFITABILITY

The return on average capital employed rose to 27.0 percent (24.0). The average return on shareholders' equity amounted to 28.5 percent (28.0).

CASH FLOW

Operating cash flow rose to 1,418 MSEK (1,209), see calculation on page 87. Cash flow from operating activities increased to 1,223 MSEK (1,115).

FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio increased to 61.5 percent (49.2). The Group's total assets amounted to 5,878 MSEK (5,907). The Group's net debt was reduced to 312 MSEK (1,215) and the net debt/equity multiple decreased to 0.1 (0.4).

In May 2008, the Group signed a five-year credit agreement totalling 1.7 billion SEK with a number of Nordic banks. This credit agreement matured in May 2013 and was replaced by two new bilateral credit agreements. The Group has the following three credit agreements with Nordic banks:

- A five-year credit agreement with a limit of 100 MUSD that will fall due in October 2015
- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2018
- A three-year credit agreement with a limit of 750 MSEK that will fall due in February 2016

At year-end, the unutilised portion of the credit agreement amounted to 1,287 MSEK.

The goodwill value is tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. At year-end, consolidated goodwill and intangible assets amounted to 2,730 MSEK (2,718). The principles applied in the analysis are presented on page 91 under the section accounting policies.

PRINCIPLES FOR REMUNERATION OF SENIOR EXECUTIVES

The 2013 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives: Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension. The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be capped in relation to fixed salary. Variable remuneration is not pensionable. Variable remuneration has a fixed cap and comprises a maximum of 90–120 percent of the fixed salary, with the exception of a senior executive in the US, for whom the upper limit this year is a maximum of 170 percent, including a potential acquisition-integration bonus. Pension benefits must be either defined-benefit or defined-contribution or a combination of both, subject to an individual pension age which must not be lower than 60 years.

The Board's Remuneration Committee deals with matters related to remuneration of Group Management as well as those for other management levels if the Committee so wishes. The Committee reports its proposals to the Board, which makes all decisions on such matters. The Board proposes to the 2014 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable. Variable remuneration is capped at 120 percent of the fixed salary.

PERSONNEL

The average number of employees during the year increased to 3,411 (3,112). During the year, the Group had employees in Sweden, Germany, the UK, Belgium, the Czech Republic, the US, Mexico, Luxembourg, Sri Lanka and China. Of the total workforce, 91 percent is outside Sweden. At year-end, the HEXPOL Group had 3,433 (3,332) employees, of whom HEXPOL Compounding accounted for 1,958 (1,956), HEXPOL Engineered Products for 1,470 (1,371), and the Parent Company for 5 (5) employees. For further information, refer to Note 3.

RESEARCH AND DEVELOPMENT

During the year, HEXPOL's research and development expenditure amounted to 55 MSEK (56), mainly comprising development expenses in close collaboration with customers. The Group currently has no significant research expenditure that meets the criteria for capitalisation.

PROPOSED DISTRIBUTION OF UNAPPROPRIATED EARNINGS

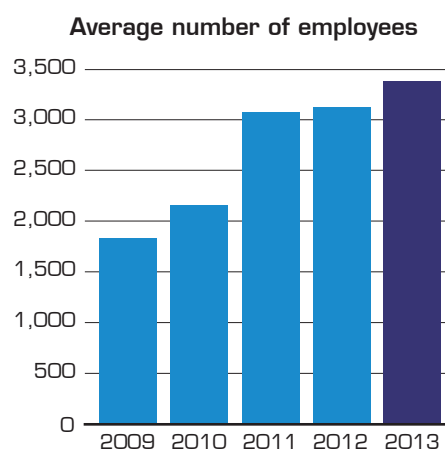
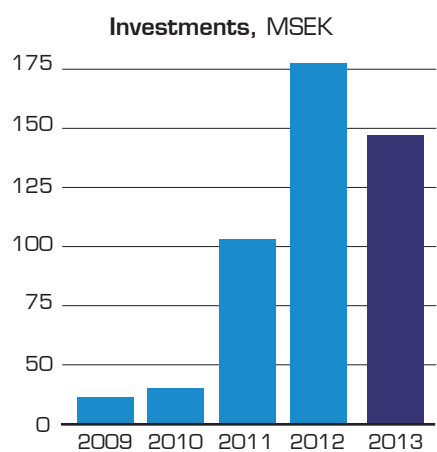
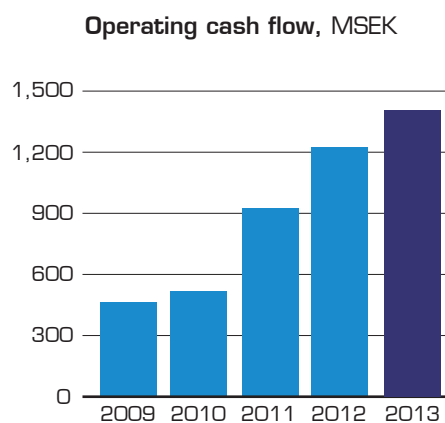
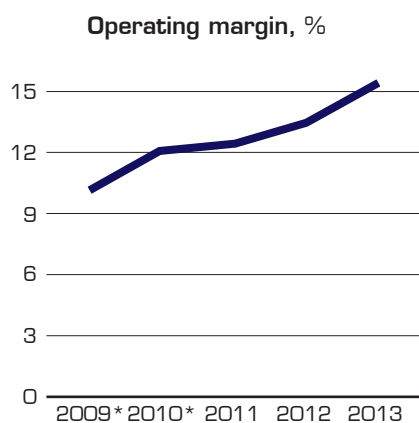
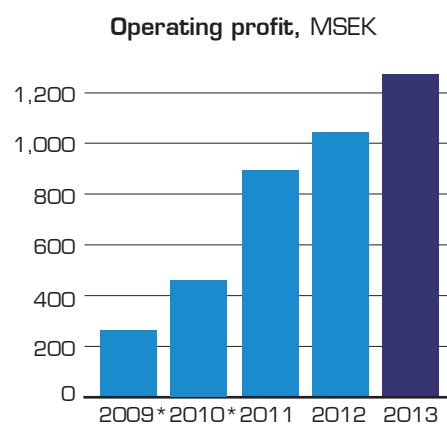
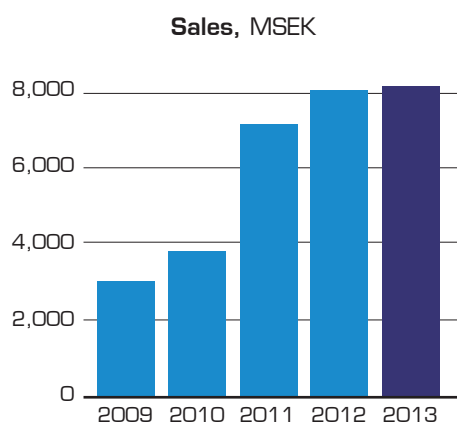
The following unrestricted funds in the Parent Company are at the disposal of the Annual General Meeting (KSEK):

Profit brought forward	2,208,189
Share premium reserve	597,880
Profit for the year	364,365
Total unrestricted funds	3,170,434

The Board proposes that the unappropriated funds be disposed of as follows: that the shareholders be paid a dividend of 9.00 SEK per share.

Total dividend from profit brought forward	309,781
To be carried forward	2,860,653
Total	3,170,434

Five-year overview



*Excluding items affecting comparability

Risk factors

INDUSTRY AND MARKET RISKS

Sensitivity to economic trends

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

As is the case for nearly all business operations, the general economic climate affects volumes among HEXPOL's existing and potential customers. Accordingly, a weak economic trend throughout or in parts of the world could entail lower-than-expected market growth.

Developments in HEXPOL's customer segments constitute one of the principal risks related to the business environment. This results in stringent demands in terms of understanding the current and future demands, requirements and wishes of both direct and end customers. Although HEXPOL's operations have a broad geographic spread and an expansive overall customer base, there is a risk that a weak economic trend could have a negative impact on HEXPOL's operations, financial position and earnings.

Competition and price pressure

HEXPOL's operations are conducted in sectors subject to competition and are thus affected by, for example, severe price pressure, which is in turn driving demand for cost-efficient solutions. Through improvements to their technology and production expertise, competing companies may begin to produce at low cost and thus increase competition with HEXPOL's products. HEXPOL's future competitive capacity is dependent on its ability to utilise the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this know-how into attractive products and customised solutions at competitive prices. To ensure competitiveness, investments will be required to maintain the Group's prominent position in the area of product development. While constantly striving to adapt to changes in the competitive situation, HEXPOL may also be forced to implement costly restructuring measures to be able to retain the Group's market position and profitability. Increased competition and price pressure in the markets in which HEXPOL is active could have an adverse impact on the Group's operations, financial position and earnings.

STRATEGIC AND OPERATIONAL RISKS

Technological progress and market development

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

Materials and energy costs

HEXPOL depends on a significant number of raw materials, primarily plastics and rubber. Trends in many raw-materials markets could result in higher purchasing prices for raw materials that are crucial for HEXPOL. To offset continued increases in raw materials prices and higher energy costs, HEXPOL strives to enhance production efficiency and to develop more cost-effective processes. Given the competitive market situation, however, there is a risk that HEXPOL will not be able to increase prices sufficiently to fully offset higher costs, thus resulting in reduced margins. Higher purchasing prices for materials and energy could have an adverse impact on the Group's operations, financial position and earnings.

Production disruptions

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

Suppliers

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

Customers

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

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

Key personnel

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

Future acquisitions and financing of acquisitions

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

LEGAL RISKS

Legislation and regulation

HEXPOL's principal markets are subject to extensive regulation. HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works to quickly adapt the company and the Group to the identified future

changes in the area. Amendments to the regulatory framework, customs regulations and other trade obstacles, anti-competition regulations, price and currency controls, as well as other public legal guidelines, ordinances and restriction in the countries in which HEXPOL is active could have an adverse impact on the Group's operations, financial position and earnings.

Health, safety and the environment

HEXPOL's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health, safety and the environment. A number of companies within the Group conduct operations that are subject to permits or mandatory declaration under applicable local environmental legislation. Accordingly, these operations are under the supervision of the appropriate authorities. HEXPOL regularly ensures that it holds all of the necessary permits and that it fulfils all of the necessary applicable declaration obligations. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs and other obligations for the companies within the Group that are subject to such regulations. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations.

HEXPOL conducts extensive production operations in a number of countries. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes having a negative impact on the Group's operations, financial position and earnings cannot be excluded. HEXPOL has an agreement concerning a health insurance system in the US, whereby the employees are offered compensation for health care. The Group's expenses are maximised to a fixed amount per individual per year. Further information concerning risks, primarily environmental risks, is available on pages 74 and 76.

Tax risks

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

tax situation and have an adverse impact on the Group's operations, financial position and earnings.

Disputes

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

Intellectual property rights, etc.

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

HEXPOL must continuously develop new technological solutions and applications in order to meet market requirements. To secure a return on the resources that HEXPOL invests in research and development, it is vital that new technology can be protected against unauthorised use by competitors. There is no guarantee that HEXPOL will not be considered to infringe upon the intellectual property rights of other companies, or that HEXPOL's rights will not be challenged or contested by others. In addition, HEXPOL's competitors could develop or acquire intellectual property rights that could prove essential for parts of HEXPOL's operations.

HEXPOL is also dependent on technical know-how that falls outside the realm of protectable intellectual property rights. It cannot be ruled out that competitors could develop corresponding know-how, or that HEXPOL will not succeed in protecting its knowledge effectively.

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

According to a licence agreement with 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 and notice may be given three months prior to the end of the agreement. Notice of termination of the agreement by Bayer would have a negative impact, since Vulkollan currently accounts for a major share of the sales of the subsidiary Stellana AB.

FINANCIAL RISKS

Currency risk

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

HEXPOL's global operations give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss. In conjunction with the translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange-rate fluctuations could have an impact on the Group's balance sheet. Exchange-rate fluctuations could have an adverse impact on HEXPOL's sales, financial position and earnings. A sensitivity analysis shows that a shift of 10 percent in the SEK against all currencies would have an impact of 121 MSEK on operating profit.

Interest-rate and credit risks

HEXPOL is also affected by interest-rate fluctuations. Changes in interest rates affect the Group's net interest income and cash flow. Based on the average fixed interest period in the Group's total loan portfolio at 31 December 2013, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect on full-year earnings of about 10 MSEK before tax.

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

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

Financing and liquidity risk

To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations

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

HEXPOL could also require additional financing to refinance loans that expire. HEXPOL's three major loan agreements form the basis for the Group's long-term financing requirements and include traditional financial covenants. It cannot be ruled out that HEXPOL could ultimately be forced to breach these covenants in the future due to, for example, the general economic trend or disruptions in the share capital and credit markets. This could have a negative impact on HEXPOL's financial position and earnings.

Goodwill

Goodwill accounts for a significant portion of HEXPOL's intangible fixed assets. Goodwill is tested annually in connection with the preparation of the annual accounts to identify any impairment requirements, as well as to ensure that these items do not exceed their respective assessed value in use. In the 2013 financial statements, no goodwill impairment losses were recognised. If future tests show a decline in the value of goodwill and thus lead to impairment losses, this could have a negative impact on HEXPOL's financial position and earnings.

EQUITY MARKET RISKS

Share price performance

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

Future dividends

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





Sustainability work

ENVIRONMENTAL RESPONSIBILITY

SUSTAINABILITY REPORT ACCORDING TO GRI

Key environmental issues that affect HEXPOL's operations include the use of resources in the form of raw materials, chemical products, energy and water. Other significant environment aspects comprise emissions into the atmosphere and the generation of waste. Indirect environmental aspects include suppliers' activities, transportation of raw materials and complete products, as well as customers' use of our products.

HEXPOL reports on the performance of a number of parameters affecting sustainable development every year. The report informs about the situation in 2013, but data for a number of parameters is presented in a five-year perspective. The sustainability report includes all production facilities. The facility in Tallapoosa, the US, that was discontinued in 2013 is not included in the reporting. In addition to the information below, reference is made to the section entitled "Corporate responsibility" on pages 54-61, as well as in the separate sustainability report on HEXPOL's website. The sustainability report provides detailed information about targets, activities and performance, as well as a declaration of the GRI indicators (Global Reporting Initiative) that applied. The Group's sustainability report complies with the GRI guidelines and an adaption to GRI G4 is initiated. The climate impact is also reported in a separate report according to Carbon Disclosure Project (CDP).

ENVIRONMENTAL LEGISLATION

National environmental legislation affects the majority of HEXPOL's production facilities through permits and operational terms and conditions. Environmental legislation in the form of EU directives (such as REACH, RoHS, CLP and WEEE) and other national or international legislation affect many of the Group's operations and products. The facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The production plants in the Czech Republic, Belgium, the US, Mexico, Sri Lanka and China either have environmental licences that cover all areas of their operations or that apply to specific environmental aspects. The units in the UK and a facility in Germany are not subject to any specific environmental approval. Compliance with environmental legislation is monitored through measurements, inspections and environmental reports submitted to supervisory authorities. The following events related to environmental legislation occurred during the year:

- Gislaved Gummi in Gislaved, Sweden, renewed its permit according to the Swedish Environmental Code. The new conditions did not result in any significant investments or changes in the operations. During the year, the County Administrative Board requested that historic land contaminations should be documented at some of the facilities. The results of the investigation are provided in the section on environment-related risks on page 74.

- At ELASTO in Åmål, Sweden, the facility was upgraded according to requirements in an ordinance about explosive environment (ATEX). Measures to strengthen security surrounding the tanks for process oils were also implemented.
- As a result of the fire at Stellana in Laxå, Sweden, the environmental authority made special requests for functionality and availability of cleaning equipment for gas isocyanates.
- At half of the facilities, inspections were carried out by authorities. Some minor non-conformities were detected and corrective measures have been taken.
- During the year, we received and reacted to a number of complaints from neighbours about malodorous substances and noise. Some 15 complaints pertained to contamination caused by two incidents in Belgium where about three tonnes of carbon black was released into the surrounding. The area was rapidly decontaminated and there was no long-term impact to people or the environment.
- Some minor infringements of legislation occurred in the Czech Republic and Belgium during the year, for example, excessive concentration of pollution in wastewater. Except for minor penalty fees, the infringement did not result in any legal consequences.

ENERGY CONSUMPTION

We use significant amounts of energy for production equipment, heating, cooling, ventilation and transportation of materials. The total energy consumption rose during the year from 258 GWh to 275 GWh. Installation of new mixing lines, higher production and more facilities resulted in the increase. A number of measures in the production facilities contributed to higher energy efficiency.

About 70 percent of the energy comprised purchased electricity, 20 percent of natural gas and the rest from other sources. Consumption of biofuel and "green" electricity increased during the year. The total energy cost during 2013 was about 143 MSEK (150).

POLYMERS AND OTHER CHEMICAL PRODUCTS

The ingredients in the Group's rubber compounds comprise various types of synthetic rubber, process oils, carbon black and other fillers, as well as a large number of chemicals and additives. Natural rubber is also included in some compounds. In addition to polymers, other raw materials include metals, solvents and dyes. In terms of volumes, the synthetic rubber polymers are predominant, but thermoplastic elastomer (TPE) and polyurethane plastics are also used to a great extent. The use of natural rubber accounts for about 10 percent of the total polymer consumption and recycled polymers for about 2 percent. Natural material, for example, cork is used to a certain extent.

HIGHER ENERGY EFFICIENCY - A PRIORITY

HEXPOL's target is that the energy consumption (GWh/net sales) is to be reduced by 10 percent at the end of 2014 compared with the average for 2010-2011. Here are a few examples of activities during the year:

- Installation of more energy efficient production equipment, compressors, ventilation and cooling systems.
- Steam traps on presses. Insulation of furnaces. Switching off equipment not in use.
- Shorter mixing cycles. Cooperation in the development of energy-efficient transmissions in mixing machines.
- Change of lighting and fixings. Increased use of LED bulbs. Increased admission of daylight in the premises.
- Training and information. Energy documentation. Introduction of the ISO 50001 energy management system.
- Less energy consumption during high load on the electricity network.

RISKS ASSOCIATED WITH CHEMICALS TO BE MINIMISED

The combination of ingredients in the polymer compounds gives the end product the sought-after technical characteristics and we use thousands of different recipes and many different chemical substances. Our objective is to reduce the use of particularly hazardous substances and, for this reason, we are mindful of our employees and requirements from the interplay between authorities and legislation. EU legislation pertaining to chemicals (REACH) and new laws concerning labelling and risk information are highly significant to us.

In recent years, a number of chemicals have been phased out or had their usage reduced, such as certain phthalates, brominated flame retardants, carcinogens, heavy metals, as well as chemicals that generate nitrous substances. A number of chemical products have been identified for phasing out and activities to reduce the risks remain a high priority. In some cases, work may be complicated since there is no global harmonised legislation and substances that are banned in one part of the world may be permissible in other parts. Here, we strive to inform customers about the options that are advantageous from an environmental and health perspective, without lowering technical performance.

EMISSIONS TO THE ATMOSPHERE

CLIMATE IMPACTING GASES

The use of fuel oil, natural gas, district heating and electricity results in emissions of the climate-changing gas, carbon dioxide. Emissions of carbon dioxide from energy consumption during the year totalled about 105,000 tonnes (98,000). The indirect emissions through purchases of electricity domina-

ted and accounted for 84 percent (85) of the total amount of carbon dioxide.

OTHER EMISSIONS

Energy consumption gives rise to atmospheric emissions of 55 tonnes (68) of sulphur dioxide and nitrogen oxides. These emissions are primarily due to the use of heavy fuel oil at the Sri Lankan units. The installation of a steam boiler that operates on biofuel is therefore a positive measure that will have full effect in 2014. Emissions of volatile organic compounds (VOC) from dyes and solvents totalled approximately 10 tonnes (24), and the transition to water-based products reduced emissions. Emission of ozone-degrading gases (HCFC) amounted to 10 kilogrammes and was caused by a small leak in a cooling device. The emission corresponds to about 1 percent of the Group's total amount of installed cooling agents.

REDUCED CLIMATE IMPACT

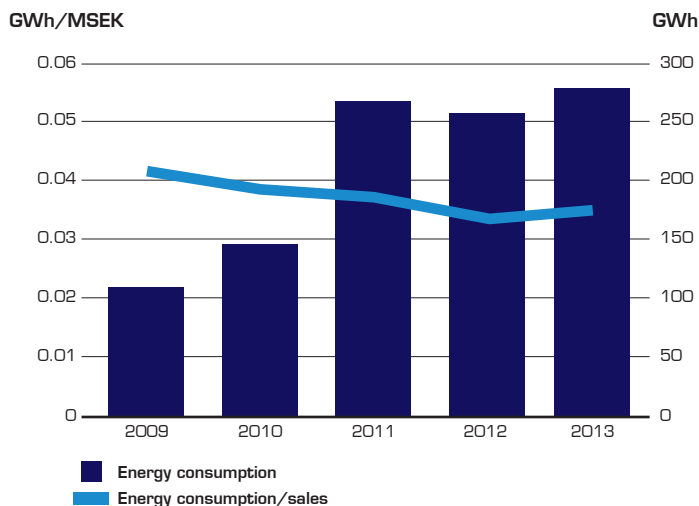
HEXPOL's target is that the emission of carbon dioxide (tonnes/net sales) from energy consumption are to be reduced by 10 percent at the end of 2014 compared with the average for 2010-2011. Here are a few examples of activities during the year:

- Measures for Energy-efficiency (see above).
- Installation of steam boiler that uses biofuel in Sri Lanka.
- Purchase of electricity from renewable sources in the Czech Republic.
- Increased use of recycled polymer raw material.
- Purchase of more fuel-efficient vehicles. Coordination of transportation and improved logistics solutions. More transportation by train.
- Manufacturing of products that provide energy savings and reduced material usage.

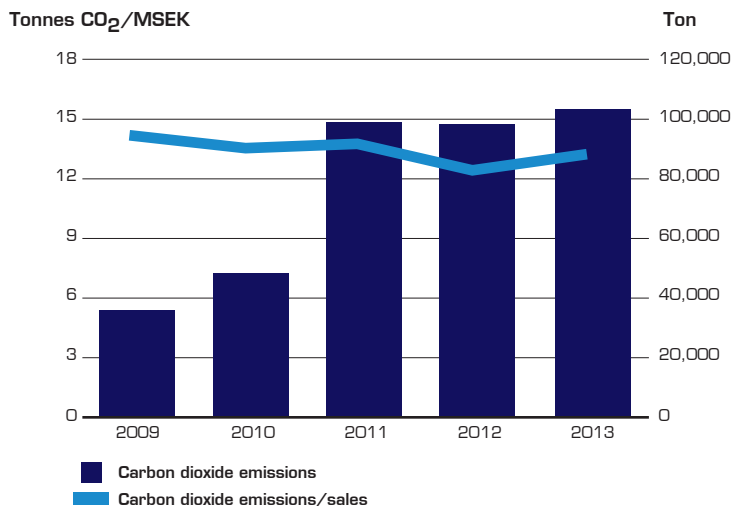
WATER CONSUMPTION

Supply of good quality water has become an increasingly important issue in many parts of the world. We do not have any facilities in areas suffering from water shortages, but there are still many reasons to focus on economizing with water. The production facilities use water for cooling, cleaning, irrigation and hygiene and in 2013, approximately 190,000 cubic meters (166,000) of municipality water was used. In addition to this, 16,000 cubic meters (24,000) were used from proprietary wells and 360,000 cubic meters (260,000) from streams. Cooling systems with re-circulated water exist at most production plants. During the year, a number of activities were implemented to reduce water consumption, including leak searches, training and technical measures. Higher production, more irrigation and a greater need of cooling contributed to an increase in water consumption. The total cost for water amounted to 2.4 MSEK (3.1).

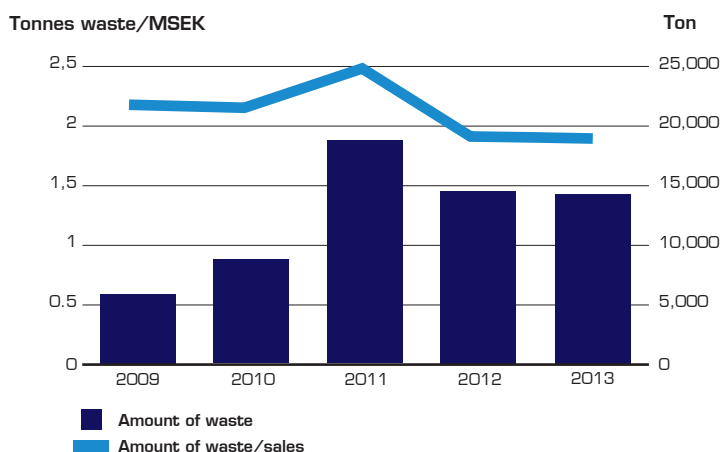
Energy consumption



Carbon dioxide emissions



Amount of waste



Emissions to wastewater are limited and mainly consist of organic material and nutritive substances from sanitary applications and cleaning of the premises. Emissions of cooling water and rainwater from roofs and land areas also occur. Production plants are connected to 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 permissible levels.

REDUCTION IN WASTE VOLUME

By minimising spoilage and reducing the amount of waste, the Group's facilities use raw materials as efficiently as possible. The production volume has increased, but the amount of waste has simultaneously decreased and in 2013, the amount of waste was 14,500 tonnes (14,900), of which 547 tonnes (357) consisted of hazardous waste. The increase in hazardous waste was due in part to the disposal of contaminated land at a plant. Training and increased efforts for sorting waste, combined with technical measures, contributed to the positive trend.

The use of recycled material also increased and, at several of the plants in the US, carbon black from dust filters has been recycled in certain products. This is advantageous from a financial point of view and will reduce the amount of waste sent to landfill. At present, a couple of percent of polymer raw materials comprise recycled material. The cost of external waste management totalled 7.9 MSEK (6.9).

EVALUATION OF SUPPLIERS

Our raw materials are dominated by polymers and chemical products and HEXPOL is thus a link in the chain between the chemical industry and producers of industrial and consumer products. The Group's suppliers mainly comprise global chemical companies that conduct well-developed environmental work. In addition to these business partners, there are many local suppliers of products and services. Irrespective of the size of the suppliers or their global or local status, we expect them to meet the same requirements that we impose on ourselves with respect to environmental and social responsibility. "Materializing Our Values" is used to inform the suppliers, who are monitored for compliance with HEXPOL's requirements through questionnaires and audits. During 2013, 80 suppliers (60) were evaluated with respect to environmental and social responsibility and we are continuing to work on formulating evaluation methods and suitable criteria. The cooperation with a couple of suppliers was discontinued due to non-compliance with our requirements.

ENVIRONMENTAL ADAPTATION OF PRODUCTS

Customers in the automotive, toys, construction and white goods industry and other sectors are implementing measures to environmentally adapt parts of their product range. For us, it may involve everything from reducing risks associated with chemical substances to the development of new material with better environmental properties.

ISO 50001 – A tool for increased energy efficiency

Today, some 50 percent of the world's population lives in cities. Among the main processes that affect the energy consumption of a city are transportation and traffic management, building, heating and cooling, sanitation and waste management, and communication networks. Energy efficiency and low-carbon renewable energy technologies can help us address climate change, energy security and access to energy. But standards are needed for worldwide implementation.

Elastomeric Wheels and Gislaved Gummi Lanka will be implementing ISO 50001 in 2014 to increase their energy efficiency. The ISO 50001 energy management system will assist in increasing the focus on reducing energy consumption and in working systematically and determinedly on energy issues. In a global perspective, the standard will contribute to the dissemination of modern technology, which will help in efforts to provide safe, inexpensive and universal energy supply while minimizing global pollution. ISO standards are forceful, cost-efficient tools that can make the transition to renewable energy smoother by facilitating cooperation and opening markets for new technologies and innovations.

The international ISO standards are developed together with stakeholders, such as industrial players, authorities and consumers. The standards represent a global consensus of best practice for technology, which can be implemented worldwide. The ISO 50001 standards will assist in achieving the aim of propelling and distributing innovative solutions both in developed and emerging nations.



At HEXPOL, there are many examples of products that contribute environmental utility:

- Chemicals constitute an area where we see higher commitment from our customers and we offer polymers where environmental and hazardous substances are replaced, or are used to a lesser degree.
- We manufacture polymer gaskets used in plate heat exchangers worldwide. The gaskets also contribute to energy saving, less climate impact and secure handling of chemicals and food products.
- We produce porous rubber material that contributes to reducing material consumption and reducing weight, thus helping to lower fuel consumption in vehicles.
- Recyclable thermoplastic elastomers (TPEs) that are used in many applications, such as the automotive industry. We have also increased the use of recycled rubber in several products.
- We manufacture TPE combined with such natural material as cork, which provides technically interesting properties but also reduces the use of fossil raw materials. The TPE range also includes products that contain flame retardant substances with excellent properties from an environmental and health perspective. In certain applications, TPEs can also replace PVC plastics, thus responding to the demands placed in the environmental policies of certain organisations in the health sector.
- We produce polyurethane wheels with long service life, thus reducing the need for replacement wheels. This will reduce both the consumption of materials and the amount of waste. We recently delivered a first batch of polyurethane wheels to be used in an offshore wave power plant.

ENVIRONMENT-RELATED RISKS

Environmental legislation and other official requirements

The development of environmental legislation and amendments in the national and international environmental policies are having a short-term and long-term impact on HEXPOL. Areas of interest include climate changes and risks associated with certain chemical substances. We understand that additional legal and financial means of control will gradually be issued in these areas and we are carefully monitoring developments. We are focusing on climate and chemical issues and currently see no unforeseen risks.

For the individual production plants, it is important to comply with existing conditions and be prepared for more stringent future environmental requirements. The Group's plants have valid permits for their operations and one case involving the renewal of a permit for the plant in Gislaved, Sweden, was completed in 2013. At a number of other plants, conditions and permit decisions are subject to regular updating.

With respect to other environmental legislation, it is primarily the consequences of the chemical legislation REACH that is of major interest and can become a risk factor. Legislation includes the require-

ment for the phasing out of certain hazardous chemicals or limiting the use in certain applications. We use some ten chemical substances that are registered on REACH's Candidate List of Substances of Very High Concern. These are substances that have a specific function in the preparation of the Group's products, including phthalates (softening agents). Our development departments have reformulated a number of recipes and the use of several substances has been terminated or reduced. In our opinion, we are focusing on the type of risk-limiting measures required by legislation, customers and our company.

Contaminated soil

Most of the Group's plants are constructed on land that was not previously used for contaminated operations and there are no underground tanks. In connection with corporate acquisitions, assessments of the risk of soil pollutants and other environmental damage are regularly performed. No emissions or accidents of significance to the ground and groundwater were registered in 2013. The fire that occurred at Stellana in Laxå, Sweden, in spring 2013 had no long-term consequences for the surrounding environment. A significant emission of carbon black occurred at the plant in Belgium, but had no long-term impact on the land and groundwater. In Gislaved, Sweden, a small piece of land was contaminated with liquid from a salt bath. Remediation was implemented.

Adjacent to a leased property in Gislaved, Sweden, there are signs of historical soil contamination from petroleum hydrocarbons. Another property in Gislaved, which is owned by Gislaved Gummi, was examined during the year with respect to contaminations according to the Method for Inventories of Contaminated Sites in Sweden. The property was classified as Risk Class 2 and the assessment was based on the previous presence of the solvent trichloroethylene. No emissions of this solvent have been registered. One of the plants in the US is exposed to the risk of limited site contamination caused by earlier operations. Although remediation of the site is said to have been performed by the former owner, this has not been fully confirmed. However, there are no legal requirements for remediation of this land that affect the Group.

Hazardous substances in buildings and installations

Ceilings containing asbestos (eternite) are present in some buildings and asbestos is also present in insulation material in some production equipment and tanks. Remediation of asbestos-contaminated equipment was carried out during the financial year at a plant in the UK.

According to legislation in Sweden, we carried out an inventory of the Group's buildings with respect to PCB (polychlorinated biphenyls). Small amounts of PCB were found in window seams in some buildings and the caulking compound will be remediated as the windows are gradually replaced. The risks to humans and the environment are very low.

HEXPOL reducing emissions – Biomass boiler in Sri Lanka

Gislaved Gummi Lanka is in line with HEXPOL sustainability vision to focus on an environmental friendly approach in conducting all activities.

Since the implementation of ISO 14001, the company has been able to achieve substantial benefits throughout the Environmental Management System.

Previously, Gislaved Gummi Lanka used furnace oil boilers, which generated substantial carbon dioxide, sulphur dioxide and nitrogen dioxide emissions. During 2012, furnace oil price increased by 80 percent which in turn increased the manufacturing cost drastically. This made Gislaved Gummi Lanka re-think the way of working and started to look for better solutions.

With high availability of wood logs and sawdust, mainly generated from the furniture industry, Gislaved Gummi Lanka decided to start a sustainable project by installing a new Bio Mass Boiler in order to minimize emissions, environmental impact and steam cost. The new Bio mass boiler was installed in September 2013 meeting approval from Sri Lankan authorities and all other requirements.

Gislaved Gummi Lanka will now reduce its emissions of fossile carbon dioxide by 97 percent during 2014 compared to 2012, which will reduce the company's global environmental footprint. From a local perspective the reduced emissions of sulphur dioxide and nitrogen oxides reduce the environmental impact.

Gislaved Gummi Lanka is now implementing a fully integrated management system incorporating the use of energy and all other aspects contained in the ISO 9001, ISO 14001, OHAS 18001 and ISO 50001 certifications.

Waste reduction by 22 percent

Since receiving ISO 14001 certification in 2012, Chase Elastomer, HEXPOL's primary roll compound facility, located in Kennedale, Texas, continues to strive for environmental improvements. Reducing waste materials sent to landfills was identified as a major green goal for 2013.

Cleanout batches used for the facility's tilt mixer are a major source of landfill waste. Cleaners used between compounding of different types of polymers must be disposed. The ISO team implemented multiple cleanout changes to reduce items from this process going to landfill. To minimize cleaner usage Chase Elastomer:

- Improved scheduling.
- Increased the number of times cleanout batches are used.
- Increased the use of obsolete raw materials in cleanout batches.

Chase Elastomer also found a suitable company willing to buy Chase Elastomer's scrap material, and Chase Elastomer has also implemented a process for scrap removal.

Chase Elastomer reduced cleanout batch waste sent to landfills in 2013 by 22 percent versus 2012. Cost savings for the facility in 2013 was significant. Chase Elastomer continues to look for ways to reduce waste and eliminate landfill items. The goal for 2014 is to reduce 2013 level of landfill waste by 50 percent. Reducing landfill waste is good for the environment and Chase Elastomer.

Gislaved Gummi heats houses with surplus heat

As a part of their sustainable development, Gislaved Gummi AB has signed an agreement with a local energy company about supplying surplus heat that today is cooled off. The amount of energy is equivalent to 55 private houses annual consumption of heating. This means that carbon dioxide emissions can be reduced by 240 tons per year.

"We have surplus heat from our production that we must cool off during the summer, while we are in need of supplementation during the cold winter months", says Lars-Åke Bylander, Managing Director Gislaved Gummi AB.

A local energy company will start up a new district heating system, which will primarily generate heat from a power plant using wooden chips but also from surplus heat directly delivered into the district heating system by Gislaved Gummi AB. In this way, surplus heat becomes beneficial for local households. A win-win situation for all parties, but not least for our environment.



Accidents and uncontrolled emissions to the environment

We work in a preventive capacity to reduce the risks of fires, leakage and other accidents that could harm people and the environment. Risk analyses and other forms of inspections and audits are part of the preventive effort. We also apply the Blue Grading System, which visually indicates strong and weak sides in the effort in order to minimise risks. The procedures applied in the Group's plants are based on requirements from legislation, insurance companies, ISO 14001 and the Group's internal regulations.

As described earlier in the section on contaminated soil, a fire and two uncontrolled emissions to the environment occurred in 2013.

Climate-related risks

HEXPOL's environmental policy includes commitments to reducing emissions of climate-impacting gases and analysing risks that could arise through climate changes. We have a Group-wide objective pertaining to emissions of carbon dioxide and we monitor the risk analyses on climate changes implemented in various countries. Climate-related risks are taken into account in connection with corporate acquisitions. Three of our plants have identified flooding as a climate-related risk and certain precautions have already been taken. Two plants are in areas that could be exposed to extreme windy conditions.

Environmental adaptation of products

We see many examples of our customers' environmental adaptation of their range, for example, by reducing the use of hazardous chemical substances or by increasing the use of recycled material. By partnering with customers and researchers, we monitor and contribute to product development in the environmental area. The risk of losing business is reduced, at the same time as we generate environmental benefits.

ENVIRONMENT AND FINANCES

During the year, the Group's companies invested 18.5 MSEK (16.9) in measures in the environmental area. About 40 percent of the investments pertained to energy-efficiency enhancements and reduced climate impact. Significant amounts were reserved for measures to improve the work environment, security and air quality.

The environment-related costs totalled 14.6 MSEK (14.5). Administration, running the purification plant and fees to authorities and certification bodies are some examples of environment-related costs. Slightly more than 50 percent of the costs pertained to the management of waste. The environmental effort generated savings in the form of less waste, the recycling of raw materials and more efficient energy consumption. The recognised savings for the year amounted to 7.5 MSEK (13.0). In addition, there were significant savings that are the long-term results of efforts in prior years.



ELASTO Sweden support youth soccer club

In 2013, ELASTO Sweden continued to support their local community with a number of initiatives, including sponsoring IFK Åmål youth soccer club. The team had a very successful season where they played 33 games, produced 135 goals, won 24 games, drew in 5 and lost only 4 games. The team's coach Richard Hjertén, whom also is Purchasing Manager at ELASTO Sweden, was proud of the team and its success.

Some of the club members also had the chance of being ball boys during the international game between Sweden and Finland youth teams played during summer 2013. The match was played on the soccer ground next to the ELASTO Sweden's plant.

SOCIAL RESPONSIBILITY

PREVENTIVE MEASURES FOR THE WORK ENVIRONMENT

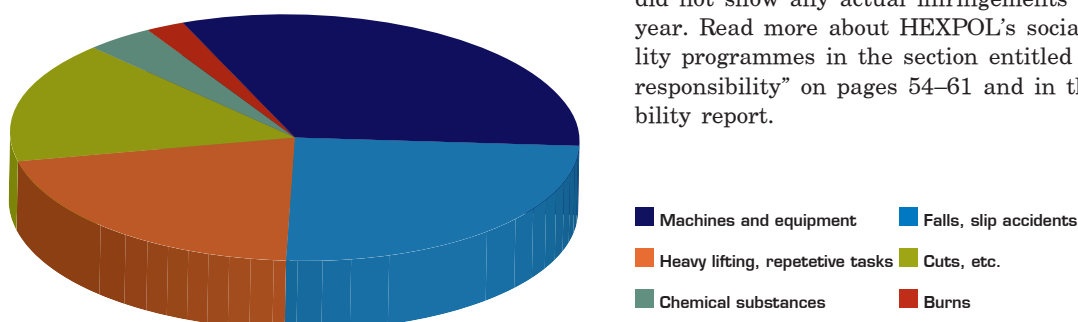
During the year, there were 68 occupational accidents (73) that resulted in more than one day's absence from work. Falls, equipment and heavy lifts were common causes of accidents. The total absence caused by work accidents amounted to 1,016 days (847). One or two individual cases of long-term absences that contributed to the increase are included here. One work accident involving a contractor occurred and 15 work-related illnesses (17) were reported. Impaired hearing, allergies and injury to muscles and skeleton were dominant among illnesses.

The work environment effort is a priority and is based on preventive activities and a systematic approach. During the year, a large number of risk analyses, occupational health and safety (OHS) measurements, technical measures, training and safety rounds were implemented. The measurements included ergonomic conditions and exposure to dust, solvents and noise. Special health checks are conducted on the workforce at units that handle isocyanates. We recently introduced OHSAS 18001, an OHS system, at the plants in Sri Lanka, which we believe is very positive with respect to health and safety. Formal safety committees have been formed at 85 percent of the plants.

Despite all the preventive efforts in the OHS area, accidents and injuries occur. Accordingly, our target for 2013 was to improve the reporting of near misses, meaning events that could potentially cause an occupational accident. The effort has been successful and such systems exist at 85 percent (66) of the units. A total of 233 incidents (140) were registered during the year. The incidents pertained to areas where occupational accidents occur and the objective of the reporting measure is naturally to take preventive action to reduce accident risks.

OHS legislation is being sharpened gradually and, in the chemical area, a global system for labelling and risk information about chemicals (GHS/CLP) will have an impact on us in the coming years. Accordingly, our plants are focusing on preparations ahead of the changes.

Causes of occupational accidents 2013



EMPLOYEES WITH THE RIGHT EXPERTISE

Training and competency development ensures that our employees have the right expertise for their jobs, and provides them with the opportunity to develop their skills and understand the Group's values. The total training time during the year was 55,900 hours (48,100), corresponding to an average of 16 hours (15) per employee. Slightly more than 2,700 employees participated in developmental conversations or some other form of performance evaluation during the year.

Training programmes on the environment and occupational health and safety were conducted at all production units and averaged 7.2 hours (4.5) per person. The training programmes pertained to protection against fire and accidents, evacuation exercises, management of chemical products, use of personal protective equipment and much more. A key target group for this type of training programme is new employees.

The updated version of HEXPOL's ethical guidelines and policies – Materialization Our Values – was presented at the end of 2013 and employees in about 15 units participated in information and discussions on the Group's values. The information activities will continue in 2014. Surveys of the opinions of employees in respect of their workplace and company are conducted regularly at a number of production plants. In 2013, five such surveys were conducted and both satisfied employees and a number of constructive proposals for improvements were registered.

RIGHT TO REPRESENTATION

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

EQUAL OPPORTUNITIES AND EQUAL RIGHTS

Issues pertaining to equality, discrimination and social conditions in the workplaces are important to us. The same view applies in the Group's relationships with suppliers. Reporting from our companies did not show any actual infringements during the year. Read more about HEXPOL's social responsibility programmes in the section entitled "Corporate responsibility" on pages 54–61 and in the sustainability report.

Corporate Governance Report



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

GROUP GOVERNANCE AND APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

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

SHAREHOLDERS

Refer to pages 16-19 for information on the ownership structure and the major shareholders.

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

GENERAL SHAREHOLDER MEETINGS

The Annual General Meeting (AGM) or, whenever applicable, an Extraordinary General Meeting, is HEXPOL's highest decision-making body, which all shareholders are entitled to attend. Shareholders unable to attend personally may participate by proxy. At the AGM, the Board presents the annual report, the consolidated financial statements and the auditors' report. HEXPOL issues the official notification at least four weeks prior to the AGM, which is usually held in Malmö, but may also be held in Stockholm in line with the Articles of Association, usually held in May. Among other matters, the AGM passes resolutions such as the adoption of the income statement and balance sheet, the dividend to be paid, amendments to the company's Articles of Association, discharge from liability for the Board and President, election of Board members and auditors, and the setting of remuneration for the Board members and auditors. The company's auditor attends the AGM. HEXPOL's most recent AGM was held on 2 May 2013.

NOMINATION COMMITTEE

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

The 2013 AGM passed a resolution to the effect that HEXPOL's Nomination Committee should comprise four members representing the largest shareholders in terms of voting rights and that Mikael Ekdahl (Chairman), representing MSAB, Åsa Nisell representing Swedbank Robur fonder, Henrik Didner representing Didner & Gerge Fonder and Anders Algotsson representing AFA Försäkring should be members of the Nomination Committee ahead of the 2014 AGM. Should a shareholder who is repre-

COMPLIANCE WITH SWEDISH CODE OF CORPORATE GOVERNANCE (THE CODE)

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

Code Rule 7.3 Audit Committees must include at least three Board members.

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

Board of Directors HEXPOL AB

	Year of birth	Nationality	Elected	Audit- Committee	Remuneration-to committee and managemnet	Independent in relation to the company and managemnet	Independent in relation to major shareholders	Holdings ¹ Number of A shares	Holdings ¹ Number of B shares
Melker Schörling Chariman	1947	Swedish	2007	No	Yes	Yes	No	1,476,562	7,563,715
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	249,750
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–

¹ The term "Holdings" refers both to shares held by the person indicated and shares held by related parties, as well as via companies at December 31 2013.

sented by one of the members of the Remuneration Committee cease being one of the largest shareholders in HEXPOL, or should a member of the committee no longer be employed by such a shareholder or for any other reason leave the committee prior to the AGM 2014, the committee is entitled to appoint another representative from among the major shareholders to replace such a member.

During the year, the Nomination Committee held two minuted meetings during which the Chairman presented an account of its evaluation work. The Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2014 AGM.

BOARD OF DIRECTORS

Composition of the Board and independence

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, with no more than two deputies. The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on 2 May 2013 resolved to elect a Board consisting of six persons, including the President and CEO. Refer to the table above for the Board's composition. The Board was re-elected for the period up to the 2014 AGM. HEXPOL's CFO participates in Board meetings. On request, other HEXPOL employees attend Board meetings to present certain specific issues.

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

ments. Members can be reached at the address of HEXPOL's head office.

Responsibilities of the Board of Directors

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

Board committees

The Board has established two committees from among its members: the Audit Committee and Remuneration Committee. The Board's Audit Committee, which, on behalf of the Board, has the task of preparing matters involving the procurement of auditing services and auditing fees, monitoring the work of the auditors and the company's internal control system, as well as the current risk profile, following up external auditing and the company's financial information and other issues that the Board assigns the committee to prepare. The Audit Committee is to meet regularly with HEXPOL's auditors and report back to the Board. The committee has no authority to make decisions but instead presents its findings

and proposals to the Board for decisions. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member of the Committee must possess accounting and auditing qualifications. According to the Code, the Board must establish an Audit Committee consisting of at least three Board members. To create a vigorous and effective Board, HEXPOL has decided to have a limited number of Board members. As a result, the Audit Committee consists of fewer number of members. The Audit Committee for 2013 comprised Ulrik Svensson (Chairman) and Malin Persson. During the period, the Audit Committee held three minuted meetings, each attended by both of the members. The task of the Board's Remuneration Committee is to deal with matters involving remuneration guidelines, salaries, bonus payments, options, pensions and other forms of remuneration for Group executive management. The Remuneration Committee may also address issues related to other management levels, should the Board decide in this respect, as well as other similar issues that the Board assigns the committee to prepare. The committee has no authority to make decisions, but instead presents its findings and proposals to the Board for a decision. The Board appoints the members of HEXPOL's Remuneration Committee annually. For 2013, the committee consisted of Melker Schörling (Chairman) and Ulrik Svensson. The Remuneration Committee held two minuted meetings during the year, which were attended by all of the Committee's members.

Board activities in 2013

The Board held a total of five minuted meetings during the year, at which the following items, among others, were addressed:

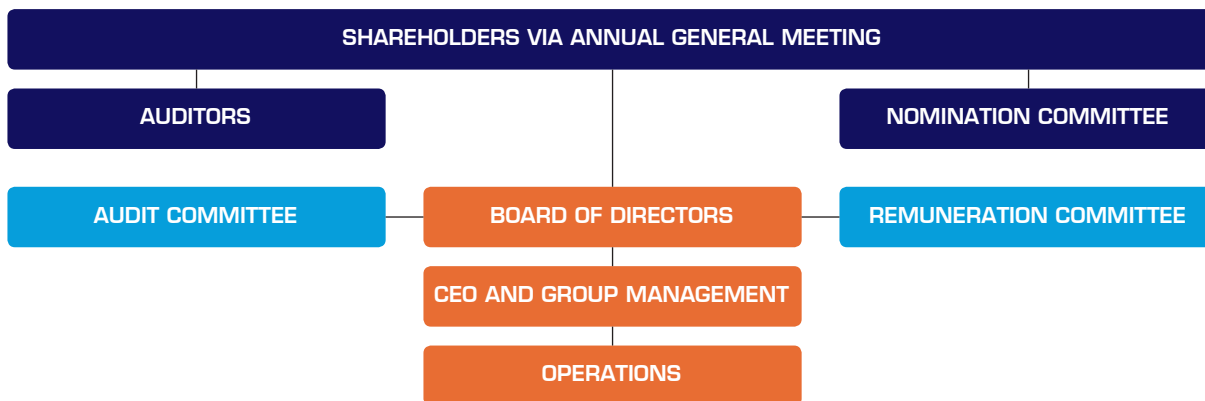
7 February	Year-end report for 2012 and debriefing with the auditors.
2 May	Interim report January-March 2013. Sustainability report and statutory Board meeting after the 2013 AGM.
18 July	Interim report January-June 2013.
23 October	Interim report January-September 2013 and strategic plan for 2014-2016.
6 December	Budget 2014.

During 2013, all AGM-elected Board members attended all Board meetings.

AUDITORS

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





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

The 2013 AGM re-elected the registered auditing firm, Ernst & Young AB, for the term of one year up to the end of the next AGM, with Authorised Public Accountant Stefan Engdahl as auditor-in-charge. The auditor can be reached at Ernst & Young AB, Torggatan 4, SE-211 40 Malmö, Sweden.

The auditors for the forthcoming term will be elected at the 2014 AGM.

CEO AND GROUP MANAGEMENT

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

The President and CEO has appointed a Group Management consisting of the Chief Financial Officer (CFO) and the company's business and product area managers. Group Management has overriding responsibility for the Group's operations and the allocation of financial resources among business operations and for the financing and capital structure. Regular Group Management and Steering Committee meetings serve as the forum for the implementation of the Group Management's overall governance down to each business and product area, and, in turn, down to the subsidiary level. The organisation is structured to facilitate short and prompt decision-making processes, with clear,

decentralised responsibility. Group Management is presented on page 108, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

INFORMATION ON REMUNERATION

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

FINANCIAL REPORTING

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

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

The company's systems for internal control pertaining to financial reporting for the 2013 financial year

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

CONTROL ENVIRONMENT

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

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

RISK MANAGEMENT

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

CONTROL ACTIVITIES

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

INFORMATION AND COMMUNICATION

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

FOLLOW-UP

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

Financial reports



Consolidated income statements

MSEK	Note	2013	2012
Sales	1	8,036	8,007
Cost of goods sold		-6,370	-6,485
Gross profit		1,666	1,522
Sales costs		-112	-107
Administration costs		-266	-293
Research and development costs		-55	-56
Other income and expenses		22	3
Operating profit	1,3,4,8	1,255	1,069
Financial income	5	17	24
Financial expenses	5	-36	-46
Profit before tax		1,236	1,047
Tax	6	-306	-294
Profit after tax		930	753
of which, attributable to Parent Company shareholders		930	753
		2013	2012
Earnings per share, SEK		27.02	21.88
Average number of shares before and after dilution, thousands		34,420	34,420

Consolidated statement of comprehensive income

MSEK	2013	2012
Profit after tax	930	753
Items that will not be re-classified to the income statement		
Re-measurement of defined benefit pension plans	-3	0
Income tax relating to items that will not be re-classified to the income statement	1	0
Items that may be re-classified to the income statement		
Cash-flow hedges	0	0
Income tax relating to cash-flow hedges	0	0
Translation difference	-13	-145
Comprehensive income	915	608
of which, attributable to the Parent Company's shareholders	915	608

Consolidated balance sheets

MSEK	Note	2013	2012
ASSETS			
Fixed assets			
Intangible fixed assets	7	2,730	2,718
Tangible fixed assets	8	1,186	1,227
Financial fixed assets		0	1
Deferred tax assets	6	30	25
Total fixed assets		3,946	3,971
Current assets			
Inventories	9	488	536
Accounts receivable	10	725	671
Current tax receivables		70	108
Other current receivables		30	44
Prepaid expenses and accrued income		22	13
Cash and cash equivalents		597	564
Total current assets		1,932	1,936
TOTAL ASSETS		5,878	5,907
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
Other capital contributions		598	598
Reserves		-108	-93
Profit brought forward		2,128	1,582
Profit for the year		930	753
Total equity attributable to parent company's shareholders	11	3,617	2,909
Attributable to non-controlling interests		0	0
Total shareholders' equity		3,617	2,909
Non-current liabilities			
Interest-bearing liabilities	12	928	228
Deferred tax liabilities	6	191	181
Pension provisions	13	17	13
Total non-current liabilities		1,136	422
Current liabilities			
Interest-bearing current liabilities	12	34	1,581
Accounts payable		775	665
Current tax liabilities		49	93
Other current liabilities		18	12
Other provisions	14	0	0
Accrued expenses and deferred income	15	249	225
Total current liabilities		1,125	2,576
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,878	5,907
Pledged assets	16	5	9
Contingent liabilities	16	0	4

Consolidated changes in shareholders' equity

MSEK	Attributable to Parent Company shareholders				Total
	Share capital	Other capital contributions	Reserves	Profit brought forward	
Per December 31 2011	69	598	52	1,754	2,473
2012					
Total comprehensive income					
Profit after tax	-	-	-	753	753
Other comprehensive income	-	-	-145	-	-145
Total comprehensive income	-	-	-145	753	608
Transactions with shareholders					
Dividend	-	-	-	-172	-172
Per December 31 2012	69	598	-93	2,335	2,909
2013					
Total comprehensive income					
Profit after tax	-	-	-	930	930
Other comprehensive income	-	-	-15	-	-15
Total comprehensive income	-	-	-15	930	915
Transactions with shareholders					
Dividend	-	-	-	-207	-207
Per December 31 2013	69	598	-108	3,058	3,617

Consolidated cash flow statements

MSEK	Note	2013	2012
Cash flow from operating activities	17		
Operating profit		1,255	1 069
Adjustment for non-cash items		156	152
Net interest items		-38	-26
Tax paid		-293	-240
Cash flow from operations before changes in working capital		1,080	955
Cash flow from changes in operating capital			
Changes in operating receivables		8	183
Changes in operating liabilities		135	-18
Non-recurring items		0	-5
Cash flow from operations		1,223	1,115
Investing operations			
Investments in tangible fixed assets		-142	-174
Sales of tangible fixed assets		9	0
Investments in intangible fixed assets		-3	-3
Acquisition of subsidiaries	20	-3	-926
Cash flow from investing activities		-139	-1,103
Financing activities			
Loans raised		1,996	796
Amortisation of liabilities		-2,849	-591
Dividend		-207	-172
Cash flow from financing activities		-1,060	33
Cash flow for the year		24	45
Cash and cash equivalents at January 1		564	557
Exchange-rate differences in cash and cash equivalents		9	-38
Cash and cash equivalents at December 31		597	564

Operating cash flow, Group

MSEK	2013	2012
Operating profit	1,255	1,069
Depreciation/amortisation	156	152
Change in working capital	143	165
Sales of tangible fixed assets	9	0
Investments	-145	-177
Operating cash flow	1,418	1,209

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) as adopted by the EU.

Furthermore, recommendation RFR 1, 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, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 91.

The applied accounting policies correspond to those applied in the preceding year.

During the year, the Group introduced the following new and amended IFRSs with effect from 1 January 2013:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements
- IAS 19 Employee Benefits

None of these new or revised IFRSs that entered into force in 2013 have had any significant impact on the Group beyond what is specified below.

The revised IAS 19, Employee Benefits, has been applied retroactively as of 1 January 2013. The most significant amendment is the discontinuation of the option to postpone recognition of actuarial gains and losses according to the corridor method and these are now recognised on an ongoing basis in other comprehensive income. Consequently, the pension liability increased by approximately 3 MSEK and shareholders' equity decreased by about 2 MSEK in 2013. The impact in 2012 was marginal and no adjustments were made in the balance sheet for 2012.

The revised standards (IFRS 9, IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 32, IAS 36, IAS 39, IFRIC 21), which have been decided to apply as of the 2014 calendar year or later, are not deemed to have any material impact on consolidated financial statements. No standards or interpretative statements are applied prospectively.

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 measurement of the fair value 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. Acquisitions of non-controlling interests are reported as transactions within equity.

Impairment testing of goodwill 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 partly hedged, mainly through foreign-currency loans.

In the consolidated financial statements, the after-tax effects of hedging activities offset the resulting 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.

REVENUE

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 could accrue to the Group and the costs are clearly distinguishable from ongoing product development expenditure.

LEASING

The Group has entered into both capital and operational leases. The agreements are classified in accordance with their financial implication when they were entered into. Capital leases are not material. For operational leases, the lease payments are expensed straight-line over the lease period according to the main rule. For capital leases the leased asset is carried on the balance sheet with a corresponding liability for future lease payments. The leased asset is depreciated over the same period as for assets of the same kind owned by the Group. Interest expense on the liability is recognised as a Financial expense.

FINANCIAL INSTRUMENTS

Financial instruments that are recognised in the balance sheet include cash and cash equivalents, accounts receivable, other financial receivables, accounts payable, loans payable and derivative. Financial instruments are initially recognised at acquisition value and subsequently at fair value or accrued acquisition value depending on their classification. Financial assets and liabilities are recognised in, and deducted from, the balance sheet applying settlement-date accounting. Accrued acquisition value is calculated based on the determined effective interest rate on the date of acquisition.

Financial assets and liabilities are classified as one of the following categories:

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

Financial derivative instruments recognised at fair value with changes in value in profit and loss, except when the derivative fulfils the all the criteria for cash-flow hedging, in which case the change in value is recognised in other comprehensive income on the date that the hedged item is recognised. When establishing fair value, official market listings on the balance-sheet date are used.

Loans and accounts receivables

Receivables are recognised at the amount expected to be received on a case-by-case basis. The credit risk is evaluated individually based on the specific customer's ability to pay. Impairment losses for accounts receivable are recognised in operating expenses.

Cash and cash equivalents

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

Other financial liabilities

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

Hedge accounting

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.

Receivables and liabilities in foreign currency

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.

Borrowing costs

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

HEXPOL predominantly has defined-contribution pension obligations. In addition, a few employees have defined-benefit pensions. 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. 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. At 31 December 2013, Alecta's surplus in the form of the collective consolidation level was 148 percent (129).

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 TAX

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 also recognised for transactions included in other comprehensive income and shareholders' equity. Deferred tax is calculated applying tax rates that have been decided or announced on the balance-sheet date. Temporary differences on

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

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 identified net assets of the acquired company on the date of acquisition. Acquisitions of less than 100 percent of an operation are considered on a case-by-case basis to determine whether full goodwill or partial goodwill is to be applied.

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

DEPRECIATION/AMORTISATION ACCORDING TO PLAN

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

The following depreciation/amortisation according to plan is applied:

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

IMPAIRMENT LOSSES

Goodwill is analysed on an annual basis with regard to any impairment requirements. Other assets are analysed for indications of impairment requirements, meaning whether the recognised value of an asset exceeds its recoverable amount. The recoverable value is the higher of the asset's net realisable value and the value in use, meaning the discounted present value of future cash flows. Previous impairment losses are reversed insofar as impairment is no longer warranted, although goodwill impairments are never reversed.

The basic assumption used to determine whether or not there is an impairment requirement is as follows: When calculating the present value of future cash flows, a cost of capital of 11.0 percent (12.1) before tax has been applied. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on 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.
- In accordance with RFR 2, Group contributions are recognised as financial income as of 1 January 2013, in accordance with the main rule.
- In the Parent Company, shares in Group companies are recognised at acquisition value before any impairment losses.
- The Parent Company applies hedge accounting, in accordance with RFR 2, in terms of loans in foreign currencies intended to effectively hedge assets in subsidiaries denominated in corresponding currencies. Accordingly, changes in exchange rates are not recognised for such loans.

Notes of the Group

Note 1 Segment reporting

Information about operating segments

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

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

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

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2013	2012	2013	2012	2013	2012
Sales, external	7,345	7,270	691	737	8,036	8,007
Operating profit	1,177	996	78	73	1,255	1,069
Operating margin, %	16.0	13.7	11.3	9.9	15.6	13.4
Net financial items					-19	-22
Tax					-306	-294
Profit for the year					930	753
Operating assets	4,754	4,787	427	424	5,181	5,211
Operating liabilities	951	826	91	78	1,042	904
Operating capital	3,803	3,961	336	346	4,139	4,307
Investments	109	145	36	32	145	177
Depreciation/amortisation	132	126	24	26	156	152

Geographic markets MSEK	Sales per recipient country		Operating capital	
	2013	2012	2013	2012
Europe	2,523	2,653	1,336	1,428
NAFTA	5,083	4,936	2,406	2,473
Asia	430	418	397	406
Total	8,036	8,007	4,139	4,307

Note 2 Related-party transactions

Transactions between Group companies occur on market-based conditions.

In 2013, the Group purchased energy for 13 MSEK (19) from the associated company, Megufo AB, in Sweden.

On 31 December 2013, the Group had a liability of 1 MSEK (2) to this associated company.

Note 3 Employees and personnel costs

Costs for remuneration of employees

MSEK	2013	2012
Salaries and remuneration, etc.	752	719
Total	752	719
To the Board and Presidents, of which bonus and similar items	71	64
	24	22
Pension costs	17	18
Social-security costs	125	111
Total	142	129

Average number of employees

	2013	of whom men	2012	of whom men
Sweden	320	61%	334	61%
Belgium	58	83%	58	84%
Czech Republic	98	95%	98	95%
Germany	166	90%	161	90%
Mexico	210	87%	193	90%
Luxembourg	3	67%	3	67%
USA	1,160	89%	988	89%
China	291	60%	215	64%
Sri Lanka	1,016	96%	970	98%
UK	89	88%	92	90%
Total	3,411	86%	3,112	87%

Personnel costs per country

MSEK	2013	2012
Sweden	203	210
Belgium	37	32
Czech Republic	18	19
Germany	68	66
Mexico	26	23
Luxembourg	12	10
USA	446	413
China	27	19
Sri Lanka	29	27
UK	28	29
Total	894	848

Gender distribution on the Board of Directors

	2013	2012
Women	1	1
Men	5	5
Total	6	6

Gender distribution of the Group Management

	2013	2012
Women	1	1
Men	6	6
Total	7	7

Remuneration of the Board of Directors

TSEK	Board fee		Committee fee		Total	
	2013	2012	2013	2012	2013	2012
Melker Schörling, chairman	500	500	75	75	575	575
Alf Göransson	250	250			250	250
Jan-Anders E. Månson	250	250			250	250
Malin Persson	250	250	75	75	325	325
Ulrik Svensson	250	250	200	200	450	450
Total	1,500	1,500	350	350	1,850	1,850

Board fees are not payable to employees of the Group.

Remuneration of senior executives TSEK	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Georg Brunstam, President and CEO	5,819	5,338	5,939	4,686	2,373	2,438	645	609	14,776	13,071
Other members of Group management, 6 persons (6)	14,506	13,657	13,535	7,415	1,885	2,242	1,090	834	31,016	24,148
Total	20,325	18,995	19,474	12,101	4,258	4,680	1,735	1,443	45,792	37,219

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, earnings per share and the return on capital employed.

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

Note 4 Fees and cost remuneration paid to auditors

MSEK	2013	2012
Ernst & Young		
Audit assignment	5	4
Audit activities in addition to audit assignment	1	1
Tax consultancy	0	1
Other services	0	0
Other auditors		
Audit assignment	1	1
Tax consultancy	1	0
Other services	0	0
Total	8	7

Note 5 Financial income and expenses

MSEK	2013	2012
Interest income	4	3
Exchange rate gains	13	21
Financial income	17	24
Interest expense	-24	-24
Exchange rate loss and other financial expenses	-12	-22
Financial expense	-36	-46
Net financial expense	-19	-22

Note 6 Tax

MSEK	2013	2012	Reconciliation of effective tax	2013	%	2012	%
Current tax expense			Profit before tax	1,236		1,047	
Tax expense on profit for the year	-287	-258	Tax according to applicable tax rate for the parent Company	-272	-22	-275	-26
Total	-287	-258	Effect of other tax rates for foreign subsidiaries	-55	-4	-56	-5
Deferred tax expense			Non-deductible expenses	-1	0	-1	0
Deferred tax pertaining to temporary differences	-22	-36	Non-taxable income	0	0	8	1
Utilised/revaluation of loss carryforwards	3	0	Deductible goodwill amortisation	6	0	6	1
Total	-19	-36	Revaluation of tax-loss carryforwards/temporary differences	-3	0	21	2
Total recognised tax expense	-306	-294	Tax attributable to prior years	19	1	3	0
			Total reported tax expense	-306	-25	-294	-28

At 31 December 2013, the Group had loss carryforwards of 86 MSEK (112) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 60 MSEK (54) expires within five years.

Deferred tax assets/liabilities

MSEK	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Intangible assets	-69	-47	-20	-15	-	-9	-	-	-1	2	-90	-69
Tangible assets	-88	-83	-20	-11	16	2	-	-	0	4	-92	-88
Current assets	12	-1	6	11	-	-	-	-	-1	2	17	12
Operating liabilities	-6	17	12	-20	-	-	1	-	-1	-3	6	-6
Loss carryforwards	0	0	3	0	0	0	-	-	0	0	3	0
Liabilities	-5	1	0	-1	-	-	-1	-5	1	0	-5	-5
Other	0	0	0	0	-	-	-	-	-	0	0	0
Total	-156	-113	-19	-36	16	-7	0	-5	-2	5	-161	-156

Note 7 Intangible fixed assets

Accumulated acquisition value

SEK	Goodwill		Other intangible assets		Total	
	2013	2012	2013	2012	2013	2012
Opening balance on January 1	2,615	2,222	161	111	2,776	2,333
Acquisitions	22	499	-6	56	16	555
Investments	-	-	3	3	3	3
Disposals/impairment losses	-	-	-	-1	-	-1
Translation difference	-4	-106	1	-8	-3	-114
Closing balance, Dec. 31	2,633	2,615	159	161	2,792	2,776

Goodwill distributed by operating segment

MSEK	Goodwill	
	2013	2012
HEXPOL Compounding	2,599	2,581
HEXPOL Engineered Products	23	23
Closing balance, Dec. 31	2,622	2,604

Accumulated amortisation

SEK	Goodwill		Other intangible assets		Total	
	2013	2012	2013	2012	2013	2012
Opening balance on January 1	-11	-11	-47	-31	-58	-42
Acquisitions	-	-	8	-10	8	-10
Amortisation according to plan for the year	-	-	-12	-9	-12	-9
Disposal/Impairment losses	-	-	-	1	-	1
Translation differences	-	-	0	2	0	2
Closing balance, Dec. 31	-11	-11	-51	-47	-62	-58
Carrying amount on Dec. 31	2,622	2,604	108	114	2,730	2,718

Other intangible assets pertain to mainly acquired customer relations and remaining amortisation period is between 12 and 14 years.

Note 7 cont.

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

When calculating the present value of future cash flows, a cost of capital (WACC) of 11.0 percent before tax (12.1) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on an internal estimation of the five years ahead, followed by assumed annual growth of 2 percent (2). According to the calculations, there is no impairment requirement. A sensitivity analysis shows that a 50-percent decrease in sustainable growth, an increase in WACC by 2 percentage points and a decline in sustainable profitability (EBITDA) by 2 percentage points would still not result in the need for impairment in any operating segment.

Note 8 Tangible fixed assets and Operational leasing**Operational leasing****Non-cancellable leasing payments amount to**

MSEK	2013	2012
Within one year	24	25
Between one and five years	37	44
Longer than five years	13	14
Total	74	83

Leasing expenses

MSEK	2013	2012
Minimum leasing fees	25	26
Total	25	26

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

Tangible fixed assets

Accumulated acquisition value	Land and buildings		Machinery and equipment		Total	
	2013	2012	2013	2012	2013	2012
MSEK						
Opening balance on January 1	648	553	1,992	1,792	2,640	2,345
Investments	4	4	138	170	142	174
Acquisitions	-12	96	-36	142	-48	238
Divestments, disposals and impairment losses	-6	0	-70	-5	-76	-5
Reclassification	6	19	-6	-21	0	-2
Translation difference	4	-24	2	-86	6	-110
Closing balance on Dec. 31	644	648	2,020	1,992	2,664	2,640

Accumulated depreciation value	Land and buildings		Machinery and equipment		Total	
	2013	2012	2013	2012	2013	2012
MSEK						
Opening balance on 1 January	-189	-167	-1,224	-1,109	-1,413	-1,276
Acquisitions	0	-8	11	-46	11	-54
Depreciation according to plan for the year	-23	-20	-121	-123	-144	-143
Divestments, disposals and impairment losses	3	0	65	3	68	3
Translation difference	-1	6	1	51	0	57
Closing balance on Dec. 31	-210	-189	-1,268	-1,224	-1,478	-1,413
Carrying amount on Dec. 31	434	459	752	768	1,186	1,227

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

MSEK	2013	2012
Costs of goods sold	144	144
Selling costs	0	0
Administration costs	10	6
Product development costs	2	2
Other	0	0
Total	156	152

Note 9 Inventories

MSEK	2013	2012
Raw materials	322	358
Goods in production	23	29
Finished goods	143	149
Total	488	536

No significant impairments have been made during the year.

Note 10 Accounts receivable**Age distribution of accounts receivable**

MSEK	2013	2012
Not due	654	616
Past due, 1-60 days	71	55
Past due, more than 60 days	0	0
Accounts receivable	725	671

Provisions for bad debt losses

MSEK	2013	2012
Opening balance	-51	-46
Provision for the year	-2	-8
Acquisitions	0	0
Actual losses	1	3
Closing balance	-52	-51

Note 16 Pledged assets and contingent liabilities

Pledged assets MSEK	2013	2012
Fixed assets	0	0
Current assets	5	9
Total	5	9
Contingent liabilities		
MSEK	2013	2012
Guarantee for the benefit of associated companies	0	4
Total	0	4

Note 17 Cash flow statement

Financial items received and paid MSEK	2013	2012
Financial income received	20	24
Financial expenses paid	-58	-50
Adjustments for non-cash items		
MSEK	2013	2012
Depreciation/amortisation	156	152
Total	156	152

Note 18 Financial instruments and risk management

Information about carrying amounts and fair value

MSEK	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Financial assets measured at fair value through profit or loss				
The Group's currency derivatives outstanding – financial exposure	85	84	110	110
Total	85	84	110	110
Loans and accounts receivables				
Accounts receivable	725	725	671	671
Total	725	725	671	671
Cash and cash equivalents				
	597	597	564	564
Liabilities				
Financial liabilities measured at fair value through profit and loss				
The Group's currency derivatives outstanding – commercial exposure	30	30	-	-
The Group's currency derivatives outstanding – financial exposure	104	104	120	120
Total	134	134	120	120
Financial liabilities measured at accrued acquisition value				
Non-current loans	928	928	228	228
Current loans	34	34	1,581	1,581
Total	962	962	1,809	1,809
Accounts payable	775	775	665	665

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

To manage the Group's transaction exposure, future payment flows in foreign currency are currency hedged using currency forward contracts. All forward contracts fall due within one year and are valued at the level 2 in the fair value hierarchy.

Sell forward contracts outstanding at December 31

MSEK	2013		2012	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	30	30	-	-
Currency distribution				
	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/SEK	30	8.95	-	-

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

To manage the Parent Company's exposure to intra-Group loans and receivables in foreign currency, net exposure is hedged using currency forward contracts. The revaluation is recognised in profit and loss. All forward contracts fall due within one year and are valued at the level 2 in the fair value hierarchy.

Forward contracts outstanding at December 31

MSEK	2013		2012	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	85	84	110	110
Currency distribution				
	Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK	85	0.33	87	0.34
USD/SEK	-	-	23	6.51

Note 18 cont.

Sell forward contracts outstanding at December 31

MSEK

Currency forward contracts

Currency distribution

EUR/SEK

GBP/SEK

2013		2012	
Nominal value	Fair value	Nominal value	Fair value
104	104	120	120
Nominal value	Average hedging rate	Nominal value	Average hedging rate
-	-	13	8.66
104	10.77	107	10.53

Note 19 Quarterly data

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	1,923	2,039	2,060	2,014	1,764	1,980	2,121	2,142
Operating profit	321	324	312	298	230	280	287	272
Profit after tax	254	232	228	216	186	192	194	181

Note 20 Acquisitions

Acquisition of Robbins 2012

In November 2012, the HEXPOL Group acquired 100 percent of Robbins Holding Inc, including Robbins LLC. Robbins is a leading US rubber compounder and a global leader in moulded envelopes and curing tubes, particularly for truck, heavy equipment and airplane tires. At the date of acquisition, Robbins has annual revenues of approximately 100 MUSD and about 240 employees. The company had three production units in the US: Muscle Shoals in Alabama, Findlay in Ohio and Tallapoosa in Georgia. The purchase price was 92.4 MUSD, debt-free. Integration and transaction expenses charged against profit amounted to 20 MSEK in December 2012. The acquisition analysis was finalised during 2013.

The acquired net assets and goodwill are presented below:

MSEK

Purchase consideration	615
Fair value of acquired net assets	-290
Goodwill	325

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition generates synergy effects in the short and medium-terms, in the areas of purchasing, product development, sales and administration. The fair value of the acquired net assets includes 37 MSEK for the estimated value of acquired customer relations.

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	29
Current assets	172
Tangible assets	83
Intangible assets	37
Deferred tax assets	40
Current liabilities	-43
Deferred tax liabilities	-28
Acquired net assets	290
Goodwill	325
Total purchase consideration	615

Cash and cash equivalents in acquired operations	-29
Change in the Group's cash and cash equivalents resulting from the acquisition	586

Acquisition of Müller Kunststoffe 2012

In January 2012, the HEXPOL Group acquired 100 percent of Horst Müller Kunststoffe GmbH & Co KG. Müller Kunststoffe is a leading Central European developer and manufacturer of TPE Compounding and has two manufacturing units in Lichtenfels, Germany. Müller Kunststoffe had annual revenues of approximately 46 MEUR and about 90 employees. The purchase consideration adjusted for acquired net debt was 39 MEUR.

The acquired net assets and goodwill are presented below:

MSEK

Purchase consideration	344
Fair value of acquired net assets	-148
Goodwill	196

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition generates synergy effects in the short and medium-terms, primarily in the areas of purchasing, product development and sales. The fair value of the acquired net assets includes 10 MSEK for the estimated value of acquired customer relations.

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	2
Current assets	102
Tangible assets	63
Intangible assets	10
Current liabilities	-26
Deferred tax liabilities	-3
Acquired net assets	148
Goodwill	196
Total purchase consideration	344
Cash and cash equivalents in acquired operations	-2
Change in the Group's cash and cash equivalents resulting from the acquisition	342

Parent Company's income statements

MSEK	Note	2013	2012
Sales	21	32	30
Administration costs		-47	-50
Operating profit	22, 23	-15	-20
Financial income	24	399	1,374
Financial expenses	24	-27	-25
Profit after financial items		357	1,329
Appropriations		8	-8
Profit before tax		365	1,321
Tax	25	0	-7
Profit after tax		365	1,314

Comprehensive income matches profit after tax.

Parent Company's balance sheets

MSEK	Note	2013	2012
ASSETS			
Fixed assets			
Tangible fixed assets	26	24	25
Intangible fixed assets		0	0
Interest-bearing intra-Group receivables		589	677
Financial fixed assets	28	4,308	4,308
Deferred tax assets		0	0
Total fixed assets		4,921	5,010
Current assets			
Intra-Group operating receivables		14	4
Interest-bearing intra-Group receivables		643	689
Prepaid expenses and accrued income		8	6
Cash and cash equivalents		363	261
Total current assets		1,028	960
TOTAL ASSETS		5,949	5,970
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	69
Total restricted shareholders' equity		69	69
Non-restricted shareholders' equity			
Share premium reserve		598	598
Accumulated earnings		2,208	1,100
Profit after tax		364	1,314
Total non-restricted shareholders' equity		3,170	3,012
Total shareholders' equity		3,239	3,081
Untaxed reserves		-	8
Non-current liabilities			
Liabilities to credit institutions	12	940	228
Total non-current liabilities		940	228
Current liabilities			
Accounts payable		1	0
Current tax liabilities		6	7
Interest-bearing intra-Group liabilities		1,735	1,051
Interest-bearing liabilities to credit institutions	12	-	1,574
Other current liabilities		0	0
Accrued expenses and prepaid revenues	27	28	21
Total current liabilities		1,770	2,653
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,949	5,970
Pledged assets	29	128	83
Contingent liabilities		-	-

Changes in the Parent Company's shareholders' equity

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total shareholders' equity
Per December 31, 2011	69	598	1,272	1,939
2012				
Total comprehensive income				
Profit after tax	-	-	1,314	1,314
Transaction with shareholders				
Dividend	-	-	-172	-172
Per December 31, 2012	69	598	2,414	3,081
2013				
Total comprehensive income				
Profit after tax	-	-	365	365
Transaction with shareholders				
Dividend	-	-	-207	-207
Per December 31, 2013	69	598	2,572	3,239

Parent Company's cash flow statements

MSEK	2013	2012
Cash flow from operations		
Operating profit	-15	-20
Adjustment for non-cash items	1	0
Financial income received	22	80
Financial expenses paid	-25	-25
Tax paid	0	0
Cash flow from operations before changes in working capital	-17	35
Cash flow from changes in working capital		
Changes in working receivables	-3	5
Changes in current receivables	6	0
Cash flow from operations	-14	40
Investing operations		
Investments in tangible fixed assets	0	0
Investments in intangible fixed assets	0	0
Dividends from subsidiaries	367	66
Shareholders' contribution	-	-11
Group contributions received	11	-
New share issue in subsidiaries	-	-2,535
Intra-Group divestment of subsidiaries	-	1,669
Cash flow from investing activities	378	-811
Financing operations		
Change in interest-bearing receivables	123	418
Change in interest-bearing liabilities	-178	457
Dividend	-207	-172
Cash flow from financing operations	-262	703
Cash flow for the year	102	-68
Cash and cash equivalents at January 1	261	329
Cash and cash equivalents at December 31	363	261

Notes of the Parent Company

Note 21

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 22 Employees and personnel expenses

Average number of employees	2013	2012
Women	2	2
Men	3	3
Total	5	5

Salaries, other remuneration and social-security costs

MSEK	2013	2012
Board of Directors	2	2
CEO	13	11
Other employees	4	6
Social security costs, pension costs and payroll tax	10	11
Total	29	30

Note 23 Fees and expense reimbursement to auditors

TSEK	2013	2012
Ernst & Young		
Audit assignment	525	500
Tax consultancy	229	312
Other services	144	430
Total	898	1,242

Note 24 Financial income and expenses

MSEK	2013	2012
Dividend	367	66
Group contributions	11	-
Capital gain from intra-Group divestment of subsidiaries	-	1,229
Interest income	0	0
Interest income from Group receivables	21	70
Exchange-rate gains	0	9
Other financial income	0	0
Financial income	399	1,374
Interest expense	-21	-20
Interest expense for Group liabilities	-2	-3
Exchange-rate loss	0	0
Other financial expense	-4	-2
Financial expenses	-27	-25

Note 25 Taxes

MSEK	2013	2012
Current tax expense		
Tax expense for the year	0	-7
Total	0	-7
Deferred tax expense		
Deferred tax pertaining to temporary differences	0	-
Total	0	-
Total reported tax expense	0	-7

Note 26 Tangible fixed assets

Tangible fixed assets

Accumulated acquisition value	Land and buildings		Machinery and equipment		Total	
	2013	2012	2013	2012	2013	2012
MSEK						
Opening balance on January 1	25	25	2	2	27	27
Investments	-	-	-	-	-	-
Closing balance on Dec. 31	25	25	2	2	27	27

Accumulated depreciation	Land and buildings		Machinery and equipment		Total	
	2013	2012	2013	2012	2013	2012
MSEK						
Opening balance on January 1	0	0	-2	-2	-2	-2
Depreciation for the year	-1	0	0	0	-1	0
Closing balance on Dec. 31	-1	0	-2	-2	-3	-2
Carrying amount on Dec. 31	24	25	0	0	24	25

Note 27 Accrued expenses and deferred income

MSEK	2013	2012
Personnel-related expenses	24	18
Other	4	3
Total	28	21

Note 28 The Parent Company's holdings of shares and participations in Group companies**MSEK**

Subsidiaries	Corp. Reg. No.	Registered office	Proportion of equity (%)	Carrying amount 2013
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101
Megufo AB	556421-2453	Gislaved, Sweden	50	
Stellana AB	556084-8870	Laxå, Sweden	100	29
Elastomeric Engineering Co., Ltd. 1)		Sri Lanka	99,6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100	
Elastomeric Tools & Dies (Pvt) Ltd. 2)		Sri Lanka	100	
HEXPOL Compounding HQ Sprl		Belgium	100	469
HEXPOL Compounding Sprl		Belgium	100	
HEXPOL Compounding s.r.o		Czech Republic	100	435
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56
HEXPOL Compounding S.A de C.V 4)		Mexico	100	
HEXPOL Services Compounding S.A de C.V 4)		Mexico	100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7
Thona Canada BV		The Netherlands	100	
HEXPOL Compounding GmbH		Germany	100	70
Müller Kunststoffe GmbH		Germany	100	
ELASTO Sweden AB	556191-5777	Åmål, Sweden	100	261
ELASTO UK Ltd.		UK	100	23
HEXPOL sàrl		Luxembourg	100	0
HEXPOL Holding Inc.		USA	100	231
Robbins Holding Inc.		USA	100	
Robbins LLC		USA	100	
Synpol LLC		USA	100	
HEXPOL UK Ltd		UK	100	
Stellana U.S. Inc.		USA	100	
GoldKey Processing Inc.		USA	100	
HEXPOL Compounding NC Inc.		USA	100	
HEXPOL Compounding LLC 3)		USA	100	
HEXPOL Compounding (UK) Ltd		UK	100	
Chase Elastomer (UK) Ltd.		UK	100	
HEXPOL Compounding Services Queretaro S.A. de C.V. 5)		Mexico	100	
HEXPOL Compounding Queretaro S.A. de C.V. 6)		Mexico	100	
HEXPOL H.K Co., Ltd.		USA	100	
HEXPOL Asia LLC		USA	100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100	
HEXPOL Finance UK Ltd		UK	100	2,535
Total carrying amount in the Parent Company				4,308

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

2) Gislaved Gummi Lanka (Pvt) Ltd. owns 69,6% and Elastomeric Engineering Company Ltd 30.4% of the shares.

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

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

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

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

Note 29 Assets pledged

MSEK	2013	2012
Sureties for subsidiaries	128	83
Total	128	83

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	2,208,189
Share premium reserve	597,880
Net profit for the year	364,365
Total non-restricted funds	3,170,434

The Board proposes that the unappropriated funds be disposed of as follows:
That the shareholders be paid a dividend of 9.00 SEK per share.

Total dividend from earnings brought forward	309,781
To be carried forward	2,860,653
Total	3,170,434

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

Malmö, 12 March 2014

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 12 March 2014. 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 2014 for adoption.

Our audit report was submitted on 12 March 2014.

ERNST & YOUNG AB

Stefan Engdahl
Authorized Public Accountant, Auditor-in-charge

Auditor's Report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of ABC AB for the year 2013, except for the corporate governance statement on pages 78-83. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 62-103.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

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

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act.

Our opinions do not cover the corporate governance statement on pages 78-83. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of HEXPOL AB (publ) for the year 2013. We have also conducted a statutory examination of the corporate governance statement.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. The Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance statement on pages 78-83 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act. As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that the audit evidence which we have obtained is sufficient and appropriate in order to provide a basis for our opinions.

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year. A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Malmö, 12 March 2014

ERNST & YOUNG AB

Stefan Engdahl

Authorized Public Accountant

Board of Directors, Auditors and Group Management

Board of Directors HEXPOL AB

	Year of birth	Nationality	Elected	Audit committee	Remuneration committee	relation to the company and management	Independent in relation to major shareholders	Independent Holdings ¹ Number of Class A shares	Holdings ¹ Number of Class B shares
Melker Schörling Chairman	1947	Swedish	2007	No	Yes	Yes	No	1,476,562	7,563,715
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	249,750
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–

¹ The term "Holdings" refers both to shares held by the person indicated and shares held by related parties, as well as via companies at 31 December 2013.

Board of Directors HEXPOL AB



Melker Schörling

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

Other assignments: Chairman of the Board of Melker Schörling AB (MSAB), Hexagon AB, AAK (Aarhus Karlshamn AB) and Securitas AB. Member of the Board of H&M Hennes & Mauritz AB.

HEXPOL shareholding*:
1,476,562 Class A shares and 7,563,715 Class B shares, through Melker Schörling AB.



Alf Göransson

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

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

HEXPOL shareholding*: -



Georg Brunstam

Born in 1957, M.Sc. (Eng.)
President and Chief Executive Officer.
Member of the Board, since 2007.

Other assignments: Member of the Board of Nibe Industrier AB, Beckers Industrial Coatings Holding AB, DIAB Group AB and Båstadtennis & Hotell AB.

HEXPOL shareholding*:
249,750 Class B shares.



Malin Persson

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

Övriga uppdrag: President Chalmers University Foundation, Member of the Board of KCI Konecranes Plc., Universum AB and Beckers Industrial Coatings Holding AB.

HEXPOL shareholding*: -



Ulrik Svensson

Born in 1961, B.Sc. (Econ.)
Member of the Board since 2007. Chairman of the Audit Committee and member of the Remuneration Committee.

Other assignments: President of Melker Schörling AB (MSAB). Member of the Board of AAK (Aarhus Karlshamn AB), Loomis AB, Hexagon AB, ASSA ABLOY AB and Flughafen Zürich AG.

HEXPOL shareholding*: -



Jan-Anders E. Månson

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

Other assignments: Professor at École Polytechnique Fédérale de Lausanne. Chairman of the Board of AISTS. Member of the Board of EELCEE SA and the Royal Swedish Institute of Technology (KTH).

HEXPOL shareholding*: -

* Shareholding as of 31 December 2013

Auditor Ernst & Young AB



Stefan Engdahl

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

Other audit assignments: KABE AB and XANO Industri AB.

Group Management



Georg Brunstam

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

Other assignments: Member of the Board of Nibe Industrier AB, Beckers Industrial Coatings Holding AB, DIAB Group AB and Båstadtennis & Hotell AB.

HEXPOL shareholding*:
249,750 Class B shares.



Karin Gunnarsson

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

Other assignments: –

HEXPOL shareholding*:
18,325 Class B shares.



Lars-Åke Bylander

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

Other assignments: Member of the Board of Anicho Invest AB and Ferbe Tools AB. Partner in Body & Beauty SW KB.

HEXPOL shareholding*:
66,443 Class B shares.



Tracy Garrison

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

Other assignments: –

HEXPOL shareholding*:
105,450 Class B shares.



Jan Wikström

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

Other assignments: –

HEXPOL shareholding*:
83,250 B shares.



Carsten Rüter

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

Other assignments: –

HEXPOL shareholding*:
10,000 Class B shares.



Ralph Wolkener

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

Other assignments: –

HEXPOL shareholding*:
8,850 Class B shares.

* Shareholding as of 31 December 2013

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on 7 May 2014, at 3:00 p.m. CET in Malmö, Sweden (Börshuset, Skeppsbron 2). The Annual Report for 2013 will be available on HEXPOL's website and at the head office no later than 16 April 2014 and will be distributed to shareholders no later than the week beginning Monday 21 April. Shareholders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB not later than 30 April 2014 and notify their intention to participate to HEXPOL's head office not later than 2 May. Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than 30 April to be entitled to participate in the AGM.

Proposal for dividend

The Board proposes to the Annual General Meeting on 7 May to approve a dividend of SEK 9.00 (6.00).

Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

Activity	Date
2013 Annual Report, published	April 2014
Interim report January-March 2014	7 May 2014
Annual General Meeting	7 May 2014
Six-month report January-June 2014	23 July 2014
Interim report January-September 2014	24 Oct. 2014
Year-end report 2014	February 2015

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

Shareholders who do not wish to receive printed annual reports, please submit complete information (name, address and civil registration number/corporate registration number) to ir@hexpol.com.

For more information, contact:

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

Six-year summary

MSEK	2013	2012	2011	2010	2009	2008
INCOME STATEMENTS, condensed						
Sales	8,036	8,007	7,197	3,798	2,608	3,190
Operating expenses	-6,781	-6,938	-6,302	-3,402	-2,445	-2,880
Operating profit	1,255	1,069	895	396	163	310
Net financial items	-19	-22	-23	-26	-23	-52
Profit before tax	1,236	1,047	872	370	140	258
Tax	-306	-294	-253	-97	-38	-75
Profit after tax	930	753	619	273	102	183
BALANCE SHEETS, condensed						
Assets						
Fixed assets	3,946	3,971	3,365	3,438	1,977	2,167
Current assets	1,335	1,372	1,286	1,155	494	692
Cash and cash equivalents	597	564	557	318	317	342
Total assets	5,878	5,907	5,208	4,911	2,788	3,201
Shareholders' equity and liabilities						
Shareholders' equity	3,617	2,909	2,473	1,327	1,217	1,157
Interest-bearing liabilities	962	1,809	1,698	2,592	1,128	1,535
Other liabilities and provisions	1,299	1,189	1,037	992	443	509
Total shareholders' equity and liabilities	5,878	5,907	5,208	4,911	2,788	3,201
CASH FLOW STATEMENT						
Cash flow from operating activities	1,223	1,115	726	387	359	393
Net investments in tangible and intangible fixed assets	-136	-177	-103	-32	-23	-105
Acquisitions of operations	-3	-926	1	-1,827	0	0
Cash flow from financing activities	-1,060	33	-390	1,498	-358	-194
Cash flow for the year	24	45	234	26	-22	94
Cash and cash equivalents, January 1	564	557	318	317	342	228
Exchange rate difference in cash flow	9	-38	5	-25	-3	20
Cash and cash equivalents, December 31	597	564	557	318	317	342

	2013	2012	2011	2010	2009	2008
Key figures						
Average shareholders' equity, MSEK	3,263	2,691	2,038	1,268	1,187	1,091
Average capital employed, MSEK	4,664	4,458	4,057	2,780	2,530	2,562
Return on shareholders' equity, %	28.5	28.0	30.4	21.5	8.6	16.8
Return on capital employed, %	27.0	24.0	22.3	13.9	6.4	13.2
Net sales growth, %	0.4	11.3	89.5	45.6	-18.2	16.8
Operating margin, %	15.6	13.4	12.4	10.4	6.3	9.7
Profit margin before tax, %	15.4	13.1	12.1	9.7	5.4	8.1
Earnings per share, SEK*	27.02	21.88	18.65	9.30	3.47	6.23
Net debt, MSEK	312	1,215	1,096	2,239	760	1,193
Net debt/equity ratio, multiple	0.1	0.4	0.4	1.7	0.6	1.0
Equity/assets ratio, %	61.5	49.2	47.5	27.0	43.7	36.1
Shareholders' equity per share, SEK*	105.08	84.51	71.85	44.88	41.44	39.40
Dividend, MSEK	207	172	103	27	-	-
Dividend per share, SEK	6.00	5.00	3.00	1.00	-	-
Cash flow from operating activities, MSEK	1,223	1,115	726	387	359	393
Cash flow from operating activities per share, SEK*	35.53	32.39	21.87	13.18	12.22	13.38
Average number of employees	3,411	3,112	3,041	2,133	1,809	2,315
Number of employees at year-end	3,433	3,332	3,020	3,037	1,827	2,230
Sales per employee, MSEK	2.36	2.57	2.37	1.78	1.44	1.38
Key figures adjusted for items affecting comparability						
Operating profit, MSEK	1,255	1,069	895	460	261	310
Operating margin, %	15.6	13.4	12.4	12.1	10.0	9.7
Profit before tax, MSEK	1,236	1,047	872	434	238	258
Profit after tax, MSEK	930	753	619	318	172	183
Earnings per share, SEK*	27.02	21.88	18.65	10.83	5.86	6.23
Return on shareholders' equity, %	28.5	28.0	30.4	25.1	14.5	16.8
Return on capital employed, %	27.0	24.0	22.3	16.2	10.3	13.2

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

Definitions

Financial definitions

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

Cash flow Cash flow from operating activities after changes in working capital.

Cash flow per share Cash flow from operating activities after changes in working capital divided by the average number of shares.

Earnings per share Profit after tax, attributable to Parent Company shareholders, divided by the average number of shares.

Earnings per share after dilution Net profit after tax attributable to Parent Company shareholders divided by average number of shares adjusted for the dilution effect of warrants.

EBIT Operating profit after depreciation, amortisation and impairment.

EBITDA Operating profit before depreciation, amortisation and impairment.

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

Equity per share Shareholders' equity attributable to Parent Company shareholders divided by the number of shares at the end of the period.

Interest coverage ratio Profit before tax plus interest expenses divided by interest expenses.

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

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

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

Operating cash flow Operating profit excluding items affecting comparability less depreciation/amortisation and investments, and after change in working capital.

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

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

Return on equity Net profit attributable to Parent Company shareholders as a percentage of average shareholders' equity, excluding minority interests.

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

Business definitions

CDP Carbon Disclosure Project, an organization that provides information to global investors and financial institutions about how climate change affects business. The information is gathered by voluntary submissions of greenhouse emission data, actions taken to reduce emissions and the result of the measures.

Compression moulding Moulding and vulcanization of the rubber product by means of injection whereby the rubber is forced into a closed mould (injection), alternatively, is placed directly in the cavity in the mould before the mould is closed and the product is thus formed (compression).

CPE chlorinated polyethylene is a polymer that is flexible, flame-retardant and resistant to exposure to heat, cold, abrasion etc.

EVA Ethylene-vinyl acetate is a polymer that approaches elastomeric materials in softness and flexibility that simultaneously can be processed like other thermoplastics.

Extrusion Continuous vulcanization whereby a profile is created by having the rubber fed via a screw and pressed through a matrix. Vulcanization occurs directly after the matrix in a continuous process (furnaces with conveyor belt).

GRI Global Reporting Initiative is a set of guidelines for corporate reporting of issues regarding sustainable development.

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

Injection moulding Injection moulding is a common manufacturing method for various polymer products. The equipment comprises an injection unit and a mould-locking unit, as well as form or tool that is unique for each product. The injection unit is fed with granulated polymer in a funnel that leads down into a heated cylinder. The polymer is propelled by a screw, which also functions as a piston. The form, which is frequently two-part, opens and fills with the melted polymer, which is cooled.

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

OEM Original Equipment Manufacturer is a term for companies that manufacture the end-product to be sold on the open market. The product may consist exclusively of proprietary components or, most commonly, a combination of proprietary components and components purchased from subsuppliers that are assembled by the OEM company for the end product. Outsourcing means that a company lets another company handle one or more processes.

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

PA Polyamide, a commonly used thermoplastic.

PCB Polychlorinated biphenyls are a group of industrial chemicals that are hazardous to health and the environment. Use of PCBs was prohibited in Sweden in 1972, but they are still present in the environment due to their long decomposition time.

PE Polyethylene is a thermoplastic resin with high elasticity.

PHE Plate Heat Exchanger.

PP Polypropylene, a low-density, high-tensile thermoplastic made of propylene.

PU Polyurethane, a polymer that is highly resistant to heat and abrasion, and possesses excellent electrical-insulation properties.

PVC Polyvinyl chloride, one of the most common types of plastics.

REACH Chemicals legislation within the EU intended to ensure safer handling of chemicals. Chemical substances have to be registered for a certain use and particularly hazardous substances can be prohibited.

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

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.

TPE Thermoplastic elastomers are rubber-like materials that combine the properties of vulcanised rubber with the process benefits of thermoplastics.

TPO Polyolefin blends.

TPS Styrenic block copolymers.

TPU Thermoplastic polyurethanes.

VOC Volatile Organic Compounds A group of organic compounds that easily vaporize at room temperature. The content of the volatile hydrocarbons in the atmosphere has an adverse impact on health and the environment, including formation of ground-level ozone.

WEEE Waste Electrical and Electronic Equipment Directive. EU legislation regarding the management of electronic waste.

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