

HEXPOL AB (publ)

Annual Report 2014

# Annual Report

# 2014

HEXPOL AB



A Material Difference

## 2014 in brief

- Sales increased 11 percent to **8,919 MSEK (8,036)**
- Operating profit increased 16 percent to **1,456 MSEK (1,255)**
- Operating margin improved to **16.3 percent (15.6)**
- Profit after tax rose to **1,048 MSEK (930)**
- Earnings per share increased 13 percent to **30.45 SEK (27.02)**
- Operating cash flow rose to **1,676 MSEK (1,418)**
- The Board of Directors proposes a dividend of **12.00 SEK per share (9.00)**

### Significant events per quarter

#### Q1

Volume increases in all regions and further improved margins. Investment in an additional production line within HEXPOL TPE Compounding in Germany.

#### Q3

Continued strong volume development, the best result so far. Acquisition of the business in Kardoes Rubber, a well known manufacturer of rubber compounds on the US market.

#### Q2

Another strong quarter. HEXPOL arranged a Capital Market Day at ELASTO AB's facility in Åmål, Sweden. Investment in an additional production line for rubber compounds in Mexico began.

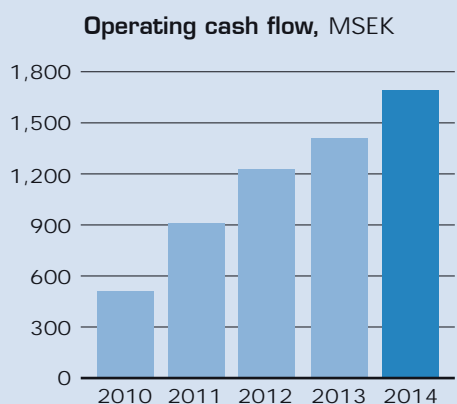
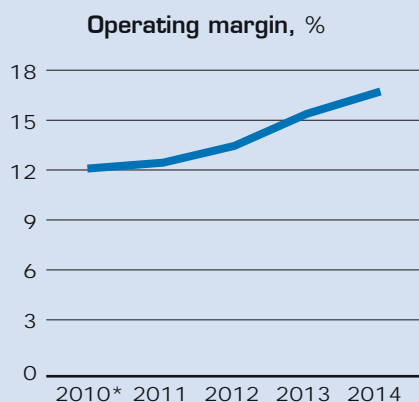
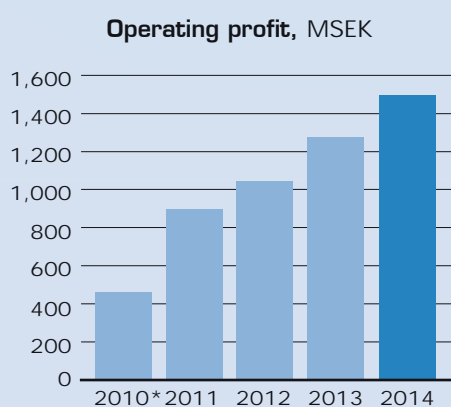
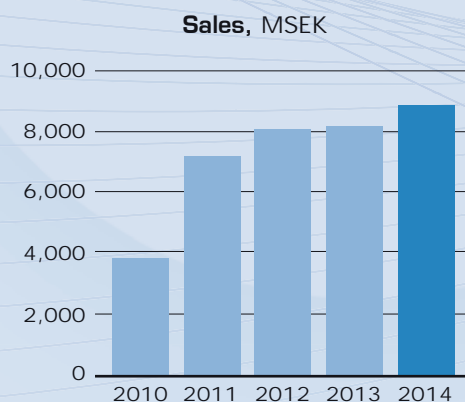
#### Q4

Continued strong development. Acquisition of Vigar Rubber Compounding, a well-known European manufacturer of rubber compounds. Acquisition of Portage Precision Polymers, a well-known American manufacturer of rubber compounds. Agreement signed to acquire RheTech, a well-known American thermoplastic compounder.

### Key figures

	2014	2013	
Sales, MSEK	8,919	8,036	
Operating profit (EBIT), MSEK	1,456	1,255	+ 16%
Operating margin, %	16.3	15.6	
Profit before tax, MSEK	1,436	1,236	
Profit after tax, MSEK	1,048	930	
Earnings per share, SEK	30.45	27.02	+ 13%
Equity/assets ratio, %	69.3	61.5	
Return on capital employed, %	28.5	27.0	
Operating cash flow, MSEK	1,676	1,418	

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\*Excluding items affecting comparability

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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.



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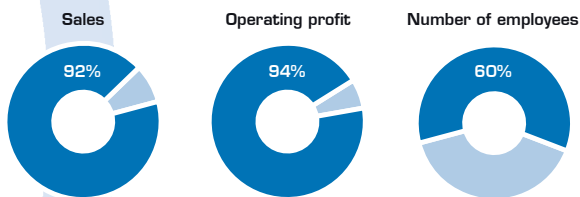
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# HEXPOL in brief

- Innovative solutions in advanced polymer compounds, gaskets for plate heat exchangers and wheels for forklifts and castor wheel applications
- Strong global market positions – world leading in market for rubber compounds
- Leading European producer of thermoplastic elastomer compounds (TPE)
- 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 (2014):



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

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

HEXPOL Compounding supports customers globally through 31 manufacturing units (including RheTech, acquired in January 2015) in Europe, Asia and NAFTA.

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

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

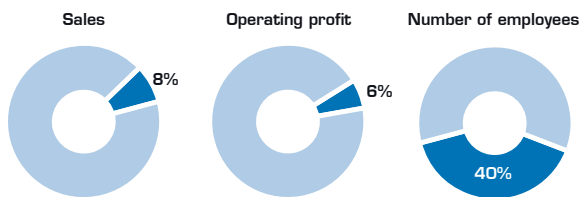
**Sales** 8,198 MSEK (7,345)

**Operating profit** 1,364 MSEK (1,177)

**Number of employees at 31 December** 2,212 (1,958)

## Business area HEXPOL Engineered Products

The business area's share of the HEXPOL Group (2014):



**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** Within its niche areas, HEXPOL Engineered Products is active in the global market where a considerable focus is on discerning customers and advanced applications. 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** 721 MSEK (691)

**Operating profit** 92 MSEK (78)

**Number of employees at 31 December** 1,449 (1,470)



## 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 approximately 97 percent of sales and 11 of the Group's 39 production units (including RheTech, acquired in January 2015) 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

The Board has adopted the following financial targets, 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 the automotive, engineering and construction, energy, oil and gas sector, medical equipment and materials handling industries, by offering innovative and specialised polymer products and solutions.

## VISION

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

## STRATEGY

To maintain its long-term profitability and sustainable competitiveness, HEXPOL attaches great importance to the competitiveness of each individual business line. In order to attain the company's vision, the following 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. HEXPOL also pursue a strategy of conducting proactive environmental efforts and taking social responsibility. Such activities help HEXPOL to contribute to sustainable development and we are convinced that this will benefit society, our employees, the shareholders and our business operations. The strategy for achieving sustainable development includes the introduction of environmental management systems, improved energy efficiency, reduced risks arising from chemical products and transparent reporting of the Group's performance in terms of environmental and social responsibility.

## VALUE ENHANCING AND SUCCESS FACTORS

Since 2002, Group operations have expanded from annual sales of 631 MSEK to 8,919 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 several acquisitions have been made within the core area rubber compounds. In addition, capacity investments in HEXPOL Compounding Mexico and in HEXPOL TPE Compounding were implemented.

CEO comments on the year  
**Our best year to date**  
**– high acquisition activity**



**Georg Brunstam**  
President and CEO  
HEXPOL AB

**DEAR SHAREHOLDERS,**

2014 was another good year for the HEXPOL Group. We continued to improve our market positions in all of our principal markets and we further improved our earnings. Our strategy of both organic expansion and acquired growth in our existing areas, combined with strong cash flow, is successful and stands firm.

Our strategy of growth primarily in the Polymer Compounding area is unchanged and, in 2014, we acquired four Rubber Compounding operations and signed agreement concerning the acquisition of an additional four Thermoplastic Compounding operations. The acquisition of the well-known US Rubber Compounder, Kardoes Rubber, was made in August 2014 and strengthens our position in South Eastern USA. In November, we acquired the similarly well-known European Rubber Compounder, VIGAR Rubber Compounding, with operations in Spain and Germany. Vigar Rubber Compounding gives us a foothold in the Spanish market for the first time and strengthens our position in the major German market. In early December we acquired another well-reputed US Rubber Compounder – Portage Precision Polymers – an acquisition that enhances our position in North Eastern USA. Just before Christmas, we signed an agreement to acquire RheTech Thermoplastic Compounding, with four American units active in specialised Thermoplastic Compounding, marking our first step into Thermoplastic Compounding. RheTech is a relatively major player in fibre-strengthened Polypropylene Compounds, with the automotive industry as its largest end-user segment. The acquisition was subsequently finalised in January 2015. All of the acquisitions are businesses that are well-known in the market (and by us) and we had been monitoring them for some time. Our opportunities for successful acquisitions are increased by having a well-thought-out and proven integration plan and by always acquiring companies in known areas.

Our strategy also includes growing organically, meaning by increasing our volumes and sales in all of our markets, and by finding new growth markets and growth areas. That's why I am delighted to say that during 2014 we had positive growth in all main markets, including Europe, and in emerging markets such as China and Mexico. In Mexico, we also invested in increased capacity. Our development was also favourable in HEXPOL TPE Compounding, thanks to marketing/sales efforts and capacity expansion.

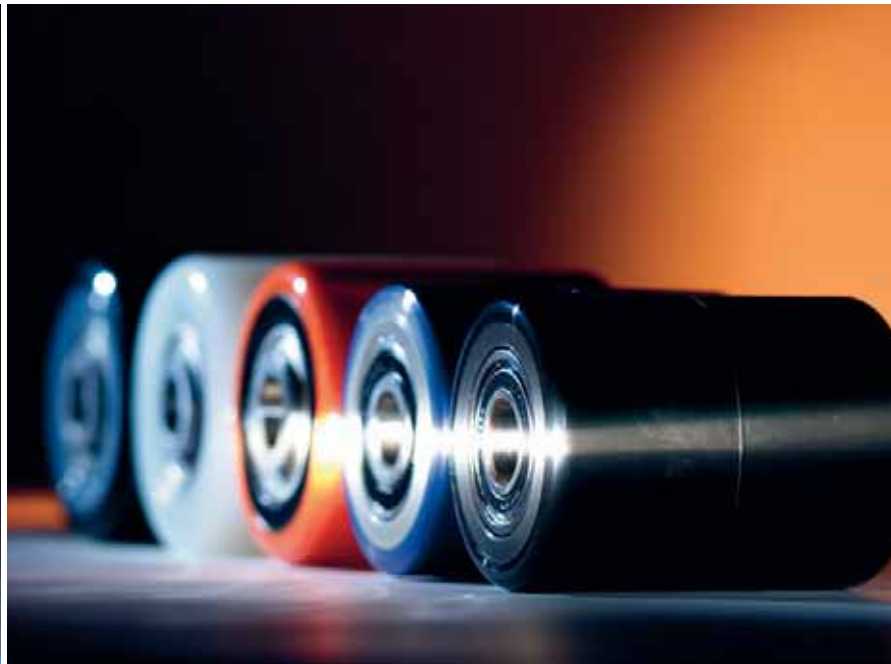
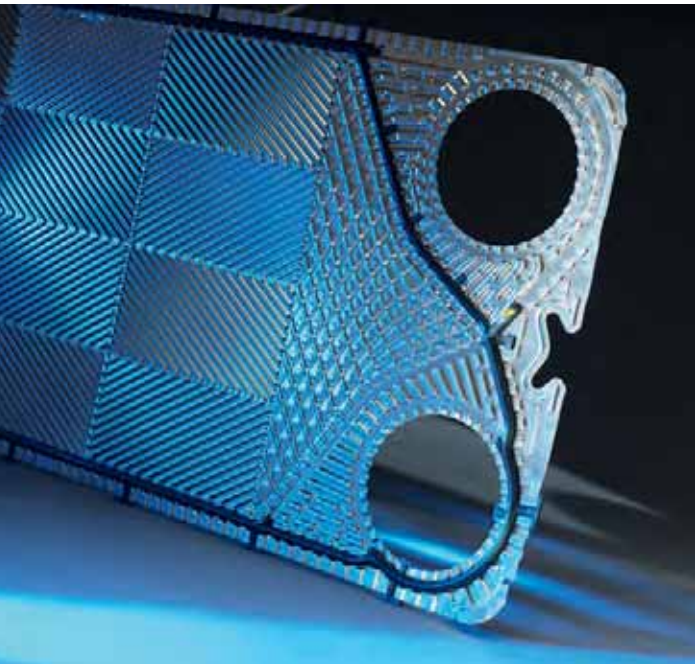
During 2014, we increased our volumes in all principal markets. Sales rose 11 percent to 8,919 MSEK (8,036) but were impacted by lower sales prices due to lower prices for our principal raw materials during the first three quarters of the year, compared with the preceding year. The price development was stable for our principal raw materials during the year.

In 2014, we yet again sharply improved our earnings per share, which amounted to SEK 30.45 – an increase of 13 percent. Our constant focus on the efficient management of working capital also generated results in the form of a strong operating cash flow and a healthy return on capital employed of 28.5 percent (27.0).

Gratifyingly, the HEXPOL share performed well and the share price increased 54 percent during the year. Continued efforts to enhance competencies within the Group are a key component of our strategy. During 2014, we again implemented extensive programs to this end locally, regionally and nationally. The strategy of internal recruitment stands firm and many positions have been filled by internal candidates. The HEXPOL Group has a strong financial position as a result of its healthy earnings and efficient management of working capital. At year-end, the HEXPOL Group had no net indebtedness and the equity/assets ratio was high at 69.3 percent. All of this provides a solid platform for continued expansion.







### CONTINUED GROWTH

Our strategy is to grow both organically and through acquisitions, but always with good operating margins and strong operating cash flows. The companies that we acquire are always active in our core areas and we have normally monitored the company for a longer period; in other words, we have detailed knowledge of our acquisition targets. All our acquisitions are integrated into our existing organisation and structure. We have consistently acquired companies in markets where we already have established operations, while building new units on a proprietary basis in emerging markets, such as China and Mexico.

We have grown organically and through acquisitions from sales of nearly 500 MSEK in 2001 to sales of 8,919 MSEK in 2014. Expansion has been combined with significantly improved operating margins, resulting largely from internal improvement efforts in which all units are benchmarked and compared with each other. At the end of 2014, we signed an agreement to acquire RheTech Compounding, which we implemented in January 2015. The acquisition of RheTech provides us with an interesting new and exciting platform in specialised Thermoplastic Compounding.

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

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

cooperation combined with a powerful, decentralised organisation generate excellent effects that are positive in a cohesive and focused group. Our committed employees are continuously offered paths to development through in-house training programmes, one-to-one programmes or our Group-wide HEXPOL LEADERSHIP DEVELOPMENT PROGRAM. We always prioritise internal recruitment and filled a large number of positions in this way during 2014. Filling positions internally always emits positive signals to the organisation and is a key strategy for the HEXPOL Group. Our acquisition strategy also adds many new, highly skilled employees to the Group. Many of our senior executives and also several members of Group Management originate from acquired operations. Our organisation is constantly evolving but is essentially stable with very few organisational changes.

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

We have customers who are growing and are present in geographic markets that are growing. We see growth in the automotive, engineering and energy segments. We see strong growth in the TPE area in many consumer applications, such as caps and closures. We also see geographic growth, primarily in China, Mexico and Eastern Europe. We are increasing our capacity investments in these markets.

We have customers in growth segments, such as energy, oil and gas, as well as medical technology. Growth is also noticeable, on a global basis, in the automotive industry, our largest market segment. The automotive industry accounts for about 37 per-

cent of Group sales. Of the HEXPOL Group's total sales, NAFTA accounts for 63 percent and Europe for 31 percent, mainly concentrated to Central Europe (primarily Germany) and Eastern Europe. Asia is also growing rapidly and we increased our sales there by 19 percent during the year.

### STRONG FINANCIAL POSITION

HEXPOL has a business model that functions both in good and bad times. We proved this especially in 2009 when the financial and automotive crisis broke out. Like others, we lost sales but we achieved an operating margin of 10.0 percent (excl. items affecting comparability) that year. We are generating strong operating cash flows and this factor, combined with healthy earnings and efficient financing, gives us a strong balance sheet which can cope with both expansion, organic and through acquisitions, and the payment of dividends. We are adhering to our dividend policy of paying between 25 and 50 percent of net profit and the Board of Directors' dividend proposal is to pay 12.00 SEK per share (9.00) – an increase of 33 percent.

### PRIORITIES FOR 2015

In the previous annual report, I promised that we would continue to focus on growth through targeted market and development initiatives. My general assessment is that, in cautious market conditions, we managed to advance our positions in all principal markets. We have never previously had as many and as comprehensive development projects in cooperation with existing and future customers. I also promised that our acquisition orientation would continue and that we would continue with our proactive sustainability and social responsibility efforts. We have done this too. During 2014, we

have completed the acquisition of eight units – all in Polymer Compounding (the RheTech acquisition was agreed in December 2014 and completed in mid-January 2015). Our sustainability work continued at an unabated pace and we are transparently reporting on it here in this Annual Report and in the separate Sustainability Report.

During 2015, we will continue with the previously adopted strategy of maintaining a focus on competence development and developing our employees. We will continue our focus on growth through increased and targeted market and development initiatives. We see excellent potential for growth and we have also strengthened our sales organisation in a number of geographical areas, such as the French market. The acquisition orientation stands firm and our proactive sustainability and social responsibility efforts will continue at an unabated pace. During 2015, we will also ensure that the units acquired during 2014 are wisely and responsibly integrated.

Finally, I would like to thank customers, suppliers and shareholders for your confidence and excellent cooperation during 2014. The effort shown by our employees has been fantastic – thank you all. Today, we have a larger HEXPOL Group, with strong market positions, in-depth expertise and a strong financial position. I am convinced that we can continue to develop the HEXPOL Group in a positive direction.

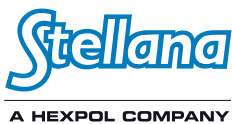
Malmö, Sweden, March 2015

*Georg Brunstam*  
President and CEO

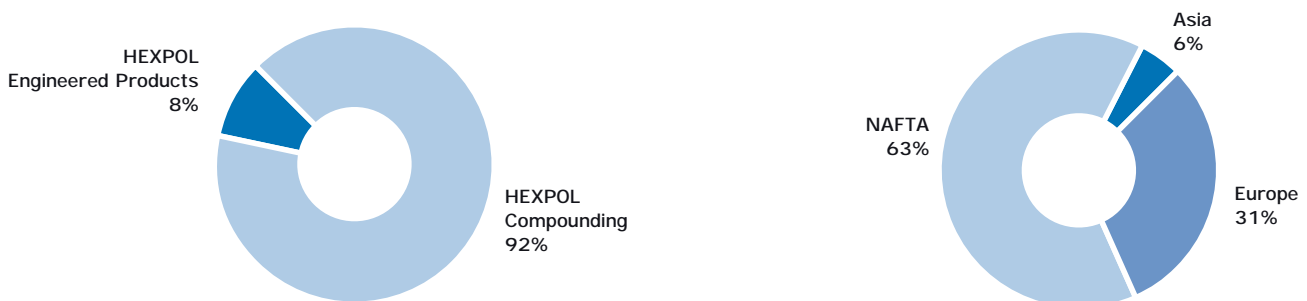


# About the HEXPOL Group

## The Group's brands



## Sales for 2014 distributed by business area and geographically



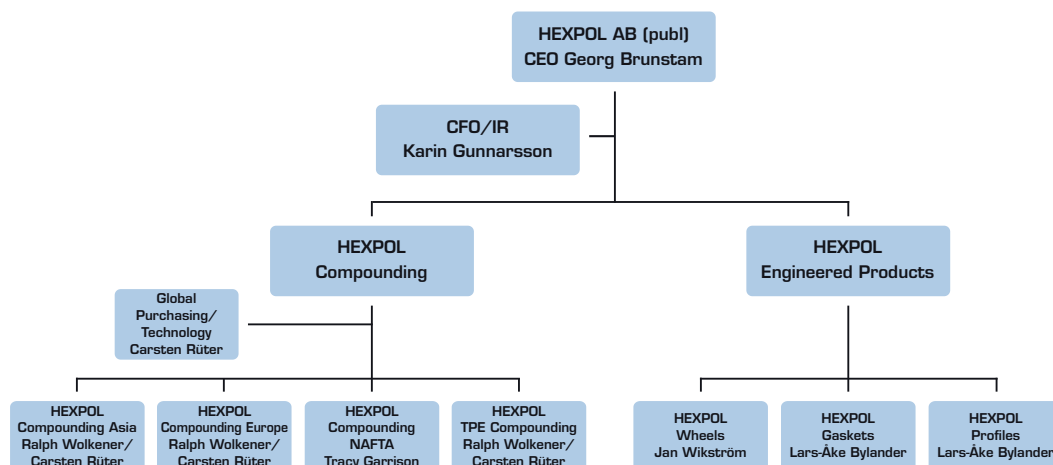
The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. HEXPOL Compounding consists of one product area, HEXPOL TPE Compounding, and three geographic regions: HEXPOL Compounding NAFTA, HEXPOL Compounding Europe and HEXPOL Compounding Asia. HEXPOL Engineered Products 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 and decentralised responsibility.

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

suppliers to players in the global automotive and engineering industries and the energy, oil and gas sector, manufacturers of medical equipment, as well as OEM manufacturers of plate heat exchangers and forklifts.

Approximately 97 percent of sales are to customers outside Sweden. 11 of the Group's 39 production units (including RheTech acquired January 2015) are located in expansive regions of Asia, Mexico and Eastern Europe. The workforce totals around 3,900 employees (including RheTech acquired January 2015), 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

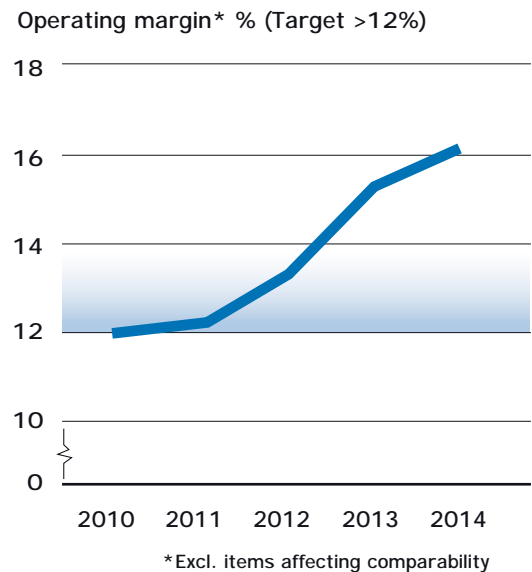
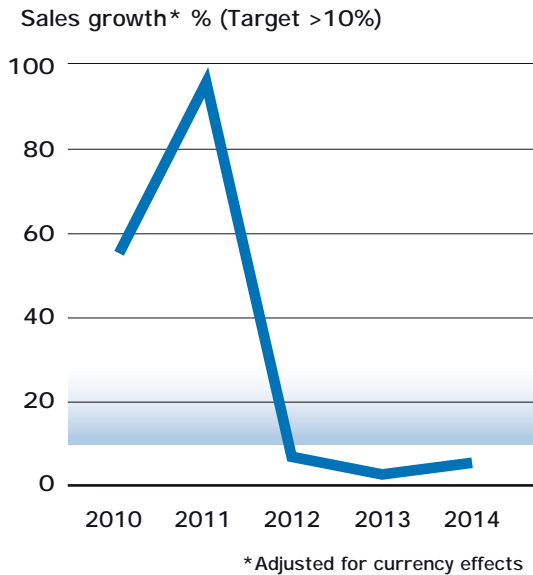
Skilled and experienced management teams working on the basis of global coordination and a continuous exchange of experience enable all the units to adapt to the best practice in the Group and the industry.

### 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 manufacturers of rubber components face the decision of whether to switch from proprietary compounding operations to outsourcing.

### Acquisition strategy

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

## BRANDS

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

brands), ELASTO (incl. product brands), Elastomeric, Vigar, Kardoes, as well as RheTech, which are recognised brands in their particular product areas and geographical markets.

## FINANCIAL TARGETS

The Board of Directors has adopted the following 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 five years. The operating margin in 2014 was 16.3 percent and the average for the period 2010-2014 amounted to 14.0 percent. The objective for sales growth was comfortably exceeded during the years 2010 and 2011, but was not achieved for the years 2012-2014. Sales growth for 2014 was 6 percent and the average for the period 2010-2014 was 34 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 compounds in global terms.

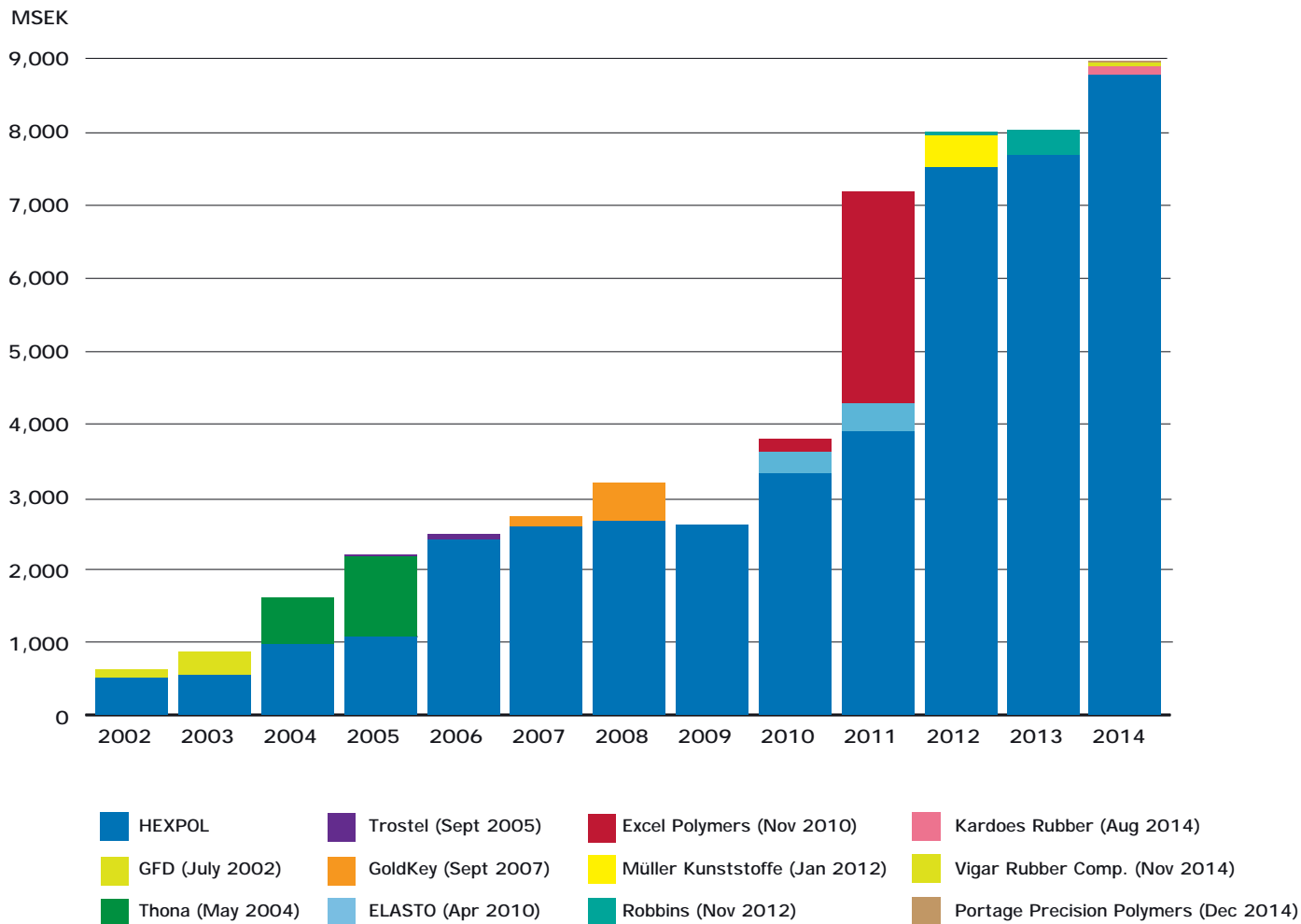
During 2012, a further two major acquisitions were completed. The German company Müller Kunststoffe was acquired, making HEXPOL a leading European

producer of TPE compounds, and Robbins, a leading Rubber Compounder in the US, was acquired which strengthening HEXPOL's US position in rubber compounds.

In August 2014 the business of the well-known Rubber Compounder Kardoes Rubber was acquired, which strengthen the presence in South Eastern US. In November 2014 the business of Vigar Rubber Compounding, a well-known European Rubber Compounder with facilities in Spain and Germany, was acquired. In December 2014 the business of Portage Precision Polymers, a well-known US Rubber Compounder, was acquired which strengthening the market position in North Eastern US. In the end of 2014 an agreement was signed to acquire RheTech Thermoplastic Compounding, with four American facilities, within specialized Thermoplastic Compounding. The acquisition was finalized in January 2015.

### STRONG GROWTH

Contributions to sales made by acquisitions in 2002–2014, 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 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 Capacity investments in HEXPOL Rubber Compounding in Mexico and China and in HEXPOL TPE Compounding
- 2014 Kardoes Rubber, a well-known US Rubber Compounding manufacturer, was acquired
- 2014 Vigar Rubber Compounding, a well-known European Rubber Compounding manufacturer, was acquired
- 2014 Portage Precision Polymers, a well-known US Rubber Compounding manufacturer, was acquired
- 2014 Agreement signed to acquire RheTech Thermoplastic Compounding

# The share and shareholders

Share price trend 2010-2014



Source: NASDAQ OMX.

## THE HEXPOL SHARE

HEXPOL AB was listed on NASDAQ OMX Nordic on June 9, 2008 and the Class B share was quoted on the Stockholm Mid Cap list in the industrial sector. On January 2, 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 53 percent during 2014 and the closing price at the end of the year was 737 SEK. The highest closing price was 747 SEK (December 29). The lowest closing price during the year was 463 SEK (February 4). During 2014, 14.5 million (10.3) HEXPOL shares were traded. Average trading per day in the share was 58,329 shares (41,168). The number of shares traded represented 42 percent (30) of the total number of shares.

## OWNERSHIP STRUCTURE

As of December 31 2014, HEXPOL AB had 8,280 shareholders (7,878). The proportion of shares held by Swedish institutions and funds at December 31 2014 corresponded to 24 percent (26) of the capital. The number of shares held by non-Swedish shareholders totaled 36 percent (31) of the capital. The 20 largest shareholders accounted for 62 percent (62) of the capital and 73 percent (73) of the voting rights.

## DIVIDEND POLICY

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

## 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:

- ABG Sundal Collier, Johan Edvardsson  
johan.edvardsson@abgsc.se
- Carnegie Investment Bank, Johan Wettergren  
johan.wettergren@carnegie.se
- Handelsbanken Capital Markets, Mikael Doepel  
mido01@handelsbanken.se
- Nordea, Henrik Nilsson  
henrik.p.nilsson@nordea.com
- SEB Enskilda, Olof Larshammar  
olof.larshammar@seb.se
- Swedbank, Mats Liss  
mats.liss@swedbank.se
- DNB, Simon Sigvardsson  
simon.sigvardsson@dnb.no

## MAJOR SHAREHOLDERS, DECEMBER 31 2014

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	26.30	46.80
Didner & Gerge Fonder Aktiefbolag	0	2,060,472	6.00	4.30
Swedbank Robur fonder	0	1,801,910	5.20	3.80
Handelsbanken Fonder AB RE JPMEL	0	888,890	2.60	1.90
State Street Bank & Trust Com., Boston	0	756,075	2.20	1.60
JPM Chase NA	0	737,163	2.10	1.60
Citibank NA New York	0	595,159	1.70	1.20
Afa Försäkring	0	534,619	1.60	1.10
SEB Investment Management	0	527,169	1.50	1.10
State Street Bank & Trust Com., Boston	0	503,309	1.50	1.10
BP2S London/Saudi Arabian Monetary, Agency	0	461,984	1.30	1.00
Andra AP-fonden	0	424,129	1.20	0.90
AMF - Försäkring och Fonder	0	415,399	1.20	0.90
SSB Cliennt Omnibus AC OM03 (0 PCT)	0	406,667	1.20	0.80
NTC Fidelity Funds Northern Trust	0	394,800	1.20	0.80
Lannebo fonder	0	387,321	1.10	0.80
Bonnier, Simon	0	383,428	1.10	0.80
Nordea Investment Funds	0	327,452	1.00	0.70
Livförsäkringsbolaget Skandia ÖMS	0	326,741	1.00	0.70
Enter fonder	0	291,242	0.80	0.60
<b>Total of the 20 largest shareholders</b>	<b>1,476,562</b>	<b>19,787,644</b>	<b>61.80</b>	<b>72.50</b>
<b>Total other shareholders</b>	<b>0</b>	<b>13,155,922</b>	<b>38.20</b>	<b>27.50</b>
<b>Total</b>	<b>1,476,562</b>	<b>32,943,566</b>	<b>100.00</b>	<b>100.00</b>



## KEY FIGURES PER SHARE

SEK	2014	2013	2012	2011	2010
Earnings	30.45	27.02	21.88	18.65	9.30
Equity	146.69	105.08	84.51	71.85	44.88
Dividend	9.00	6.00	5.00	3.00	1.00
Market price class B shares Dec 31*	736.50	482.00	343.50	202.00	153.50

\*Last traded price

## OWNER STRUCTURE, DECEMBER 31 2014

Shareholder	Number of shareholders	Shareholder (%)	Holding (%)	Votes (%)
Physical persons	7,263	87.72	10.65	7.68
<i>of whom living in Sweden</i>	<i>7,175</i>	<i>86.65</i>	<i>9.42</i>	<i>6.80</i>
Legal entities	1,017	12.28	89.35	92.32
<i>of whom living in Sweden</i>	<i>491</i>	<i>5.93</i>	<i>55.00</i>	<i>67.53</i>
<b>Total</b>	<b>8,280</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<i>of whom living in Sweden</i>	<i>7,666</i>	<i>92.58</i>	<i>64.42</i>	<i>74.33</i>

## NUMBER OF SHARES PER SHAREHOLDER, DECEMBER 31 2014

	Number of shareholders	Number of Class A shares	Number of Class B shares
1-500	6,785	0	808,737
501-1,000	581	0	431,778
1,001-5,000	581	0	1,190,203
5,001-10,000	98	0	710,374
10,001-15,000	41	0	510,144
15,001-20,000	25	0	431,737
20,001-	169	1,476,562	28,860,593
<b>Total</b>	<b>8,280</b>	<b>1,476,562</b>	<b>32,943,566</b>

## SHAREHOLDER CATEGORIES, DECEMBER 31 2014

Shareholder	Number of Class A shares	Number of Class B shares	Holding (%)	Votes (%)
Financial companies	0	8,318,908	24.17	17.44
<i>of which, banks and funds</i>	<i>0</i>	<i>6,530,944</i>	<i>18.98</i>	<i>13.69</i>
<i>of which, insurance companies and pension institutions</i>	<i>0</i>	<i>1,787,964</i>	<i>5.19</i>	<i>3.75</i>
Other financial companies	0	31,089	0.09	0.07
Social insurance funds	0	768,112	2.23	1.61
Swedish government	0	27,978	0.08	0.06
Municipality sector	0	7,683	0.02	0.02
Associated organisations	0	81,671	0.24	0.17
Other Swedish legal entities	1,476,562	7,962,913	27.42	47.63
Non-categorised legal entities	0	256,435	0.75	0.54
International shareholders	0	12,246,337	35.58	25.66
Other Swedish physical persons	0	3,242,440	9.42	6.80
<b>Total</b>	<b>1,476,562</b>	<b>32,943,566</b>	<b>100.00</b>	<b>100.00</b>

Source: Euroclear Sweden.





## Capital Markets Day with focus on HEXPOL Compounding

HEXPOL hosted a Capital Markets Day on May 13, 2014. A large number of fund managers, analysts and media representatives were welcomed to the HEXPOL subsidiary ELASTO Sweden AB in Åmål, Sweden. The day contained presentations as well as a tour of the complex where everyone was allowed to see both production and R&D facilities.

The President & CEO, Georg Brunstam greeted everybody and spoke about the HEXPOL Group. Before the tour Kjell Fagerström, Managing Director of ELASTO Sweden AB gave an introduction to the TPE business in Åmål. The afternoon started with a presentation about HEXPOL TPE Compounding held by Carsten Rüter and Ralph Wolkener, Presidents HEXPOL Compounding TPE/Europe/Asia. This was followed by a presentation about the groups compounding business in NAFTA held by Tracy Garisson, President HEXPOL Compounding NAFTA. The day provided further insight into HEXPOL Compounding and was very appreciated by the participants.



# Business area HEXPOL Compounding

## Continued growth and high acquisition activity



### 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 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 8,198 MSEK (7,345)

Operating profit 1,364 MSEK (1,177)

Number of employees at 31 December 2,212 (1,958)

### Operating units HEXPOL Compounding

Unit	Location	Number of employees		Production capacity, tonnes
		Dec 31, 2014	Area m <sup>2</sup>	
HEXPOL Compounding North Carolina	Statesville, USA	101	3,400	20,000
GoldKey Processing	Middlefield, USA	178	14,900	40,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	234	19,900	55,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	107	9,800	50,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	226	38,200	150,000
Chase Elastomer	Kennedale, USA	80	7,200	18,000
HEXPOL Compounding – California	Santa Fe Springs, USA	36	2,900	13,500
Robbins	Muscle Shoals, USA	109	20,900	12,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	103	6,500	24,000
HEXPOL Compounding Queretaro	Queretaro, Mexico	120	8,300	37,000
HEXPOL Compounding Belgium	Eupen, Belgium	80	3,400	16,000
HEXPOL Compounding Sweden	Gislaved, Sweden	60	9,200	16,000
HEXPOL Compounding Germany	Hückelhoven, Germany	59	5,400	35,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	102	8,600	35,000
HEXPOL Compounding UK	Manchester, Great Britain	56	2,500	5,500
HEXPOL Compounding Qingdao	Qingdao, China	80	5,900	20,000
HEXPOL Compounding Foshan	Foshan, China	34	6,350	20,000
Elastomeric Group	Bokundara, Sri Lanka	(54) <sup>1</sup>	2,000	6,000
ELASTO Sweden	Åmål, Sweden	60	5,300	20,000
ELASTO UK	Manchester, Great Britain	45	4,500	13,000
Müller Kunststoffe Plant 1	Lichtenfels, Germany	36	3,600	10,000
Müller Kunststoffe Plant 2	Lichtenfels, Germany	81	6,300	25,000
HEXPOL TPE Compounding Foshan	Foshan, China	11	750	5,000
HEXPOL Silicone Compounding	Mogadore, USA	–	1,600	–
Kardoes Rubber	LaFayette, USA	80	20,500	40,000
HEXPOL Compounding Spain	Barcelona, Spain	87	12,000	30,000
HEXPOL Compounding Viersen	Viersen, Germany	47	20,000	25,000
<b>Total</b>		<b>2,212</b>	<b>248,300</b>	<b>741,000</b>

<sup>1</sup> Organisationally included in HEXPOL Engineered Products.

### Acquired units 2015

Unit	Location
RheTech Compounding	Whitmore Lake, USA
RheTech Compounding	Fowlerville, USA
RheTech Colors	Sandusky, USA
RheTech Engineered Plastics	Blacksburg, USA



Business area HEXPOL Compounding



1 Santa Fe Springs, USA



2 Kennedale, USA



3 Aguascalientes, Mexico



4 Queretaro, Mexico



5 Dyersburg, USA



6 Jonesborough, USA



7 Burton, USA



8 Middlefield, USA



9 Statesville, USA



10 Fowlerville, USA



11 Whitmore Lake, USA



12 Sandusky, USA



13 Mogadore, USA



14 LaFayette, USA



15 Muscle Shoals, USA



16 Blacksburg, USA



17 Manchester, Great Britain



18 Manchester, Great Britain



19 Åmål, Sweden



20 Gislaved, Sweden



21 Eupen, Belgium



22 Viersen, Germany



23 Hückelhoven, Germany



24 Lichtenfels, Germany



25 Lichtenfels, Germany



26 Unicov, Czech Republic



27 Barcelona, Spain



28 Bokundara, Sri Lanka



29 Foshan, China



30 Foshan, China



31 Qingdao, China

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 strong portfolio. HEXPOL Compounding primarily focuses on three important polymer compounding areas:

- Rubber Compounding
- Thermoplastic Elastomer Compounding (TPE)
- Thermoplastic Compounding (TP)

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

## ORGANISATION

HEXPOL Compounding's operations include 31 production units (including RheTech, acquired January 2015) 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)

Most units are structured as separate companies with complete organisational functions for sales, product development and production. The units are strongly coordinated and cooperate closely with each other in all areas, and all global customers are served on a worldwide basis.

## MARKET

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

The HEXPOL Group's portion of sales to industries other than the automotive industry significantly increased following the acquisition of ELASTO Group, Excel Polymers Group, Müller Kunststoffe and Robbins. The Group's share of sales to the automotive industry is about 37 percent (2013: 33%; 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.

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.

## Senior Managers at HEXPOL Compounding's operating units



Randy Simpson,  
COO HEXPOL Compounding, NAFTA



Lars-Ake Bylander,  
Managing Director  
HEXPOL Compounding  
Sweden



Joey Young,  
General Manager  
Chase Elastomer, USA



Tom Freshly,  
General Manager  
Kardoes Rubber, 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,  
Burton, USA



Georg Ender,  
Managing Director  
Müller Kunststoffe,  
Germany



Peter Ryzko,  
Managing Director  
Müller Kunststoffe,  
Germany (from Feb 1,  
2015)



René Herbiet,  
Managing Director  
HEXPOL Compounding Bel-  
gium and HEXPOL  
Compounding Germany



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



Milos Pitela,  
Managing Director  
HEXPOL Compounding  
Czech Republic



Saul Reyes,  
Regional Director HEXPOL  
Compounding, Mexico



Ernesto Gutierrez,  
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



Dominic Philpot,  
Managing Director  
ELASTO UK



Terry Elgin,  
Managing Director  
Robbins, USA



Lars Greiner,  
General Manager  
HEXPOL Compounding  
Viersen, Germany



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



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



Luis Prat,  
Managing Director  
HEXPOL Compounding  
Spain



During 2013, production increased to 84.5 million light vehicles and during 2014, the production increased to 87 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 2015, growth of 3.4 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 further 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

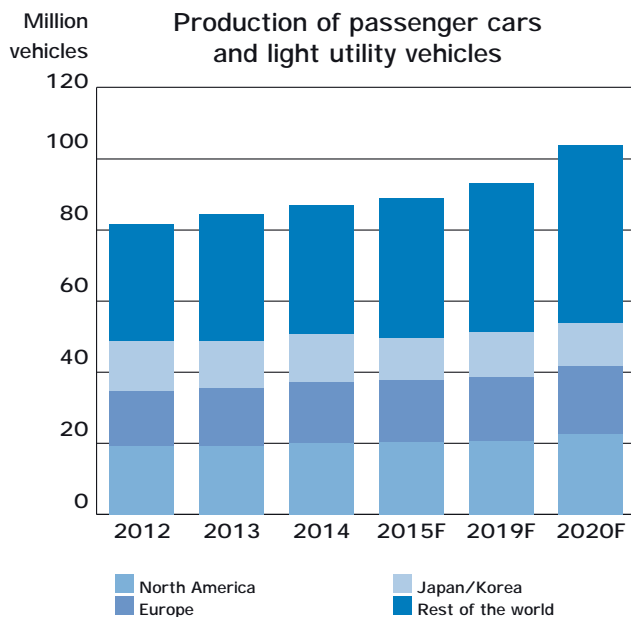
examples. There are also a significant number of smaller manufacturers that operate locally. In rubber compounding, the competition also consists partly of customers with proprietary rubber compounding operations. However, due to cost and process-technology considerations, there is a general trend whereby 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 customers

HEXPOL focus especially on cooperation with customers operating globally, for example the automotive industry. HEXPOL Compounding has a well-balanced customer structure that includes substantial global deliveries to Japanese, German, American and Korean system suppliers to the automotive industry.

### Focus on innovation and cost efficiency

HEXPOL Compounding's operations focus on production and sales of high-quality products developed in close cooperation with discerning customers. The business area aims consciously to develop products that 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 and development capability to increase volumes in new markets.

### High-quality products for demanding applications

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

### Continuous improvements

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

## BRANDS

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

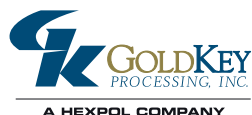
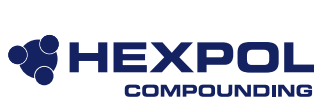
## OPERATIONS IN 2014

2014 was another strong year of growth for HEXPOL Compounding. Volumes rose in all markets and for most of the 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, increased. The US, Chinese and Mexican units reported the strongest sales increases and the European units recovered despite the general uncertain economic situation. Sales amounted to 8,198 MSEK (7,345) and operating profit increased to 1,364 MSEK (1,177), resulting in the operating margin rising to 16.6 percent (16.0).

During 2012, the German company Müller Kunststoffe, was acquired. 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.

## Brands in the business area





In August 2014 the business of the well-known Rubber Compounder Kardoes Rubber was acquired, which strengthen the presence in South East US. In November 2014 the business of Vigar Rubber Compounding, a well-known European Rubber Compounder with facilities in Spain and Germany, was acquired. In December 2014 the business of Portage Precision Polymers, a well-known US Rubber Compounder, was acquired which strengthening the market position in North East US. In the end of 2014 an agreement was signed to acquire RheTech Thermoplastic Compounding, with four American facilities, within specialized Thermoplastic Compounding. The acquisition was finalized in January 2015.

#### 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 31 production and development units (including

RheTech, acquired 2015) in ten countries, our structure is unique for the industry and provides our global customers with local service. HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

2015 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 automotive, medical equipment, energy, oil and gas applications, combined with continued activities in growth markets such as China, Mexico and Central and Eastern Europe. HEXPOL Compounding will also continue to introduce the ISO 14001 environmental management system in all units, also in the acquired units. During 2015, the integration of the acquisitions made during the second half of 2014, will be completed.

## HEXPOL acquires Kardoes Rubber

HEXPOL acquired Kardoes Rubber on August 1 2014 from the founder Mr. Frank Kardoes and his family. Frank Kardoes started Kardoes Rubber in 1988 and Kardoes is today a well-known Rubber Compounder in the US market.

"The acquisition is a very good complement to HEXPOL Compounding in the US and broadens and strengthens our presence with Rubber Compounds into end user markets like industrial materials handling, agriculture equipment and off the road tires. Kardoes Rubber expands our capabilities and capacities to serve our customers in a more efficient way", Tracy Garrison, President HEXPOL Compounding NAFTA.

Kardoes Rubber, with a manufacturing facility in LaFayette, Alabama, US, had a turnover of 43 MUSD in 2013 and has around 90 employees.

"This is another step in expanding and strengthening the HEXPOL Group with a further acquisition within our core business. Kardoes Rubber, with its competence and capabilities, will fit nicely into the HEXPOL Group", Georg Brunstam, CEO HEXPOL Group.

The acquisition price amounted to 31.8 MUSD on a cash and debt free basis.



## HEXPOL acquires VIGAR Rubber Compounding

HEXPOL acquired the VIGAR Rubber Compounding business from the founder's families on November 17, 2014. Vigar Rubber Compounding is a well-known Rubber Compounder in the Spanish and German markets. Vigar has more than 50 years' experience of rubber compounding.

"The acquisition is a very good complement to HEXPOL Compounding in Europe and broadens and strengthens our presence with Rubber Compounds into the Spanish and German markets. Vigar Rubber Compounding expands our capabilities and capacities to serve our customers in a more efficient way", Ralph Wolkener/Carsten Rüter, Presidents HEXPOL Compounding Europe.

Vigar Rubber Compounding, with manufacturing facilities in Rubi, Spain and Viersen, Germany, had a turnover of 57 MEUR in 2013 and has 134 employees (Spain 88, Germany 46).

"This is another step in expanding and strengthening the HEXPOL Group with a further acquisition within our core business. Vigar Rubber Compounding, with its competence and capabilities, will fit nicely into the HEXPOL Group and gives us a stronger European presence", Georg Brunstam, CEO HEXPOL Group.

The acquisition price is estimated to approximately 17,5 MEUR on a cash and debt free basis.



## Interview with Luis Prat, MD HEXPOL Compounding Spain

**Welcome to the HEXPOL Group. What is your first reaction?**

When we first joined the HEXPOL Group in November 2014 I was positively impressed about the level of company decentralization (although coordinated) and the amount of power given to each individual company which enables the company to meet the common goals.

**HEXPOL is a decentralized but extremely coordinated company and will of course keep the VIGAR names and all the brands. Where do you see the synergies and the benefits belonging to the HEXPOL Group?**

Vigar has been a well-recognized and valued Rubber Compounding brand in the Iberian market for more than 40 years. HEXPOL's decision to keep the Vigar brand name and logo, combined with the HEXPOL Group umbrella, will improve the Vigar Rubber Compounding image by combining the best of two worlds; local market knowledge and the global HEXPOL power.

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

Our biggest opportunities will be further growth, especially in the automotive rubber compound market, where Vigar has relatively low presence today.

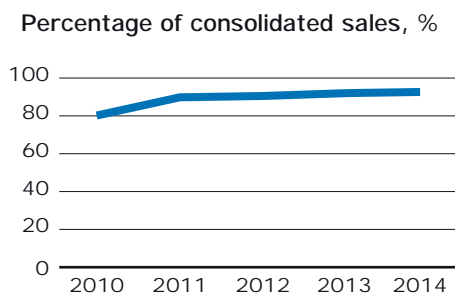
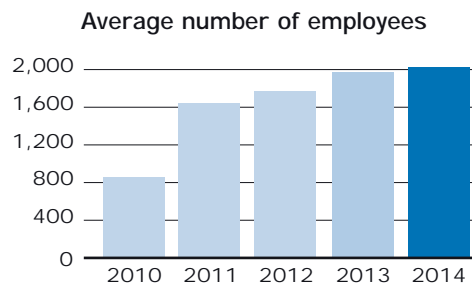
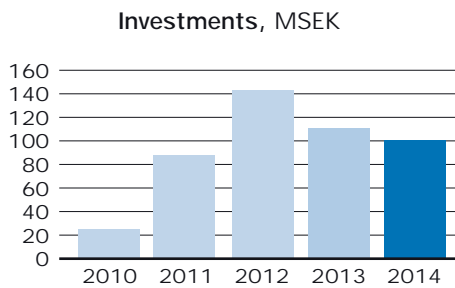
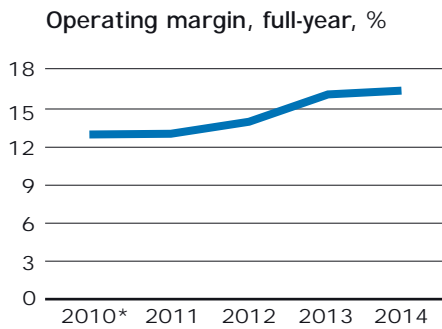
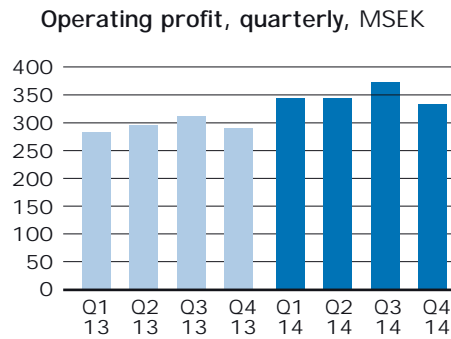
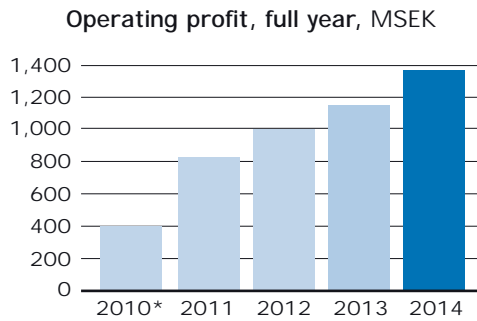
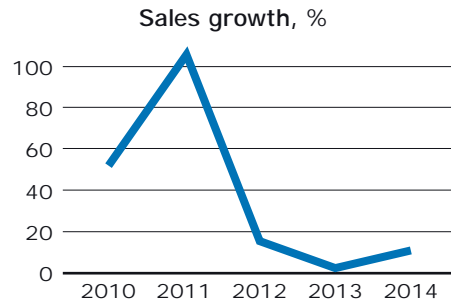
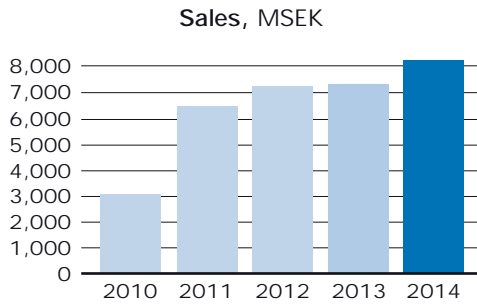
**What are your main objectives for VIGAR in 2015?**

Our main objectives in 2015 are to integrate our "local way of doing things" into HEXPOL's coordination and follow up processes.





HEXPOL Compounding, five-year figures



\*Excluding items affecting comparability

## HEXPOL acquires Portage Precision Polymers

HEXPOL acquired the business of Portage Precision Polymers Inc. on December 1, 2014, from the founder Mr. Doug Hartley and his family. Doug Hartley started Portage Precision Polymers in 2002 and Portage Precision is today a well-known Rubber Compounder in the US market.

"The acquisition is a very good complement to HEXPOL Compounding in the US and broadens and strengthens our presence in rubber compounding. Portage Precision expands our capabilities and capacities to serve our customers in a more efficient way. Portage Precision has also a silicon rubber mixing unit in Mogadore, OH, which complements and expands our existing product portfolio", Tracy Garrison, President and CEO HEXPOL Compounding NAFTA.

Portage Precision Polymers, with two manufacturing facilities in Ohio (Ravenna and Mogadore), US, had a turnover of 29 MUSD in 2013. The Ravenna facility is not included in



the transaction and its business will be transferred to other HEXPOL facilities.

"This is another step in expanding and strengthening the HEXPOL Group with a further acquisition within our core business. Portage Precision Polymer product portfolio and customer base will fit nicely into the HEXPOL Group", Georg Brunstam, CEO HEXPOL Group.

The acquisition price amounted to approximately 13.2 MUSD on a cash and debt free basis.

## HEXPOL acquires RheTech, a well-known Thermoplastic Compounder in the US market

On December 22, 2014 HEXPOL signed an agreement to acquire RheTech Thermoplastic Compounding from the founders' families. The transaction was completed on January 17, 2015. RheTech has close to 50 years' experience of polymer compounding and is a leading provider of polyolefin compounds, engineered resins and multifunctional colorant and additives.

"The acquisition expands HEXPOL Compounding NAFTA's capabilities and capacities within Polymer Compounding and is a very good complement to our present Polymer Compounding business.", Tracy Garrison, President and CEO HEXPOL Compounding NAFTA

RheTech Thermoplastic Compounding have four facilities (including manufacturing and laboratories) located in Whitmore Lake, MI (RheTech), Fowlerville, MI (RheTech), Sandusky, OH (RheTech Color) and in Blacksburg, SC (RheTech Engineered Plastics). RheTech had a turnover of 117 MUSD in 2013 and has around 212 employees.

"This is a further step in expanding and strengthening the HEXPOL Group with another acquisition within our core business. RheTech, with its competence and capabilities, will fit nicely into the HEXPOL Group and broadens our product range within Polymer Compounding.", Georg Brunstam, CEO HEXPOL Group.

The acquisition price amounted to approximately 112 MUSD on a cash and debt free basis.



## Nonconductive EPDM compounds

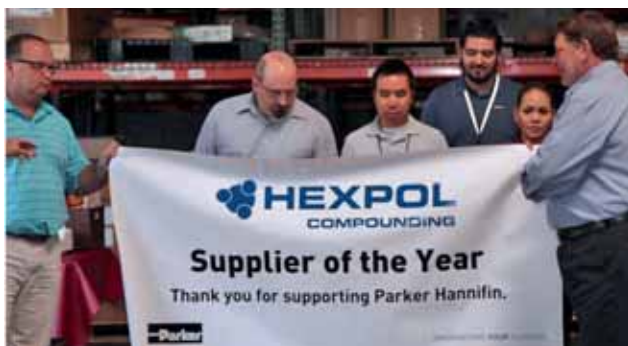


The request from the automotive industry for electrical non-conductive EPDM compounds is a well-known topic in the rubber compounding industry since many years. The reason for this request is to avoid corrosion of the metallic car body, nowadays more and more based on light weight metals like aluminum or magnesium alloys. Nonconductive rubber profiles can be developed by choosing the correct type and quantity ratios of carbon blacks and mineral fillers.

In 2014, HEXPOL Compounding Sprl in Belgium succeeded to develop a series of black EPDM extrusion compounds with a hardness ranging between 50 Sh A and 90 Sh A as well as cellular rubber compounds with properties as follows:

- Specific electrical volume resistance of at least 109 Ohm-cm, measured at 100 Volt. Compliance with the requirements of the Mercedes standard DBL 5527.
- Good extrusion performance resulting in smooth edges on complex profile shapes.
- Very good mechanical properties (tension and compression set)

Customer feedback like “This EPDM rubber quality really feels like rubber (elastic) and not like a dead material anymore” confirms the success of the development.



Parker Composite Sealing Systems Division with plants located in San Diego, California, US and Tijuana, Mexico named HEXPOL Compounding California “Supplier of the Year”. Susan Guzman, Technical Manager and Russ Shorter, Field Service Technician, were on hand to receive the award during Parker’s Premier Supplier meeting on August 14, 2014.

Parker’s Division Sourcing and Procurement Manager, Mark Tucker and his team traveled to the Santa Fe Springs plant on September 11 to present the award and host a luncheon for the plant. They also presented us with a banner and some giveaways for the associates.

## HEXPOL Compounding California receives Supplier of the Year award

This award is a major accomplishment for HEXPOL and especially the team in Santa Fe Springs. The award was based on quality, on time delivery and for the service provided to Parker. The award was determined based on a point system and the SFS Team outscored every other supplier to earn the top spot.

“During 2013 we were awarded as one of their premier suppliers but through our efforts of continuous improvement we moved into the top position 2014. Our goal is to continue to work hard so that we can earn the top spot award again next year”. Andrew Wallace, General Manager at HEXPOL Compounding California.





## HEXPOL Rubber Compounding

### ORGANISATION

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

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

In 2012, HEXPOL further strengthened its position with the acquisition of Robbins – a leading US rubber compounder. This was yet another acquisition in the core rubber compounding area, which expanded both HEXPOL's customer offering and the product portfolio. In August 2014 the business of the well-known Rubber Compounder Kardoes Rubber was acquired, which strengthens the presence in South

Eastern US. In November 2014 the business of Vigar Rubber Compounding, a well-known European Rubber Compounder with facilities in Spain and Germany, was acquired. In December 2014 the business of Portage Precision Polymers, a well-known US Rubber Compounder, was acquired which strengthening the market position in North Eastern US.

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.

## Capacity Expansion in Mexico

HEXPOL Compounding NAFTA continues to expand the company's Mexican operations, investing in added capacity with "Best-in-Class" equipment and technology. Since opening rubber compounding operations in Mexico in 2000, HEXPOL has built two plants in the center of Mexico's OEM auto production corridor.

After having shared with its sister plants in Aguascalientes and Statesville the 2013 HEXPOL "Best Plant of the Year" award, HEXPOL Compounding Queretaro commissioned an eagerly awaited second mixing line during the fourth quarter of 2014. The new line incorporates the best HEXPOL technology to date, including in-line straining, in order to best serve its current and new customers in Mexico as well as new markets under development. This is the fifth mixing line HEXPOL has in Mexico, bringing with it increased versatility to the Mexico business and will ultimately benefit all customers through improved quality and customer service.

"We are thrilled with the continued growth of HEXPOL in Mexico", Tracy Garrison, President & CEO HEXPOL Compounding NAFTA, explained. "Our team has developed tremendous skills over the past 14 years. Queretaro is one of our top performing facilities worldwide. Based on this excellence and market demand, we are committed to continued investments in Mexico".

"The significant investment by HEXPOL is further evidence of the success of our team in the Mexican market",

said Queretaro Managing Director Francisco Viliesid. "We continue to develop new markets, applications and channels. Our job, however, is far from finished, and our associates stand ready to continue growing with our customers. This new investment in capacity and capabilities furthers our commitment to our customers and enables us to continue to enhance our service in this key growth market."





## 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 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 2014, the capacity has further increased at Müller Kunststoffe and construction of a new technical laboratory has started. 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.

In 2012 HEXPOL invested in a new TPE compounding unit in southern China. The production facility 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.

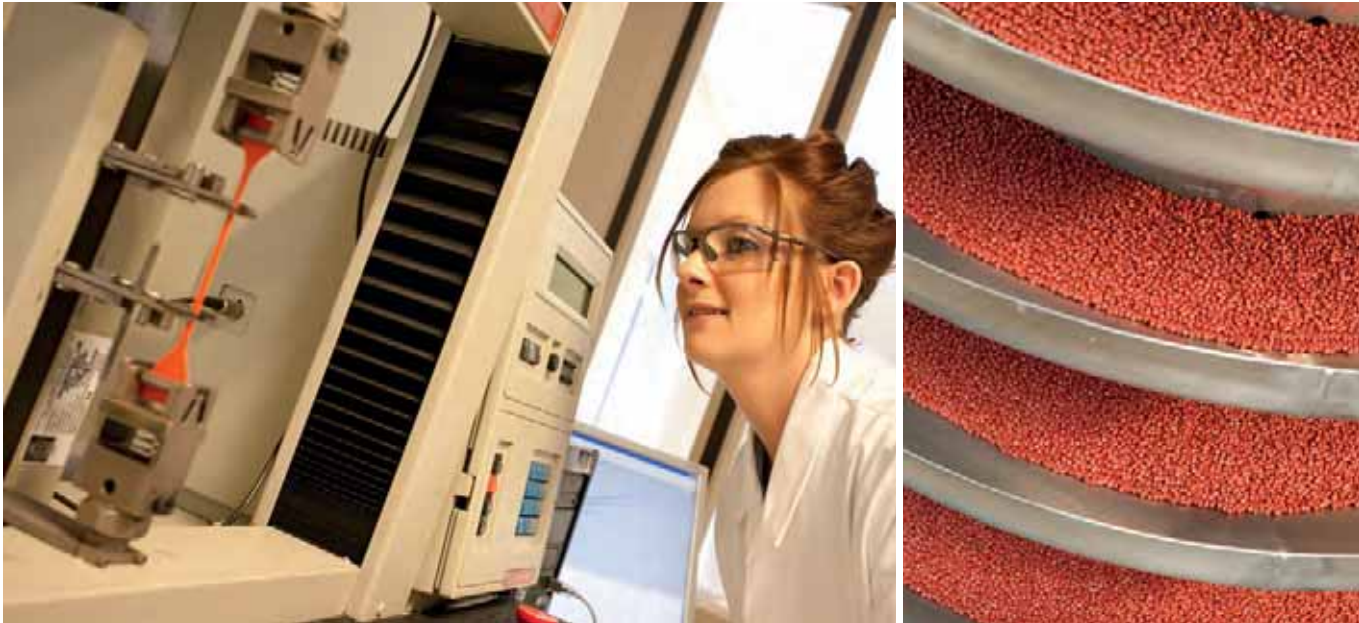
With the creation of HEXPOL TPE Compounding, immediate growth and innovation synergies were achieved. HEXPOL TPE Compounding is focused on delivering TPE solutions to facilitate high-growth in markets offering strong growth potential, such as the consumer, medical technology, toys and automotive markets,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

In the caps and closures area, HEXPOL TPE Compounding consolidated its product offering in 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 has continued to develop favourable in 2014.

### 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 technology, 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.

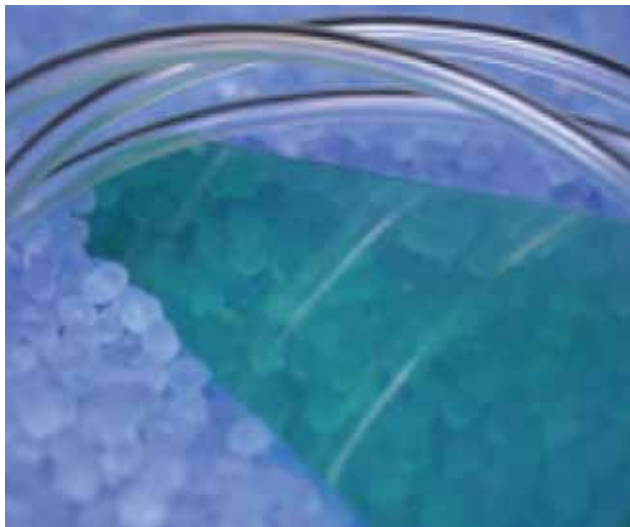
Our TPE customers place a strong value on the high levels of product development and technical support HEXPOL TPE Compounding provides. The development departments are the core of the business, with the aim of engineering intelligent solutions which precisely match application requirements but also to 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.



## ELASTO expands medical TPE offering



ELASTO Sweden, part of the HEXPOL TPE group, has expanded their Mediprene portfolio of thermoplastic elastomers for medical device applications with the development of TPE compounds with both high levels of transparency as well as vibrant colours.

The Mediprene compounds offer crystal clear transparency with the added benefit of colour to give an attractive, enriched appearance. The ability to clearly see through a product to monitor the patient is an important feature for many medical devices such as face masks. Transparent TPEs can also be used in tubing and dental applications. In medical devices and pharmaceutical packaging colour is also often used functionally for product identification, to differentiate products with different uses or sizes. The vibrant colours achievable with coloured Mediprene TPE compounds allow brand owners to add value to their products and create visual appeal. A blue or green colour is often used in medical transparent or translucent products to disguise the yellowing phenomena that can be caused by for example gamma sterilization.

The Mediprene TPE compounds were developed in response to an increasing interest in transparent compounds from the medical market. The coloured transparent compounds are made from medical grade raw materials only. The colour masterbatch supplier has been selected with care, ensuring that not only the colorants and carriers are compliant with USP Class VI or corresponding parts of ISO 10993 but also that the masterbatches are manufactured under rigorous controls with regard to traceability, consistency and change control, thereby fitting the Mediprene concept at ELASTO Sweden's ISO 13485 accredited facilities. A fully compounded TPE gives a perfectly dispersed, consistent colour with a correct and reproducible addition level. Mediprene coloured transparent compounds ensure colour reproducibility and deliver a compound ready for use, with no additional steps for the moulder or extrusion company. A series of Mediprene transparent TPE compounds has been developed with hardnesses ranging from 30 to 90 Sh A in 5 Sh A increments.

Niklas Ottosson, Medical Technical Manager for ELASTO Sweden commented, "With the Mediprene TPE compounds the benefits of colour and crystal clear transparency are united, opening up further design and brand identification possibilities for the medical device market. Our customers also have the security of a fully compounded TPE, manufactured from medical grade raw materials only, matched to their requirements and ready for use."

Kjell Fagerström, Managing Director at ELASTO Sweden added, "The development of coloured, transparent medical TPEs is part of our on-going commitment to supply leading quality TPE products and the highest levels of support. These compounds are possible due to the rigorous standards and controls of our compounding processes. This year we have further strengthened our local support abilities, with the creation of a new office in Belgium to serve our medical customers in Germany, Austria, Switzerland and Benelux. We have also recently announced our investment in a new twin-screw TPE production line at our facility in Åmål, Sweden."



## ELASTO Sweden announces further investment in medical TPEs

ELASTO Sweden, part of HEXPOL TPE Compounding, has decided to invest in a new TPE production line at their facility in Åmål, Sweden.

The plans include high-quality twin screw technology, advanced raw material controls, supporting sub systems and analytics equipment. The new line is expected to come on stream in 2015. ELASTO Sweden specialises in the conception, formulation and production of tailored TPE compounds based on styrenic block copolymers. The company has a strong presence in the medical, consumer, toy and food markets, where there are stringent requirements in production management, traceability, consistency and cleanliness. Specialist knowledge and a deep understanding of new and emerging international regulations and quality assurance standards are also essential.

ELASTO Sweden operates HEXPOL TPE's centre of excellence for medical TPE compounds and was the first European TPE compounder to be awarded the ISO 13485 certification for the development, manufacture, marketing and sales of Thermoplastic Elastomer compounds for the medical device industry. The standard places emphasis on the use of procedures to regulate and control how activities and processes should be performed. Above all these procedures need to be maintained and once established cannot be changed.

Kjell Fagerström, managing director at ELASTO Sweden AB commented, "We have a proud history of delivering unique and high-quality products to critical applications in the medical and consumer markets. This is possible due to the high standards we operate to; be it revolutionary new products, advanced compounding processes, in-the-field support or the quality assurance and testing to know our products perform as they should. We challenge ourselves to operate the World's cleanest TPE factory. This investment is part of our on-going commitment to supply leading quality TPE products and the highest levels of support to our growing medical customer base".



## Focus on the French TPE market

"Customer-orientated solutions from one of the most comprehensive portfolios of TPE and flexible polymer compounds in the market, this is what we present at FIP 2014", announce Pascal Gruyer, Directeur Commercial France for ELASTO.

ELASTO is part of the HEXPOL TPE Compounding, the international TPE specialist with production operations in UK, Sweden, Germany and China. The focus for ELASTO at the French fair was a number of solutions that address growing trends and application requirements across key French industries:

- Dryflex TPE adhesion compounds for PA, ABS, PC and PS substrates in multi-component processing
- Dryflex low density TPE compounds for automotive applications
- Mediprene TPE compounds for medical applications

- Lifoflex FLAM halogen free flame retardant compounds for electronics and construction applications
- Lifocork compounds that combine the low weight, sustainability and feel of cork, with the processability of plastics

At FIP, alongside its extensive portfolio of thermoplastic elastomers, ELASTO also demonstrated its commitment to the French market. Dominic Philpot, Managing Director at ELASTO UK explained "We have a long and proud history of supplying unique TPE products to our French customers, backed by an in-depth knowledge of their application and processing requirements. We place a strong importance on this responsive and customer focused expertise, which is why we have appointed a number of new dedicated personnel to our French technical and commercial teams, to continue this commitment to tailored solutions, delivered efficiently and quickly".

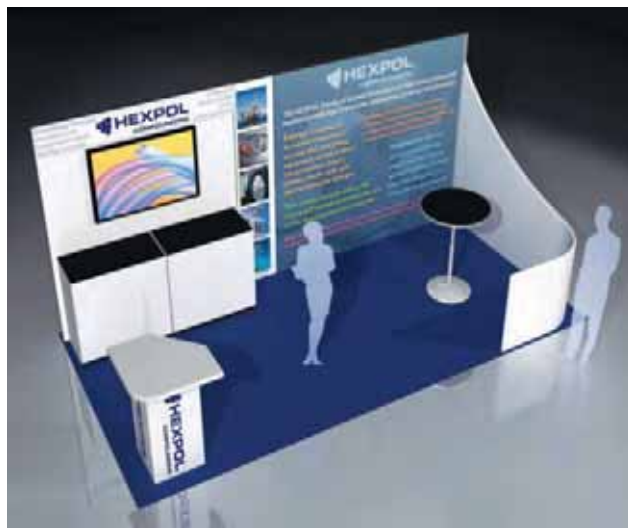


## International Elastomer Conference in Nashville, USA

During the third week in October, the American Chemical Society held a trade show, the International Elastomer Conference 2014, at the Nashville Convention Center in downtown Nashville. This was their 186 consecutive trade show which also included a technical meeting and an educational symposium. HEXPOL, along with many customers, suppliers and competitors were in attendance.

HEXPOL's booth was created in collaboration with Karen Wilson at Rodgers Display and was a great success at the expo. The International Elastomer Conference drew a total of 2,745 attendees and included 490 for the technical sessions that were also offered.

HEXPOL held an event for suppliers and customers at the Country Music Hall of Fame and Museum right in the heart of town. This event included 280 specially invited guests.





## Müller Kunststoffe open new technical centre

Müller Kunststoffe, the German arm of HEXPOL TPE, expanded operations with a new production line in 2014. The new line increased TPE production by around 4,800 tonnes per annum, bringing the capacity of the HEXPOL TPE Compounding, which also includes the ELASTO businesses in Sweden, UK and China, to more than 70,000 tonnes per annum, making them a significant player in the TPE market.

In addition to the new production line, the investment also included the construction of a new 600sqm building to expand the technical centre at Müller Kunststoffe's main Lichtenfels site. The technical centre houses the R&D, product safety, analytics and process technology departments for Müller Kunststoffe. It provides profile extruders, film

extruders and various injection moulding machines together with advanced polymer testing and analytical equipment

The investment will support the development of customised thermoplastic elastomers including TPS, TPO, TPU and polymer blends. Müller Kunststoffe also place a strong importance on product safety and reliability, the new technical centre and its specialist equipment will increase 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.



## New Warehouse in Eupen improves logistics

Several years of continuous efficiency improvements has led to a much higher production output for the HEXPOL plant in Eupen, Belgium. The original warehouse has reached its capacity limits and has become a bottleneck.

Today, depending on the product mix, the theoretical annual production volume amounts to 22,000 tones. In order to be efficient in raw material handling and prepared for future storage challenges (e.g. environmental legislation changes, higher degree of capacity utilization), HEXPOL has decided to invest in a storage capacity expansion.

The new building, which is an annex to the existing warehouse, will have two levels with approximately 1,400 m<sup>2</sup> of warehouse space for raw materials, pallet storage and a new area for chemical preparations. The storage capacity for oil has also been increased with two new 70,000 liter tanks. The warehouse is built according to the latest standards for an optimized material flow and compliance with current legislation.

The construction work started in September 2014 and commissioning is foreseen in April 2015. With this expansion HEXPOL Belgium is well set for future challenges.



# Business area HEXPOL Engineered Products

## Strong market positions and improved margins



### Senior executives in the business area



Lars-Åke Bylander,  
President HEXPOL Gaskets  
President HEXPOL Profiles



Jan Wikström,  
President HEXPOL Wheels



## HEXPOL Engineered Products in brief

### Operations

HEXPOL Engineered Products is active in a number of niche areas in which it occupies strong global positions in gaskets for plate heat exchangers, as well as rubber and plastic wheels for forklifts. HEXPOL also holds a strong market position in castors and extruded rubber profiles.

### Market

Within its niche areas, HEXPOL Engineered Products is active in the global market where a considerable focus is on discerning customers and advanced applications. 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

HEXPOL Engineered Products' customers are usually large-scale global OEM manufacturers with market-leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product. Technical competency and long-term relations are of major importance for both parties.

Sales 721 MSEK (691)

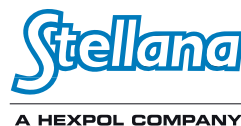
Operating profit 92 MSEK (78)

Number of employees at 31 December 1,449 (1,470)

### Operating units HEXPOL Engineered Products

Unit	Location	Number of employees 31 Dec 2014	Area m <sup>2</sup>
<b>HEXPOL GASKETS</b>			
Gislaved Gummi Gaskets	Gislaved, Sweden	99	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	511	7,000
Gislaved Gummi China	Qingdao, China	129	8,000
<b>Total</b>		<b>739</b>	<b>21,000</b>
<b>HEXPOL WHEELS</b>			
Stellana Sweden	Laxå, Sweden	79	8,000
Stellana US	Lake Geneva, USA	67	6,660
Stellana China	Qingdao, China	42	1,080
Elastomeric Wheels	Horana, Sri Lanka	497	16,590
<b>Total</b>		<b>685</b>	<b>32,330</b>
<b>HEXPOL PROFILES</b>			
Gislaved Gummi Profiles	Gislaved, Sweden	25	2,500
<b>Total</b>		<b>25</b>	<b>2,500</b>
<b>Total HEXPOL Engineered Products</b>		<b>1,449</b>	<b>55,830</b>

### 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

HEXPOL Engineered Products possesses unique material technology expertise which, along with its extensive application technology and efficient manufacturing processes, enables it to create attractive offerings for its customers. A large part of production is marketed and distributed globally, placing huge requirements on having an efficient logistics chain. Greater demand for shorter lead times and for high delivery reliability pose special requirements on operations. In recent years, a major initiative has been implemented on the logistics side with the creation of several local distribution centres. The centres, together with a well-developed business management system, ensures that communications, from reception of orders to delivery, occurs entirely without manual intervention. This has significantly reduced internal throughput times.

HEXPOL Engineered Products works continuously to develop its manufacturing processes. Production is based on the LEAN concept, using well-regulated processes, and there is a strong focus on continuous improvement. All benchmarking occurs online using a global business management system, driving development forward. All units are ISO 9001/14001 certified.

#### 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 global, with an emphasis on three continents: Europe, Asia and North America. The market is dominated by a number of large global manufacturers. In China, the market is fragmented and consists of a large number of smaller manufacturers who primarily sell their products in the Chinese market. The Asian market, and the Chinese market in particular, has continued to grow faster than the rest of the world and is today of significant size. The international OEMs occupy a strong position in China and take advantage of their significantly higher expertise and product quality. HEXPOL Gaskets has strategically located production plants and distribution centres in Europe, Asia and North America.

The market for forklift wheels is also global, although with strong regional differentiation due to varying material preferences and quality standards. HEXPOL Wheels is the only forklift wheel manufacturer with production units in Europe, North America and Asia. In the profile market, HEXPOL has chosen to focus on the Nordic market which also includes deliveries from outside of the Nordic countries to Nordic customers with manufacturing in other countries.

HEXPOL Gaskets holds a global market-leading position and its customers consist primarily of leading global plate heat exchanger OEMs in Europe, the US and Asia. Energy prices and an increased focus on reducing negative environmental impacts are driving market growth through increased demand for energy recovery and generation, as well as the production of alternative fuels, such as bioethanol. Overall GDP growth is generating higher standards





of living, urbanization and increased global trade, which is in turn driving demand in areas such as comfort (cooling/heating), food and drink and marine transports. Plate heat exchangers are utilized in all of these areas, and are frequently equipped with gaskets from HEXPOL Gaskets.

The global gasket market remained relatively stable during 2014. The market for large projects continued to be weak, although demand improved somewhat during the year. Demand for small and midsize plate heat exchangers remained healthy. Lower oil prices globally during the latter half of 2014 had a limited impact. Aftermarket demand remains strongly driven by maintenance investments in existing facilities.

HEXPOL Gaskets currently supplies all major original equipment manufacturers of plate heat exchangers. The aftermarket is estimated to account for approximately one-fourth of the total market. HEXPOL Gaskets has solidified its position as a market leader and stands well equipped in the face of increased demand.

HEXPOL Wheels operates in the expansive market for wheels and castor wheels for electric and hand pallet forklifts, which is dominated by a handful of major players in Europe and North America. During 2014, global sales of new forklifts showed favourable growth. The aftermarket for forklift wheels also increased somewhat and is dominated by OEM manufacturers of forklifts and independent distributors. In the warehouse forklift market, the next step in the consolidation process that has been in progress in recent years is thought to be the development of new forklift models representing a larger share of joint global content. HEXPOL Wheels is one of a few global players in the forklift wheel market and is well-positioned to capture additional market shares. The castor wheel market is more diversified with a few major players and a large number of local manufacturers.

HEXPOL Profiles is a strong player in the Nordic market for rubber profiles. HEXPOL's profiles are predominantly supplied to OEM customers active in the construction industry. A number of the customers are global players, while HEXPOL Profiles primarily supplies rubber profiles that satisfy European demand. 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 weak conditions in the European construction industry.

## STRATEGY

The HEXPOL Engineered Products business area's strategy is to identify, develop and operate in poly-

mer 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. Gislaved Gummi is a globally well-known brand in the market for gaskets for plate heat exchangers, while the brand for profiles is mainly known in the Nordic market.

## OPERATING UNITS

HEXPOL Gaskets has production plants in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka and Qingdao, China). The plants are modern and incorporate local expertise in production and logistics development. The LEAN concept is used successfully in the respective plants and manufacturing processes are coordinated and standardized. HEXPOL Gaskets places a strong emphasis on ensuring the same high level of quality regardless of the production plant. Development of distribution from the distribution centres in Sri Lanka and the US continued during the year. Internal throughput times and administrative work have been sharply reduced with the introduction of a shared business management system, through which all plants access the same online database.

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

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

## COMPETITORS

The market for gaskets for plate heat exchangers is dominated by a limited number of major players, among whom HEXPOL Gaskets is a market leader. The largest competitors are the family-owned company TRP and 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 some of the largest companies. A large number of minor wheel manufacturers are active at the local

level. The Chinese market is highly fragmented with a large number of manufacturers of polyurethane, plastic and rubber wheels. The relatively fragmented market is resulting in opportunities for continued growth through acquisitions.

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

#### OPERATIONS IN 2014

HEXPOL Engineered Products had sales of 721 MSEK (691) in 2014, a year-on-year increase of 4 percent. Operating profit in 2014 amounted to 92 MSEK (78). The operating margin increased to 12.8 percent (11.3). Operations in China and the US experienced highly positive development during 2014.

HEXPOL Gaskets increased its sales during the year through continued strong growth in the Asian market, combined with increased market shares for a number of larger customers. Demands for shorter lead times have continued to increase and have been met through an effort that has sharply reduced internal throughput times, combined with continued development towards more local distribution centres.

The market for forklift wheels and castors grew during 2014. Pricing pressures remained high, especially for forklift wheels in Europe. HEXPOL Wheels saw positive development in all markets. A new production line was put into operation during the year at the production plant in Laxå, Sweden, which gradually improved the situation in Europe.

Although the profile market weakened in 2014, primarily due to a continued weak construction market, HEXPOL Profiles managed to defend its market position.

#### FUTURE PROSPECTS AND PRIORITIES

The goal of HEXPOL Gaskets is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market for gaskets for plate heat exchangers is growing long-term due to high energy costs and increased demand for energy efficient solutions. HEXPOL Gaskets will continue its steady focus on LEAN production and generating synergies among its units. On the logistics side, unique customer solutions will provide additional opportunities for reducing lead times and make it easier for customers to do business with HEXPOL Gaskets.

HEXPOL Gaskets' focus on developing new markets in Asia and North America continues. During the year, capacity utilization in China increased, and an increase in efficiency was achieved. HEXPOL Gaskets carefully monitors market developments and is able to quickly expand its capacity when needed.

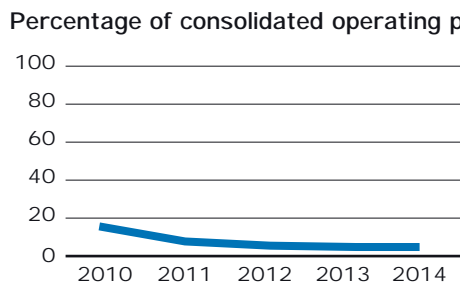
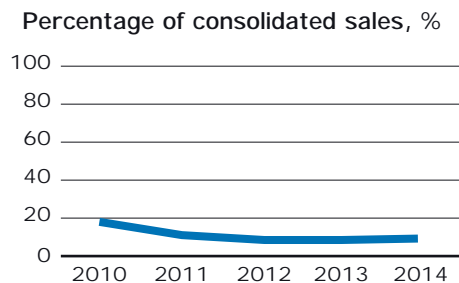
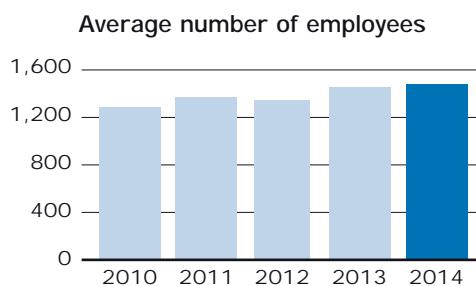
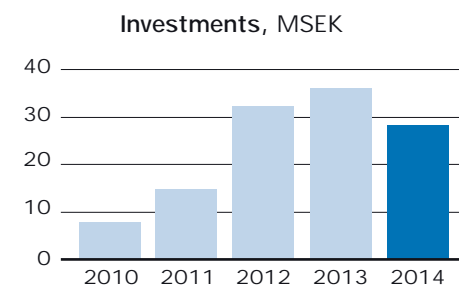
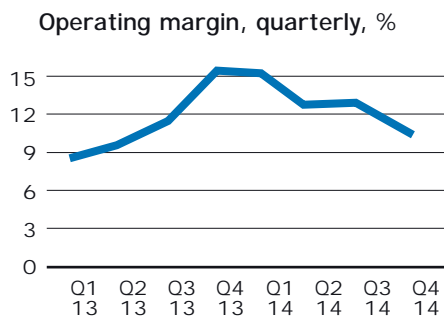
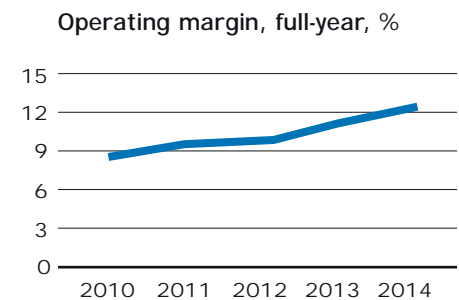
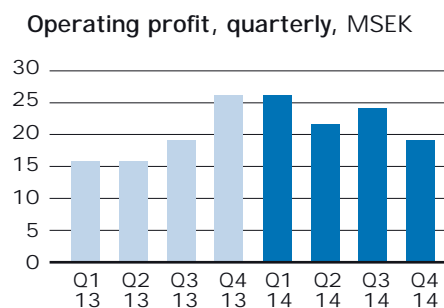
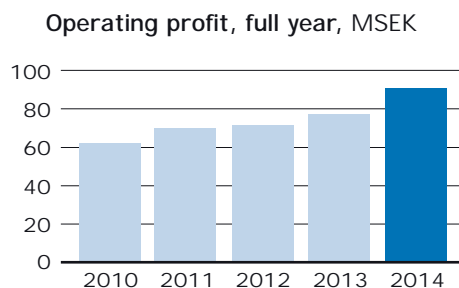
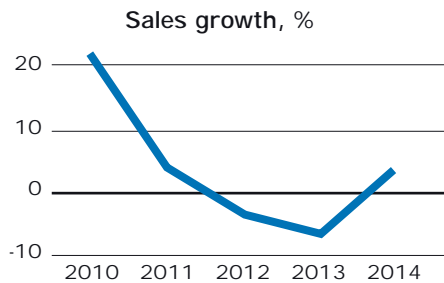
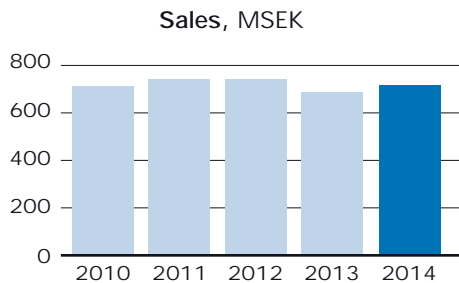
HEXPOL Wheels continued to invest in and optimize its operations during 2014. The new production line for polyurethane wheels in Laxå, Sweden, which replaced the one damaged by fire, was put into operation during the first quarter. Quality and efficiency have incrementally increased since it went into operation. A new production line for manufacturing solid press-on rubber tires in Sri Lanka also went into operation during 2014. These tires are marketed primarily in the North American and Asian markets. As a result of these investments, together with previous investments in China and the US, HEXPOL Wheels is able to offer customers the same products, quality and service both globally and locally according to their unique needs.

The assessment that the currently fragmented wheel market will enter a consolidation phase stands firm. HEXPOL is well positioned to take an active role in any structural projects. We believe that continued investments in customer service and product development are critical factors for success in 2015.

HEXPOL Profiles defended its market positions in the Nordic markets, where construction trends remained weak. Entering 2015, HEXPOL Profiles is well positioned to actively cultivate new customers within select geographic markets.



HEXPOL Engineered Products, five-year figures







## HEXPOL Gaskets

### ORGANISATION

HEXPOL Gaskets is a product area in HEXPOL Engineered Products. The management of the product area is stationed in Gislaved, Sweden. Each manufacturing unit has a responsible manager who reports directly to the Product Area Manager.

### TECHNOLOGY AND PRODUCTS

HEXPOL Gaskets is a product specialist for the manufacture of rubber gaskets for plate heat exchangers. The technology content is high and the end product meets exacting quality requirements. The gaskets consist of rubber and are delivered in a variety of sizes from a few decimetres in length up to several metres depending on the plate heat exchanger's size. Temperature, pressure and media determine the choice of gasket type and rubber material in the heat exchanger. Performance of the gasket is dependent on the composition of the rubber material and the geometric design of the gasket. Both of these factors are critical to a gasket's service life. From a technology viewpoint, HEXPOL Gaskets' responsibility is to develop unique material properties combined with efficient manufacturing processes that meet the exacting demands of the market in terms of quality and cost efficiency. Development of new rubber compounds take place at Gislaved Gummi in Gislaved, Sweden, which is a part of HEXPOL Gaskets. Development is being driven by and towards higher temperatures and pressures, more aggressive media and by exacting demands for cost-efficiency in the refinement process.

HEXPOL Gaskets currently offers gasket production from three plants around the globe: Sweden, Sri Lanka and China. The ready-mixed rubber

material is manufactured adjacent to the plant in Sweden. From there, the rubber material is distributed to the respective manufacturing plants, thus ensuring that the principal component – the rubber compound – has uniform characteristics and that the gasket will, consequently, have the same final properties, regardless of the production plant in which the gasket was manufactured. The machinery is highly standardized among the plants, providing flexibility and allowing for easy shifts in production among the plants, for example during production peaks. Production is tool-specific, where every tool creates a unique gasket type. HEXPOL Gaskets manufactures most of the tools that it uses.

### MARKET

The market for the manufacture of plate heat exchangers is dominated by a number of large global companies, and all are customers of HEXPOL Gaskets. One major difference is the Chinese market, which consists of a large number of smaller, local manufacturers, who primarily sell their products in the Chinese market. Several of those are concentrated in limited application segments and/or geographic segments. Many of the large Western manufacturers also have market-leading manufacturing positions in China, especially in the more demanding application areas. The market for gaskets for plate heat exchangers is driven primarily by increased prosperity, increased globalization, marine transports, demands for reduced emissions, energy efficiency and energy gains.

### DISTRIBUTION

HEXPOL Gaskets' three units have a shared, advanced business system that generates benefits in the form of transparency between the units. This represents an advantage, since logistics are com-

plex with deliveries worldwide that have to meet to short lead times. Each product is unique and, in many cases, there are only tools in one of the production units that can be used to manufacture the unique product. In recent years, HEXPOL Gaskets has consciously focused on developing an efficient distribution system. A new distribution centre has been built in Sri Lanka adjacent to the gasket plant, to be able to distribute gaskets directly to the Asian market. Distribution goes directly from the manufacturing plant in China to the local distribution centre in China. Distribution from the Swedish manufacturing plant focuses primarily on Europe. During the past year, a distribution centre was also opened in the US, to more effectively supply the NAFTA area. By offering more local distribution, HEXPOL Gaskets is creating a market advantage for its customers, in the form of short lead and transport times, while increasing the efficiency of total tied-up capital. Synergies are also achieved, primarily through marine transports, since fully loaded containers can be sent to the respective distribution centres.

#### BUSINESS MODEL AND STRATEGY

HEXPOL Gaskets is a global product specialist that develops, manufactures and markets high-quality gaskets for plate heat exchangers under the Gislaved Gummi brand.

#### Materials development with leading-edge expertise

The composition of the rubber material is key to the gasket's function and service life. For decades, HEXPOL Gaskets has focused on a materials development team in which years of experience is mixed with youthful curiosity and initiative. The material developers have extensive insight and knowledge into how a heat exchanger operates within their

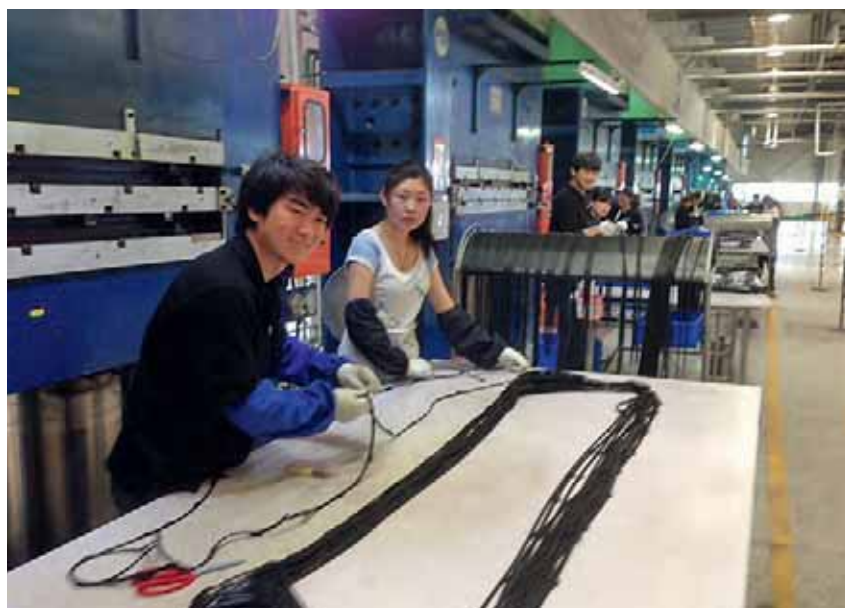
respective areas of application. This is gained through very close cooperation with customers, which provides invaluable input for a materials development project. Development of rubber materials for a new gasket application for plate heat exchangers usually takes several years. Before the material is approved and released onto the market, extremely rigorous evaluations are conducted in laboratory environments, which are then followed up with service life testing with some of our customers.

#### Sales with a customer focus

It should be easy to do business with HEXPOL Gaskets. The goal is to have the highest expertise and availability in the market, including sales representatives. By having a large presence in the marketplace, HEXPOL Gaskets can catch signals from customers early on and thereby take steps to ensure that the customer is always satisfied. Most manufacturers of plate heat exchangers are global, with plants in several countries, and frequently also on several continents. In order to meet the global needs of our customers, HEXPOL Gaskets works with Key Account Managers. The marketing organization works from Gislaved, Sweden, with the exception of the market in China, where there is also a local sales organization that reports to a sales manager in Gislaved, Sweden.

#### Operating units

Manufacturing occurs at the three units in Gislaved, Sweden, Bokundara, Sri Lanka, and Qingdao, China. The strategy is to manufacture low-volume items and gaskets made of special materials in Sweden, while medium and high-volume production takes places primarily in Sri Lanka. The unit in China manufactures a complete range of the gaskets that are sold in the Chinese market, but also serves

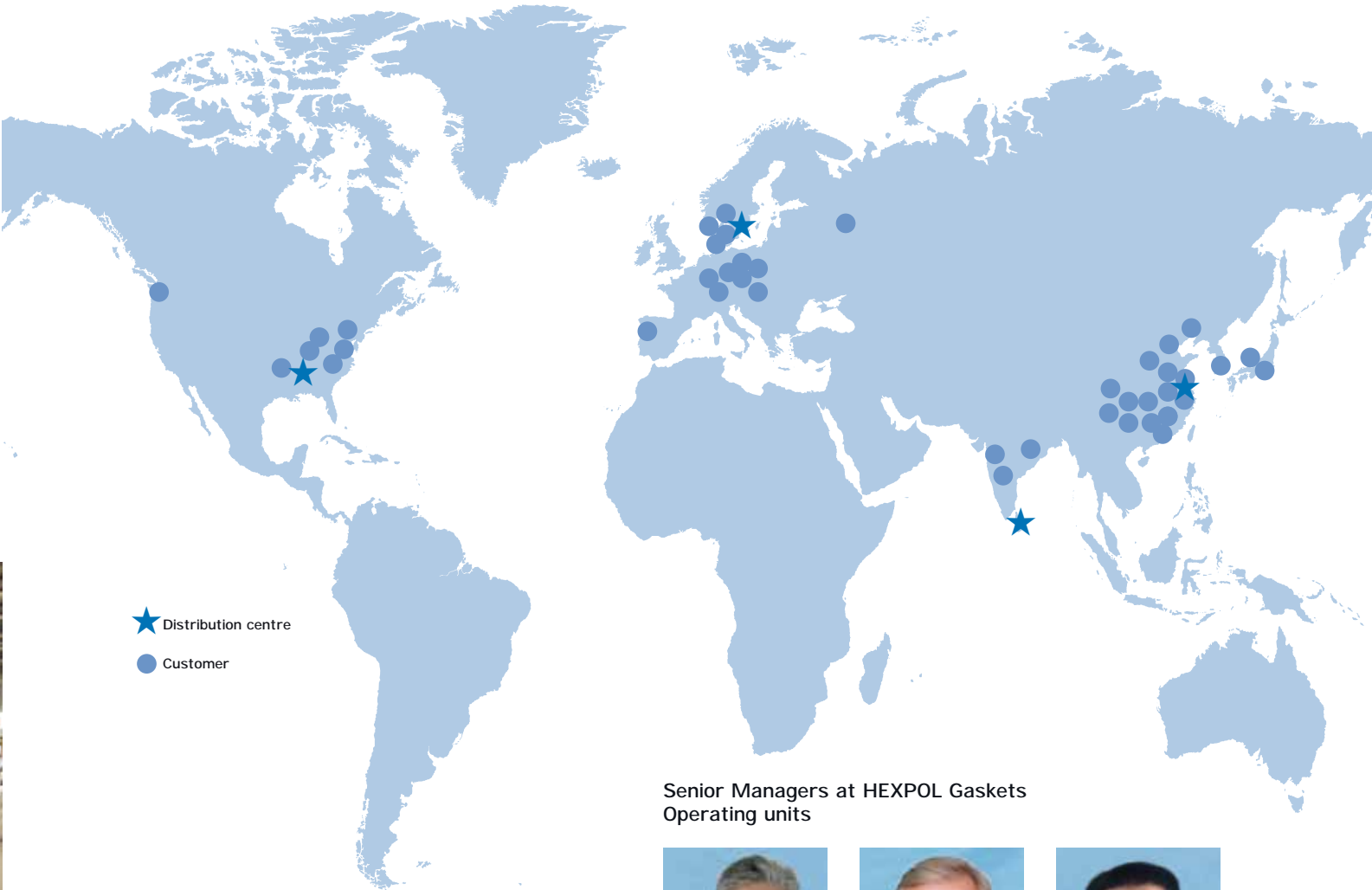


as a backup for rapid demand hikes from the rest of the world. HEXPOL Gaskets continuously invests in new production equipment in order to maintain its market-leading position.

**Local distribution**

An efficient distribution of the gaskets manufactured at the various global units creates competitive advantages for HEXPOL Gaskets and its customers by providing a high degree of accessibility and short lead times, while generating economies of scale in the manufacturing process. During the past year, HEXPOL Gaskets has integrated all of its manufacturing plants and distribution centres into its shared business management system. This has led to a significant reduction in internal throughput times and also better management of the articles that should be available for routine deliveries from

the warehouse. A large part of total sales is now distributed from local distribution centres situated in Asia, NAFTA and Europe, resulting in a continued significant reduction in lead times and tied up capital, while transports have been streamlined. All distribution centres are managed and coordinated from Gislaved, Sweden, where customer orders and forecasts are received and processed. Being able to communicate and receive all information from one source makes it easy for customers. A large number of customer orders are sent directly into HEXPOL Gasket's business management system via EDI. Customer orders are immediately accessible to the distribution centre from where the delivery will occur. HEXPOL Gaskets offers its customers various types of logistics solutions in the form of systems such as VMI and KanBan.



**Senior Managers at HEXPOL Gaskets Operating units**



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



## Hisaka, Japan, strengthens its market position with new gasket design from Gislaved Gummi

The Japanese company, Hisaka Works Ltd, manufactures and sells products across a wide range of categories to the world to support human life. The company's Plate Heat Exchanger division offers a wide range of heat exchangers for various applications. In the early 1980s, a partnership was initiated between Hisaka Works Ltd and Gislaved Gummi AB. The business relation quickly flourished, creating trust between the two companies which led to the rapid development of joint transactions in the 1990s, whereby Gislaved Gummi precipitously increased its market shares.

Hisaka has enjoyed major success around the world during the years. In 2014, they received some fabulous project orders which have resulted in business in both mature and new markets. The new plate heat exchangers, equipped with new designed gaskets from Gislaved Gummi, will be in operation in Asia, Middle East, and other parts of the world. The segments are: Petrochemical refinery complex, Petrochemical plant, FLNG and Coal-fired electricity generating plant.



## HEXPOL Gaskets adapting to new market conditions

The gasket market for plate heat exchangers has in recent years increased focus on service and availability of gaskets. Gasket volumes are today spread all over the world, as HEXPOL Gaskets customers continue to decentralize its operations to come closer to each market.

This has resulted in that Gislaved Gummi in recent years has implemented a number of major projects to meet customer expectations and increase competitiveness in each strategic geographic region. Three years ago, HEXPOL Gasket had only one warehouse located in Sweden for supplying the whole world with gaskets. Today, most of the volumes are shipped directly from production sites or via stock hubs, which has resulted in new business and shorter lead-times to customers.

The entire IT platform has been changed to make availability of items visually clear to customers. HEXPOL Gaskets customers can log on into their customized website and download live information about inventory and shipping information from our ERP system. This has proven to be a strength, when customers need quick answers to be the market. The live information from our ERP systems is available 24/7 no matter what time zone you are in.





## Stellana China strengthens positions in the Material Handling and General Industries markets

With the successful commissioning of a new polyurethane wheel production line, Stellana China has further expanded its product range. The new PU wheels line is a perfect complement to the existing TP wheels family and strengthens Stellana's position as a world class solutions provider of wheels.

Stellana China has earned a good reputation among the top three foreign fork lift OEM's in China but also with most of their domestic counterparts with which there are a close partnership today. The Stellana brand also reach into other related areas including a variety of different end applications.

One of the new accounts outside the traditional fork lift industry is a global supplier of baggage handling systems. As the world leader in this area they have very high standards in their selection of wheels which Stellana China

has been able to meet. "We know about our applications and you know about the wheels" said one of the customer's engineers. Stellana China has managed to create new design solutions in tread patterns and material layers which optimize performance. This has distinguished Stellana from competition and created added value for the customer.

Other target areas for Stellana China are the mining- and automotive industries. Stellana tries to focus on performance beyond the wheel itself by working with the customer to reduce cost and optimize performance such as product life, end user downtime and application performance.







## 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, in combination with close global cooperation, leads to considerable flexibility and a strong customer focus.

### TECHNOLOGY AND PRODUCTS

HEXPOL Wheels offers a complete range of polyurethane wheels for electric-powered warehouse and hand pallet forklifts, as well as tyres 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. Considerable emphasis is placed on the control and handling of raw materials, which are largely purchased from certified suppliers. The production process is continuously monitored and quality controls are conducted at several phases during the process. The fleet of machinery is continuously renewed and is automated to a great extent.

Five types of products are produced by HEXPOL Wheels:

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

The global forklift 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 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. The establishment of a distribution centre



in Germany has started, with the aim of providing better service to customers in the after-market since it will have access to products and offer rapid delivery. 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 Vulkolan) and polyamide, as well as smaller quantities of rubber and thermoset wheels. The establishment of a distribution centre in Germany is being managed from Laxå, Swden, but the centre will manage products from the other units.

The US unit in Lake Geneva is one of the largest suppliers of polyurethane tyres and castors in the North American market. 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 proper-

ties to the desired results at an early stage in the development process.

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

The Chinese unit in Qingdao produces polyurethane and polyamide wheels. Both Chinese and global forklift manufacturers are expanding their manufacturing capacity in China. Stellana has established a position as a supplier of high-quality wheels and has succeeded in entering into cooperation with most of the major manufacturers. In addition to forklift wheels, efforts to become a supplier of wheels for the general industry have also yielded fine results.

**Senior Managers at HEXPOL Wheels Operating units**



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

## European Distribution Center for HEXPOL Wheels



Stellana will open a distribution center just south of Hamburg in Germany to better serve the large German market with products. This hub will also be used to supply customers in other central European countries.

The main beneficiaries of this new warehouse hub will be smaller aftermarket customers who normally buy smaller lots and depend on fast deliveries to support and service their customers. Stellana will now reach a broader customer base, be able to cut delivery time and supply smaller batches at a lower cost.

The distribution center will stock products from both Stellana Sweden and Elastomeric Wheels enabling customers to choose from Vulkolan wheels, PU wheels and Solid Tires. This product breath will make Stellana unique compared to competition and enable customers to buy their entire need from one source.

Positive feedback from many customers calls for a successful launch of this customer focused initiative.

## Energy Management System – ISO 50001 Introduced

Elastomeric Wheels and Gislaved Gummi Lanka have become the first two companies to be certified under ISO 50001 achieving another millstone in the history of HEXPOL.

ISO 50001, which is also known as an Energy Management System in the industry helps organizations worldwide to preserve depleting resources, tackle climate change and save money through the use of more energy efficient processes in a sustainable manner. The Elastomeric group of companies through the use of Bio Mass energy has already managed to decrease the carbon dioxide emissions by 95% related to thermal energy usage.

Today most industries strive to reduce production cost to be competitive and meet customer satisfaction. With ISO 50001 in place there is a significant positive impact on the cost due to a systematic approach and a focus on efficient energy usage, waste minimization and promotion of low-carbon emission renewable technologies.

All these items combined will help to facilitate the environmental work and lead us to the objective to be an even more environmental friendly company.

Elastomeric Wheels and Gislaved Gummi Lanka have also received certifications according to ISO 9001, ISO 14001 and OHSAS 18001 standards.



## HEXPOL Profiles

### ORGANISATION

HEXPOL Profiles is a small product area in 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 profiles are manufactured through continuous vulcanisation on five different extrusion lines. HEXPOL Profiles applies three different vulcanisation methods: hot air, microwave and salt bath, which enable optimal cost-effective manufacturing of a broad range of profiles. Production is highly automated and manufacturing is conducted in a continuous process.

In connection with new development, where competencies in rubber materials combined with the design of the profile create an optimal product that satisfies customer needs for function and cost-effectiveness, HEXPOL Profiles cooperates closely with its customers. In recent years, HEXPOL Profiles has developed a number of methods for reducing the profile's friction during assembly. There are currently rubber compounds with integrated anti-friction agents, but also several methods that are applied continuously on the process line. HEXPOL Profiles sees increased demand for various antifriction treatments.

The profiles are generally delivered in running metres, whereby the customers cut the profiles themselves in connection with assembly. Demand for this is increasing as the assembly equipment of the customers becomes more automated. Certain customers, who want to avoid the cutting feature, demand ready-cut profiles in exact lengths, whereby manual assembly is primarily used. A minor portion of the product area's sales is generated from profiles with vulcanised joints in the form of rings. All products delivered by HEXPOL Profiles are specially adapted for various OEM applications.

### MARKET

HEXPOL Profiles has a stable customer base with strong market positions. Customers are generally very quality conscious and frequently have a high degree of automation in their own manufacturing. This poses exacting demands on delivery reliability, lead times and quality. Customers are found primarily within the construction and other engineering/manufacturing industries.

### BUSINESS MODEL AND STRATEGY

HEXPOL Profiles offers high-quality customer-adapted profiles for delivery primarily in the Nordic market. HEXPOL Profiles aims to be perceived as a reliable and flexible supplier, with whom it is easy to do business.

HEXPOL Profiles has five focus areas to increase customer value:

- Short lead times and the highest delivery reliability through flexible production and advanced IT support
- Fast and customized materials solutions developed in-house
- The right quality through reliable manufacturing processes
- The right product function through ongoing customer follow-up
- Cost-efficient manufacturing processes

### OPERATING UNITS

Operations are located in Gislaved, Sweden.

### Senior Manager at HEXPOL Profiles' operating unit



Lars-Ake Bylander,  
President HEXPOL Profiles,  
Magaging Director  
Gislaved Gummi, Sweden



# Corporate responsibility Prerequisite for long-term value creation



Corporate responsibility is integrated into HEXPOL's corporate culture and is a prerequisite for long-term value creation. The Group focuses on matters involving environmental impact, social responsibility and business ethics – considerations that apply both to everyday work and strategic planning. During the year, there was an update of "Materializing Our Values", which sets out the Group's values, guidelines and policies in the area of corporate responsibility. The update included more clearly communicating what "whistleblowing" means, and Group-wide guidelines for evaluating the sustainability work of suppliers were introduced.

**MATERIALIZING OUR VALUES**

"Materializing Our Values" is our ethical compass and it summarises HEXPOL's fundamental approach to business ethics, information, the environment and occupational health and safety. The guidelines constitute the Group's code of conduct and provide guidance to everybody in respect of legal liability, accounting, conflicts of interest, working conditions, social issues and sound business ethics.

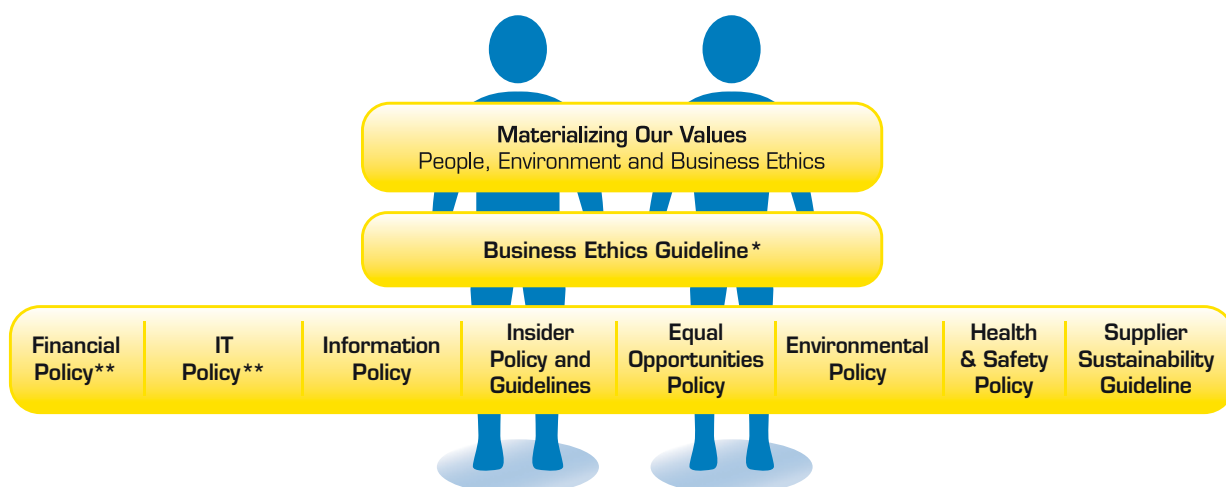
The Board of Directors, the CEO and the Executive Management Group have overall responsibility for ensuring that "Materializing Our Values" becomes a natural feature of the way we work. In the daily operations, the responsibility rests with managing directors and all managers at HEXPOL. The role of the individual employees in the practical application of the values is naturally very important. The Annual Report and the Sustainability Report outline how work related to these value is developing.

In a number of areas covered by "Materializing Our Values", a practice of zero tolerance is applied to nonconformity. This applies, for example, to the need to abide by legislation and to respect human rights, the prohibition of bribery and other forms of corruption and the fact that competition law must be complied with. In other areas, the code of conduct provides an approach that is based on preventive measures and continuous improvement, for example, in the environmental and work environment area.

"Whistleblowing" is encompassed by the Group's fundamental values and means that all employees have the right to blow the whistle to bring serious irregularities to the attention of the Board of Directors and company management. Whistleblowing is done by e-mailing the Audit Committee and does not give rise to reprisals against the informant. No cases of "whistleblowing" were registered during the financial year.

**LEGAL AND REGULATORY REQUIREMENTS**

Group companies identify and take actions to introduce and apply the ordinances, rules and laws that impact on business operations. These take the form of major national and international laws in many areas, such as bans on the formation of cartels, export and import ordinances affecting international business transactions, trade embargoes and economic sanctions. The prevailing legislation in the environmental and work environment areas is also wide-ranging and here the ISO 14001 and OHSAS 18001 management systems contribute to ensuring its application in a structured manner.



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

In addition to the legal requirements, there are various customer requirements in the field of sustainable development. These requirements are increasing as time progresses, which is something that contributes constructively to the development of HEXPOL's sustainability work.

**BUSINESS ETHICS GUIDELINES**

The business ethics guidelines constitute a component of "Materializing Our Values" and provide guidance to employees concerning what is and what is not permitted in business contacts with customers, suppliers, competitors and distributors. The guidelines are complemented by a detailed Compliance Program, in which all senior executives in the Group confirm with their signatures that he/she is complying with the rules. The managers undergo regular reviews of the importance of complying with the business ethics guidelines and zero tolerance is applied to non-compliance.

**SUSTAINABLE STRATEGY**

Corporate responsibility creates value for the Group's stakeholders and, by integrating sustainable development into the HEXPOL business model, conditions are created for a strategy that is sustainable long-term for both the Group and society. As apparent from the figure below, the Group has taken steadily increasing actions to further develop its sustainability work. Priority areas include energy optimisation, reduction in chemical risks, lower atmospheric emissions and reduced amounts and greater recycling of waste. Offering customers knowledge of and solutions concerning environmentally compatible product development is another important area. Group-wide long-term targets have been established in several key areas.

**INTERACTION WITH STAKEHOLDERS**

Since the views of stakeholders are crucial, we endeavour wherever possible to engage in dialogues and exchanges of information with them. The intention is to understand and fulfil the expectations and requirements to which HEXPOL and its employees are exposed. Interaction with stakeholders includes:

- Fulfilling customer requirements in respect of quality, delivery precision, sustainable development and other areas.

- Following up requirements and specifications involving the Group's suppliers in a large number of countries.
- Communicating with the capital market, including shareholders, investors, analysts, banks and media.
- Dialogue with the Group's approximately 3,700 employees.
- Interacting with neighbours, authorities, media, schools, universities and representatives of society.

How the interaction with stakeholders proceeded in 2014 is outlined in the separate Sustainability Report.

**RELEVANT INFORMATION TO OWNERS AND INVESTORS**

HEXPOL aims to provide shareholders and other players on the capital market with relevant information that offers a basis for accurate valuation of the Group. The objective is to apply a candid and factual approach and provide a high level of service in financial reporting. The aim is enhance confidence in the company among existing and potential shareholders.

The Group complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. HEXPOL applies a policy of transparency in its reporting and, in line with the Group's communication policy, provides well-founded, comprehensive information to the market. Corporate governance is described in the Corporate Governance Report on pages 82-87 and is available at [www.hexpol.com](http://www.hexpol.com). All published financial information is also available on the website, as are presentations, press releases, financial statements and annual reports.

**PROFESSIONAL CUSTOMER RELATIONS**

HEXPOL's relationship to its customers is characterised by professionalism, high service level and quality awareness. In accordance with "Materializing Our Values", the Group focuses on impeccable business ethics and thus competes fairly in business activities, including marketing and advertising. HEXPOL complies with prevailing competition regulations in the geographical markets in which the company is active. Business decisions are taken in accordance with the Group's interests and are not based on personal considerations or relations.

**EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT**

**2009**

- ISO 14001 introduced on a wide front in the Group.
- Sustainability reporting in accordance with GRI at level C.
- Development of guidelines for environmental audits when companies are acquired.

**2010**

- Sustainability reporting in accordance with GRI level B.
- Reporting of climate impact in accordance with CDP.
- 80 percent of facilities certified in accordance with ISO 14001.
- Sustainability issues included in strategic planning.
- Projects to increase energy efficiency implemented.

**2011**

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



In the field of sustainable development, customer requirements are steadily increasing and, in 2014, 92 percent (85) of the companies reported requirements pertaining to such matters as certified environmental management systems, the phase-out of hazardous substances, product declarations and requirements for a code of conduct and social responsibility. At half of the Group's production units, customers implemented follow-ups of their requirements. Although the results of surveys and audits were generally highly favourable, there were one or two cases of customers who requested expanded controls of HEXPOL's suppliers, an area in which the Group will increase its activity in the years ahead.

### CONTINUOUS IMPROVEMENTS

Employee responsibility for and contributions to operational improvements are in the interest of both the employees themselves and the Group. Accordingly, the concept of continuous improvements is an integral feature of the corporate culture and encompasses all conceivable activities. Product quality is a key competitive factor and quality-assurance work is conducted in accordance with the requirements of the international ISO 9001 standard. All units are certified and conducting work to achieve continuous improvements is a fundamental requirement of the quality management system. The purpose of quality-assurance work is to ensure the right quality, fulfil security and legal requirements and to exceed customer needs and expectations. For this reason, customers and suppliers are frequently involved in connection with the development of new products or changes in existing products.

### STRICTER DEMANDS ON SUPPLIERS

When assessing suppliers, requirements such as technical performance, quality, delivery capacity and solvency have to be fulfilled. Within the scope of ISO 14001, requirements concerning the environment and work environment are imposed and HEXPOL considers it important to cooperate with suppliers that display good business ethics and take responsibility in matters involving the environment and social conditions. Irrespective of the size of suppliers or their global or local status, we expect them to meet the same requirements in terms of the environment and social conditions that we impose on ourselves.

In order to strengthen the requirements and be clearer in communications with the suppliers, a Group-wide guideline has been formulated. The Supplier Sustainability Guideline specifies the sustainable development requirements the Group imposes on its suppliers and this new guideline will be introduced on a broad front in 2015.



During 2014, nearly 170 suppliers (80) were evaluated concerning the environment and social responsibility, a number that is expected to rise in the years ahead.

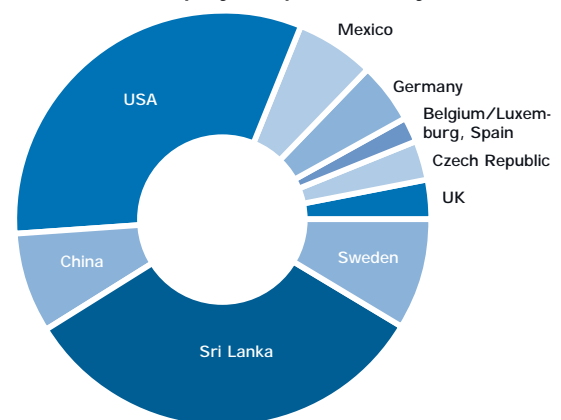
### DIVERSITY, COMPETENCE, COMMITMENT AND WELL-BEING

#### Employees in eleven countries

During the financial year, the average number of employees was 3,666 (3,433), of whom 2,212 (1,958) worked in HEXPOL Compounding and 1,449 (1,470) in HEXPOL Engineered Products. The Parent Company has 5 employees (5).

HEXPOL is a global company and 91 percent (91) of the employees work outside Sweden. Since the workforce is relatively evenly spread across the US/Mexico, Europe and Asia, diversity in the form of various cultures is a natural feature of daily activities. With the Group's presence in global markets, the mix of competencies is an important precondition for the ability to grow nationally and internationally.

#### Number of employees per country



### 2012

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

### 2013

- Materializing Our Values introduced.
- Increased use of biofuels.
- Energy-efficiency enhancements yield positive results.
- Continued phase-out of hazardous chemicals.
- Activities to rouse the interest of students in the polymer industry.
- Adaptations to GRI G4 initiated.

### 2014

- Supplier Sustainability Guideline introduced.
- Sustainability targets updated.
- Update of Materializing Our Values – whistleblowing.
- Use of biofuels on the increase.
- Successful energy-efficiency projects implemented.
- The ISO 50001 energy management system introduced.
- Additional units ISO 14001 certified.
- Work to achieve environmentally compatible product development continues.

Because local presence in the various geographical markets is particularly important, we endeavour to recruit necessary competencies in the region or country concerned.

For HEXPOL, diversity encompasses a full-spectrum perspective, respect and professionalism, as supported by the open corporate culture, Materializing Our Values and our desire to make continuous improvements. Efficient leadership is a prerequisite for our success and the work climate should encourage responsibility, creativity and innovation. We encourage involvement and seek to engage all employees in our improvement work. Considerable emphasis is placed on creating a culture of rapid decision-making paths without unnecessary bureaucracy.

#### Training/education and experience exchange

Since a prerequisite for developing the business and the products is having committed, experienced and skilled employees, the training/education and skills development of employees takes place globally. HEXPOL LEADERSHIP DEVELOPMENT PROGRAM – MATERIALIZING THE DIFFERENCE is designed for managers in the midst of their career, with the aim of further developing the participants so that they can work as leaders in a multicultural company.

By working in networks and project organisations, the overall level of competency is enhanced and, for this reason, many projects are implemented with participants from various cultures, with knowledge in different areas. This could be technology and product development or purchasing and marketing. At our annual conferences for the Group's top management, the topics discussed include strategic issues, the outcome of projects, finances, markets, products and sustainable development.

A good work environment and respect for human rights Materializing Our Values has its background in internationally known agreements and guidelines concerning human rights, social responsibility and sustainable development, including the UN Global Compact. The Group's requirements are that workplaces should be safe, facilitate development and comply with occupational health and safety and labour legislation. No employee may be discriminated due to gender, religion, age, physical or mental disability, sexual orientation, nationality, political opinions or origin. HEXPOL encourages diversity and distances itself from all forms of discrimination. Equal rights issues are addressed in a decentralised manner and the employees are entitled to form and join trade unions and to collective negotiations. They also have complete insight into and the right of codetermination in accordance with the provisions of national legislation. During the year, many employees underwent refresher courses in HEXPOL's values, and Materializing Our Values is included in the induction of new employees.

Work environment efforts focus on preventive measures and include risk analyses, training programmes and technical improvements. It is particularly important to highlight incidents and adopt preventive measures. Creating a good work environment and well-being are the responsibilities of executive management and improvement programmes are conducted in cooperation with employees and employee representatives. For more information about health and safety, refer to pages 79-80.

In terms of equal opportunities, the polymer industry is male dominated and HEXPOL is no exception. The average proportion of female employees is 14 percent (14) and the level is highest in Sweden and China at about 40 percent. The opposite prevails in Sri Lanka, where women account for only 5 percent of the workforce and men account for more than 90 percent of the workforce at several facilities. The proportion of females is 29 percent (17) on the Board of Directors, 14 percent (14) in Group management and 11 percent (10) in the management teams of subsidiaries.

During the year, nothing arose that showed that the Group had breached the guidelines concerning human rights, equal opportunities or diversity.

#### Personal development and remuneration

Job satisfaction, employment security and opportunities for personal advancement are important factors for many employees. At HEXPOL, the remuneration level is on market terms and competitive. Basic principles are that wage formation should comply with legislation, at least match the minimum wage levels in the countries in which the Group is active and be fully market based. Variable remuneration linked to the earnings trend that a person can influence is paid in certain parts of the Group. Personnel costs during 2014 totalled 1,025 MSEK (894).

#### Social involvement

The employees at HEXPOL's units participate in many different social activities. These include "open houses" for employees and their relatives, contacts and projects in cooperation with schools and universities, and financial support for sports, health projects and associations. From a strategic perspective, it is important that young people and students are informed about the future opportunities offered by the polymer industry. Companies in the US are particularly active in contacts with polymer technology students by arranging study visits, development projects, degree projects and traineeships. ELASTO in Åmål is participating actively in a project aimed at encouraging girls at upper secondary school to show an interest in technical professions.

Other examples of HEXPOL's social involvement include social projects in the US together with the YMCA, Elastomeric in Sri Lanka, which is contributing financial support for the purchase of school

books for the children of employees, and blood donations by staff at GoldKey in the US; GoldKey also gives support to medical care and social activities.

## SUSTAINABLE DEVELOPMENT

### RESPONSIBILITY FOR PEOPLE AND THE ENVIRONMENT

#### Long-term objectives

During 2014, the sustainability objectives were updated and a new objective for evaluating suppliers was introduced. The Group objectives point the way and are supplemented by local targets and action plans at the production plants. While the trend was positive for all targets, continued efforts are naturally required in order to achieve the goals.

#### Decentralised responsibility and systematic work methods







The responsibility for sustainable development efforts is decentralised and delegated in the Group. The heads of the companies and production facilities are responsible for managing and following up environmental, work environment and social responsibility activities. At Group level, matters related to strategy, risks, follow-up and sustainability reporting, as well as sustainability issues, are addressed in conjunction with corporate acquisitions.




The preventive environmental and occupational health and safety efforts include the use of raw materials, purification equipment and waste management, as well as activities that catch the attention of and educate the employees.

The Group objectives include the introduction of certified environmental management systems, and experience from this is positive, with the risks and costs diminishing, at the same time as confidence among stakeholders is rising. The environmental work is examined and improved through the regular internal and external environmental audits and 107 internal (116) and 37 external environmental audits (35) were implemented in 2014. During the year, a unit in the US and a unit in Germany were certified. The standard applied for occupational health and safety (OHSAS 18001) has been introduced at two plants in Sri Lanka. The standard applied for energy management systems (ISO 50001) has been introduced at HEXPOL, and the units in Sri Lanka and one unit in Germany have been certified. Certification of another two units is planned during the coming year.

#### Sustainability Report

At Group level, HEXPOL monitors the parameters involving the environment, occupational health and safety and social responsibility. The information is used to identify risks, formulate targets and esta-

Area	Target	Status	Trend
Energy	Energy consumption (GWh/net sales) is to be reduced continuously.	Measures for energy optimisation are under way at many facilities. See diagram on page 74.	
Climate	Emissions of carbon dioxide (tonnes/net sales) are to be reduced by 15 percent by the end of 2018 compared with the average for 2010-2011.	The increased use of biofuel is a positive measure. The energy savings also contribute to reduced emissions of greenhouse gases. See diagram on page 74.	
Environmental management systems	All facilities should have certified environmental management systems (ISO 14001). Acquired facilities are to be certified within two years after the acquisition.	Two units were certified during 2014, which means that more than 95 percent of the subsidiaries are now certified. See diagram on page 62.	
Hazardous chemicals	The use of hazardous chemicals is to be identified and controlled. Wherever possible, chemicals that could have an adverse impact on the environment and/or human health should be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products.	A total of ten products were phased out, or their use reduced. Interesting projects concerning the recycling of polymers and carbon black are being implemented. Continued development of environmentally compatible products. Read more on page 75.	
Safe workplaces	The number of workplace accidents is to be reduced. All facilities are to introduce systems for registering incidents.	The number of accidents leading to work absence declined slightly but the number of lost working days increased. Systems for incident reporting are in place at 85 percent of the units. Read more on page 79-80.	
Suppliers	HEXPOL Supplier Sustainability Guideline is to be introduced in the supply chain. As of 2015, these guidelines are to be integrated into agreements with suppliers.	The supplier guidelines were formulated in 2014 and efforts to communicate and introduce them have been initiated. Read more on page 64.	

 The target has already been achieved.  Positive trend, the target is possible to achieve.  Negative trend, the target was not achieved.

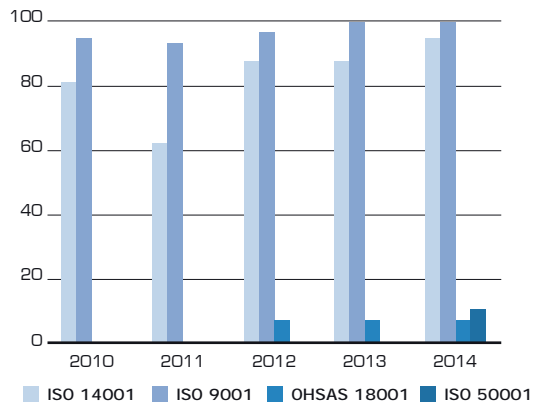


publish long-term strategies. The Group's Sustainability Report is based on the guidelines stipulated in GRI G4 (Global Reporting Initiative) and HEXPOL participates in the annual reporting of the business community's climate impact in accordance with the guidelines in the CDP (Carbon Disclosure Project).

**Risk analyses**

The Group's risk analyses include the consequences of developments in terms of legislation, stakeholder requirements and expectations and scientific advances in sustainability. Environmental risks in conjunction with the acquisition of other companies are a prioritised area. The issues involved could be soil pollution and breaches of environmental legislation. Read more about environmental risks on pages 69, 75 and 78.

**Certified management systems in HEXPOL**  
(% of total number of facilities)



**HEXPOL leadership development program "Materializing the Difference"**



HEXPOL continues to develop present and future leaders through the "Materializing the Difference" leadership program. During the latest program, the third class, there are 16 HEXPOL employees from all over the group active in different positions with a variety of backgrounds.

One of the objectives with the program is to include HEXPOL employees from recently acquired companies. In this way the program contributes both in terms of increasing competence and network building which is important for the future success of HEXPOL.

The program is designed to link theoretical knowledge in areas such as financial analysis, accounting, strategy and market analysis, leadership and group dynamics with practical skills in managing strategic projects. The different parts of the program are also linked to CSR and sustainable development.

Development of the leader's capability to participate in strategic development within the group is a focus area. This is a something that becomes more and more important as HEXPOL grows and external demands increases.

The participants have managed three strategic projects during 2014 where one is an analysis of the development within the automotive industry, another explores how HEXPOL can strengthen the customer satisfaction and the last project covers social media.

*Participants: Thorsten Henz, Richard Hjertén, Jeremy Lawson, Sven Johansson, Daniel Pankert, Joel Karczewski, Bryan Ball, Lisa Davis, Dulip Karunatilake, Manuela May, Michaela Niklová, Angelica Rönholm, Karen Chickletts, Omar Guifarro, Felipe Teran and Kim Keskisalo.*

## Suppliers sustainability guidelines

Collaboration with suppliers to manage environmental issues, work environment, social responsibility and business ethics in a responsible way is important to HEXPOL. Environmental issues and work environment have since long been part of the HEXPOL companies supplier evaluation process and is also an integrated part within the environmental- and management systems framework.

During 2014 we increased our ambitions and a group wide set of guidelines for suppliers were developed – the "HEXPOL Supplier Sustainability Guidelines". The guidelines cover the entire sustainability area and clarify the expectations of suppliers. The guidelines are based on the "HEXPOL Materializing Our Values" and the basic principle is that the suppliers should have the same code of conduct and the same level of ambitions as we have.

The "Supplier Sustainability Guideline" covers the following areas:

- Environment - Compliance with legislation and a documented and systematic approach to prevent environmental impacts
- Work environment – Compliance with legislation and a documented and systematic approach to prevent work related injuries and illness
- Workplace Conditions and Human Rights – Requirements regarding discrimination, equal opportunities, child labor and right to collective bargaining
- Business Ethics – Requirements regarding anti bribery, cartels and sound business- and marketing practices

- Supply Chain Practices – Requirements that the supplier shall take actions to ensure that its suppliers, contractors, consultants, and other actors in the supply chain, comply with the HEXPOL guidelines or a comparable standard, as well as assess their performance against it.

The "Supplier Sustainability Guideline" will be rolled-out group wide during 2015 with the intent to reach all suppliers. The objective is that the guidelines should reduce risk and contribute to sustainable development. At the same time we strive for elimination of all unnecessary bureaucracy. The implementation will be done step by step based on specific sustainability risks at each supplier.

In the first phase all suppliers will receive the guidelines and are supposed to comply with them.

In the second phase selective suppliers will be asked to comply with the "Supplier Sustainability Guideline" in writing and complete a self-assessment of their own sustainability process.

HEXPOL will then select specific suppliers for sustainability audits based on the self-assessment and a general risk assessment.



## Materializing Our Values

At HEXPOL we recognize that our activities have an impact on people and the environment, both locally and globally, but we are convinced that we can contribute to sustainable development being responsible citizens.

Our primary objective is to create profitable growth and a prerequisite for doing that is to show responsibility for people and the environment, and to demonstrate sound business ethics. These commitments – Materializing Our Values – are deeply rooted in our culture and strategy,

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

"Materializing Our Values" represents the Group's Code of Conduct and states the 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, labor conditions, and social aspects as well as good business ethics.

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

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



# 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 2014 financial year. The following income statements and balance sheets, statements of changes in shareholders' equity, cash flow statements, statements of comprehensive income and the presentation of the applied accounting policies and notes comprise HEXPOL's formal financial reporting.

### OWNERS AND LEGAL STRUCTURE

HEXPOL AB (publ), Corporate Registration Number 556108-9631, is the Parent Company of the HEXPOL Group. HEXPOL's Class B shares are listed on the Stockholm Large Cap segment of the NASDAQ OMX Nordic exchange. HEXPOL had 8,280 shareholders on December 31, 2014. 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 3,666 employees in eleven countries at year-end 2014.

## Financial year 2014

### SALES AND OPERATING PROFIT

The Group's sales for the year increased to 8,919 MSEK (8,036). Currency effects had a positive impact of 422 MSEK on sales, primarily due to a strengthening of the USD and the Euro. Sales growth (adjusted for currency effects) amounted to 6 percent, including the effects of lower prices for our principal raw materials, compared with the preceding year. The organic growth (adjusted for currency effects and acquisitions) amounted to 4 percent.

Operating profit rose 16 percent to 1,456 MSEK (1,255), resulting in the operating margin improving to 16.3 percent (15.6). Currency effects, primarily a strengthening of the USD and the Euro, had a positive impact of 81 MSEK on operating profit.

The HEXPOL Compounding business area's sales increased by 12 percent to 8,198 MSEK (7,345).

Operating profit rose 16 percent to 1,364 MSEK (1,177) and the operating margin improved to 16.6 percent (16.0). Sales in NAFTA were strong mainly to automotive related customers. Sales in Europe improved, also here mainly to automotive related customers. The HEXPOL TPE Compounding product area developed well. Within business area HEXPOL Compounding four acquisitions, with total eight units (including RheTech, acquired January 2015) in Germany, Spain and US, was completed within the focus area Polymer Compounding.

The HEXPOL Engineered Products business area's sales increased to 721 MSEK (691). Operating profit rose to 92 MSEK (78) and the operating margin improved to 12.8 percent (11.3).

### FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 20 MSEK (expense 19).

### TAX EXPENSES

The Group's tax expenses amounted to 388 MSEK (306), corresponding to a tax rate of 27.0 percent (24.8).

### NET PROFIT FOR THE YEAR

The Group's profit after tax rose to 1,048 MSEK (930), corresponding to earnings per share of 30.45 SEK (27.02), an increase with 13 percent.

### INVESTMENTS, DEPRECIATION AND AMORTISATION

The Group's investments amounted to 129 MSEK (145). Investments are mainly attributable to maintenance investments (primarily in US), capacity investments (Mexico and HEXPOL TPE Compounding) and the reconstruction of the fire-damaged production line in HEXPOL Wheels facility in Sweden. Depreciation, amortisation and impairment amounted to 166 MSEK (156).

### PROFITABILITY

The return on average capital employed rose to 28.5 percent (27.0). The average return on shareholders' equity amounted to 24.2 percent (28.5).

### CASH FLOW

Operating cash flow rose to 1,676 MSEK (1,418), see calculation on page 91. Cash flow from operating activities increased to 1,432 MSEK (1,223).

### FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio increased to 69.3 percent (61.5). The Group's total assets amounted to 7,284 MSEK (5,878). The Group's net cash amounted to 259 MSEK (net debt 312).

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 1,976 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 3,364 MSEK (2,730). The principles applied in the analysis are presented on page 95 under the section accounting policies.

### PRINCIPLES FOR REMUNERATION OF SENIOR EXECUTIVES

The 2014 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 120 percent of the fixed salary. Pension benefits must be either defined-benefit or defined-contribution or a combination of both, subject to an individual pension age which must not be lower than 60 years.

The Board'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 2015 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable. Variable remuneration is capped at 130 percent of the fixed salary, with the exception of two senior executives, where the upper limit this year is a maximum of 170 percent, including a potential integration bonus.

### PERSONNEL

The average number of employees during the year increased to 3,493 (3,411). During the year, the Group had employees in Sweden, Germany, the UK, Belgium, the Czech Republic, Spain, the US, Mexico, Luxembourg, Sri Lanka and China. Of the

total workforce, 91 percent is outside Sweden. At year-end, the HEXPOL Group had 3,666 (3,433) employees, of whom HEXPOL Compounding accounted for 2,212 (1,958), HEXPOL Engineered Products for 1,449 (1,470), 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 64 MSEK (55), mainly comprising development expenses in close collaboration with customers. The Group currently has no significant research expenditure that meets the criteria for capitalisation.

### EVENTS AFTER THE REPORTING PERIOD

The acquisition of RheTech LLC and RheTech Colors from the founders' families was completed in January 2015. RheTech is a leading provider of polyolefin compounds, engineered resins and multi-functional colorant and additives. RheTech has four facilities (including manufacturing and laboratories) located in Whitmore Lake, Michigan (RheTech), Fowlerville, Michigan (RheTech), Sandusky, Ohio (RheTech Colors) and in Blacksburg, South Carolina (RheTech Engineered Plastics), US. RheTech had a turnover of 117 MUSD in 2013 and has around 212 employees. The acquired business has an EBITDA margin well below the HEXPOL Group and is expected to have a positive impact on earnings per share from start. The acquisition price amounted to approximately 112 MUSD on a cash and debt fee basis. The business will be consolidated from the acquisition date. The groups shareholding is 100 percent.

### PROPOSED DISTRIBUTION OF UNAPPROPRIATED EARNINGS

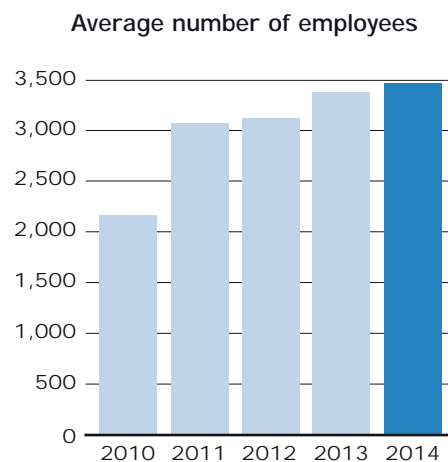
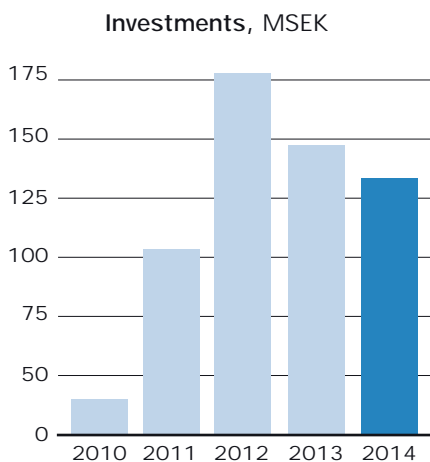
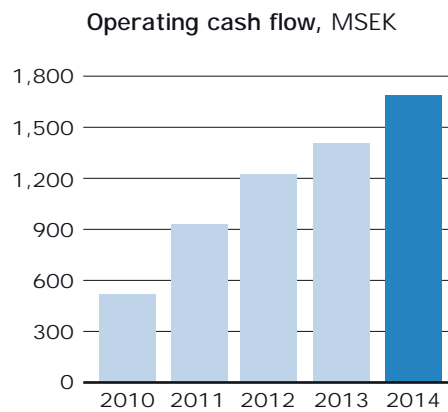
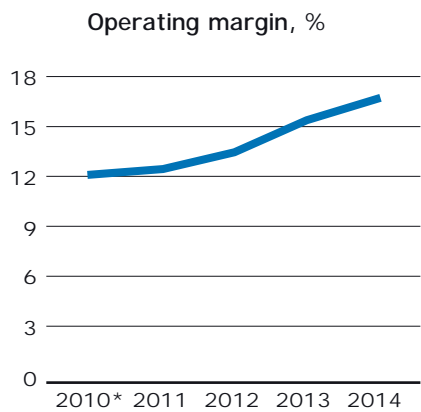
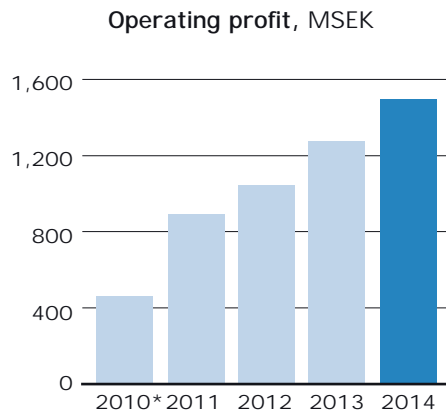
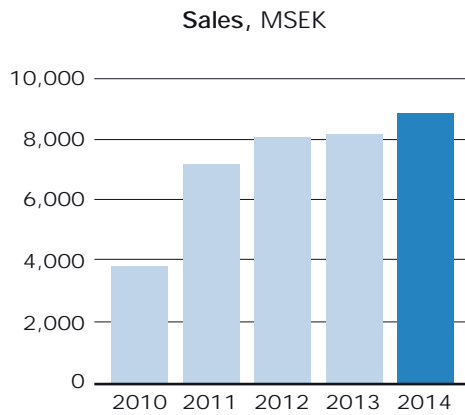
The following unrestricted funds in the Parent Company are at the disposal of the Annual General Meeting (KSEK):

Profit brought forward	2,262,773
Share premium reserve	597,880
Profit for the year	279,487
<b>Total unrestricted funds</b>	<b>3,140,140</b>

The Board proposes that the unappropriated funds be disposed of as follows: that the shareholders be paid a dividend of 12.00 SEK per share.

Total dividend from profit brought forward	413,042
To be carried forward	2,727,098
<b>Total</b>	<b>3,140,140</b>

## 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 many different 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 75 and 78.

#### 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 159 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 December 31 2014, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect on full-year earnings of about 6 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.

## 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 earning and financial position, changes in the market's expectations regarding future profits, supply and demand for the shares, developments in the company's market segments and general economic trends. This means that the price at which the share trades will vary and that even if HEXPOL's business develops positively, investors may risk incurring a loss of capital when the shares are sold.

#### Future dividends

Future dividends will be proposed by HEXPOL's Board of Directors. In its assessment, the Board of Directors will take into consideration several factors, including business development, earnings, cash flow, financial position and expansion plans. See also the section "Dividend policy" on page 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

#### MANY KEY ENVIRONMENTAL ISSUES

Key environmental aspects that affect HEXPOL's operations include the use of resources in the form of polymer raw materials, chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects include supplier activities, transportation of raw materials and complete products, as well as customer use of HEXPOL's products.

At Group level, HEXPOL monitors the parameters involving the environment, occupational health and safety and social responsibility. The information is used to identify risks, formulate targets and establish long-term strategies. The Group's sustainability report is based on the guidelines stipulated in GRI G4 (Global Reporting Initiative) and HEXPOL participates in the annual reporting of the business community's climate impact in accordance with the guidelines of the CDP (Carbon Disclosure Project). The report for 2014 does not include the Vigar units that were acquired in Germany and Spain in the autumn.

#### ENVIRONMENTAL LEGISLATION

HEXPOL is subject to national and international environmental legislation. Several of the producing units require various types of permits and all the facilities in Sweden are subject to official approval

or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. The operations in the UK and one facility in Germany are not subject to any specific environmental approval. Compliance with permits and emission conditions is monitored through measurements and inspections, and about 20 units submit specific environmental reports to supervisory authorities. About half of the units are planning to apply for minor updates of applicable permits in the near future.

Environmental legislation in the form of EU directives (such as REACH, RoHS, CLP and WEEE) and other national or international legislation affect many of the Group's operations and products. One third of the units are subject to producer responsibility legislation for packaging. The following events related to legislation and ordinances occurred during the year:

- Supervisory authorities conducted inspections at about half of the plants. Some minor non-conformities were detected and corrective measures have been taken.
- Gislaved Gummi in Sweden received complaints from neighbours due to odour from rubber in the surrounding. The company engages in ongoing dialog with the supervisory authority and has

taken action to reduce the adverse effects of the odour.

- Environmental legislation was breached at a facility in the US where some underground tanks had not been correctly registered with the authorities. The infringement resulted in a minor penalty but no legal consequences.

## ENERGY CONSUMPTION

Higher energy consumption is a result of the Group's expansion with an increasing number of production facilities and higher production volumes. Here, mixing machines, presses and other production equipment contribute to higher energy consumption, but significant amounts of energy are also used for heating, cooling, ventilation and moving of material. During 2014, energy consumption rose to 313 GWh (275) but the increase was partly offset by many energy-saving projects. The increased use of biofuel resulted in higher energy consumption, thus contributing to a slightly higher energy KPI (GWh/net sales) compared with the preceding year.

About two thirds of the energy consisted of purchased electricity, nearly 20 percent of natural gas and the rest derived from other sources. The use of biofuel and "green" electricity rose during the year to 9 percent (4). The total energy cost during 2014 was about 179 MSEK (143).

## POLYMERS AND OTHER CHEMICAL PRODUCTS

The manufacture of rubber compounds is based on polymers, softening agents, filler and various chemical substances. The recipe depends on the technical properties to be achieved and the compound includes various types of synthetic rubber, process oils as softening agents, carbon black and other fillers, as well as a large number of chemicals and additives that give the compound the desired properties. Some compounds include natural rubber.

In addition to the above-mentioned group of substances, a significant amount of polyurethane plastics, thermoplastic elastomer (TPE), metals, solvents and dyes is used. In terms of volumes, the synthetic rubber polymers are predominant but TPE and polyurethane plastics are also used to a great extent. The use of natural rubber accounts for about 9 percent of total polymer consumption and recycled polymers for about 3 percent. The natural material, cork, is used in certain TPE applications.

## SAFE CHEMICAL MANAGEMENT

At HEXPOL, many different recipes and thousands of chemical substances are used. The Group objective for safe chemical management is that chemicals deemed as hazardous for humans and the environment are to be replaced with other substances or that relevant risk-limitation measures are to be taken. EU chemical legislation (REACH) and

## MORE EFFICIENT ENERGY CONSUMPTION

A key sustainability target for HEXPOL is to increase energy efficiency. Here are some examples of activities during the year:

- Installation of more energy efficient production equipment, compressors and ventilation systems.
- Lighting and fixtures continue to be changed and energy-efficient LED bulbs are being used to a greater extent. Where possible, daylight into premises was increased.
- Installation of steam traps on presses and insulation of furnaces. Switching off equipment not in use.
- Shorter mixing cycles reduced energy consumption in several facilities.
- The ISO 50001 energy management system introduced at facilities in Sri Lanka and Germany.
- Reduction in energy consumption during peak periods on the electricity network.
- Surplus energy sold to the local district heating network in Gislaved, Sweden.

laws concerning labelling and risk information are crucial to the Group's chemical work, but equally important are the demands placed by customers. The ultimate aim is to protect humans and the environment by developing more environmentally compatible products.

The preventive chemical effort has accelerated and a number of chemicals have been phased out or had their usage reduced, such as certain phthalates, brominated flame retardants and heavy metals, as well as chemicals that generate nitrosoamines.

During the year, a handful of chemicals were phased out and another ten substances have been identified for future measures. This work is complicated since there is no global harmonised legislation and substances that are banned in one part of the world may be permissible in others. Regardless of this, we strive to offer customers options that are advantageous from an environmental and health perspective but without lowering technical performance.

## EMISSIONS TO THE ATMOSPHERE

### CLIMATE IMPACTING GASES

One of the Group's sustainability targets is to reduce the emission of the climate-changing gas, carbon dioxide, from energy consumption. The amount of emissions during the year, which are affected by the use of fuel oil, natural gas, district heating and electricity, totalled 115,000 tonnes (109,000). Despite higher production and more facilities, the Group's KPI (tonne carbon dioxide/net sales) remained unchanged compared with the preceding year.



The indirect emissions through purchases of electricity dominated and accounted for 84 percent (84) of the total amount of carbon dioxide. Here, the purchase of “green” electricity in the Czech Republic reduced emissions. Emissions from direct energy consumption were positively impacted by higher consumption of biofuels in Sri Lanka, a measure that has not yet had full effect because another boiler for biofuels will be installed in 2015.

**OTHER EMISSIONS**

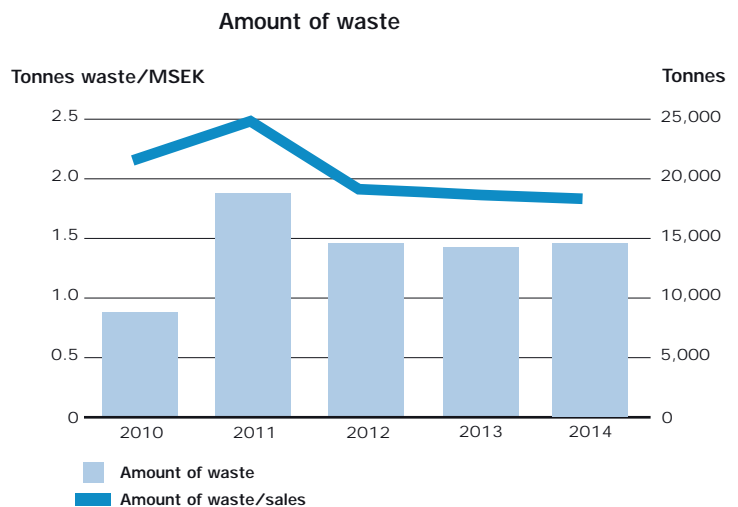
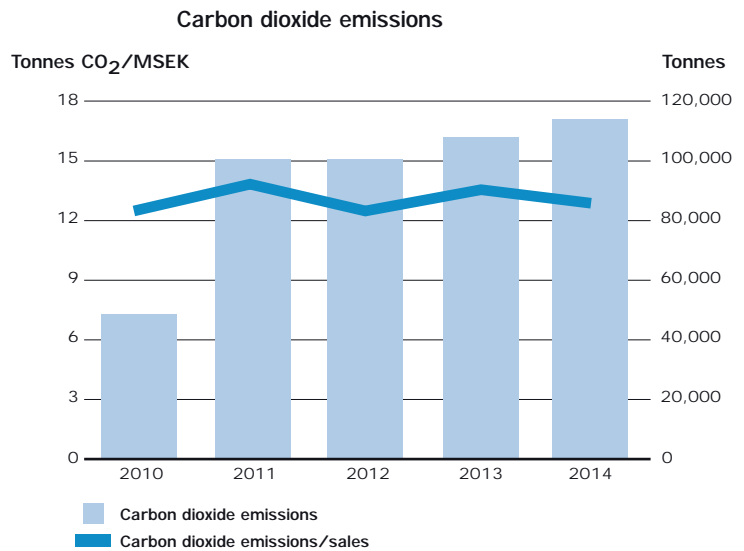
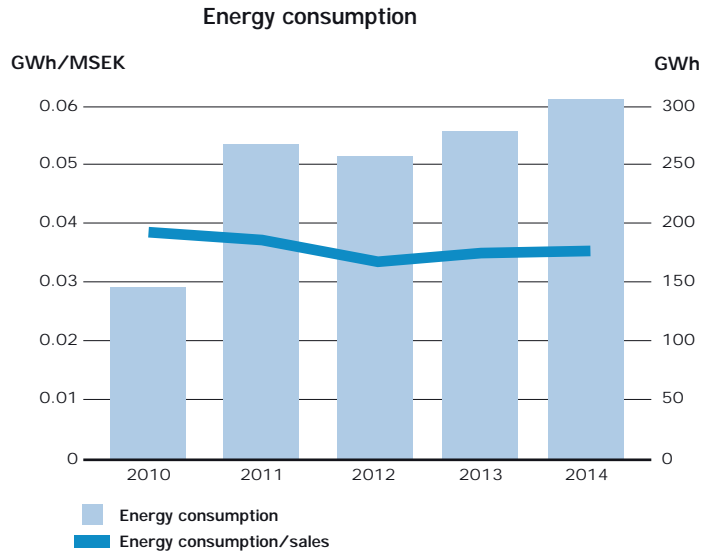
Energy consumption caused 29 tonnes (55) of atmospheric emissions of sulphur dioxide and nitrogen oxide. The strong reduction derived from the use of biofuels in Sri Lanka. Emissions of VOC (volatile organic compounds) from dyes and solvents totalled some 24 tonnes (24) and are caused by the manufacture of polyurethane wheels. Emission of ozone-degrading gases (HCFC) amounted to a few kilogrammes and corresponds to about 1 percent of the Group’s total amount of installed cooling agents.

**WATER CONSUMPTION**

Water issues are important to society and the business community and access to high-quality water is a key issue in many parts of the world. The annual documentation of water-related matters in the Group’s shows that HEXPOL has no production facilities in areas suffering from water shortages or where the aquatic eco-system is threatened. One exception is a unit in California, USA, where the State has suffered a severe draught in recent years. From a natural resources perspective, there are many reasons to be economical with water and this applies to cooling, cleaning, irrigation and hygiene.

In 2014, approximately 226,000 m<sup>3</sup> (190,000) of municipal water was consumed, 17,000 m<sup>3</sup> (16,000) from proprietary wells and 441,000 m<sup>3</sup> (360,000) from streams. Higher production, testing of new production equipment and leakages in technical systems contributed to an increase in water consumption. In addition, higher temperatures in a neighbouring waterway resulted in the use of a larger amount of cooling water than normal. There are cooling systems with recirculated water at most of the production facilities and various measures have been implemented to reduce water consumption such as leak searches, training and technical measures. The total cost of water was 2.8 MSEK (2.4)

Emissions to wastewater from production processes are limited and premises are normally not fitted with draining gutters. Wastewater consists mainly of organic materials and nutrients from sanitary facilities and cleaning. Emissions of cooling water that has not been in contact with raw materials and products, as well as rainwater from roofs and land areas, also occur. Production plants are connected to municipal wastewater treatment plants or equivalent. Measurements of the composition of the waste-



water taken at a few of the facilities showed that emissions remained within permissible levels.

### FOCUS ON WASTE

Interest in internal recycling of process waste and the utilisation of purchased recycled polymers is increasing in the Group. At present, purchased recycled material account for a couple percent of total polymer raw materials. In the Enviroblack project in the US, a significant amount of carbon black has been recycled from dust filters in certain products. This is highly beneficial from a financial perspective and reduces the amount of disposable waste.

By minimising spoilage, improving sorting of waste at source and reducing the amount of waste, facilities are using raw materials more efficiently. Production volume rose during the year, while the amount of waste remained largely unchanged. The KPI for waste (tonne/net sales) has decreased over the past three years. The total volume of waste was 14,800 tonnes (14,500), of which hazardous waste accounted for 527 tonnes (547). The cost of waste management amounted to 9.7 MSEK (7.9).

### ENVIRONMENTAL ADAPTATION OF PRODUCTS CONTINUES

Environmental adaptation of products often occurs in cooperation with customers. Minimising the risks associated with chemical substances is something that is important to many customers, particularly in industries that manufacture products directly for the consumer market. In the automotive industry, interest in reducing fuel consumption is high and here, light polymer products from HEXPOL can contribute to this. At HEXPOL, an increasing number of examples of products contribute environmental benefits:

- The automotive industry has long requested EPDM rubber that is not electrically charged, for use in, for example, door strips. The risk of electrolytic corrosion increases when the use of light aluminium and magnesium alloys increase in cars. HEXPOL recently developed a type of EPDM with low electrical conductivity that contributes to reducing corrosion.
- Recycled polymers are used in rubber compounds in mud flaps, mats and bumpers for the automotive industry.
- HEXPOL Engineered Products manufactures rubber gaskets that are used in plate heat exchangers worldwide. The gaskets also contribute to energy savings, less climate impact and secure handling of chemicals and food products.
- HEXPOL Compounding produces porous rubber material that contributes to reducing material consumption and reducing weight, thus helping to lower fuel consumption in vehicles.

- Thermoplastic elastomers (TPE) are easy to recycle and are used in many applications, such as the automotive industry. The TPE range also includes products that contain flame retardant substances that constitute environmentally compatible options to the use of traditional environmentally hazardous flame retardants.
- TPE, combined with such natural material as cork, produces technically interesting properties and reduces the use of fossil raw materials. In certain applications, TPEs can also replace PVC, thus meeting the demands in the environmental policies of certain organisations in the health sector.
- HEXPOL Engineered Products manufactures polyurethane wheels with long service life, thus reducing the need for replacement wheels. This reduces the consumption of materials and the amount of waste. The development of polyurethane wheels for use in offshore wave power plants continued during the year.

### ENVIRONMENT-RELATED RISKS

#### Environmental legislation

The development of environmental legislation and environmental policies impacts on HEXPOL in both the short and long term. Since climate change is an area where it is probable that additional legal and financial means of control will be introduced, the Group is working systematically on this and other environmental issues and currently sees no unforeseen risks that will impact the business operations. For the individual production facilities, it is important to comply with existing emission conditions and be prepared for more stringent future environmental requirements. The facilities have valid environmental permits and only routine updating of conditions and permits is expected in the near future.

With respect to other environmental legislation, it is mainly the chemical legislation REACH that is of significance and this could present both challenges and opportunities for HEXPOL. The legislation consists of demands for the phase-out of certain hazardous substances or for limits on their use in certain applications.

HEXPOL uses chemical substances that are registered on REACH's "Candidate List of Substances of Very High Concern." These are substances that have a specific function in the preparation of the Group's products, including certain phthalates (softening agents). The development departments have reformulated a number of recipes and the use of several substances has been terminated or reduced. Our opinion is that risk-limiting measures should be implemented as required by legislation, customers and the Group. Business opportunities will be generated by being able to offer environmentally compatible products.



## HEXPOL Further Reduces Emissions – A second Bio Mass Boiler in Sri Lanka

In line with HEXPOL's focus on sustainable development and goals to reduced environmental impacts Elastomeric Engineering invested in another Bio Mass Boiler. This is the second Bio Mass Boiler installed in Sri Lanka. The first unit was installed in Gislaved Gummi Lanka in September 2013 and has proven to be very efficient.

Previously Elastomeric Engineering used furnace oil boilers, which generated substantial carbon dioxide and nitrogen dioxide emissions. High availability of wood logs and saw dust, mainly from the furniture industry, enabled Elastomeric Engineering to invest in a Bio Mass Boiler. This new boiler minimizes emissions as well as reduces energy cost. With this investment Elastomeric Engineering is estimated to reduce fossil carbon dioxide emissions by approximate 97 percent compared to 2014.

Elastomeric Engineering has implemented a fully integrated management system incorporating the use of energy and all other aspects contained in the ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001 certifications. Since Elastomeric Engineering implemented ISO 14001, the company has been able to achieve substantial benefits throughout the Environmental Management System.





## Wellness at the Workplace

Several years ago as part of our continual focus on associate development, the GoldKey campus decided to look at how the company could assist the associates to get the most out of life. This included encouraging healthy habits for disease prevention, increased productivity, decreased absenteeism, job satisfaction /retention and lower overall health care costs. Since lifestyle choices account for chronic illnesses such as diabetes, cardiovascular disease, high blood pressure, obesity and some cancers, the answer was simple, we would like to assist our associates to get healthy and stay healthy.

The GoldKey team started by building practical programs to promote healthy lifestyles at home and at work while providing the associates the tools, programs and access to information to change the culture. Our first step was to listen to our associates by conducting a survey to find out what aspects of wellness they wanted to focus on. As a result of the survey, our initial areas of focus were around healthy eating, helping associates with weight issues, and biometric information.

As an important base line for the program, and in conjunction with our health care provider, the GoldKey associates have access to yearly physical with health risk assessments. This screening provides information between the associate and their doctor on current and potential medical issues which allows them to understand the wellness programs that work best for them.

Since walking is commonly cited as having the lowest dropout rate of any form of exercise due to its convenience, cost-effectiveness and its ability to be incorporated into everyday life, it is one of the core activities we promote. A safe area for walking was provided at the facility for the associates during lunch break. Also discounted memberships to the local gym were provided.



### Wellness Program Initiatives:

- WELLNESS COMMITTEE:** Develops new ideas and implements activities at the campus.
- WELLNESS BOARD & MONITOR:** Post a different wellness topic each month and wellness related educational information.
- SUGGESTION BOX:** Promotes associates to provide ideas for new activities and ask questions.
- WALKING CONTESTS:** We provided all associates with a GK pedometer; points were earned for 10k or 20k steps per day.
- FRUITS & VEGETABLES:** Monthly challenge to eat 5 fruit or vegetables per day. We provided fruits and vegetables once a week for lunch.
- WELLNESS BINGO:** Bingo board with monthly wellness challenges to complete in each box of the bingo card.
- WEIGHT LOSS CHALLENGE:** A 6 month program with weigh-ins for prizes. The winner at the end of the contest lost 35 pounds or 15% of their total weight. The total weight loss for the first challenge for all participants was over 300 kgs.
- EXERCISE CHALLENGE:** 3 month initiative that challenged associates each month starting with the 30 min. of exercise a day at least 3 days a week in the first month, 30 min. a day at least 4 days a week in the second month and 30 min. a day at least 5 days a week in the third month. This was to create the momentum for our associates to continue to increase their exercise and make this not an event, but a life change to develop their minds, bodies and souls through a daily routine.
- HEARING CONSERVATION:** Free annual on-site hearing testing.
- INDUSTRIAL HYGIENE SURVEY:** Air audits, noise monitoring, ergonomic studies conducted by Bureau of Workers Compensation.
- FIRST AID / CPR:** Free certification training for associates that desire to participate.

## Stellana US receives ISO 14001 Certificate of Approval

On November 20, 2014 Stellana Lake Geneva, US, after 10 months of concerted effort received ISO 14001 certification from Lloyd's Register Quality Assurance. The effort was driven by John Mahome, Quality Manager, and Pedro Barajas, EHS Manager, at the plant in Lake Geneva. The certification team included Terry Snyder (Engineering Director), Mike Sweeney (Production Manager) and several members of the office and production staff. The achievement, which is in line with HEXPOL's environmental policy, reinforces our commitment to be stewards of the environment and secure the safety of our team. With the completion of the certification in Lake Geneva all HEXPOL Wheels companies are ISO 14001 certified.



#### Contaminated soil

Most of the Group's facilities are built on land that was not previously used by contaminating operations. In connection with corporate acquisitions, assessments of the risk of soil pollutants and other environmental damage are regularly performed. There are underground tanks at a recently acquired facility and investigations and risk-preventive measures have been taken. No emissions or accidents of significance to the land and groundwater were registered in 2014.

Adjacent to a leased property in Gislaved, Sweden, there are signs of historical soil contamination from petroleum hydrocarbons. Another property in Gislaved, owned by Gislaved Gummi, 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 in the facility. No emissions of this solvent have been registered and it is unknown whether the authorities will demand further examinations. One of the plants in the US is exposed to the risk of limited site contamination caused by earlier operations. Although remediation of the site is said to have been performed by the former owner, this has not been fully confirmed. However, there are no legal requirements for remediation of this land that affect the Group.

#### Hazardous substances in buildings and installations

Ceilings containing asbestos (eternite) are present in some buildings, a factor that will not require any measures until the ceiling has to be replaced. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window seams in 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.

#### Accidents and uncontrolled emissions to the environment

We work systematically and preventively to reduce the risk 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 and the "Blue Grading System," which identifies strong and weak sides, is applied within the Group. The procedures applied in the units are based on requirements from legislation, insurance companies, ISO 14001 and the Group's internal regulations. No accidents or uncontrolled emissions to the environment occurred during 2014.

#### Climate-related risks

Three of our plants have identified flooding as a climate-related risk and certain precautions have already been taken. Two facilities are located in areas that could be exposed to extreme windy conditions. The Group keeps itself informed of risk analyses on climate changes that are performed in countries in which it has operations. Climate-related risks are taken into account in conjunction with corporate acquisitions and supplier assessments.

#### Environmental adaptation of products

Many customers are focusing on environmentally adapting their products. The Group is monitoring the trend in the area and offers expertise to contribute to environmentally compatible product development. Accordingly, the risk of losing business is deemed small.

### INVESTMENTS, COSTS AND SAVINGS

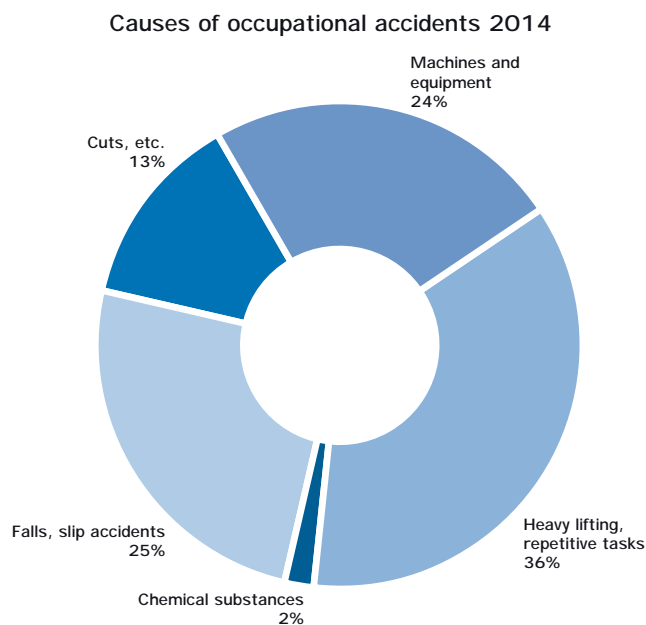
During the year, production facilities invested 16.7 MSEK (18.5) in the environmental and occupational health and safety area. The investments were dominated by energy optimisation measures (36 percent) and efforts to improve occupational health and safety (44 percent), meaning the areas that have had high priority for many years. Environmental and work-related costs rose slightly compared with the preceding year to 16.7 MSEK (14.6). The costs include administration, running of emission abatement equipment and fees to authorities and certification bodies. The main cost item pertained to fees for the management of waste and accounted for 59 percent (50) of the total costs.

The positive aspect is that the environmental measures resulted in savings of 11.5 MSEK (7.5). Energy optimisation, increased use of biofuel and internal recycling of rubber waste contributed significantly to the savings. Savings were also generated from long-term measures implemented in prior years.

## SOCIAL RESPONSIBILITY

### PREVENTIVE MEASURES FOR OCCUPATIONAL HEALTH AND SAFETY

During the year, there were 104 occupational accidents (68) resulting in more than one day's absence from work. Total absence due to occupational accidents amounted to 1,875 days (1,016) days. The number of accidents and days of absence increased and the common causes of accidents were falls, equipment, manual work and heavy lifts. A higher accident frequency rate was reported at a couple of facilities, at which a program is now being implemented in the form of preventive technical measures and training. One occupational accident involving a contractor was reported and 18 (15) work-related illnesses were confirmed. Impaired hearing, allergies and injury to muscles and skeleton were dominant among illnesses.



The objective is for no work accidents to occur and the Group's occupational health and safety effort is based on preventive measures and a systematic approach. One example is the OHSAS 18001 occupational health and safety system, which was successfully introduced in the facilities in Sri Lanka. Work on safety committees is also important and such organisations exist in 89 percent (85) of the facilities. Risk analyses, occupational health and safety measurements, technical measures, training and safety rounds were implemented during the year. The measurements included exposure to dust, solvents and noise. Special health checks of the workforce are conducted at units handling isocyanates. Other types of recurring health checks are common in the Group.

The systems for registering near misses, meaning events that could potentially cause an occupational accident, were further developed in 2014. Such systems have now been introduced in 89 percent (85) of the units. A total of 438 near misses (233) were registered, indicating that the reporting systems are being used in daily work. Naturally, the aim of the reporting is to take preventive and remedial measures to reduce the risk of accidents.

In the legislative area, new legislation about labeling and risk information about chemicals (GHS/CLP) will mainly impact the Group in coming years. Accordingly, facilities are focusing on preparedness ahead of the changes.

### EMPLOYEE DEVELOPMENT

Training and competency development occur continuously in Group companies and totalled 76,000 hours (55,000) in 2014. This corresponds to more than 20 hours per employee. About 2,500 employ-





ees participated in developmental discussions or some other form of performance reviews. Surveys of employee views of occupational health and safety are conducted regularly at several of the units and 12 such surveys were conducted during the year. The results indicated many satisfied employees but also items that can improve, for example, personal development opportunities. HEXPOL GoldKey received the Best Workplace award in an independent evaluation based on employee assessments.

Training programmes involving the environment, occupational health and safety were conducted regularly during the year and included an average of 6.8 hours (7.2) 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. Information activities about "Materializing Our Values" continued and now include all employees.

#### **RIGHT TO REPRESENTATION**

HEXPOL's values recognise the employee's right to be represented by trade unions or other employee representatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies depending on local political and cultural conditions in the countries in which we are active. All employees are covered by collective agreements at about 25 percent of the plants and this applies in 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 workplace are important to HEXPOL. The same view applies in the Group's relationships with suppliers. No significant infringements were reported during the year. More information about HEXPOL's social responsibility work is available in the section entitled "Corporate responsibility" on pages 56-63 and in the Sustainability Report.



## HEXPOL supports family for the holidays

Every year GoldKey associates come together to support charitable activities in the local community.

"We always feel very blessed that we are able to help those less fortunate than ourselves. As part of the family culture we have built, the team is always looking for the best way to pay it forward to provide assistance to others", Jerry Saxion, Managing Director GoldKey Processing, USA.

This year, the GoldKey team decided that the best way to pay it forward was to find someone locally that really needed assistance to not only have a better holiday season for their family, but hopefully make a positive change in their life. The team found a family in the Middlefield area that needed just this kind of assistance. This single mother family with four children, one who is disabled, needed someone to help them out in their time of need to get back on their feet, especially during the holiday season.

The GoldKey team introduced themselves to the family by providing gift cards to the local grocery store to take care of their Thanksgiving dinner. At that time they also received a wish list of presents they hoped for to brighten their Christmas.

The wish list was placed below the GoldKey Christmas tree at campus and the associates then proceeded to fill the family's wishes out of their own generosity. The GoldKey team was very generous by filling the wishes of each of the children with gifts, while also providing gift cards and cash donations totaling over \$600 to the family. It was a wonderful and humbling feeling to be able to play Santa by delivering the gifts in our sleigh, the GoldKey van, to our adopted family at their home and see the joy we could bring.

The GoldKey family also continued to support other local charities including: The DDC clinic for genetic disorders in

the Amish community, Santa's Hideaway for terminally ill children, The American Heart Association, The American Red Cross, Relay for Life, Wounded Warriors and other local community groups.



# 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 June 9, 2008. Any deviations from the code are noted in the table below.

#### SHAREHOLDERS

Refer to pages 17-18 for information on the ownership structure and the major shareholders.

#### ARTICLES OF ASSOCIATION

HEXPOL's current Articles of Association were adopted on May 5, 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 May 7, 2014.

#### 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 2014 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,

#### 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- committee	Independent in relation to the company and management	Independent in relation to major shareholders	Holdings Number of A shares	Holdings Number of 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	–	186,150
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–
Märta Schörling	1984	Swedish	2014	No	No	Yes	No	–	–

Henrik Didner representing Didner & Gerge Fonder and Anders Algotsson representing AFA Försäkring should be members of the Nomination Committee ahead of the 2015 AGM. Should a shareholder who is represented by one of the members of the Remuneration Committee cease being one of the largest shareholders in HEXPOL, or should a member of the committee no longer be employed by such a shareholder or for any other reason leave the committee prior to the AGM 2015, 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 2015 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 May 7, 2014 resolved to elect a Board consisting of seven persons, including the President and CEO. Refer to the table above for the Board's composition. The Board was elected for the period up to the 2015 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 requirements. Members can be reached at the address of HEXPOL's head office.

#### Responsibilities of the Board of Directors

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

#### 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 2014 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 2014, the committee consisted of Melker Schörling (Chairman) and Ulrik Svensson. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

#### Board activities in 2014

The Board held a total of six minuted meetings during the year, where of one statutory meeting, at which the following items, among others, were addressed:

February 5	Year-end report for 2013 and debriefing with the auditors.
May 7	Interim report January-March 2014. Sustainability report and statutory Board meeting after the 2014 AGM.
July 23	Interim report January-June 2014
October 24	Interim report January-September 2014 and strategic plan for 2015–2017.
December 2	Budget 2015 and subsidiary visits

During 2014, all AGM-elected Board members attended all Board meetings, with exception of the Board meeting on December 2 where one of the board members where not attendant.

#### AUDITORS

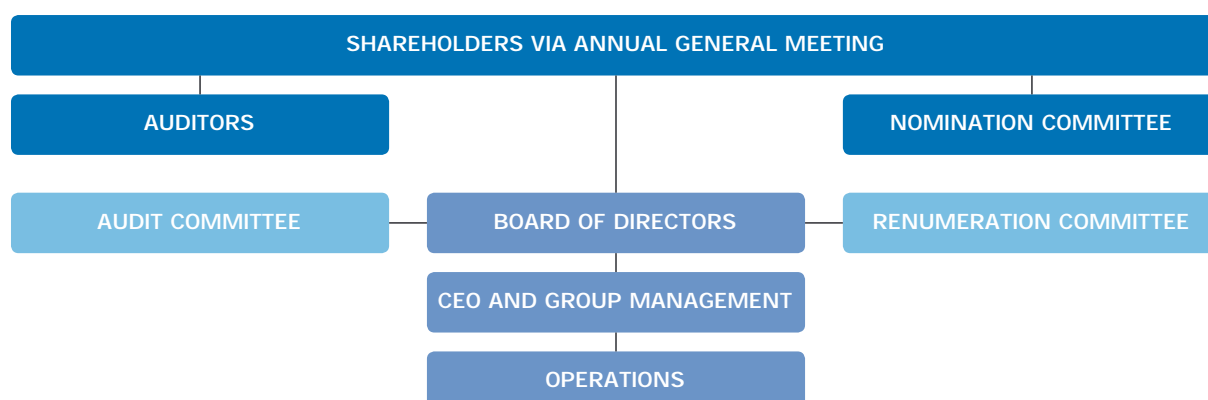
The auditors are elected at the AGM and, on the behalf of the shareholders, are responsible for examining the Annual Report and accounting records, as well as the administration of the Board and President. HEXPOL's auditors normally attend at least one Board meeting annually at which they report their 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 2014 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 2015 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 112, 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 97-98 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 2014 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	2014	2013
Sales	1	8,919	8,036
Cost of goods sold		-6,984	-6,370
<b>Gross profit</b>		<b>1,935</b>	<b>1,666</b>
Sales costs		-118	-112
Administration costs		-330	-266
Research and development costs		-64	-55
Other income and expenses		33	22
<b>Operating profit</b>	1,3,4,7,8	<b>1,456</b>	<b>1,255</b>
Financial income	5	9	17
Financial expenses	5	-29	-36
<b>Profit before tax</b>		<b>1,436</b>	<b>1,236</b>
Tax	6	-388	-306
<b>Profit after tax</b>		<b>1,048</b>	<b>930</b>
of which, attributable to Parent Company shareholders		1,048	930
		<b>2014</b>	<b>2013</b>
Earnings per share, SEK		30.45	27.02
Average number of shares before and after dilution, thousands		34,420	34,420

## Consolidated statement of comprehensive income

MSEK	2014	2013
Profit after tax	1,048	930
<b>Items that will not be re-classified to the income statement</b>		
Re-measurement of defined benefit pension plans	0	-3
Income tax relating to items that will not be re-classified to the income statement	0	1
<b>Items that may be re-classified to the income statement</b>		
Cash-flow hedges	0	0
Hedge of net investment	-143	1
Income tax relating to items that may be re-classified to the income statement	32	0
Translation difference	805	-14
<b>Comprehensive income</b>	<b>1,742</b>	<b>915</b>
of which, attributable to the Parent Company's shareholders	1,742	915

## Consolidated balance sheets

MSEK	Note	2014	2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets	7	3,364	2,730
Tangible fixed assets	8	1,427	1,186
Financial fixed assets		1	0
Deferred tax assets	6	40	30
<b>Total fixed assets</b>		<b>4,832</b>	<b>3,946</b>
<b>Current assets</b>			
Inventories	9	580	488
Accounts receivable	10	945	725
Current tax receivables		55	70
Other current receivables		21	30
Prepaid expenses and accrued income		25	22
Cash and cash equivalents		826	597
<b>Total current assets</b>		<b>2,452</b>	<b>1,932</b>
<b>TOTAL ASSETS</b>		<b>7,284</b>	<b>5,878</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		69	69
Other capital contributions		598	598
Reserves		586	-108
Profit brought forward		2,748	2,128
Profit for the year		1,048	930
<b>Total equity attributable to parent company's shareholders</b>	11	<b>5,049</b>	<b>3,617</b>
Attributable to non-controlling interests		0	0
<b>Total shareholders' equity</b>		<b>5,049</b>	<b>3,617</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	12	219	928
Deferred tax liabilities	6	240	191
Pension provisions	13	20	17
<b>Total non-current liabilities</b>		<b>479</b>	<b>1,136</b>
<b>Current liabilities</b>			
Interest-bearing current liabilities	12	348	34
Accounts payable		1,017	775
Current tax liabilities		32	49
Other current liabilities		28	18
Other provisions	14	29	0
Accrued expenses and deferred income	15	302	249
<b>Total current liabilities</b>		<b>1,756</b>	<b>1,125</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>7,284</b>	<b>5,878</b>
Pledged assets	16	5	5
Contingent liabilities	16	0	0

## Consolidated changes in shareholders' equity

MSEK	Attributable to Parent Company shareholders				Total
	Share capital	Other capital contributions	Reserves	Profit brought forward	
Per December 31 2012	69	598	-93	2,335	2,909
<b>2013</b>					
<b>Total comprehensive income</b>					
Profit after tax	-	-	-	930	930
Other comprehensive income	-	-	-15	-	-15
Total comprehensive income	-	-	-15	930	915
<b>Transactions with shareholders</b>					
Dividend	-	-	-	-207	-207
Per December 31 2013	69	598	-108	3,058	3,617
<b>2014</b>					
<b>Total comprehensive income</b>					
Profit after tax	-	-	-	1,048	1,048
Other comprehensive income	-	-	694	-	694
Total comprehensive income	-	-	694	1,048	1,742
<b>Transactions with shareholders</b>					
Dividend	-	-	-	-310	-310
Per December 31 2014	69	598	586	3,796	5,049

## Consolidated cash flow statements

MSEK	Note	2014	2013
<b>Cash flow from operating activities</b>			
Operating profit	17	1,456	1,255
Adjustment for non-cash items		166	156
Net financial items		-21	-38
Tax paid		-341	-293
<b>Cash flow from operations before changes in working capital</b>		<b>1,260</b>	<b>1,080</b>
<b>Cash flow from changes in operating capital</b>			
Changes in operating receivables		28	8
Changes in operating liabilities		144	135
Non-recurring items		0	0
<b>Cash flow from operations</b>		<b>1,432</b>	<b>1,223</b>
<b>Investing operations</b>			
Investments in tangible fixed assets		-127	-142
Sales of tangible fixed assets		11	9
Investments in intangible fixed assets		-2	-3
Acquisition of business combinations	20	-413	-3
<b>Cash flow from investing activities</b>		<b>-531</b>	<b>-139</b>
<b>Financing activities</b>			
Loans raised		105	1,996
Amortisation of liabilities		-572	-2,849
Dividend		-310	-207
<b>Cash flow from financing activities</b>		<b>-777</b>	<b>-1,060</b>
<b>Cash flow for the year</b>		<b>124</b>	<b>24</b>
Cash and cash equivalents at January 1		597	564
Exchange-rate differences in cash and cash equivalents		105	9
<b>Cash and cash equivalents at December 31</b>		<b>826</b>	<b>597</b>

## Operating cash flow, Group

MSEK	2014	2013
Operating profit	1,456	1,255
Depreciation/amortisation/impairment	166	156
Change in working capital	172	143
Sales of tangible fixed assets	11	9
Investments	-129	-145
<b>Operating cash flow</b>	<b>1,676</b>	<b>1,418</b>



## Accounting policies

HEXPOL's consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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 96.

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

During the year, the Group introduced the following new and amended accounting standards with effect from 1 January 2014:

New:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

Amended:

- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 39 Financial Instruments: Recognition and Measurement

None of these new or revised accounting standards that entered into force in 2014 have had any significant impact on the Group.

New standards (IFRS 9, IFRS 14, IFRS 15, IFRIC 21) and amended standards (IFRS 10, IFRS 11, IAS 16, IAS 19, IAS 27), which have been decided to apply as of the 2015 calendar year or later, are not deemed to have any material impact on consolidated financial statements beyond what is specified below.

IFRS 9 – Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities. The standard is effective for fiscal year beginning January 1, 2018. Earlier application is permitted. IFRS 9 has not yet been approved by the EU. The Group has not yet assessed the impact of the introduction of the standard.

IFRS 15 - Revenue from Contracts with Customers regulates the recognition of revenues. The

principles IFRS 15 builds on will provide users of financial statements more useful information about the company's revenues. IFRS 15 enter into force on January 1, 2017. Earlier application is permitted. IFRS 15 is not yet approved by the EU. The Group has not yet assessed the impact of the introduction of the standard.

### 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.

Board of Directors and corporate management carry out accounting estimates and assumptions that affect the application of the accounting policies and the reported figures for assets, liabilities, revenues and expenses. These estimates are based on historical experiences and the different assumptions believed to be reasonable under current circumstances. The actual outcome could deviate from these accounting estimates. Certain accounting matters involving such estimates and assumptions, which may have significant impact on the Group's earnings and financial positions, such as assessment of the present value of forecasted cash flows in the analysis of possible impairment of goodwill, calculation of deferred tax assets and liabilities, calculation of provisions for restructuring measures, the outcome of legal disputes and contingent liabilities.

### 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. Acquisition-related costs are expensed when they occur.

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.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

#### 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 significant influence but non-controlled. 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 acquisi-

tion 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.

#### TRANSACTION WITH RELATED PARTIES

Group's transactions with related parties relates to purchases from associated companies. Pricing occurs at market price and condition, refer to Note 2. In addition, remuneration to Board of Directors and senior executives, refer to Note 3.

#### SEGMENT REPORTING

An operating segment is the part of the Group that engages in business activities from which it may earn revenues and incur expenses and for which separate financial information is available. For the HEXPOL Group, lines of business (business areas) represent the basis of division into operating segments. Segment information is presented in accordance with IFRS 8 for the Group. Segment earnings, assets and liabilities include items directly attributable items and items that can be allocated to the segment on a reasonable basis. Unallocated items comprise interest and dividend income, gains/losses on disposal of financial investments, interest expense and income taxes. Assets and liabilities that are not allocated to the reportable segments are tax assets and liabilities, financial investments and financial liabilities. 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 2014, Alecta's surplus in the form of the collective consolidation level was 144 percent (148).

### PROVISIONS

The Group recognises provisions when the Group has a legal or informal undertaking as a result of the occurrence of an event and it is likely that an outflow of resources will be required to settle the undertaking and a reliable estimate can be made of the amount. A provision for restructuring is recognised when a detailed formal action plan has been established and expectations have been created among those who will be affected by the actions.

### INCOME TAX

Income tax expenses for the year consist of current and deferred tax, and shares in the tax of associated companies. Tax is recognised in the income statement, except when the tax relates to items recognised in other comprehensive income or directly in equity. In such cases the tax is also recognised in other comprehensive income and equity.

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 direct 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.

rable 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 10.5 percent (11.0) 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, 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. Unallocated assets and liabilities relates to 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		Geographic markets MSEK	Sales per recipient country		Operating capital	
	2014	2013	2014	2013	2014	2013		2014	2013	2014	2013
Sales, external	8,198	7,345	721	691	8,919	8,036	Europe	2,731	2,523	1,443	1,336
Operating profit	1,364	1,177	92	78	1,456	1,255	NAFTA	5,677	5,083	3,095	2,406
Operating margin, %	16.6	16.0	12.8	11.3	16.3	15.6	Asia	511	430	447	397
Net financial items					-20	-19	<b>Total</b>	<b>8,919</b>	<b>8,036</b>	<b>4,985</b>	<b>4,139</b>
Tax					-388	-306					
<b>Profit for the year</b>					<b>1,048</b>	<b>930</b>					
Operating assets	5,918	4,754	444	427	6,362	5,181					
Unallocated assets	-	-	-	-	922	697					
<b>Group Total</b>	<b>5,918</b>	<b>4,754</b>	<b>444</b>	<b>427</b>	<b>7,284</b>	<b>5,878</b>					
Operating liabilities	1,279	951	98	91	1,377	1,042					
Unallocated liabilities	-	-	-	-	858	1,219					
<b>Group Total</b>	<b>1,279</b>	<b>951</b>	<b>98</b>	<b>91</b>	<b>2,235</b>	<b>2,261</b>					
Investments	101	109	28	36	129	145					
Depreciation/amortisation	125	132	25	24	150	156					

## Note 2 Related-party transactions

Transactions between Group companies occur on market-based conditions.

In 2014, the Group purchased energy for 11 MSEK (13) from the associated company, Megufo AB, in Sweden.

On 31 December 2014, the Group had a liability of 1 MSEK (1) to this associated company.

## Note 3 Employees and personnel costs

### Costs for remuneration of employees

MSEK	2014	2013
Salaries and remuneration, etc.	882	752
<b>Total</b>	<b>882</b>	<b>752</b>
To the Board and Presidents, of which bonus and similar items	87	71
	33	24
Pension costs	17	17
Social-security costs	126	125
<b>Total</b>	<b>143</b>	<b>142</b>

Average number of employees	of whom		of whom	
	2014	men	2013	men
Sweden	310	63%	320	61%
Belgium	65	83%	58	83%
Czech Republic	102	94%	98	95%
Germany	183	91%	166	90%
Mexico	218	87%	210	87%
Luxembourg	3	67%	3	67%
USA	1,173	89%	1,160	89%
China	293	62%	291	60%
Sri Lanka	1,034	95%	1,016	96%
UK	97	85%	89	88%
Spain	15	93%	-	-
<b>Total</b>	<b>3,493</b>	<b>86%</b>	<b>3,411</b>	<b>86%</b>

### Personnel costs per country

MSEK	2014	2013
Sweden	220	203
Belgium	42	37
Czech Republic	20	18
Germany	79	68
Mexico	29	26
Luxembourg	11	12
USA	517	446
China	32	27
Sri Lanka	33	29
UK	37	28
Spain	5	-
<b>Total</b>	<b>1,025</b>	<b>894</b>

### Remuneration of the Board of Directors

TSEK	Board fee		Committee fee		Total	
	2014	2013	2014	2013	2014	2013
Melker Schörling, chairman	575	500	75	75	650	575
Alf Göransson	285	250			285	250
Jan-Anders E. Månson	285	250			285	250
Malin Persson	285	250	100	75	385	325
Märta Schörling	285	-			285	-
Ulrik Svensson	285	250	250	200	535	450
<b>Total</b>	<b>2,000</b>	<b>1,500</b>	<b>425</b>	<b>350</b>	<b>2,425</b>	<b>1,850</b>



## Remuneration of senior executives

TSEK	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Georg Brunstam, President and CEO	7,700	5,819	6,664	5,939	3,024	2,373	1,275	645	18,663	14,776
Other members of Group management, 6 persons (6)	16,708	14,506	12,614	13,535	2,049	1,885	860	1,090	32,231	31,016
<b>Total</b>	<b>24,408</b>	<b>20,325</b>	<b>19,278</b>	<b>19,474</b>	<b>5,073</b>	<b>4,258</b>	<b>2,135</b>	<b>1,735</b>	<b>50,894</b>	<b>45,792</b>

## 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	2014	2013
EY		
Audit assignment	4	5
Audit activities in addition to audit assignment	1	1
Tax consultancy	1	0
Other services	0	0
Other auditors		
Audit assignment	0	1
Tax consultancy	0	1
Other services	0	0
<b>Total</b>	<b>6</b>	<b>8</b>

## Note 5 Financial income and expenses

MSEK	2014	2013
Interest income	2	4
Exchange rate gains	7	13
Other financial income	0	0
<b>Financial income</b>	<b>9</b>	<b>17</b>
Interest expense	-20	-24
Exchange rate loss	-4	-8
Other financial expenses	-5	-4
<b>Financial expense</b>	<b>-29</b>	<b>-36</b>
<b>Net financial expense</b>	<b>-20</b>	<b>-19</b>

## Note 6 Taxes

MSEK	2014	2013
<b>Current tax expense</b>		
Tax expense on profit for the year	-347	-287
<b>Total</b>	<b>-347</b>	<b>-287</b>
<b>Deferred tax expense</b>		
Deferred tax pertaining to temporary differences	-38	-22
Utilised/revaluation of loss carryforwards	-3	3
<b>Total</b>	<b>-41</b>	<b>-19</b>
<b>Total recognised tax expense</b>	<b>-388</b>	<b>-306</b>

## Reconciliation of effective tax

MSEK	2014	%	2013	%
Profit before tax	1,436		1,236	
Tax according to applicable tax rate for the parent Company	-316	-22	-272	-22
Effect of other tax rates for foreign subsidiaries	-70	-5	-55	-4
Non-deductible expenses	-2	0	-1	0
Non-taxable income	3	0	0	0
Deductible goodwill amortisation	6	0	6	0
Revaluation of tax-loss carry-forwards/temporary differences	-9	-1	-3	0
Tax attributable to prior years	0	0	19	1
<b>Total reported tax expense</b>	<b>-388</b>	<b>-27</b>	<b>-306</b>	<b>-25</b>

At 31 December 2014, the Group had loss carryforwards of 76 MSEK (86) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 61 MSEK (60) 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	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Intangible assets	-90	-69	-26	-20	-	-	-	-	-22	-1	-138	-90
Tangible assets	-92	-88	-3	-20	-	16	-	-	-8	0	-103	-92
Current assets	17	12	-10	6	-	-	-	-	-1	-1	6	17
Operating liabilities	6	-6	1	12	-	-	-	1	2	-1	9	6
Loss carryforwards	3	0	-3	3	-	0	-	-	0	0	0	3
Liabilities	-5	-5	0	0	-	-	32	-1	-1	1	26	-5
Other	0	0	0	0	-	-	-	-	-	-	0	0
<b>Total</b>	<b>-161</b>	<b>-156</b>	<b>-41</b>	<b>-19</b>	<b>-</b>	<b>16</b>	<b>32</b>	<b>0</b>	<b>-30</b>	<b>-2</b>	<b>-200</b>	<b>-161</b>

## Note 7 Intangible fixed assets

Accumulated acquisition value MSEK	Goodwill		Other intangible assets		Total		Goodwill distributed by operating segment MSEK		
	2014	2013	2014	2013	2014	2013	2014	2013	
Opening balance on January 1	2,633	2,615	159	161	2,792	2,776	HEXPOL Compounding	3,215	2,599
Acquisitions	213	22	6	-6	219	16	HEXPOL Engineered Products	27	23
Investments	-	-	2	3	2	3	<b>Closing balance, December 31</b>	<b>3,242</b>	<b>2,622</b>
Translation difference	407	-4	27	1	434	-3			
<b>Closing balance, December 31</b>	<b>3,253</b>	<b>2,633</b>	<b>194</b>	<b>159</b>	<b>3,447</b>	<b>2,792</b>			
<b>Accumulated amortisation</b>									
Opening balance on January 1	-11	-11	-51	-47	-62	-58			
Acquisitions	-	-	-1	8	-1	8			
Amortisation according to plan for the year	-	-	-11	-12	-11	-12			
Translation differences	-	-	-9	0	-9	0			
<b>Closing balance, December 31</b>	<b>-11</b>	<b>-11</b>	<b>-72</b>	<b>-51</b>	<b>-83</b>	<b>-62</b>			
<b>Carrying amount, December 31</b>	<b>3,242</b>	<b>2,622</b>	<b>122</b>	<b>108</b>	<b>3,364</b>	<b>2,730</b>			

Other intangible assets pertain to mainly acquired customer relations and remaining amortisation period is between 11 and 14 years.

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

When calculating the present value of future cash flows, a cost of capital (WACC) of 10.5 percent before tax (11.0) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on an internal estimation of the three 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	2014	2013	Tangible fixed assets MSEK	Land and buildings		Machinery and equipment		Total	
				2014	2013	2014	2013	2014	2013
Within one year	31	24	<b>Accumulated acquisition value</b>						
Between one and five years	50	37	Opening balance on January 1	644	648	2,020	1,992	2,664	2,640
Longer than five years	15	13	Investments	12	4	115	138	127	142
<b>Total</b>	<b>96</b>	<b>74</b>	Acquisitions	22	-12	216	-36	238	-48
<b>Leasing expenses</b>			Divestments, disposals	-7	-6	-37	-70	-44	-76
MSEK	2014	2013	Reclassification	0	6	0	-6	0	0
Minimum leasing fees	33	25	Translation difference	83	4	305	2	388	6
<b>Total</b>	<b>33</b>	<b>25</b>	<b>Closing balance, December 31</b>	<b>754</b>	<b>644</b>	<b>2,619</b>	<b>2,020</b>	<b>3,373</b>	<b>2,664</b>
			<b>Accumulated depreciation value</b>						
			Opening balance on 1 January	-210	-189	-1,268	-1,224	-1,478	-1,413
			Acquisitions	0	0	-138	11	-138	11
			Depreciation according to plan for the year	-24	-23	-115	-121	-139	-144
			Divestments, disposals	2	3	31	65	33	68
			Translation difference	-24	-1	-184	1	-208	0
			<b>Closing balance, December 31</b>	<b>256</b>	<b>-210</b>	<b>-1,674</b>	<b>-1,268</b>	<b>-1,930</b>	<b>-1,478</b>
			<b>Accumulated impairment</b>						
			Opening balance on 1 January	0	0	0	0	0	0
			Impairment	-4	0	-12	0	-16	0
			Translation difference	0	0	0	0	0	0
			<b>Closing balance, December 31</b>	<b>-4</b>	<b>0</b>	<b>-12</b>	<b>0</b>	<b>-16</b>	<b>0</b>
			<b>Carrying amount</b>	<b>494</b>	<b>434</b>	<b>933</b>	<b>752</b>	<b>1,427</b>	<b>1,186</b>
<b>Distribution of depreciation/amortisation of tangible and intangible assets for the year MSEK</b>	<b>2014</b>	<b>2013</b>							
Costs of goods sold	140	144							
Selling costs	0	0							
Administration costs	8	10							
Product development costs	2	2							
Other	16	0							
<b>Total</b>	<b>166</b>	<b>156</b>							

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

## Note 9 Inventories

MSEK	2014	2013
Raw materials	372	322
Goods in production	29	23
Finished goods	179	143
<b>Total</b>	<b>580</b>	<b>488</b>

No significant impairments have been made during the year.

## Note 10 Accounts receivables

Age distribution of accounts receivables		
MSEK	2014	2013
Not due	885	654
Past due, 1-60 days	60	71
Past due, more than 60 days	0	0
<b>Accounts receivable</b>	<b>945</b>	<b>725</b>

Provisions for bad debt losses		
MSEK	2014	2013
Opening balance	-52	-51
Provision for the year	-2	-2
Acquisitions	0	0
Actual losses	1	1
<b>Closing balance</b>	<b>-53</b>	<b>-52</b>

## Note 11 Shareholders' equity

Changes in the number of shares	Class A shares		Class B shares		Total	
	2014	2013	2014	2013	2014	2013
Opening balance on January 1	1,476,562	1,476,562	32,943,566	32,943,566	34,420,128	34,420,128
Closing balance, December 31	1,476,562	1,476,562	32,943,566	32,943,566	34,420,128	34,420,128

Average number of shares	2014	2013	Number of votes		
	34,420,128	34,420,128	Class A shares	Class B shares	Total
			14,765,620	32,943,566	47,709,186

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

## Note 12 Interest-bearing liabilities

Non-current liabilities	MSEK	2014	2013	Loans		2014		2013	
				MSEK	Utilised	Unutilised	Utilised	Unutilised	
Liabilities to credit institutions	219	219	928	Bilateral loan, 750 MSEK	219	531	473	277	
<b>Non-current liabilities</b>	<b>219</b>	<b>219</b>	<b>928</b>	Bilateral loan, 125 MUSD	-	976	26	788	
				Bilateral loan, 100 MUSD	-	-	429	222	
				<b>Total non-current liabilities</b>	<b>219</b>		<b>928</b>		
<b>Current liabilities</b>				Bilateral loan, 100 MUSD	312	469	-	-	
MSEK				Other	36	0	34	0	
Liabilities to credit institutions	348	348	34	<b>Total current liabilities</b>	<b>348</b>		<b>34</b>		
Other liabilities	0	0	0						
<b>Current liabilities</b>	<b>348</b>	<b>348</b>	<b>34</b>						

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

- A three-year credit agreement with a limit of 750 MSEK that will fall due in February 2016. The loan was raised in SEK and EUR.
- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2018. The loan was raised in USD.
- A five-year credit agreement with a limit of 100 MUSD that will fall due in October 2015. The loan was raised in USD.

All loans are amortisation free and carry floating interest. All bilateral credit agreements include financial covenants, all of which were fulfilled at 31 December 2014. HEXPOL had no interest-bearing or currency derivatives at 31 December 2014 involving external borrowing.

## Note 13 Pension provisions

MSEK	2014	2013
Provisions for pensions	20	17
<b>Total</b>	<b>20</b>	<b>17</b>

Change in provisions		
MSEK	2014	2013
Opening balance on January 1	17	13
Adjustment according to the revised IAS 19	-	3
Provisions for the year	3	1
<b>Closing balance on December 31</b>	<b>20</b>	<b>17</b>

The Group has pension provisions in a Swedish subsidiary and in subsidiaries in Sri Lanka. The revised IAS 19, Employee Benefits, started to be applied on 1 January 2013 and entailed an increase of 3 MSEK in pension liabilities. Adjusted for this change, the closing balance on 31 December 2013 totals 17 MSEK.

## Note 14 Other provisions

MSEK	2014	2013	Other provisions relate to, among others, integration and restructuring costs related to the acquisition of Vigar including costs for the planned closure of the German factory in Viersen.
Opening balance	0	0	
Provisions for the year	27	0	
Utilised during the year	0	0	
Translation difference	2	0	
<b>Closing balance</b>	<b>29</b>	<b>0</b>	

## Note 15 Accrued expenses and deferred income

MSEK	2014	2013
Personnel-related expenses	205	161
Accrued expenses goods and services	20	18
Other	77	70
<b>Total</b>	<b>302</b>	<b>249</b>

## Note 16 Pledged assets and contingent liabilities

Pledged assets	2014	2013
MSEK		
Fixed assets	0	0
Current assets	5	5
<b>Total</b>	<b>5</b>	<b>5</b>
Contingent liabilities		
Guarantee for the benefit of associated companies	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

## Note 17 Cash flow statement

Financial items received and paid	2014	2013
MSEK		
Financial income received	9	20
Financial expenses paid	-30	-58
Adjustments for non-cash items		
MSEK	2014	2013
Depreciation/amortisation /impairment	166	156
<b>Total</b>	<b>166</b>	<b>156</b>

## Note 18 Financial instruments and risk management

Information about carrying value	2014 Carrying value	2013 Carrying value
MSEK		
Assets		
Financial assets measured at fair value through profit or loss		
The Group's currency derivatives outstanding – commercial exposure	-	-
The Group's currency derivatives outstanding – financial exposure	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
Loans and accounts receivables		
Accounts receivable	945	725
<b>Total</b>	<b>945</b>	<b>725</b>
Cash and cash equivalents		
	826	597
Liabilities		
Financial liabilities measured at fair value through profit and loss		
The Group's currency derivatives outstanding – commercial exposure	0	0
The Group's currency derivatives outstanding – financial exposure	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
Financial liabilities measured at accrued acquisition value		
Non-current loans	219	928
Current loans	348	34
<b>Total</b>	<b>567</b>	<b>962</b>
Accounts payable	1,017	775

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

All forward contracts fall due within one year

Sell forward contracts outstanding at December 31	2014 Nominal value	2013 Nominal value		
MSEK				
Currency forward contracts	-	30		
Currency distribution				
	2014 Nominal value	Average hedging rate	2013 Nominal value	Average hedging rate
EUR/SEK	-	-	30	8.95

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

The revaluation is recognized in the income statement.

Forward contracts outstanding at December 31	2014 Nominal value	2013 Nominal value		
MSEK				
Currency forward contracts	85	85		
Currency distribution				
	2014 Nominal value	Average hedging rate	2013 Nominal value	Average hedging rate
CZK/SEK	85	0.35	85	0.33



Sell forward contracts outstanding at December 31 MSEK	2014		2013	
	Nominal value		Nominal value	
Currency forward contracts	94		104	

Currency distribution	2014		2013	
	Nominal value	Average hedging rate	Nominal value	Average hedging rate
GBP/SEK	94	12.12	104	10.77

## Note 19 Quarterly data

MSEK	2014				2013			
	Kv 4	Kv 3	Kv 2	Kv 1	Kv 4	Kv 3	Kv 2	Kv 1
Sales	2,331	2,312	2,145	2,131	1,923	2,039	2,060	2,014
Operating profit	344	388	360	364	321	324	312	298
Profit after tax	248	280	258	262	254	232	228	216

## Note 20 Acquisitions

### Acquisition of Kardoes Rubber 2014

In August 2014, the HEXPOL Group acquired the business in Kardoes Rubber Co. Frank Kardoes founded Kardoes Rubber in 1988 and the company is today a well-known producer of rubber compounds in the US market. Kardoes Rubber, with one manufacturing unit in LaFayette, Alabama, USA, had a turnover of 43 MUSD in 2013 and approximately 90 employees. The acquisition price amounted to 31.8 MUSD on a cash and debt free basis. Transaction cost amounted to 2 MSEK and has been taken as a cost in the income statement. The business was consolidated as of August 2014. The acquired net assets and goodwill are presented below.

MSEK	
Purchase consideration	219
Fair value of acquired net assets	-106
<b>Goodwill</b>	<b>113</b>

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition 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 is preliminary and may change during 2015. The following assets and liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	0
Current assets	63
Tangible assets	58
Intangible assets	0
Deferred tax assets	0
Current liabilities	-15
Financial liabilities	0
Deferred tax liabilities	0
<b>Acquired net assets</b>	<b>106</b>

Goodwill	113
<b>Total purchase consideration</b>	<b>219</b>

Cash and cash equivalents in acquired operations	0
<b>Change in the Group's cash and cash equivalents resulting from the acquisition</b>	<b>219</b>

### Acquisition of Vigar Rubber Compounding 2014

In August 2014, the HEXPOL Group acquired the business in Vigar Rubber Compounding. The company has more than 50 years' experience of rubber compounding and is today a well-known rubber compounder in the Spanish and German markets. Vigar Rubber Compounding with manufacturing units in Rubi, Spain and Viersen, Germany, had a turnover of 57 MEUR in 2013 and 134 employees (Spain 88, Germany 46). The acquisition price is estimated to approximately 17,5 MEUR on a cash and debt free basis including a non-exercised option to buy the real estate in Spain. Transaction-, integration-, and restructuring cost including a planned closure of the German manufacturing unit is estimated to 38 MSEK and has been taken as a cost in the income statement. The business was consolidated as of November 2014. The acquired net assets and goodwill are presented below.

MSEK	
Purchase consideration	110
Fair value of acquired net assets	-80
<b>Goodwill</b>	<b>30</b>

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition 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 5 MSEK for the estimated value of acquired customer relations. The fair value of the acquired net assets is preliminary and may change during 2015. The following assets and liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	0
Current assets	42
Tangible assets	39
Intangible assets	5
Deferred tax assets	0
Current liabilities	-6
Financial liabilities	0
Deferred tax liabilities	0
<b>Acquired net assets</b>	<b>80</b>

Goodwill	30
<b>Total purchase consideration</b>	<b>110</b>

Cash and cash equivalents in acquired operations	0
<b>Change in the Group's cash and cash equivalents resulting from the acquisition</b>	<b>110</b>

### Acquisition of Portage Precision Polymers 2014

In December 2014, the HEXPOL Group acquired the business in Portage Precision Polymers. The company is today a well-known producer of rubber compounds in the US market. Portage Precision Polymers with two manufacturing units in Ohio (Ravenna and Mogadore), USA, and had a turnover of 29 MUSD in 2013. The Ravenna facility was not included in the transaction and its business will be transferred to other HEXPOL facilities. The acquisition price amounted to 13,2 MUSD on a cash and debt free basis of which 11,2 was paid at the time of the acquisition. A conditional part of the purchase price of maximum 2 MUSD will be paid 12 months after the acquisition if certain criteria are met. Transaction cost amounted to 1 MSEK and has been taken as a cost in the income statement. The business was consolidated as of December 2014.

MSEK	
Purchase consideration	99
Fair value of acquired net assets	-29
<b>Goodwill</b>	<b>70</b>

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition 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 is preliminary and may change during 2015. The following assets and liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	0
Current assets	38
Tangible assets	3
Intangible assets	0
Deferred tax assets	0
Current liabilities	-12
Financial liabilities	0
Deferred tax liabilities	0
<b>Acquired net assets</b>	<b>29</b>

Goodwill	70
<b>Total purchase consideration</b>	<b>99</b>
Contingent consideration	-15
Cash and cash equivalents in acquired operations	0
<b>Change in the Group's cash and cash equivalents resulting from the acquisition</b>	<b>84</b>

## Parent Company's income statements

MSEK	Note	2014	2013
Sales	21	35	32
Administration costs		-59	-47
<b>Operating profit</b>	22, 23	<b>-24</b>	<b>-15</b>
Financial income	24	354	399
Financial expenses	24	-51	-27
<b>Profit after financial items</b>		<b>279</b>	<b>357</b>
Appropriations		0	8
<b>Profit before tax</b>		<b>279</b>	<b>365</b>
Tax	25	1	0
<b>Profit after tax</b>		<b>280</b>	<b>365</b>

Comprehensive income matches profit after tax.

## Parent Company's balance sheets

MSEK	Note	2014	2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
Tangible fixed assets	26	23	24
Intangible fixed assets		0	0
Interest-bearing intra-Group receivables		644	589
Financial fixed assets	29	4,322	4,308
Deferred tax assets		1	0
<b>Total fixed assets</b>		<b>4,990</b>	<b>4,921</b>
<b>Current assets</b>			
Intra-Group operating receivables		48	14
Interest-bearing intra-Group receivables		728	643
Prepaid expenses and accrued income		5	8
Cash and cash equivalents		580	363
<b>Total current assets</b>		<b>1,361</b>	<b>1,028</b>
<b>TOTAL ASSETS</b>		<b>6,351</b>	<b>5,949</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Restricted shareholders' equity</b>			
Share capital		69	69
<b>Total restricted shareholders' equity</b>		<b>69</b>	<b>69</b>
<b>Non-restricted shareholders' equity</b>			
Share premium reserve		598	598
Accumulated earnings		2,262	2,208
Profit after tax		280	364
<b>Total non-restricted shareholders' equity</b>		<b>3,140</b>	<b>3,170</b>
<b>Total shareholders' equity</b>		<b>3,209</b>	<b>3,239</b>
<b>Non-current liabilities</b>			
Liabilities to credit institutions	28	219	940
<b>Total non-current liabilities</b>		<b>219</b>	<b>940</b>
<b>Current liabilities</b>			
Accounts payable		1	1
Current tax liabilities		0	6
Interest-bearing intra-Group liabilities		2,615	1,735
Interest-bearing liabilities to credit institutions	28	267	-
Other current liabilities		0	0
Accrued expenses and prepaid revenues	27	40	28
<b>Total current liabilities</b>		<b>2,923</b>	<b>1,770</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>6,351</b>	<b>5,949</b>
Pledged assets	30	146	128
Contingent liabilities		-	-

## Changes in the Parent Company's shareholders' equity

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total share holders' equity
Per December 31, 2012	69	598	2,414	3,081
<b>2013</b>				
<b>Total comprehensive income</b>				
Profit after tax	-	-	365	365
<b>Transaction with shareholders</b>				
Dividend	-	-	-207	-207
Per December 31, 2013	69	598	2,572	3,239
<b>2014</b>				
<b>Total comprehensive income</b>				
Profit after tax	-	-	280	280
<b>Transaction with shareholders</b>				
Dividend	-	-	-310	-310
Per December 31, 2014	69	598	2,542	3,209

## Parent Company's cash flow statements

MSEK	2014	2013
<b>Cash flow from operations</b>		
Operating profit	-24	-15
Adjustment for non-cash items, depreciations	1	1
Financial income received	26	22
Financial expenses paid	-51	-25
Tax paid	-6	0
<b>Cash flow from operations before changes in working capital</b>	<b>-54</b>	<b>-17</b>
<b>Cash flow from changes in working capital</b>		
Changes in working receivables	5	-3
Changes in current receivables	11	6
<b>Cash flow from operations</b>	<b>-38</b>	<b>-14</b>
<b>Investing operations</b>		
Investments in tangible fixed assets	0	0
Investments in intangible fixed assets	0	0
Dividends from subsidiaries	282	367
Shareholders' contribution	-14	-
Incorporation of subsidiaries	0	-
Group contributions received	46	11
New share issue in subsidiaries	0	-
<b>Cash flow from investing activities</b>	<b>314</b>	<b>378</b>
<b>Financing operations</b>		
Change in interest-bearing receivables	-176	123
Change in interest-bearing liabilities	427	-178
Dividend	-310	-207
<b>Cash flow from financing operations</b>	<b>-59</b>	<b>-262</b>
<b>Cash flow for the year</b>	<b>217</b>	<b>102</b>
Cash and cash equivalents at January 1	363	261
<b>Cash and cash equivalents at December 31</b>	<b>580</b>	<b>363</b>

## 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	2014	2013
Women	2	2
Men	3	3
<b>Total</b>	<b>5</b>	<b>5</b>

#### Salaries, other remuneration and social-security costs

MSEK	2014	2013
Board of Directors	2	2
CEO	18	13
Other employees	6	4
Social security costs, pension costs and payroll tax	14	10
<b>Total</b>	<b>40</b>	<b>29</b>

### Note 23 Fees and expense reimbursement to auditors

TSEK	2014	2013
EY		
Audit assignment	646	525
Tax consultancy	220	229
Other services	297	144
<b>Total</b>	<b>1,163</b>	<b>898</b>

### Note 26 Tangible fixed assets

Accumulated acquisition value MSEK	Land and buildings		Machinery and equipment		Total	
	2014	2013	2014	2013	2014	2013
Opening balance on January 1	25	25	2	2	27	27
Disposals	-	-	-2	-	-2	-
<b>Closing balance on December 31</b>	<b>25</b>	<b>25</b>	<b>0</b>	<b>2</b>	<b>25</b>	<b>27</b>

Accumulated depreciation MSEK	Land and buildings		Machinery and equipment		Total	
	2014	2013	2014	2013	2014	2013
Opening balance on January 1	-1	0	-2	-2	-3	-2
Depreciation for the year	-1	-1	0	0	-1	-1
Disposals	-	-	2	-	2	-
<b>Closing balance on December 31</b>	<b>-2</b>	<b>-1</b>	<b>0</b>	<b>-2</b>	<b>-2</b>	<b>-3</b>
<b>Carrying amount on December 31</b>	<b>23</b>	<b>24</b>	<b>0</b>	<b>0</b>	<b>23</b>	<b>24</b>

### Note 27 Accrued expenses and deferred income

MSEK	2014	2013
Personnel-related expenses	35	24
Other	5	4
<b>Total</b>	<b>40</b>	<b>28</b>

### Note 24 Financial income and expenses

MSEK	2014	2013
Dividend	282	367
Group contributions	46	11
Interest income	1	0
Interest income from Group receivables	25	21
Exchange-rate gains	0	0
Other financial income	0	0
<b>Financial income</b>	<b>354</b>	<b>399</b>
Interest expense	-17	-21
Interest expense for Group liabilities	-4	-2
Exchange-rate loss	-28	0
Other financial expense	-2	-4
<b>Financial expenses</b>	<b>-51</b>	<b>-27</b>

### Note 25 Taxes

MSEK	2014	2013
<b>Current tax expense</b>		
Tax expense for the year	0	0
<b>Deferred tax expense</b>		
Deferred tax pertaining to temporary differences	1	0
<b>Total reported tax expense</b>	<b>1</b>	<b>0</b>

### Note 28 Interest-bearing liabilities to credit institutions

Non-current liabilities MSEK	2014	2013
Liabilities to credit institutions	219	940
<b>Non-current liabilities</b>	<b>219</b>	<b>940</b>
<b>Current liabilities</b> MSEK		
Liabilities to credit institutions	267	-
<b>Current liabilities</b>	<b>267</b>	<b>-</b>
<b>MSEK</b>		
Bilateral loan, 750 MSEK	219	473
Bilateral loan, 125 MUSD	-	26
Bilateral loan, 100 MUSD	-	441
<b>Total non-current liabilities</b>	<b>219</b>	<b>940</b>
Bilateral loan, 100 MUSD	267	-
<b>Total current liabilities</b>	<b>267</b>	<b>-</b>

The Parent Company applies hedge accounting in accordance with RFR 2 in terms of the loans in foreign currencies that are designed to effectively protect the assets of the subsidiary in the corresponding currencies. Some exchange differences are therefore not recognized in respect of these loans.



## Note 29 The Parent Company's holdings of shares and participations in Group companies

### Holdings of shares in Group companies

MSEK	2014	2013
Opening balance	4,308	4,308
Shareholder contributions	14	-
Incorporation of subsidiaries	0	-
<b>Carrying amount</b>	<b>4,322</b>	<b>4,308</b>

Subsidiaries MSEK	Corp. Reg. No.	Registered office	2014		2013	
			Proportion of equity (%)	Carrying amount	Proportion of equity (%)	Carrying amount
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101	100	101
Megufo AB	556421-2453	Gislaved, Sweden	50		50	
Stellana AB	556084-8870	Laxå, Sweden	100	29	100	29
Elastomeric Engineering Co., Ltd. <sup>1)</sup>		Sri Lanka	99.6	58	99.6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. <sup>2)</sup>		Sri Lanka	100		100	
HEXPOL Compounding HQ Sprl		Belgium	100	469	100	469
HEXPOL Compounding Sprl		Belgium	100		100	
HEXPOL Compounding s.r.o		Czech Republic	100	435	100	435
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V. <sup>4)</sup>		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V. <sup>4)</sup>		Mexico	100		100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7	100	7
Thona Canada BV		The Netherlands	100		100	
HEXPOL Compounding GmbH		Germany	100	70	100	70
Müller Kunststoffe GmbH		Germany	100		100	
HEXPOL Compounding Viersen GbmH		Germany	100		-	-
ELASTO Sweden AB	556191-5777	Åmål, Sweden	100	261	100	261
ELASTO UK Ltd.		Great Britain	100	23	100	23
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	14	-	-
HEXPOL Holding Inc.		USA	100	231	100	231
Robbins Holding Inc.		USA	100		100	
Robbins LLC		USA	100		100	
Synpol LLC		USA	100		100	
HEXPOL UK Ltd		Great Britain	100		100	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC <sup>3)</sup>		USA	100		100	
HEXPOL Compounding (UK) Ltd		Great Britain	100		100	
Chase Elastomer (UK) Ltd.		Great Britain	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. <sup>5)</sup>		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. <sup>6)</sup>		Mexico	100		100	
HEXPOL H.K Co., Ltd.		USA	100		100	
HEXPOL Asia LLC		USA	100		100	
HEXPOL Compounding (Foshan) Co., Ltd.		Kina	100		100	
HEXPOL Finance UK Ltd		Great Britain	100	2,535	100	2,535
<b>Total carrying amount in the Parent Company</b>				<b>4,322</b>		<b>4,308</b>

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 30 Assets pledged

MSEK	2014	2013
Sureties for subsidiaries	146	128
<b>Total</b>	<b>146</b>	<b>128</b>

# 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	2,262,773
Share premium reserve	597,880
Net profit for the year	279,487
<b>Total non-restricted funds</b>	<b>3,140,140</b>

The Board proposes that the unappropriated funds be disposed of as follows:  
That the shareholders be paid a dividend of 12.00 SEK per share.

Total dividend from earnings brought forward	413,042
To be carried forward	2,727,098
<b>Total</b>	<b>3,140,140</b>

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

Malmö March 12, 2015

Melker Schörling  
Chairman of the Board

Alf Göransson  
Board Member

Malin Persson  
Board Member

Märta Schörling  
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 March 12, 2015. 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 May 4, 2015 for adoption.

Our audit report was submitted on March 12, 2015

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 HEXPOL AB (publ) for the year 2014, except for the corporate governance statement on pages 82-87. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 64-107.

### 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 2014 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 2014 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 82-87. 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 2014. 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 82-87 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 March 12, 2015

Ernst & Young AB

Stefan Engdahl

Authorized Public Accountant



## Board of Directors, Auditor and Group Management

### Board of Directors HEXPOL AB

	Year of birth	Nationality	Elected	Audit committee	Remuneration committee	Independent in relation to the company and management	Independent in relation to major shareholders	Holdings Number of Class A shares	Holdings Number of Class B shares
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	–	186,150
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–
Märta Schörling	1984	Swedish	2014	No	No	Yes	No	–	–

## Board of Directors



### 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 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 and Chairman 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:**

186,150 Class B shares.



### Malin Persson

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

**Other assignments:** Member of the Board of KCI Konecranes Plc., Beckers Industrial Coatings Holding AB, Kongsberg Automotive and Mobile Climate Control.

**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 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:** –



### Märta Schörling

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

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

**HEXPOL shareholding:** –

## Auditor Ernst & Young AB



### Stefan Engdahl

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

**Other audit assignments:** KABE AB, XANO Industri AB, DORO AB and AGES Industri AB.

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 2014.

## 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:**  
186,150 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 Class 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.

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 2014.

# Shareholder information

## Annual General Meeting

The Annual General Meeting will be held on May 4, 2015, at 3:00 p.m. CET in Malmö, Sweden (Börs-huset, Skeppsbron 2). The Annual Report for 2014 will be available on HEXPOL's website and at the head office no later than April 13, 2015 and will be distributed to shareholders no later than the week beginning Monday, April 20. Share-holders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB not later than April 27, 2015, and notify their intention to participate to HEXPOL's head office not later than April 28. Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than April 27 to be entitled to participate in the AGM.

## Proposal for dividend

The Board proposes to the Annual General Meeting on May 4 to approve a dividend of SEK 12.00 (9.00), an increase by 33 percent.

## Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

Activity	Date
2014 Annual Report, published	April 13, 2015
Interim report January-March 2015	May 4, 2015
Annual General Meeting	May 4, 2015
Half year report January-June 2015	July 20, 2015
Interim report January-September 2015	Oct. 23, 2015
Year-end report 2015	Feb. 2016

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

For more information, contact:

- Georg Brunstam,  
President and Chief Executive Officer  
Tel: +46 70 855 12 51
- Karin Gunnarsson,  
Chief Financial Officer, Investor Relations  
Tel: +46 70 555 47 32



## Seven-year summary

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

MSEK	2014	2013	2012	2011	2010	2009	2008
<b>Key figures</b>							
Average shareholders' equity, MSEK	4,333	3,263	2,691	2,038	1,268	1,187	1,091
Average capital employed, MSEK	5,116	4,664	4,458	4,057	2,780	2,530	2,562
Return on shareholders' equity, %	24.2	28.5	28.0	30.4	21.5	8.6	16.8
Return on capital employed, %	28.5	27.0	24.0	22.3	13.9	6.4	13.2
Net sales growth, %	11.0	0.4	11.3	89.5	45.6	-18.2	16.8
Operating margin, %	16.3	15.6	13.4	12.4	10.4	6.3	9.7
Profit margin before tax, %	16.1	15.4	13.1	12.1	9.7	5.4	8.1
Earnings per share, SEK*	30.45	27.02	21.88	18.65	9.30	3.47	6.23
Net cash, MSEK	259	-312	-1,215	-1,096	-2,239	-760	-1,193
Net debt/equity ratio, multiple	0,0	0.1	0.4	0.4	1.7	0.6	1.0
Equity/assets ratio, %	69.3	61.5	49.2	47.5	27.0	43.7	36.1
Shareholders' equity per share, SEK*	146.69	105.08	84.51	71.85	44.88	41.44	39.40
Dividend, MSEK	310	207	172	103	27	-	-
Dividend per share, SEK	9,00	6,00	5,00	3,00	1,00	-	-
Cash flow from operating activities, MSEK	1,432	1,223	1,115	726	387	359	393
Cash flow from operating activities per share, SEK*	41.60	35.53	32.39	21.87	13.18	12.22	13.38
Average number of employees	3,493	3,411	3,112	3,041	2,133	1,809	2,315
Number of employees at year-end	3,666	3,433	3,332	3,020	3,037	1,827	2,230
Sales per employee, MSEK	2.55	2.36	2.57	2.37	1.78	1.44	1.38
<b>Key figures adjusted for items affecting comparability</b>							
Operating profit, MSEK	1,456	1,255	1,069	895	460	261	310
Operating margin, %	16.3	15.6	13.4	12.4	12.1	10.0	9.7
Profit before tax, MSEK	1,436	1,236	1,047	872	434	238	258
Profit after tax, MSEK	1,048	930	753	619	318	172	183
Earnings per share, SEK*	30.45	27.02	21.88	18.65	10.83	5.86	6.23
Return on shareholders' equity, %	24.2	28.5	28.0	30.4	25.1	14.5	16.8
Return on capital employed, %	28.5	27.0	24.0	22.3	16.2	10.3	13.2

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

## 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

**ABS** Acrylonitrile butadiene styrene plastic.

**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.

**CSR** Corporate social responsibility.

**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).

**FLNG** Floating liquefied natural gas (FLNG) refers to water-based liquefied natural gas (LNG).

**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.

**Iberia** The Iberian Peninsula - Portugal and Spain.

**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.

**Sh** Shore scale for measuring the hardness of different materials.

**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.

**TP** A thermoplastic (TP) is a plastic material, typically a polymer, that becomes pliable or moldable above a specific temperature and solidifies upon cooling.

**TPO** Polyolefin blends.

**TPS** Styrenic block copolymers.

**TPU** Thermoplastic polyurethanes.

**USP** Reference Standards used in testing by pharmaceutical and related industries to help ensure the identity, strength, quality, and purity of medicines (drugs, biologics, and excipients), dietary supplements, and food ingredients.

**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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