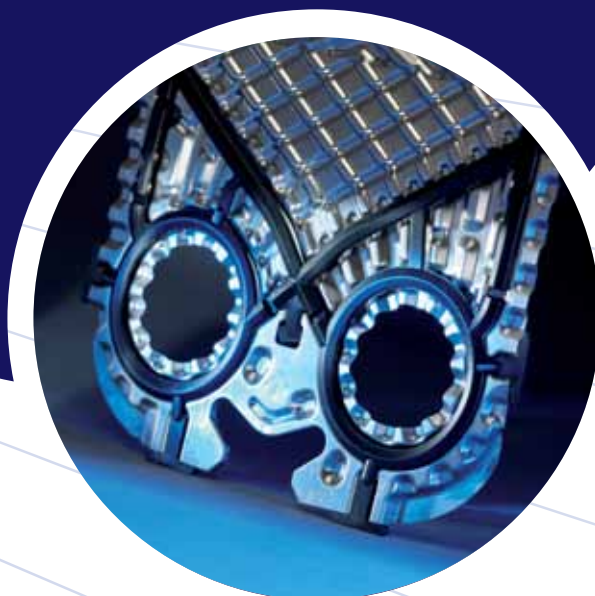
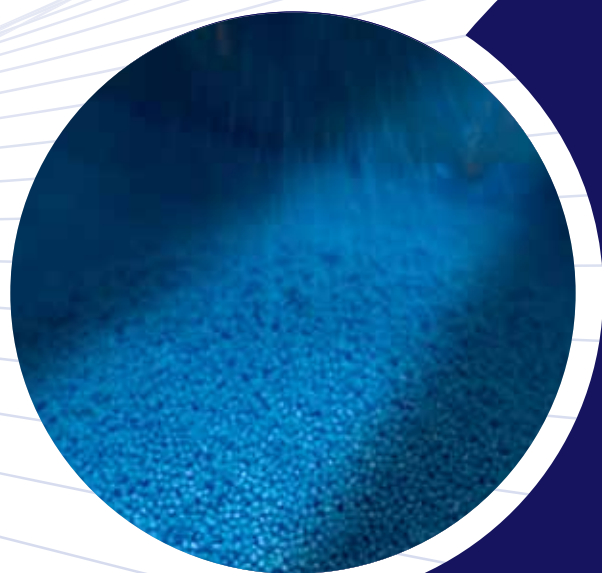


A Material Difference



HEXPOL AB (publ)
Annual Report 2011



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

HEXPOL in brief

- Sharp growth with strong margins
- Strong global market positions – Number one globally in market for rubber compounds
- Innovative solutions in advanced polymer compounds, gaskets for plate heat exchangers and wheels for forklifts and castor wheel applications
- Organised in two business areas with in-depth and extensive polymer and applications expertise
- Well invested with strong cash flow
- Acquisition-oriented:
 - ELASTO Group and Excel Polymers Group 2010
 - Müller Kunststoffe 2011/2012

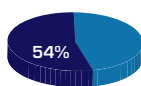
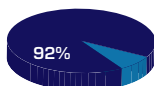
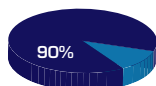
Business area HEXPOL Compounding

The business area's share of the HEXPOL Group (2011)

Sales

Operating profit

Number of employees



Operations HEXPOL Compounding is one of the world's leading suppliers in the development and manufacture of advanced, high-quality polymer compounds. HEXPOL Compounding is also active in the TPE market via the acquisition of ELASTO Group in April 2010. Excel Polymers Group, which was acquired in November 2010, has been integrated on a geographic basis in HEXPOL Compounding and is enhancing the business area's operations geographically while also complementing its customer segments.

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

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

Sales 6,450 MSEK (3,080)

Operating profit
823 MSEK (398 excluding items affecting comparability)

Number of employees, 31 December 1,648 (1,616)

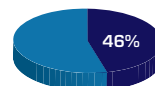
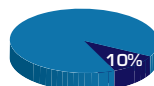
Business area HEXPOL Engineered Products

The business area's share of the HEXPOL Group (2011)

Sales

Operating profit

Number of employees



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

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

Customers Gaskets for manufacturers of plate heat exchangers, wheels for manufacturers of forklifts and castor wheels and profiles for the construction and engineering industries.

Sales 747 MSEK (718)

Operating profit 72 MSEK (62)

Number of employees, 31 December 1,367 (1,416)



THE GROUP IN BRIEF

HEXPOL is a globally leading polymer group with strong global 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 primarily comprise OEM manufacturers of plate heat exchangers and forklifts, the global automotive and engineering industry's system suppliers and the medical-equipment sector. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. Customers outside Sweden account for about 95 percent of invoiced sales, and nine of the Group's 26 production units are situated in 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 industry and are also found in the engineering industry. The customers frequently comprise international companies that subject suppliers to stringent demands in terms of quality and delivery reliability.

OEM manufacturers of plate heat exchangers comprise the largest customer group for the HEXPOL Engineered Products business area. Supported by growing interest in energy efficiency, the market for plate heat exchangers is characterised by growth and, in turn, growing demand for the products offered by the 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 strong growth. HEXPOL Profiles is one of the leading manufacturers of extruding profiles in the Nordic market. 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 of Directors has established the following financial objectives over a business cycle: The aim is that organic sales growth will average 7–10 percent annually and that the operating margin will average at least 8–10 percent annually.

DIVIDEND POLICY

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

BUSINESS CONCEPT

HEXPOL's business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of polymer products. HEXPOL aims to be the most attractive partner for customers in key industries, such as energy, medical technology, automotive, construction and materials handling, 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
- The most cost-effective company in the industry
- Efficient supply management that generates volume and technological benefits
- Superior management skills through skilled and experienced teams
- Speed management through short and fast decision-making procedures

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

VALUE ENHANCING AND SUCCESS FACTORS

Since 2001, Group operations have expanded from annual sales of 484 MSEK to 7,197 MSEK, with strong 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. In 2011, sales increased a full 89 percent as a result of two significant acquisitions that were completed in 2010 – Excel Polymers Group and ELASTO Group – as well as strong sales growth in all markets in all units.

2011 in brief

- Sales rose 89 percent to 7,197 MSEK (3,798)
- Operating profit rose 95 percent to 895 MSEK (460*)
- The operating margin increased to 12.4 percent (12.1*)
- Profit after tax increased sharply to 619 MSEK (318*)
- Earnings per share rose 72 percent to 18.65 SEK (10.83 excluding items affecting comparability**). Based on the number of shares at year-end, earnings per share were 17.98 SEK
- Operating cash flow rose strongly to 911 MSEK (506)
- The Board of Directors proposes a dividend of 5.00 SEK (3.00) per share

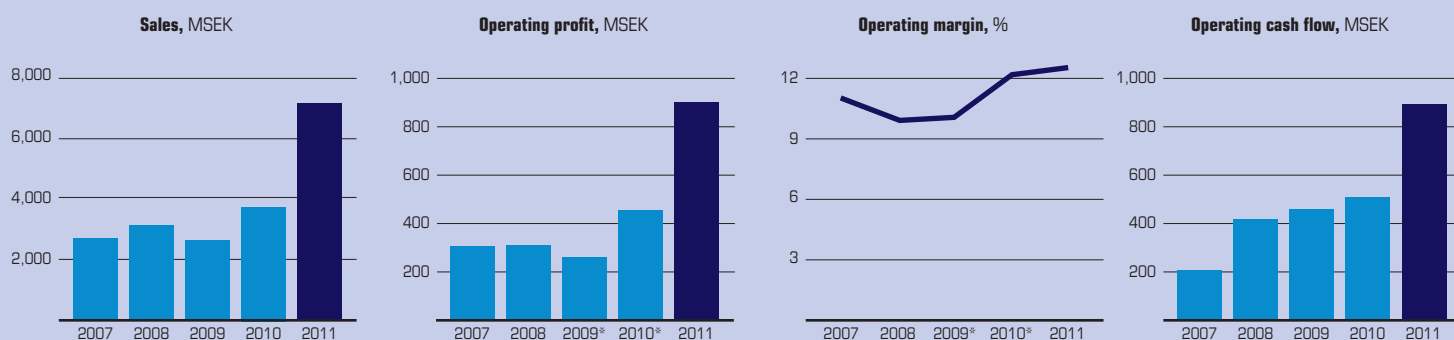
Significant events per quarter:

- Q1: Cost synergies from the acquisition of Excel Polymers were more substantial and more rapidly realised than expected. A rights issue was completed which provided funds of approximately 540 MSEK
- Q2: The acquired Excel Polymers Group was successfully integrated on a geographic basis
- Q3: Decision on capacity investments in China in all product areas. Re-branding of Excel Polymers to Burton Rubber Processing, Colonial Rubber Works, Chase Elastomer and HEXPOL Compounding
- Q4: Agreement signed for the acquisition of Müller Kunststoffe, which was completed in January 2012.

Key figures	2011	2010
Sales, MSEK	7,197	3,798
Operating profit (EBIT), MSEK	895	396
Operating margin, %	12.4	10.4
Profit before tax, MSEK	872	370
Profit after tax, MSEK	619	273
Earnings per share, SEK	18.65	9.30**
Equity/assets ratio, %	47.5	27.0
Return on capital employed, %	22.3	13.9

Operating key figures, excluding items affecting comparability

Operating profit (EBIT), MSEK	895	460
Operating margin, %	12.4	12.1
Profit before tax, MSEK	872	434
Profit after tax, MSEK	619	318
Earnings per share, SEK	18.65	10.83**
Return on capital employed, %	22.3	16.2
Operating cash flow, MSEK	911	506



CEO comments on the year

Our best year – so far

DEAR SHAREHOLDERS,

For the HEXPOL Group, 2011 was the best year ever – so far. We increased our sales by a full 89 percent to 7,197 MSEK (3,798). We strengthened our market positions in our main markets and grew strongly in emerging markets. For example, our sales increased by 82 percent in China and by 114 percent in Mexico, and we believe both markets have long-term growth potential for our products.

We increased our earnings per share by 72 percent to 18.65 SEK (10.83 excluding items affecting comparability). We continued to generate strong cash flows and our operating cash flow rose to a healthy 911 MSEK (506), up 80 percent. We achieved this through a focus on and efficient management of our operating capital.

During 2011, we saw the effects of successful development and sales efforts, and we advanced our market positions. Demand was good, particularly from the automotive and engineering industries, but also from the oil and energy sector.

During the year, we successfully integrated the operations of the acquired Excel Polymers Group (November 2010) into the geographical organisation of HEXPOL Compounding. We completed the integration process faster and achieved greater synergies than the original plan.

Conditions in the raw material market during 2011 were extremely difficult, with price increases and even shortages of certain material grades. We worked intensively to change our recipes, cooperate with suppliers and adjust prices, which enabled us to manage this difficult situation.

The HEXPOL Group has a strong balance sheet, thanks mainly to its strong earnings and sound management of working capital. Our equity/assets ratio was nearly 48 percent, and we reduced our net debt sharply to 1,096 MSEK (2,239). Our level of net debt/Equity ratio at year-end was a multiple of 0.4 and the net debt/EBITDA was a multiple of 1.06.

CONTINUED STRONG GROWTH – BOTH ORGANICALLY AND THROUGH ACQUISITIONS

Our strategy is to grow both organically and through acquisitions, but always with good operating margins and strong operating cash flows. Our sales in 2001



Georg Brunstam

President and CEO, HEXPOL AB

amounted to nearly 500 MSEK and now, 10 years later, they total about 7,200 MSEK. We have achieved this expansion with sound margins and strong cash flows. Even during 2009, a year of crisis in the automotive industry and financial sector, we had an operating margin of 10.0 percent (excluding items affecting comparability).

Our largest acquisition yet – Excel Polymers Group (November 2010) – was successfully integrated into HEXPOL Compounding's geographical organisation during 2011. The acquisition strengthened our position and product offering in the North American market, as well as in the UK and China.

CONTINUED GROWTH AND ACQUISITIONS IN HEXPOL COMPOUNDING – BROADENING OF THE PRODUCT OFFERING

Our strategy is to continue to grow in all our product and business areas, but also through a broadening of our product offering. Within HEXPOL Wheels, for example, we are increasing our product offering by establishing the production of polyurethane wheels in China. Within HEXPOL Compounding, we initiated a broadening and expansion of the fast-growing sector comprising TPE Compounding (thermoplastic elastomer compounds) already in 2010 through our acquisition of ELASTO Group, with operations and production in the UK and Sweden. Following the acquisition of Müller Kunststoffe, with two units in southern Germany, we continued this expansion and have now created strong European operations in TPE Compounding. The acquisition was completed in January 2012. In parallel, we are also starting up TPE Compounding operations and production in southern China. Within HEXPOL Gaskets, we are increasing our investments in China and, supported by interesting new customer orders, our plan for 2012 is to double our production capacity for gaskets used in plate heat exchangers at our unit in Qingdao.

MOTIVATED AND SKILLED EMPLOYEES – INTERNAL RECRUITMENT

Our strategy is based on comprehensive and in-depth polymer and applications expertise. These skills and expertise have been strengthened by our acquisitions of Excel Polymers Group, ELASTO Group and Müller Kunststoffe. We are also continuing to pursue our strategy through comprehensive skills development and internal recruitment efforts. During 2011, primarily through the integration of Excel Polymers, we appointed new management personnel in several units, all of whom were recruited internally. We are also continuing our Group-wide HEXPOL LEADERSHIP DEVELOPMENT PROGRAM, to further develop the skills of our employees.

I am very proud and impressed by our employees, who showed great flexibility and dedication in managing and taking advantage of the opportunities and challenges they faced during 2011. Thank you – impressive!

LONG-TERM GROWTH IN OUR CUSTOMER SEGMENTS

We operate in customer segments characterized by growth. The automotive and engineering industries are

growing globally. After acquiring Excel Polymers Group, our sales to the engineering industry have increased significantly and the automotive industry, our largest segment, now accounts for about 37 percent of total sales (compared with around 55 percent in the past). We also anticipate strong long-term demand for our products used in the energy and materials-handling sectors, thus supporting demand for our rubber compounds and our wheels and gaskets. TPE Compounding is another area that is growing faster than Compounding in general, particularly within highly interesting medical applications.

PRIORITIES FOR 2012

As usual, I would like to comment first on the priorities I presented in last year's annual report. I promised a continued orientation on acquisitions and continued focus on operating margins. I also promised to integrate Excel Polymers Group wisely and with a firm hand. We achieved these goals successfully. In the past, we have also promised to increase our growth rate, not least in emerging markets. We have also accomplished this. For example, we have increased our sales by 89 percent, including organic growth of 26 percent. And we have increased our sales in China by 82 percent and in Mexico by a full 114 percent.

I also promised to continue our proactive sustainability work and to continue to assume our social responsibility in order to contribute to the sustainable development of our society. In this annual report, you can read about our success in these areas and see examples of our endeavours.

During 2012, we will continue our acquisition-orientation efforts, which started with Müller Kunststoffe in January, and I see opportunities in all of our present product and business areas. Given the turbulence in our world, we will continue to proceed cautiously in monitoring our costs and capacity investments. Today, we are increasing our capacity only in emerging markets, and mainly in China. As always, our efforts will include a focus on our margins. We will also continue our sustainability work and to assume our social responsibility.

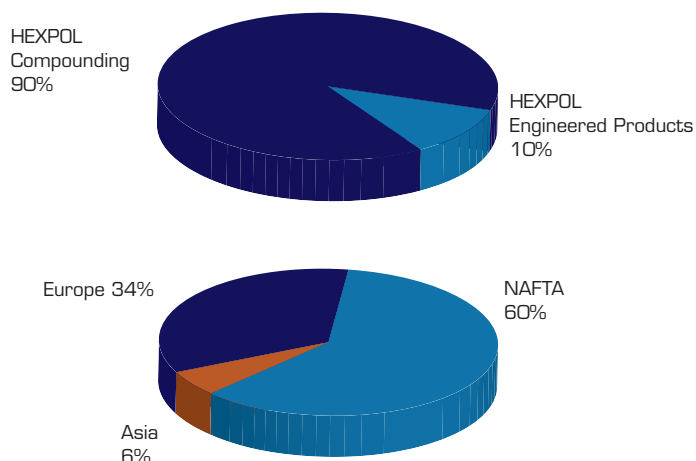
In conclusion, I would like to thank all our customers, suppliers and shareholders for your confidence and cooperation during the year. In addition, I would once again like to thank our employees for their fantastic work in 2011. Despite the concerns, uncertainties and turbulence in the surrounding world, not least the financial turmoil, I am convinced that we can continue to develop the HEXPOL Group in a positive direction. We have a strong platform to stand on.

Malmö, Sweden, March 2012

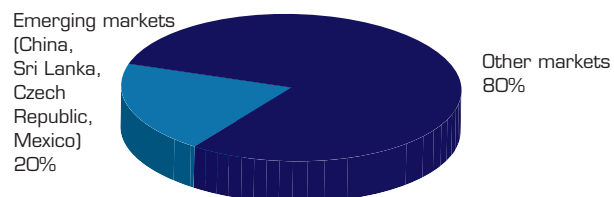
Georg Brunstam
President and CEO

About the HEXPOL Group

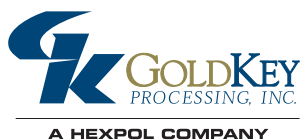
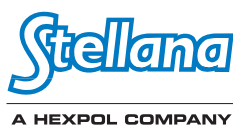
Sales for 2011 distributed by business area and geographically:



Geographic distribution of production in 2011:



The Group's brands



Acquired 2012:



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

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

More than 95 percent of invoicing was to customers outside Sweden. In addition, nine of the Group's 26 production units are situated in expansive regions of Asia, Mexico and Eastern Europe. The workforce totals slightly more than 3,000 employees, mainly in Asia, the US and Sweden.

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 shall be the most attractive partner for customers in key industries, such as the automotive, engineering and construction, medical technology and material-handling industries, by offering innovative and specialised polymer products and solutions.

VISION

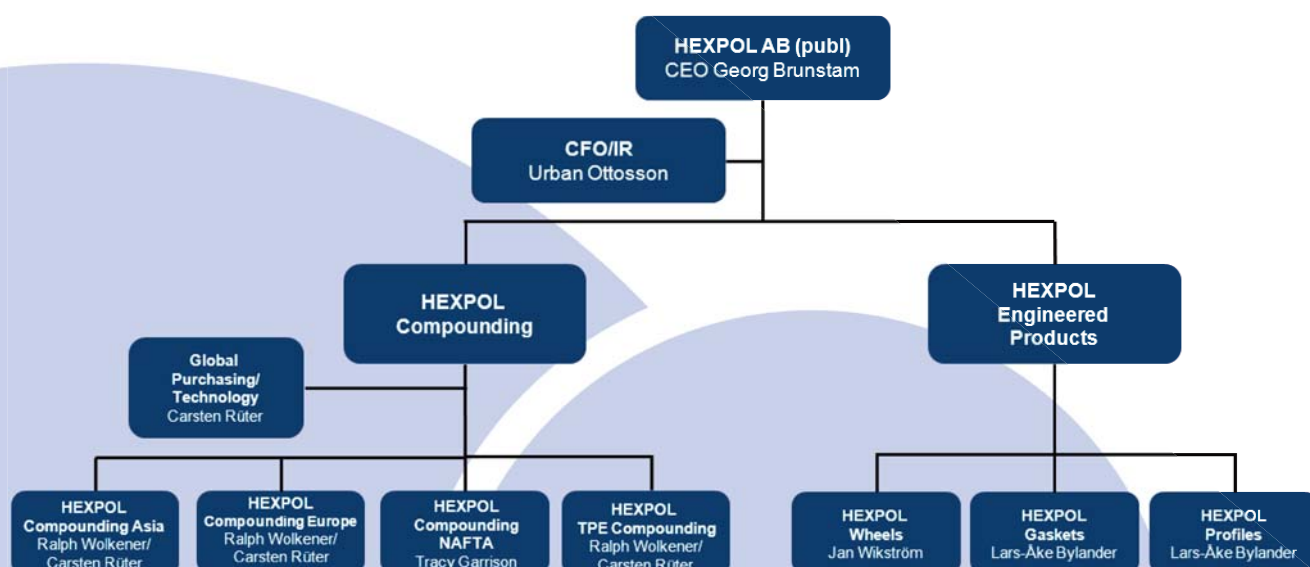
HEXPOL's vision is to be a market leader, ranking number one or two in selected technological or geographical segments, in order to generate growth and shareholder value.

OPERATIONAL STRATEGY

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

1. Focus on product development

The Group possesses in-depth and wide-ranging polymer and applications expertise. In the HEXPOL Compounding business area, for example, 80 percent of the products marketed in Europe are based on unique proprietary formulas and the Group offers its customers technological cooperation for future development. Product development is conducted at each production unit and the HEXPOL Compounding business area has a corporate technology department in Belgium. HEXPOL Gaskets has a central technology department in Gislaved, Sweden, and HEXPOL Wheels has its central technology department in Laxå, Sweden. Overall, more than 5 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 environmental efforts and taking social responsibility. With various activities HEXPOL contributes to achieve sustainable development and we are convinced that this will benefit society, our employees, the shareholders and our business operations. Our strategy for achieving sustainable development includes the introduction of environmental management systems, improved energy efficiency, reduced risks arising from chemical products and transparent reporting of the Group's performance in terms of environmental and social responsibility.

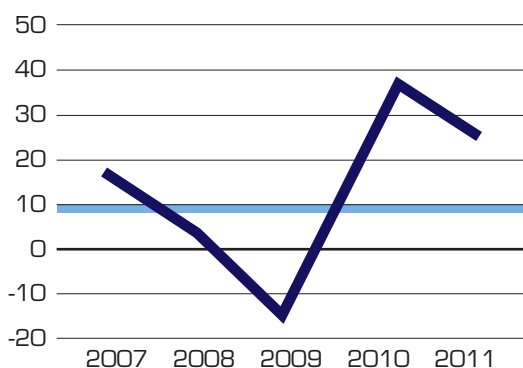
GROWTH STRATEGY

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. The Group is endeavouring to position itself so that it can capitalise on development

Organic sales growth % (Target 7–10%)



and growth in these markets. The Group strategy also includes continuing to leverage opportunities arising when rubber manufacturers face the decision of whether to switch from proprietary compounding operations to outsourcing.

Acquisition strategy

The Group's strategy is to continue to acquire companies in the polymer field, primarily in current business areas but also including a broadening of application areas, types of material and geography. Potential acquisition targets are monitored continuously in accordance with a distinct acquisition model, whereby attractive targets are analysed on the basis of a series of strategic parameters. The Group has a strong cash flow, a healthy 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 far beyond the confines of Sweden. Other brands are HEXPOL Compounding, GoldKey, Stellana, Burton Rubber, Chase Elastomer, Colonial Rubber, ELASTO and its product brands, as well as Elastomeric are recognised brands in their particular product areas and geographical markets.

FINANCIAL OBJECTIVES

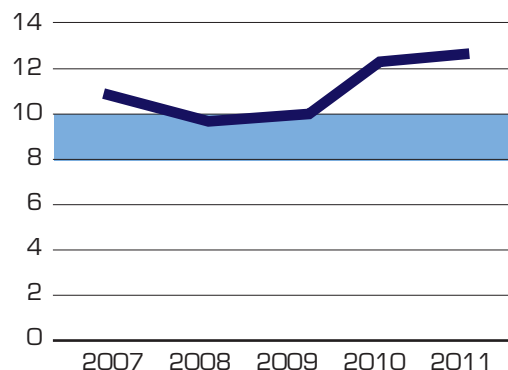
The Board of Directors has established the following financial objectives over a business cycle: The aim is that organic sales growth will average 7–10 percent annually and that the operating margin will average at least 8–10 percent annually.

TARGET FULFILMENT

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

HEXPOL has met its targets in terms of operating margin over the past five years. The operating margin in 2011 was 12.4 percent, compared with the Group's target of 8–10 percent. Although the target for organic sales growth was not achieved in 2009, it was comfortably exceeded in 2010, when it amounted to 38 percent, and in 2011 when it was 26 percent (adjusted for the effects of acquisitions and exchange rates). A forceful increase in sales to HEXPOL's largest customer segments – the

Operating margin* % (Target 8–10%)



* Excluding items affecting comparability

automotive and engineering industry – was the main reason for the upswing. The financial objectives are designed to reflect development over a business cycle and the average for the past five years has exceeded the target, both in terms of organic growth and operating margin.

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 composite materials and technical products, was acquired by Hexagon 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; and Excel Polymers Group, which made HEXPOL the number one in rubber compounding in global terms.

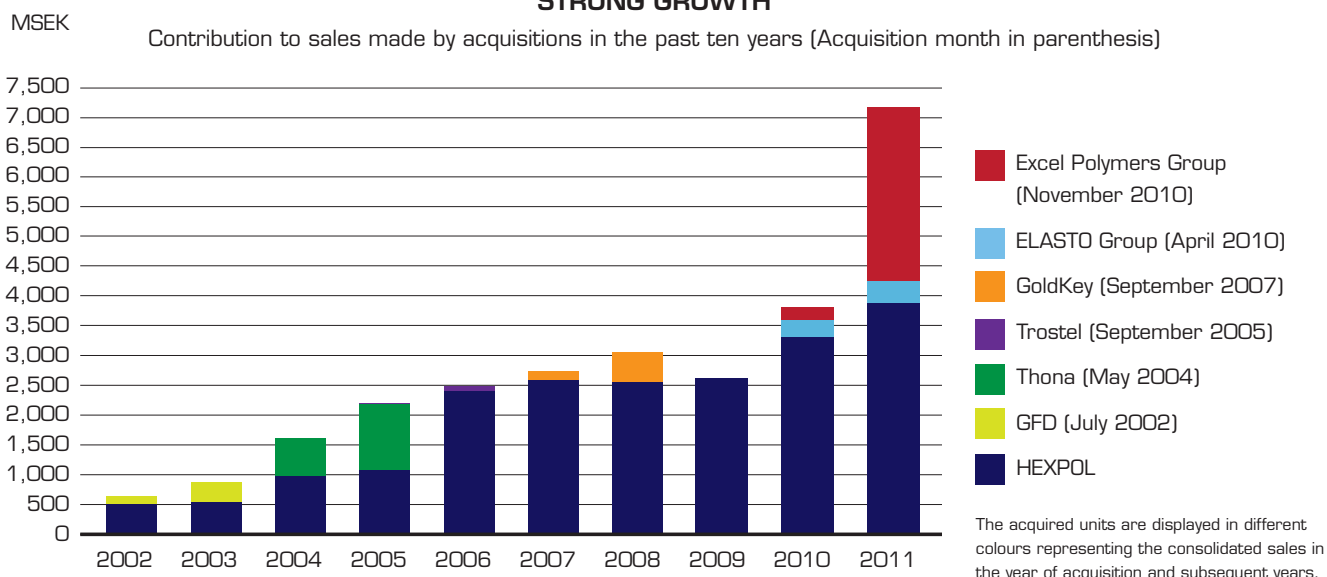


Carl Gislöw and his brother Wilhelm, founders of Svenska Gummifabriks AB

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

- 1893 The Gislöw brothers form a rubber factory in Gislaved
- 1966 A new factory for the product known as Technical Rubber is built
- 1990 The Technical Rubber division becomes Gislaved Gummi AB
- 1991 Production of gaskets for plate heat exchangers is acquired
- 1994 Hexagon AB acquires the Company
- 1995 Stellana AB in Laxå, Sweden is acquired
- 1998 Elastomeric Engineering Co Ltd in Sri Lanka is acquired
- 2002 GFD Technology GmbH in Germany is acquired
- 2004 Thona group of Belgium, with operations in Belgium, Czech Republic, Canada and the US, is acquired
- 2005 Trostel SEG in the US is acquired
- 2007 Establishment of three new plants for rubber compounds, wheels and gaskets in China and a new plant for rubber compounding in Mexico
- 2007 GoldKey Processing Ltd in the US is acquired
- 2008 Change in corporate identity from Hexagon Polymers to HEXPOL
- 2008 Distribution of HEXPOL to Hexagon's shareholders and listing of the share on the NASDAQ OMX Nordic Exchange Stockholm
- 2009 Restructuring programme and closure of the compounding operation in Canada
- 2010 ELASTO Group with operations in Sweden and the UK is acquired
- 2010 The global rubber compounds group, Excel Polymers, with operations in the US, China, the UK and Mexico, is acquired
- 2011 A decision is taken to make capacity investments in China in all product areas. Excel Polymers is re-branded as Burton Rubber Processing, Colonial Rubber Works, Chase Elastomer and HEXPOL Compounding
- 2011 An agreement is signed to acquire the German TPE Compounding company Müller Kunststoffe

STRONG GROWTH



The share and shareholders



Share price trend in 2011 (SEK)



Source: NASDAQ OMX Nordic

*The share price development is adjusted for the dilution effects of the rights issue conducted during first quarter 2011.

THE HEXPOL SHARE

HEXPOL AB was listed on NASDAQ OMX Nordic Stockholm on 9 June 2008 and the Class B share is quoted on the Mid Cap list in the industrial sector. The share capital in HEXPOL AB amounts to 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 during the year by 43 percent and the closing price at the end of 2011 was 202.00 SEK. The highest closing price during 2011 was 204.00 SEK (27 December). The lowest closing price during 2011 was 120.50 SEK (8 August). During 2011, 18.0 million (12.2) HEXPOL shares were traded. Average trading per day in the share was 70,815 shares (48,379). The number of shares traded represented 52 percent (46) of the total number of shares.

OWNERSHIP STRUCTURE

As of 31 December 2011, HEXPOL AB had 8,410 shareholders (8,313). The proportion of shares held by Swedish institutions and funds at 31 December 2011 corresponded to 43 percent (43) of the capital. The number of shares held by non-Swedish shareholders totalled 13 percent (9) of the capital. The ten largest shareholder groups accounted for 65 percent (67) of the capital and 75 percent (76) of the voting rights.

DIVIDEND POLICY

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

RIGHTS ISSUE

In February 2011, an Extraordinary General Meeting of HEXPOL AB resolved to implement a rights issue to provide financial manoeuvrability for future acquisitions. The rights issue was finalized on 23 March 2011 and was fully subscribed for. This entailed an increase in the number of shares by 6,637,993, of which 295,312 are Class A shares and 6,342,681 are Class B shares.

EXERCISE OF OPTIONS PROGRAMME

In March 2011, the warrants that were issued in 2008 to Group management and senior executives were exercised. The exercise of warrants resulted in subscription of 1,230,158 new Class B shares. The number of new shares subscribed for and the subscription price were adjusted for the dilution effect of the rights issue implemented previously in 2011.

SHAREHOLDER VALUE AND ANALYSTS

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

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

- SEB Enskilda, Daniel Schmidt
daniel.schmidt@enskilda.se
- Handelsbanken Capital Markets, Jon Hyltner
johy01@handelsbanken.se
- Swedbank, Ola Södermark
ola.sodermark@swedbank.se
- Erik Penser Bankaktiebolag, Johan Dahl
johan.dahl@penser.se
- Carnegie Investment Bank, Agnieszka Vilela
agnvil@carnegie.se
- Ålandsbanken, Christian Wallberg
christian.wallberg@alandsbanken.se

THE LARGEST SHAREHOLDERS, 31 DECEMBER 2011

Name	Number of Class A shares	Number of Class B shares	Holding [%]	Voting rights [%]
Melker Schörling AB	1,476,562	7,563,715	26.26	46.80
Didner & Gerge Fonder Aktiebolag	0	3,256,167	9.46	6.83
AFA Försäkring	0	2,498,978	7.26	5.24
Lannebo fonder	0	2,101,680	6.11	4.41
Swedbank Robur fonder	0	2,044,152	5.94	4.28
Handelsbanken fonder	0	1,326,887	3.85	2.78
Odlin Sverige Aksjefondet	0	641,958	1.87	1.35
DnB - Carlson fonder	0	583,559	1.70	1.22
Skandia fonder	0	535,419	1.56	1.12
JPM Chase NA	0	392,814	1.14	0.82
Bonnier, Simon	0	383,428	1.11	0.80
Försäkringsaktiebolaget, Avanza Pension	0	371,174	1.08	0.78
Enter fonder	0	335,500	0.97	0.70
Fondita Nordic Micro Cap SR	0	300,000	0.87	0.63
SEB Investment Management	0	276,097	0.80	0.58
Brunstam, Georg	0	249,750	0.73	0.52
Svenska Lärarfonder	0	247,890	0.72	0.52
Länsförsäkringar fondförvaltning AB	0	245,416	0.71	0.51
SSB CL Omnibus, Pension Fund	0	239,621	0.70	0.50
Gamla Livförsäkringsaktiebolaget	0	213,283	0.62	0.45
Total for the twenty largest shareholders	1,476,562	23,807,488	73.46	80.85
Total for other shareholders	0	9,136,078	26.54	19.15
Total	1,476,562	32,943,566	100.00	100.00

OWNERSHIP BY COUNTRY, 31 DECEMBER 2011

Country	Share of the total number of shares [%]
Sweden	87.16
UK	3.51
US	3.23
Portugal	1.87
Switzerland	1.31
Other	2.92
Total	100.00

Source: Euroclear Sweden.

DISTRIBUTION OF OWNERSHIP, 31 DECEMBER 2011

Shareholder	Number of shareholders	Share- holders (%)	Number of holding (%)	Voting rights (%)
Individuals	7,417	88.19	12.88	9.29
<i>Of whom, domiciled in Sweden</i>	<i>7,328</i>	<i>87.13</i>	<i>11.60</i>	<i>8.37</i>
Legal entities	993	11.81	87.12	90.71
<i>Of whom, domiciled in Sweden</i>	<i>614</i>	<i>7.30</i>	<i>75.56</i>	<i>82.37</i>
Total	8,410	100.00	100.00	100.00
<i>Of whom, domiciled in Sweden</i>	<i>7,942</i>	<i>94.43</i>	<i>87.16</i>	<i>90.74</i>

Domiciled in Sweden	7,942	94.43	87.16	90.74
Other Nordic countries	100	1.19	1.23	0.88
Rest of Europe (excl. Sweden/Nordic region)	255	3.03	7.86	5.67
US	63	0.75	3.23	2.33
Rest of the world	50	0.60	0.52	0.38
Total	8,410	100.00	100.00	100.00

NUMBER OF SHARES PER SHAREHOLDER, 31 DECEMBER 2011

	Number of shareholders	Number of Class A shares	Number of Class B shares
1 - 500	6,681	0	857,142
501 - 1,000	741	0	554,982
1,001 - 5,000	774	0	1,540,812
5,001 - 10,000	61	0	434,411
10,001 - 15,000	34	0	394,652
15,001 - 20,000	19	0	338,077
20,001 -	100	1,476,562	28,823,490
Total	8,410	1,476,562	32,943,566

SHAREHOLDER CATEGORIES, 31 DECEMBER 2011

Shareholder	Number of Class A shares	Number of Class B shares	Holding [%]	Voting rights [%]
Financial companies	0	14,806,472	43.02	31.03
<i>Of which, banks and funds</i>	<i>0</i>	<i>1,558,104</i>	<i>33.58</i>	<i>24.22</i>
<i>Of which, insurance companies and pension institutions</i>	<i>0</i>	<i>3,248,368</i>	<i>9.44</i>	<i>6.81</i>
Other financial companies	0	28,065	0.08	0.06
Social insurance funds	0	131,257	0.38	0.28
Government of Sweden	0	18,570	0.05	0.04
Municipal sector	0	1,745	0.01	0.00
Interest organisations	0	299,512	0.87	0.63
Other Swedish legal entities	1,476,562	8,178,044	28.05	48.09
Uncategorised legal entities	0	1,068,432	3.10	2.24
Foreign-domiciled individuals	0	4,418,519	12.84	9.26
Swedish individuals	0	3,992,950	11.60	8.37
Total	1,476,562	32,943,566	100.00	100.00

Source: Euroclear Sweden.

Business area HEXPOL Compounding

Continued strong growth



HEXPOL Compounding in brief

Operations

The business area HEXPOL Compounding is world-leading in the development and production of advanced, high-quality polymer compounds (Compounding) for demanding applications.

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, water treatment, as well as the energy and oil industries. The largest TPE customer segments are medical technology, industry and consumers.

Customers

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

Sales 6,450 MSEK (3,080)

Operating profit

823 MSEK (398 excluding items affecting comparability)

Number of employees at 31 December: 1,648 (1,616)

Operating units

- HEXPOL Compounding Eupen, Belgium
- HEXPOL Compounding Gislaved, Sweden
- HEXPOL Compounding Hückelhoven, Germany
- HEXPOL Compounding Qingdao, China
- HEXPOL Compounding Unicov, Czech Republic
- HEXPOL Compounding Aguascalientes, Mexico
- HEXPOL Compounding Statesville, North Carolina, USA
- GoldKey Processing Middlefield, Ohio, USA
- ELASTO Åmål, Sweden
- ELASTO Manchester, UK
- HEXPOL Compounding – Burton Rubber Processing (Burton), Ohio, USA
- HEXPOL Compounding – Colonial Rubber Works, Tennessee, USA
- HEXPOL Compounding – Burton Rubber Processing (Jonesborough), Tennessee, USA
- Chase Elastomer, Texas, USA
- HEXPOL Compounding – California, California, USA
- HEXPOL Compounding Queretaro, Mexico
- HEXPOL Compounding UK, Manchester, UK
- HEXPOL Compounding Foshan, China
- Elastomeric Group, Bokundara, Sri Lanka



Tracy Garrison, President
HEXPOL Compounding
NAFTA



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



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

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

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

ORGANISATION

HEXPOL Compounding's operations include 19 production facilities and are divided into four areas: the geographic regions of Asia, Europe and NAFTA, as well as the HEXPOL TPE-Compounding product area. Sales in NAFTA are coordinated from the US, while sales in Europe and Asia are managed from Belgium. A global unit in Belgium also provides service to the production units and assumes global responsibility for:

- research and development (coordination between production plants and development of new materials and products),
- global delivery agreements (strategic supplier choices, price negotiations),
- engineering (design of equipment to meet requirements),
- information and communications technology (certain critical software, information databases),
- quality systems (best practices, continued improvement).

Most production units are structured as separate companies with complete organisational functions for sales, product development and production. However, they also cooperate closely with each other in all areas. Major customers are also served globally through Key Account Managers.

MARKET

HEXPOL Compounding's customers comprise manufacturers of polymer products 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





Santa Fe Springs, USA



Kennedale, USA



Aguascalientes, Mexico



Queretaro, Mexico



Dyersburg, USA



Jonesborough, USA



Burton, USA



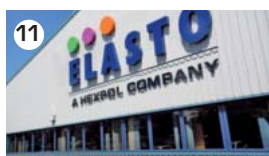
Middlefield, USA



Statesville, USA



Dukinfield, UK



Manchester, UK



Eupen, Belgium



Hückelhoven, Germany



Åmål, Sweden



Gislaved, Sweden



Unicov, Czech Republic



Bokundara, Sri Lanka



Foshan, China



Qingdao, China

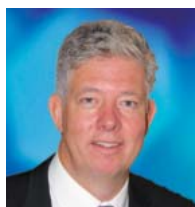
HEXPOL Compounding's operating units

Unit	Location	Number of employees 31. Dec 2011	Area m ²	Production capacity, tonnes
HEXPOL Compounding - California	Santa Fe Springs, USA	38	2,900	13,500
Chase Elastomer	Kennedale, USA	77	7,200	18,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	78	6,500	16,000
HEXPOL Compounding Queretaro	Queretaro, Mexico	100	8,300	20,000
HEXPOL Compounding - Colonial Rubber Works	Dyersburg, USA	260	38,200	150,000
HEXPOL Compounding - Burton Rubber Processing	Jonesborough, USA	113	9,800	50,000
HEXPOL Compounding - Burton Rubber Processing	Burton, USA	175	19,900	55,000
GoldKey Processing	Middlefield, USA	176	14,900	40,000
HEXPOL Compounding North Carolina	Statesville, USA	96	3,400	20,000
HEXPOL Compounding UK	Dukinfield, UK	55	2,500	5,500
ELASTO UK	Manchester, UK	39	4,500	13,000
HEXPOL Compounding Belgium	Eupen, Belgium	67	3,400	16,000
HEXPOL Compounding Germany	Hückelhoven, Germany	67	5,400	35,000
ELASTO Sweden	Åmål, Sweden	55	4,000	20,000
HEXPOL Compounding Sweden	Gislaved, Sweden	55	9,200	16,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	105	8,600	35,000
Elastomeric Group	Bokundara, Sri Lanka	(60 ¹)	2,000	6,000
HEXPOL Compounding Foshan	Foshan, China	34	7,100	20,000
HEXPOL Compounding Qingdao	Qingdao, China	58	4,500	12,000
Total		1,648	162,300	561,000

¹ Included organisationally in HEXPOL Engineered Products.



Randy Simpson, COO
HEXPOL Compounding
NAFTA



Lars-Åke Bylander, Mana-
ging Director HEXPOL
Compounding Sweden



Paul Campbell, General
Manager, HEXPOL Com-
pounding Qingdao China



Steve Chase,
General Manager,
Chase Elastomer, US



Ed Dowdall, Managing
Director HEXPOL Com-
pounding UK



Kjell Fagerström,
Managing Director
ELASTO Sweden



Jeremy Francken, General
Manager HEXPOL
Compounding Foshan China



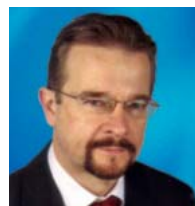
Mark George,
Managing Director
HEXPOL Compounding
North Carolina, US



John Gorrell,
General Manager
HEXPOL Compounding –
Burton Rubber Proces-
sing Burton, US



Per G Hellberg,
Managing Director
ELASTO Group



René Herbiet,
Managing Director
HEXPOL Compounding
Belgium and Germany



Han Lee, Country Manager
HEXPOL Compounding
China



Larry Lowe,
General Manager
HEXPOL Compounding -
Burton Rubber Proces-
sing Jonesborough, US



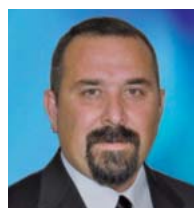
Dominic Philpot,
Managing Director
ELASTO UK



Milos Pitela,
Managing Director
HEXPOL Compounding
Czech Republic



Saul Reyes,
Managing Director
HEXPOL Compounding
Aguascalientes, Mexico



Jerry Saxion,
Managing Director
GoldKey Processing, US



Shannon Smith,
General Manager, HEXPOL
Compounding – Colonial
Rubber Works, Dyersburg
US



Francisco Viliesid,
Managing Director
Hexpol Compounding
Queretaro, Mexico



Andrew Wallace,
General Manager
HEXPOL Compounding -
California, US

are the medical technology, general industry, construction and infrastructure, consumer, cable, water treatment, energy and oil industries.

The largest thermoplastic elastomer compound (TPE) customer segments are medical technology, general industry and consumer-centric industries.

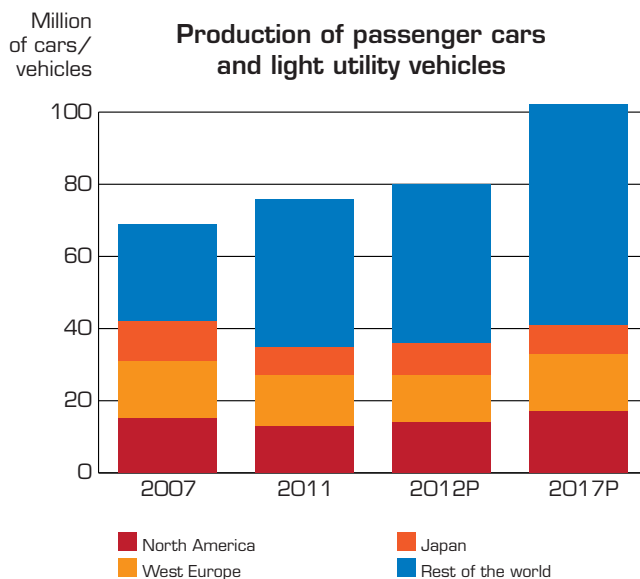
Following the acquisition of ELASTO Group and Excel Polymers Group, the HEXPOL Group's portion of sales to industries other than the automotive industry increased. The Group's share of sales to the automotive industry is now about 37 percent (50). For many car manufacturers, particularly in the premium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

The market for TPE compounds is undergoing strong growth with interesting and growing customer applications in the medical technology, general industrial 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.

A significant 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 activity in automotive manufacturing. 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 macroeconomic factors, demand is driven by developments in specific automotive industry areas such as increased safety, enhanced comfort and lower fuel consumption.

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 last year. According to the market institute IHS Global Insight, a total of 72.2 million (55.3) light vehicles were produced in 2010. In 2011, the market continued to grow by 4.2 percent to 75.2 million light vehicles. The number of light vehicles manufactured is expected to rise about 6 percent annually in the coming years until 2014, primarily as a result of increased demand in emerging markets such as China and India. For 2012, an increase of 6.1 percent is expected, with even greater increases in China and other emerging markets. Accordingly, many automotive producers are increasing manufacturing in these new, expansive markets. For system suppliers, this trend, combined with requirements for proximity and export and import tariffs, is leading customers to demand that we follow suite and offer manufacturing in these new markets.

1. When calculating the number of passenger cars produced, light utility vehicles are also included. Source: IHS Global Insight.



OPERATING UNITS

Following the acquisition of Excel Polymers Group and ELASTO Group, HEXPOL Compounding offers customers global service featuring 19 production plants in nine countries.

All of the units in the business area performed well in 2011, with particularly strong growth in the US, China and Mexico. The global automotive industry's system suppliers are major customers in these markets. Growth was also strong in the TPE area and particularly among medical-equipment applications from ELASTO Group.

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

Production capacity for all Group units totals about 550,000 tonnes of polymer compounds annually.

COMPETITORS

Only a few large manufacturers of rubber and TPE compounds have international operations. These include AirBoss, Teknor Apex, Multibase, GLS and Kraiburg. There are also a significant number of smaller manufacturers that operate locally. 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.

TECHNOLOGY AND PRODUCTS

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

HEXPOL Compounding's production plants have sophisticated quality-assurance systems. The entire production process is completely computerised to

ensure efficiency and quality. Mixing rubber in a closed mixer is what is termed a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe, or formula. All different weighing stages are monitored by an IT system to ensure maximum weighing precision and enable tracing of the entire batch. Since the formula and the mixing process are both critically important to product quality, HEXPOL Compounding's research and development engineers are responsible for composing 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. Capitalising on its advanced technological skills and expertise, HEXPOL Compounding is able to offer a number of different rubber compounds with various product forms, such as strips, as well as rubber and TPE granulate.

Modern IT systems and the latest testing instruments are used for quality inspection. Following approval, they are released for transport along with quality certifications and transport documents.

BUSINESS MODEL

Production is primarily customer order-based and focused on a considerable number of selected raw materials. The commodities are largely oil-based and subject to price fluctuations. Accordingly, pricing is renegotiated several times a year, often even monthly. The important 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 invoiced mainly through HEXPOL's own sales force. The concept "Think global, act local" accurately describes how HEXPOL Compounding functions.

STRATEGY

Focus on innovation and cost efficiency

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

Further growth in existing and new markets

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

Growth in China – additional investments

HEXPOL Compounding Qingdao, China, started to manufacture rubber compounds already in mid-2007, then with a capacity to produce 12 000 tonnes. Investments in an additional production line have commenced with scheduled production start at the end of 2012. The new production line will be equipped with a 90-litre mixer, which will provide an additional capacity of 8 000 tonnes.

HEXPOL Compounding Qingdao, China, started to manufacture rubber compounds already in mid-2007, then with a capacity to produce 12 000 tonnes. Investments in an additional production line have commenced with scheduled production start at the end of 2012. The new production line will be equipped with a 90-litre mixer, which will provide an additional capacity of 8 000 tonnes.

The rubber compounding plant in Qing-

dao, China, was built in 2007 and was the first HEXPOL plant in China for rubber compounding. The plant is of key importance to HEXPOL's growth strategy for the Asian region. Thanks to strong investments from the project group in China, supported by HEXPOL global, and a clear and distinct strategy, HEXPOL achieved full capacity utilisation for the first time in December 2011, when more than 1,000 tonnes of rubber compound were manufactured.

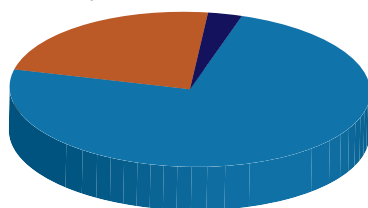
HEXPOL Compounding Qingdao has successfully developed its business operations with a primary focus on customers within a 500-km radius of Qingdao. Now, in the second phase, the geographic market is being expanded to a 2,000-km radius from Qingdao, which includes the Chongqing and Wuhan regions. At present, 45 percent of the total production volume is sold to customers outside the Qingdao

area. HEXPOL Compounding Qingdao is planning for continued growth, whereby capacity investments and a wider geographical reach constitute a solid foundation for the future.

HEXPOL Compounding Qingdao has a major competitive edge with its strong service concept, combined with customised solutions. The automotive industry is continuing to generate growth, which HEXPOL meets through its offering of rubber compounds for profiles, noise and vibration-reduction products, engine hoses and cables. Sales related to the automotive industry now account for 74 percent of production volume at the plant in Qingdao. Customers in the automotive industry consist of both local and international OEMs characterised by rapid growth and proprietary production in China.

Customer segments

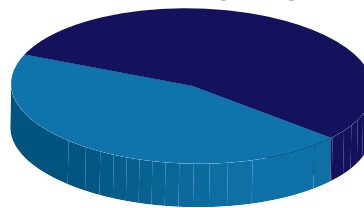
General industry, 23% Other industrial sectors, 3%



Automotive industry, 74%

Sales by geographic region

Qingdao region, 55%



Rest of China, 45%



ELASTO finalist in Plastic Industry Awards 2011

Several leading UK plastic production companies, as well as designers and other players in the industry, vied for the highly prestigious recognition provided by the Plastic Industry Awards.

ELASTO was entered in the "Supplier Partnership – Masterbatch / Compound / Additive" category, demonstrating the customer value provided by its high-quality service and partnership. At the awards ceremony banquet in October 2011, ELASTO was bestowed with an award for qualifying as a finalist.



High-quality products for demanding applications

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

Close relations with strong customers

Growth is further boosted by cooperation with customers operating in expansive markets such as the automotive market, which is growing when viewed globally. However, it is also important to serve as a supplier to automotive manufacturers that are increasing their market shares. HEXPOL Compounding has a well-balanced customer structure that includes substantial global deliveries to expansive Japanese, German and Korean manufacturers.

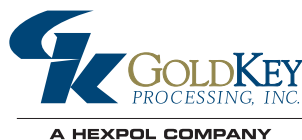
Continuous improvements

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

BRANDS

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

Brands in the business area



Acquired 2012:





ELASTO has developed a customised TPE material for Flexyfoot

Flexyfoot, an anti-slip shock absorber, is designed to replace the old-fashioned ferrule (or rubber tip) on the bottom of crutches and walking sticks and revolutionise the mobility of the injured and physically impaired.

Flexyfoot has been named one of the most innovative products in the market today, based on its offering of a better lifestyle for people dependent on walking sticks and other ambulatory devices.

Flexyfoot was originally a concept developed by David Goodwin, a product designer whose family provided the source of inspiration for his product design. His sister, who suffers from MS, and his 95-year-old mother used to complain about the difficulties caused by their walking sticks. They also thought the rubber feet wore down much too quickly and were difficult to replace.

Working in cooperation with Goodwin and the manufacturer Pentagon Plastics, ELASTO developed a customised Dryflex TPE material with improved durability properties. The material structure of Dryflex TPE corresponds to the surface friction the product requires and provides Flexyfoot with a firm grip even on slippery and wet surfaces. Mark Griffiths, a product development manager at ELASTO, says: "It was important for us to provide a material that, in addition to optimal feel and function, would also be easy to process. The design and materials choices for Flexyfoot presented us with a combination of challenges. In cooperation with Pentagon Plastics, we worked on the material's pliable properties to achieve the exact fluidity."

In tough competition, Flexyfoot was ranked second in the prestigious "British Healthcare Trades Association's Independent Living Design Awards 2010." Awards are presented to the best technical healthcare enhancement products in the UK, products that make it easier for the elderly and physically impaired to lead a more independent life. Goodwin was awarded the prize by Angela Rippon, OBE, who was very impressed by the very positive response the product has received from grateful users of Flexyfoot.

Cable and pipe seals for tough environments

Roxtec's cable and pipe seals are used in projects throughout the world in which rigorous demands are imposed on safety, effectiveness and operating efficiency. The seals protect against risks caused by fire, gas, water, dust, vermin, electromagnetic disturbances and even explosions. They also reduce vibrations and noise levels. The solutions simplify planning and design, provide faster installation and reduce the need for additional materials and logistics.

Flexible rubber modules

Roxtec was established in 1990 in conjunction with the invention of Multidiameter™, a solution for adaptations to various dimensions of cabling and piping using modular-based seals and rubber modules with removable layers. Gislaved Gummi has been a key supplier of high-tech rubber compounds since Roxtec started its operations and, based on its innovative solutions and materials know-how, has helped to support Roxtec's success. Roxtec quickly became a leading global supplier of modular-based seals and the sealing system has now become a standard solution for demanding environments, industries and applications – everywhere that life and assets must be safeguarded.

Focusing on customer needs

Roxtec cooperates with customers and suppliers in various areas in order to customise new solutions based on specific needs. "We appreciate the close cooperation with dedicated suppliers such as Gislaved Gummi, since the development of certified safety products requires comprehensive understanding, know-how, research and testing," says Jörgen Martinsson Thelin, Executive Vice President Global Operations at Roxtec.

Roxylon™ – a resistant compound

Gislaved Gummi is one of the business partners behind the Roxylon™ family of EDPM rubber that Roxtec uses in its solutions. Roxylon™ compounds are specially adapted for maximum safety, performance and functionality. They also offer excellent sealing and fireproof qualities, in addition to a high level of insulation and good vibration reduction. They are also halogen-free and resistant to many chemicals. Because of its setting and the rubber's elasticity, the seals can be opened and closed many times.





OPERATIONS IN 2011

2011 was a very strong year of growth for HEXPOL Compounding. Volumes rose in all markets and in all units. Sales were particularly strong to the global automotive industry's system suppliers and the engineering industry, while other markets segments, such as the oil and energy sector, also grew strongly. The US, Chinese and Mexican units reported the strongest sales increases.

Sales rose a full 109 percent to 6,450 MSEK (3,080) and operating profit increased sharply to 823 MSEK (398 excluding items affecting comparability), entailing that the operating margin was 12.8 percent (12.9).

In late 2010, the global rubber compound Group Excel Polymers Group was purchased. This company generated sales of 377 MUSD in 2010 and has eight strategically located production plants in the US, China, Mexico and the UK. A comprehensive integration effort was completed in 2011. All Excel Polymer units have now successfully been integrated into HEXPOL Compounding's geographic organisation.

FUTURE 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 19 production units in nine countries, our structure is unique for the industry and provides our global customers with local service. HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

2012 will be another exciting year characterised by intensive efforts to increase market shares through technological and process advancements. We also prioritise continued initiatives in medical-equipment applications, as well as continued efforts in emerging markets such as China, Mexico and Eastern Europe. We will also continue to introduce the ISO 14001 environmental-management system in all units. In 2012, we will increase manufacturing capacity for rubber compounds in Qingdao, China, and launch a manufacturing unit for TPE compounds in Foshan, China.

It is highly probable that, just as in 2011, managing volatile commodity prices will present a challenge in 2012.

In late 2011, an agreement was signed to acquire the German TPE-Compounding company Müller Kunststoffe, which has two units in southern Germany. The acquisition was finalised in January 2012 and strengthens our position in TPE compounds in central Europe.

HEXPOL Compounding to the rescue

The major OEM manufacturers in the automotive industry are placing high demand on their suppliers in respect of quality and delivery assurance. If any link in the supply chain has a problem, the entire car assembly plant may be disrupted resulting in considerable financial consequences.

In late 2011, one of HEXPOL's US customers in the automotive industry had a breakdown in one of its proprietary rubber compounding lines. The line in question supplies three component plants with rubber compounds. There was a substantial risk that the problem would in turn cause disruptions in several car assembly plants. The breakdown also occurred just before Thanksgiving weekend, which further aggravated the situation.

Faced with this situation, the customer contacted HEXPOL for assistance. An inter-functional group from HEXPOL's plant in Burton, Ohio, was formed comprising representatives from manufacturing, customer service, purchasing, logistics and sales. The project group immediately contacted the customer to define the products and to plan production. Raw-material suppliers were contacted simultaneously to secure special deliveries. Additional personnel were called in at several of HEXPOL's facilities to produce during the holiday period. Thanks to HEXPOL's engineering expertise, excellent contacts with raw-material suppliers and dedicated staff, the first material was delivered less than 48 hours after the project commenced.

The end result was that the customer received the material in time and no production time was lost at the three facilities. The potential repercussions forward in the manufacturing chain with major claims for damage as a result were rapidly and smoothly avoided. The customer's rubber compound line was repaired the following week after more than 100 tonnes of HEXPOL material had been delivered. The customer was rescued by the already established contact with HEXPOL. All involved were able to witness once again the strength of HEXPOL's business concept and its focus on the well-being of its customers.



An "expanding" success

Dryflex WS, a range of hydrophilic or water-absorbing TPEs, has been a growing success for ELASTO. With this new range of materials, ELASTO has converted the otherwise water-resistant materials into a thermoplastic elastomer with the capacity to expand, or swell, by as much as 10 times their volume upon contact with water. The materials were developed to expand in various water solutions featuring pH 7 to pH 12, with the aim of achieving excellent sealing properties.

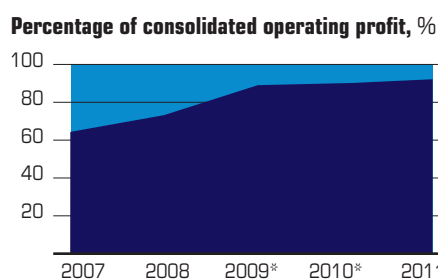
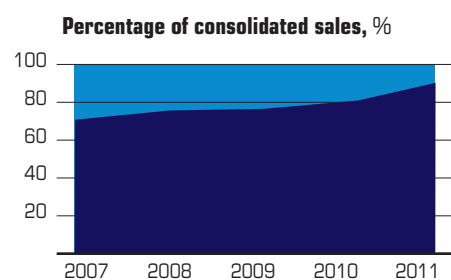
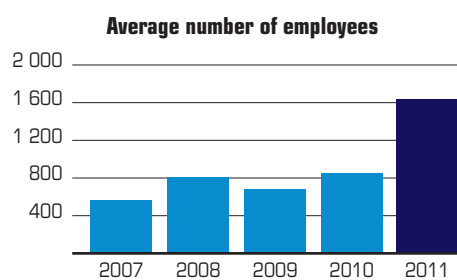
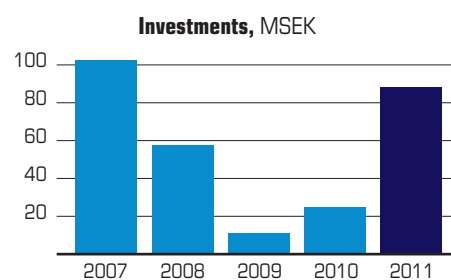
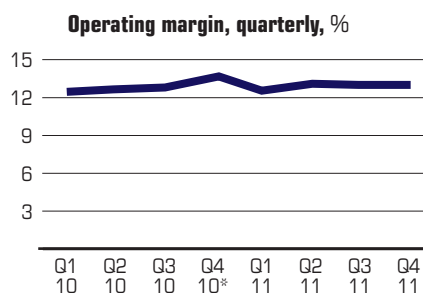
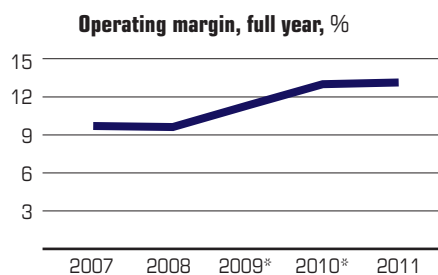
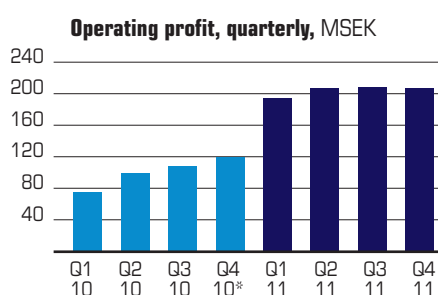
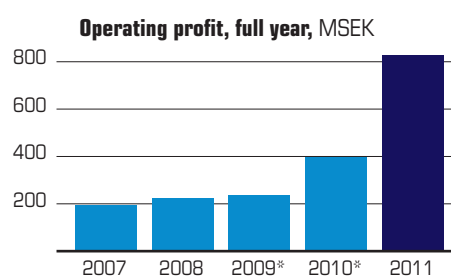
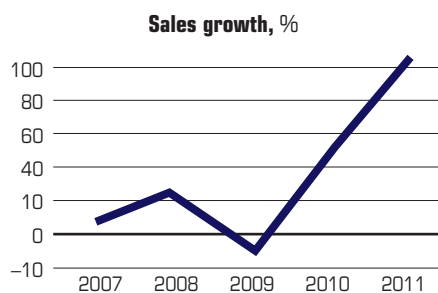
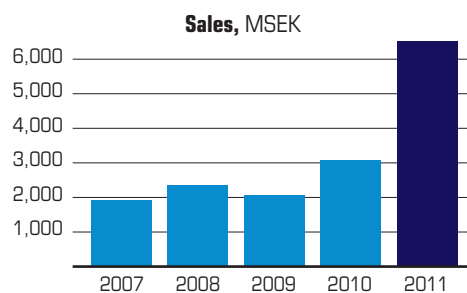
The expanding properties are attained by mixing a super-absorbent polymer in the elastomer compound. Temperature, the water's saline content and the elastomer compound itself determine how much the material will expand. The product range includes materials designed for swelling levels from 250 to 1,000 percent. When the material is no longer in contact with water, it returns to its original size. This process of expansion and shrinking can be repeated many times.

During the expansion process, the materials retain their basic structure, as opposed to clay-based materials that can erode and crack. Dryflex WS can be processed in conventional machines intended for plastic processing, such as injection moulding and extrusion. The material is colourable and 100-percent recyclable. Antimicrobial versions are also available.

Earlier this year, the Materials Library in Stockholm selected Dryflex WS as one of "20 inspirational materials" for a design workshop arranged by SONY Design Centre in London, in cooperation with Les Ateliers Design University in Paris.

Seals for water treatment plants, tunnel, sewers, cistern tanks, windscreens, headlights and electric cables are just a few examples of the many application areas for Dryflex WS.

HEXPOL Compounding over five years



* Excluding items affecting comparability

HEXPOL facilitates quality work by customers

AMTROL is a leading US manufacturer of components for the HVAC sector that produces various types of water containers for storage, treatment, heating, expansion and fluid control. Every year, AMTROL uses more than 900,000 rubber compounds for compression mouldings of various types of membranes. AMTROL has been one of HEXPOL Compounding North Carolina's principal customers for many years.

The membranes for which HEXPOL delivers rubber are used as barriers between the water chambers and compressed air chamber in an expansion tank. The membrane is a moving part of the design, thus imposing stringent demands on tolerance levels, material properties and lifespan.

AMTROL's cutting-edge skills are particularly pronounced in the areas of underwater dragging and welding operations. Compression moulding of membranes, however, is only a small area that has been neglected for a long period of time. Personnel turnover in the department was high and investments in new technology were low. The first pass yield became successively worse and, in September 2010, compression moulding of membranes accounted for 25 percent of AMTROL's total product rejects. The company needed to gain control of the process quickly.

In October 2010, Christopher Laus, Senior Vice President of Operations at AMTROL, flew to HEXPOL Compounding North Carolina, in Statesville, NC, to discuss the problem. After the initial discussions, Shannon Smith, Managing Director of HEXPOL Compounding North Carolina, offered to make resources available that would enable AMTROL to try and solve the problem.

Ray Hetherington, the company's process engineer, was appointed to manage HEXPOL's side of the project. AMTROL, in turn, appointed a dedicated project group authorised to make any necessary

decisions in AMTROL's local production operations. The information-gathering effort was started immediately and was reviewed at regular intervals around the clock for the 10 different subordinate processes of the production process. The project team met twice a day to exchange experiences and discuss test results.

The previous quality problems were often due to variations in the raw materials. Ray Hetherington encouraged the team to conduct critical analyses of all parts of the production process, including work methods and the machinery. A great deal of time was devoted to optimising process control at the same time as critical machine components were inspected and adjusted. These studies resulted in many insights into the problems.

- The compression moulding machine was poorly maintained.
- The temperature gauge performed poorly.
- The vacuum system was not used, which resulted in tolerance deviations.
- The positioning of moulds could not be adjusted.
- Parts subject to wear in the machine were only replaced when major rejects arose.

The corrective measures led to rapid improvements in product quality.

All actions except one (talcum coating of rubber raw materials) were managed internally at AMTROL. The favourable results also generated new ideas from the machine operators who could now feel pride in their operations. Upon completion of the project, the following impressive results have been achieved.

- Rejects reduced by 58 percent.
- Overtime work reduced by 16 percent as a result of improved production output.
- Savings of USD 25 000 realised as a result of lower landfill expenses for scrapped materials.

"HEXPOL gave us the core expertise that we lacked in compression moulding of rubber," says Christopher Laus. With Ray Hetherington's assistance, AMTROL has recreated the skills it had lost in compression moulding of membranes. The company is now working on the next stage of the development process, which is focused on sustainability and a mode of operations that supports continuous improvements.

"We hope to continue to improve our operations far into the future, but if we run into any problems, we know that HEXPOL is there to help us," says Christopher Laus.





HEXPOL supplies rubber compounds to EMKA

After one year of business relations with EMKA, a leading global producer of gaskets, electronic devices, hinges and locks, HEXPOL is now a major supplier of rubber compounds to the company's production plants in Spain and the UK. Through this programme of cooperation, HEXPOL's rubber compounds are now used in profiling solutions for a large number of public buildings and transportation equipment. The rubber compounds, which meet the safety and security requirements of important functions, were developed as a result of cooperation between EMKA and HEXPOL's central R&D team. Today, HEXPOL produces flame-proof rubber compounds that meet the requirements of UL50 E, UL 94 HB and DIN 5510-2 and are close to also meeting the requirements of NF F 16-101. Thanks to their cooperation, EMKA has also asked HEXPOL to develop rubber compounds that meet the VDI 6022 hygiene requirements. Sales in this market segment are expected to grow strongly both for EMKA and HEXPOL.



Business area HEXPOL Engineered Products

Growth with improved margins



HEXPOL Engineered Products in brief

Operations

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

Market

HEXPOL Engineered Products focuses on global markets that are niched and have a high technical content. In the markets for rubber gaskets for plate heat exchangers, as well as rubber and plastic wheels for forklifts, HEXPOL is a global player with production in Europe, Asia and North America (only wheels). For the extrusion of rubber profiles, HEXPOL focuses on the Nordic market.

Customers

HEXPOL Engineered Products customers mainly comprise manufacturers of plate heat exchangers, forklifts and castor wheels, as well as construction and engineering industries for profiles.

Sales 747 MSEK (718)

Operating profit 72 MSEK (62)

Number of employees at 31 December 1,367 (1,416)

Operating units

- Gislaved Gummi Gaskets, Gislaved, Sweden
- Elastomeric Gaskets, Bokundara, Sri Lanka
- Gislaved Gummi Qingdao, China
- Stellana Laxå, Sweden
- Stellana Lake Geneva, USA
- Elastomeric Wheels, Horana, Sri Lanka
- Stellana Qingdao, China
- Gislaved Gummi Profiles, Gislaved, Sweden



Lars-Åke Bylander,
President HEXPOL Gaskets
President HEXPOL Profiles



Jan Wikström,
President HEXPOL Wheels



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

The manufacturing processes at HEXPOL Engineered Products have been refined and optimised over a long period. The same intricate thoroughness is applied in the process regardless of whether it applies to casting, compression moulding or extrusion. Quality and processes are continuously optimised through the ISO, Lean and Kaizen work methods.

ORGANISATION

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

MARKET

The market for gaskets for plate heat exchangers is a global niche market. The market has historically been dominated by Europe, while other important players are found in the North American market. The Asian market is becoming increasingly important, and is expected to continue to outgrow the markets in Europe and North America. In South America, the market is also growing quickly, albeit from low levels. HEXPOL has strategically well-positioned production units in Europe and Asia.

The market for forklift wheels is also global, although it is strongly differentiated regionally due to varying material preferences and quality standards. HEXPOL Wheels is the

only forklift wheel manufacturer with production units in Europe, North America and Asia.

In the market for profiles, HEXPOL has opted to focus exclusively on the Nordic region. However, several Nordic customers have been active outside the region and HEXPOL thus also makes deliveries to other European countries and North America.

HEXPOL Gaskets is active in the global market for gaskets for plate heat exchangers. Customers are primarily highly qualified OEM manufacturers. The market's long-term growth is driven by the interest in energy conservation and environmental issues, whereby increased costs for commodities such as oil and gas are generating higher demand. Other factors fuelling demand are higher living standards and an increase in global commodity trading.

The positive trend in the gasket market continued in 2011, albeit at a lower level than during the economic peak of 2007/2008. The high global market prices for oil and gas resulted in enhanced energy consumption efficiency and increased investments in alternative energy sources such as biofuels and nuclear power. The market is currently driven by maintenance investments in existing facilities, but also by increased demand for small and mid-sized plate heat exchangers. In the large gasket range, the number of project-related orders increased somewhat.

During the year, the market was hallmarked by short lead times and relatively small order volumes. HEXPOL Gaskets is currently a supplier to all major OEM manufacturers of plate heat exchangers. Overall, the global market is dominated by about ten major manufacturers. The aftermarket is believed to account for about one-fourth of today's total market. HEXPOL Gaskets has advanced its positions and is well-equipped for an increase in demand.

HEXPOL Wheels operates in the expansive market for wheels for electric and hand pallet forklifts, as well as castor wheels. The market is dominated by a handful of major players in Europe and North America. Global annual sales of new forklifts continued to rise after the recovery in 2010. The aftermarket for forklift wheels increased somewhat more

Brands in the business area





Lake Geneva, USA
HEXPOL Wheels



Laxå, Sweden
HEXPOL Wheels



Gislaved, Sweden
HEXPOL Gaskets



Gislaved, Sweden
HEXPOL Profiles



Bokundara, Sri Lanka
HEXPOL Gaskets



Horana, Sri Lanka
HEXPOL Wheels



Qingdao, China
HEXPOL Wheels



Qingdao, China
HEXPOL Gaskets

HEXPOL Engineered Products operating units

Unit	Location	Number of employees 31 Dec 2011	Area m ²
HEXPOL GASKETS			
Gislaved Gummi Gaskets	Gislaved, Sweden	134	6,000
Elastomeric Gaskets	Bokundara, Sri Lanka	500	7,000
Gislaved Gummi China	Qingdao, China	59	8,000
Total		693	21,000
HEXPOL WHEELS			
Stellana Sweden	Laxå, Sweden	79	8,000
Stellana US	Lake Geneva, USA	50	6,660
Elastomeric Wheels	Horana, Sri Lanka	490	16,590
Stellana China	Qingdao, China	24	1,080
Total		643	32,330
HEXPOL PROFILES			
Gislaved Gummi Profiles	Gislaved, Sweden	31	2,500
Total		31	2,500
Total HEXPOL Engineered Products		1,367	55,830

than the OEM market and is dominated by OEM manufacturers and independent distributors.

The warehouse forklift market has been strongly consolidated in recent years and it is now dominated by a handful of Western European and North American manufacturers, in several cases with Japanese owners. The castor wheel market is more diversified with a few major players and a large number of local manufacturers. HEXPOL Wheels is the only global player in the forklift wheel market and is well-positioned to capture additional market shares. HEXPOL Profiles is a strong player in the global market for rubber profiles. Most of the profiles are delivered to OEM manufacturers for original assembly in various applications at our customers' plants. The products are primarily used in the construction industry as sealings for windows, doors, gates, facades, patios and ventilation facilities, but also in engineering-related industries in the Nordic region. The market was stable during the year.

STRATEGY

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

BRANDS

HEXPOL Engineered Products conducts operations under the Gislaved Gummi (gaskets and profiles), Stellana (wheels) and Elastomeric (wheels) brands, which are established and well-renowned in Europe and North America. The same brands are also used in the Chinese market.

OPERATING UNITS

HEXPOL Gaskets has production plants in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka,

and Qingdao, China). The production units are modern and with local development resources and well-functioning quality systems. Production is conducted cost-effectively with joint planning and logistics.

HEXPOL Wheels has production facilities in Europe (Laxå, Sweden), the US (Lake Geneva, Wisconsin) and Asia (Horana, Sri Lanka, and Qingdao, China). The plants are well-adapted to local markets conditions, except for the unit in Sri Lanka, which is geared toward exports to Europe and Asia.

HEXPOL Profiles conducts operations in Gislaved, Sweden. Production is an integrated part of Gislaved Gummi AB.

COMPETITORS

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

The market for polyurethane wheels is dominated by about ten manufacturers, of which HEXPOL is among the leading. The primary competitors in the European market are Räder-Vogel and Wicke, both of which are family owned. In the US market, Thombert, Superior, Falcon and HEXPOL's Stellana US are the four largest companies. A large number of minor wheel manufacturers are active at the local level. The relatively fragmented market offers 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 2011

In 2011, HEXPOL Engineered Products' sales rose 4 percent to 747 MSEK compared with 718 MSEK in 2010. During the same period, operating profit improved 16 percent to 72 MSEK (62). The operating margin rose to 9.6 percent (8.6). The improvement in profit was attributable in part to increased volumes but also to continued cost awareness and strategic operational rationalization.

In gasket operations, demand improved during the year, primarily driven by somewhat higher project-related orders, as well as strong demand in Asia. Rising raw material prices and pricing pressure impacted performance during the year. Lead times remain short, and rapid deliveries combined with a high level of service remain a prerequisite for success in the market.

The market for forklift and castor wheels experienced a continued positive trend in 2011. While volumes have been at a relatively favourable level, rising commodity prices and volatile exchange-rates have put pressure on forklift wheel manufacturers. HEXPOL Wheels experienced a positive trend in the US and China, and a somewhat weaker trend in Europe.

The profile market continued to strengthen during the year, which was largely attributable to improved conditions in the engineering industry. Demand in the key construction sector slackened somewhat during late 2011. HEXPOL Profiles performed well during the year and improved its positions with several important customers.

While staffing rose in pace with increased sales, rationalisation measures entailed a decline in personnel intensity.

OUTLOOK AND PRIORITIES

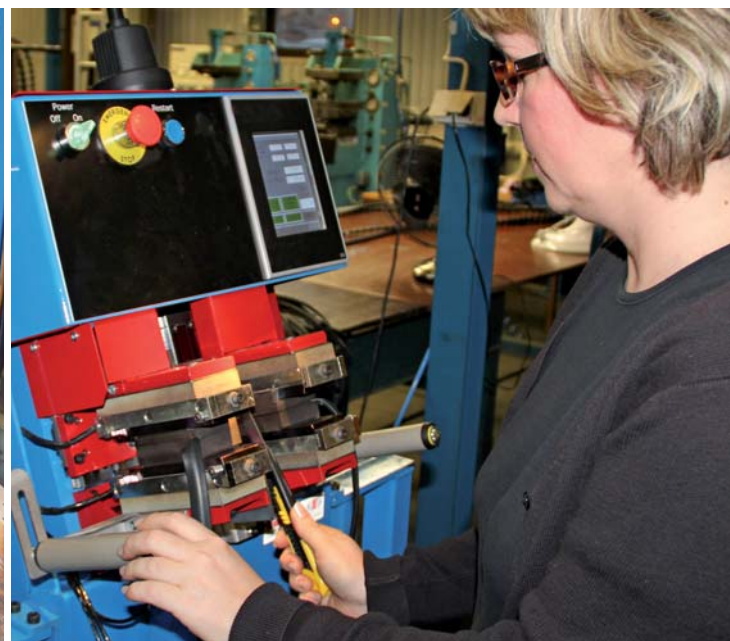
HEXPOL Gasket's core market is among European and Asian OEM manufacturers of plate heat exchangers. HEXPOL continues to focus on being the first choice for these key customers. The market is growing since demand for energy-efficient solutions is constantly rising. HEXPOL's gasket operations are cost-effective and adapted to the prevailing market scenario, with the ability to rapidly increase capacity when conditions change.

HEXPOL Gasket's strategy of focusing on penetrating new markets in Asia and North America continues. Investments are being made in China to be able to offer a comprehensive product range in the Asian market.

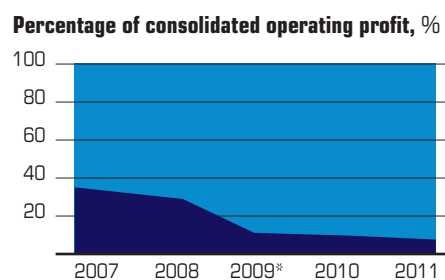
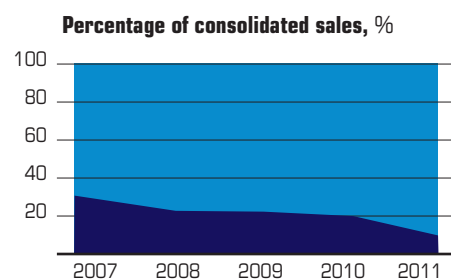
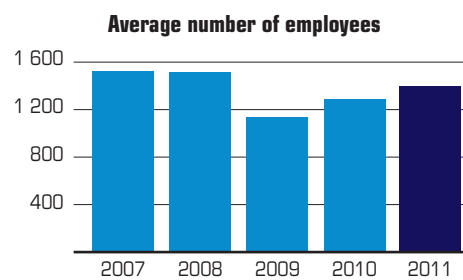
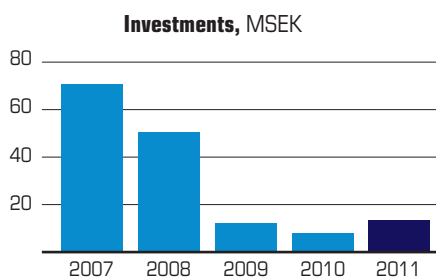
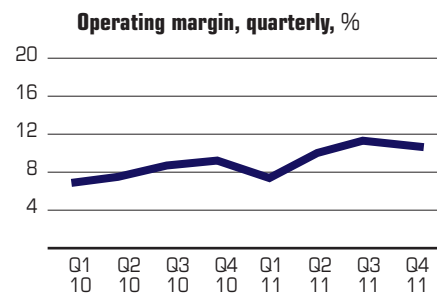
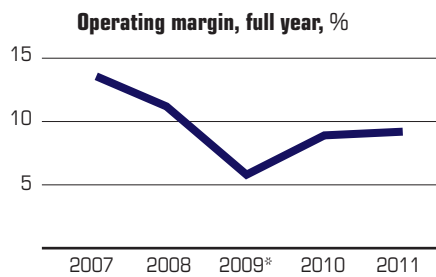
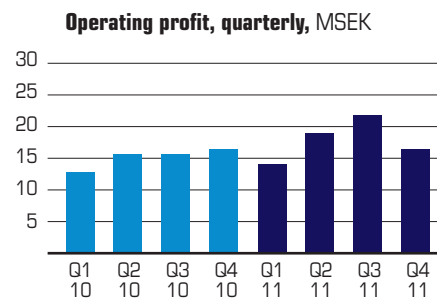
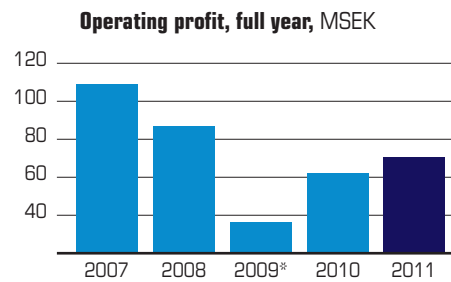
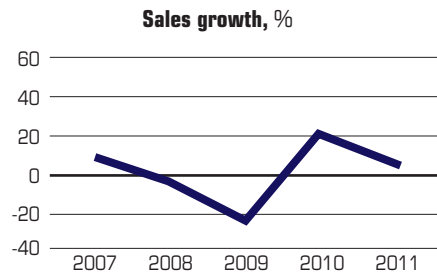
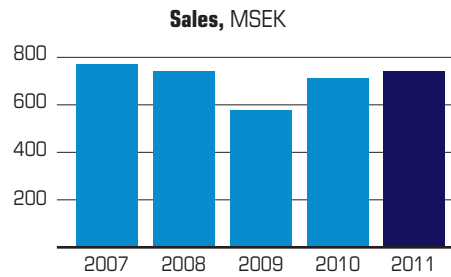
HEXPOL Wheels continued to strengthen its operations in 2011. Its Chinese operation is expanding and an investment in new production capacity in polyurethane wheels has commenced. Investments were also made in the US, primarily in new and more efficient production equipment in the existing operation.

We also presume that the wheel market, which is currently highly fragmented, will enter a consolidation phase in which HEXPOL will play an active role. We foresee continued investments in product development and the cultivation of new markets as a source of significant potential in 2012.

In 2011, HEXPOL Profiles completed the rationalisation work that was initiated in 2010. Investments were made in new production equipment and the operation was re-located to more appropriate premises. During the year, partnerships with a significant number of key customers were strengthened, which provides favourable conditions for continued growth.



HEXPOL Engineered Products over five years



*Excluding items affecting comparability.



HEXPOL Gaskets

ORGANISATION

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

TECHNOLOGY AND PRODUCTS

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

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

BUSINESS MODEL AND STRATEGY

HEXPOL Gaskets is a global product specialist that develops,

manufactures and markets high-quality gaskets for plate heat exchangers under the Gislaved Gummi brand. The strength of the business model lies in a combination of advanced rubber expertise, efficient scalable production and a globally effective logistics solution featuring short lead times. The manufacturing unit in Gislaved, Sweden, focuses on technologically advanced rubber compounds and special gaskets in short production series. Volume products are mainly manufactured in Sri Lanka. The Chinese manufacturing operation is currently in a scaling-up phase to meet strong local demand from local plate heat exchange manufacturers and Western manufacturers.

Market communications and technical support are managed from Gislaved, Sweden, with the exception of the Chinese market, where a local organisation is in a start-up phase. Central coordination enables HEXPOL Gaskets to rapidly and effectively satisfy both specific customer requirements and general undertakings. To further enhance the customer experience, HEXPOL Gaskets is working to achieve continuous improvements by using the collective expertise in a structured manner to improve processes.

As a result of ISO-certified quality systems, strictly controlled manufacturing parameters and highly educated staff, HEXPOL Gaskets can offer identical products regardless of production location. HEXPOL Gaskets provides a variety of online tools to facilitate customer contacts such as VMI, EDI and product databases. The aim is that conducting business with HEXPOL should be easy.

OPERATING UNITS

HEXPOL Gaskets currently has gasket production plants in Gislaved, Sweden, in Bokundara, Sri Lanka, and Qingdao, China.



Gislaved Gummi and Alfa Laval launch enhanced cooperation in China

Gislaved Gummi and Alfa Laval have signed an agreement whereby Alfa Laval will outsource its proprietary production of OEM gaskets in China to Gislaved Gummi. The plant supplies specific gasket types to Alfa Laval Group units throughout the world. Due to the agreement, Gislaved Gummi will make capital investments to increase its production capacity in China by 50 percent. Deliveries will start gradually in early 2012.

“We are delighted to have reached this agreement and look forward to starting our deliveries. For us, the agreement means greater volumes to the Chinese production plant, which will concentrate

deliveries locally to Alfa Laval’s unit in China,” says Lars-Åke Bylander, President of HEXPOL Gaskets.

Gislaved Gummi’s plant for the production of plate heat exchanger gaskets in China was placed on stream in 2009. The plant concentrates mainly on meeting Chinese market demand for gaskets, which encompasses both Chinese manufacturers of plate heat exchangers and western manufacturers with production operations in China.

The gaskets produced in China maintain the same high quality as gaskets produced at the plants in Sri Lanka and Sweden. Through coordination of production

methods, quality control and logistics, we ensure the same high-quality products from all our units. The rubber compounds that comprise the raw materials are developed and manufactured centrally at the plant in Gislaved, Sweden, and shipped to the respective units, thus ensuring identical material quality regardless of where the gaskets are produced. Since the operations were started in 2009, we have achieved strong organic growth driven by demand from domestic manufacturers of plate heat exchangers that place rigorous demands on gaskets, as well as increased production operations in China by western manufacturers.



The plants are strictly standardised, while simultaneously also adapted for different focuses in terms of product portfolio and flexibility. HEXPOL makes regular investments in production equipment to remain at the leading edge of process efficiency and quality. In 2011, a decision was taken to increase capacity at the Chinese unit by 50 percent, which will be completed in the second half of 2012.

Much of the volume growth for gaskets for plate heat exchangers is occurring in Asia, driven by China. Domestic Chinese manufacturers of plate heat exchangers have largely used locally produced, low-performance gaskets, while Western companies established in China primarily deploy high-performance gaskets.

However, progress has been rapid in terms of new applications and rising quality requirements. HEXPOL is well poised to capture shares of this new, fast growing market. Geographically, the new plant in China is strategically located close to the major manufacturers of plate heat exchangers. To continue to gear the market toward a higher level of quality, HEXPOL has invested in a comprehensive testing laboratory capable of very clearly demonstrating the advantages of using high-quality

gaskets. During the year, considerable emphasis was placed on establishing the Gislaved Gummi brand in China, which has resulted in several accounts in new business.



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



Roger Jonsson,
Managing Director
Elastomeric Gaskets



David Jia,
Managing Director
Gislaved Gummi China

Sondex plate heat exchangers equipped with gaskets from Gislaved Gummi

After 25 years of close cooperation, Gislaved Gummi AB and Sondex A/S have developed a successful partnership concept. Gislaved Gummi is a strategic supplier of rubber gaskets to Sondex, a leading global supplier of plate heat exchangers for district heating and pumps used in various applications in the industrial, marine and food sectors. Sondex is a Danish company that was established in 1984. Over the past 20 years, the company has become an international group with subsidiaries in more than 30 countries and plate-moulding units in Denmark, China, Poland and the US, and soon also in Korea, Romania and



India. Sondex has a comprehensive network of agents throughout the world.

Through its global market presence, Gislaved Gummi delivers gaskets under the Gislaved Gummi brand to Sondex production units in all parts of the world.

Sondex recently introduced an innovative new plate grade, the S310 with DN 650 connectors, which provides a complete solution and reduced service costs through parallel installation of the heat exchangers, thus minimising pipe and assembly

requirements. The S310 plate, which measures 4,200 mm in height and 1,500 mm in width, offers a very high heat transfer co-efficient on a limited surface area, thereby ensuring optimal thermal performance. The S310 is included in the Danish company's new generation of high-capacity plate heat exchangers, which are equipped with gaskets from Gislaved Gummi and designed specifically for larger installations within heating, oil and gas, petrochemicals and desalination of sea water, applications requiring large amounts of cooling water.

It was natural for Sondex to choose Gislaved Gummi as the supplier of large gaskets for S310. Gislaved Gummi's production concept, logistics solutions and capability to deliver high-quality gaskets meet all of the Sondex market segment's expectations and demands.





HEXPOL Wheels

ORGANISATION

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

TECHNOLOGY AND PRODUCTS

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

Five types of products are produced by HEXPOL Wheels:

- Polyurethane wheels
- Thermoplastic wheels
- Rubber wheels and 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 for the local market.

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

HEXPOL Wheels also offers a comprehensive range of replacement wheels in the aftermarket. Most aftermarket sales are conducted through OEM manufacturers of forklifts, although independent distributors are used to gain greater access to the market. Several major customers are relocating 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, in the US, Horana, Sri Lanka, and Qingdao, China.

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

The US unit in Lake Geneva is one of the largest suppliers of polyurethane tyres and cast wheels in the North American market. Here, product development is also conducted in close cooperation with major OEM manufacturers. Wheels are tested in wheel laboratories to adjust the wheel's properties to the desired results at an early stage in the development process. This work has resulted in the launch of several popular new products in recent years.

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.

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



Jan Wikström,
President HEXPOL Wheels,
Managing Director
Stellana Sweden



Roger Jonsson,
Managing Director
Elastomeric Wheels



Kalle Liu,
Managing Director
Stellana China



Eric Weber,
Managing Director
Stellana US



Elastomeric – successful “lean” production

Elastomeric Engineering Ltd, Sri Lanka, placed second in the 2010 Taiki Aki-moto 5s Awards, which are sponsored by JASTICA, and third in the National Productivity Awards, a competition organised by the national productivity council.

These achievements were attributable to applications of the Lean Manufacturing System and Team Work Concept, which

are both well established and used throughout the company.

Lean Manufacturing is an operating tool that has made it possible to maximise production efficiency. In addition, Elastomeric's effective personnel administration function has motivated the employees to apply lean thinking in the plant. Teamwork on the floor, including problem solving, analyses and timely

implementation of corrective measures has provided the company with a competitive edge.

Sisira Ranatunga, production manager, and his crew have worked hard to achieve these favourable results, supported by the strong commitment of foremen and machine operators.



Stellana growing in Qingdao with production of polyurethane wheels

Stellana has initiated its planned expansion of operations in Qingdao, China to include the production of polyurethane wheels. Stellana's international OEM customers have been demanding a higher local production capacity for high-quality polyurethane wheels in Qingdao for quite some time.

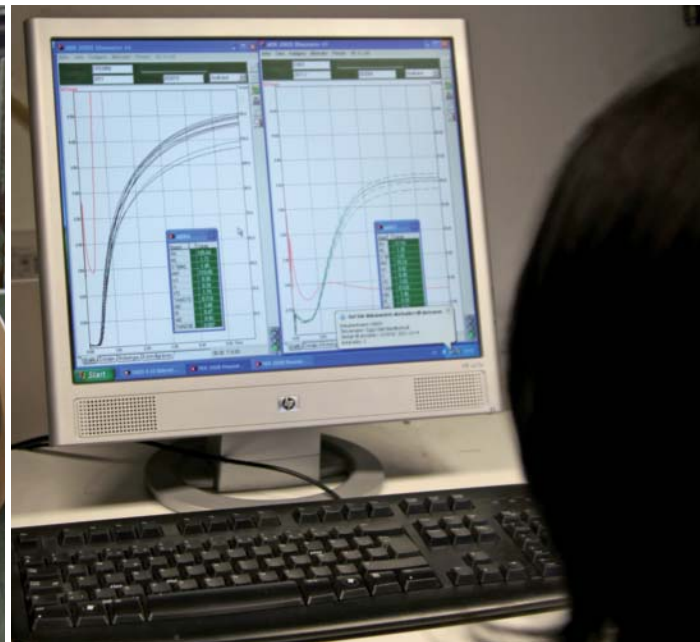
The driving force is higher demand for more effective and environment-friendly indoor materials handling, whereby the market for electric-powered warehouse vehicles has grown strongly during recent years. As a global supplier to the materials handling industry, the new production line will enable Stellana to offer an ideal site to better serve our OEM-customers, including both international and local

Chinese OEM customers in the materials handling sector. It will also strengthen Stellana's market position in the region. The new production line will be equipped with the latest technology for casting and testing polyurethane wheels, enabling local production to meet Stellana's global quality requirements. The plant will cover all aspects of wheel production, including CNC-controlled metal processing, which will greatly increase Stellana's competitiveness in flexible and cost-efficient production. The plant is currently dimensioned for annual production of 200,000 units, but has future potential to double the capacity for a minor investment. Production is scheduled to begin during the third quarter of 2012.

In addition to the investment in poly-

urethane wheel production, Stellana is increasing its production of plastic wheels for the Asian market. Additional injection moulding machines will meet the growing demand from existing and new customers. Stellana recently established business relations with several new customers for PA/PU wheels in Asia.

The investments in China, combined with the investment in a new polyurethane casting line that was installed toward year-end 2011 at the company's US plant, provide Stellana with a unique opportunity to offer customers in all parts of the world a large assortment of wheels. The increased polyurethane production capacity in China was yet another step toward becoming a truly global partner for our OEM customers.



HEXPOL Profiles

ORGANISATION

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

TECHNOLOGY AND PRODUCTS

HEXPOL Profiles specialises in manufacturing thin-walled solid profiles made from rubber and silicone. The products are customised for various customer requirements, such as spliced and various types of pre-cutting.

Most of the range comprises customised products that were developed by HEXPOL Profiles in collaboration with the customer. Manufacturing is conducted in a continuous vulcanization process with integrated surface treatment and marking. During the year, several investments were made to further automate the process. The rubber compounding material is supplied from HEXPOL's proprietary operations in Gislaved. HEXPOL Profiles are ISO 9001 and ISO 14000 certified.

HEXPOL Profiles has a stable customer base with strong market positions. Its customers are generally highly quality conscious and have a high degree of automation in their proprietary manufacturing, which imposes strict requirements on quality, tolerances and repeatability in each delivery. Customers are located in the Nordic market, but some of HEXPOL's products are sent to foreign subsidiaries.

In 2010-2011, HEXPOL Profiles was integrated into Gislaved Gummi's main plant, generating positive quality assurance, logistics and cost-efficiency synergies. HEXPOL Profiles is well-positioned in terms of market

position and internal ability to meet continued strong growth.

BUSINESS MODEL AND STRATEGY

HEXPOL Profiles offers customised, thin-walled, solid rubber and silicone profiles. Offering quality products at competitive prices with exceptional logistics and service creates added value for the customer.

HEXPOL Profiles focuses on supplying long manufacturing series to a number of major customers, enabling the product area to grow together with the customer. When cultivating new customers, Gislaved Gummi's unique material expertise is a major competitive advantage. The ties to other HEXPOL operations in Gislaved also enable HEXPOL Profiles to capitalise on well-functioning processes and advanced IT support.

OPERATING UNITS

Operations are located in Gislaved, Sweden.



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



Automation and industrial robots in the production process

Gislaved Gummi AB invested in a robot cell during 2011 as part of efforts to meet increased customer demands and strengthen the competitiveness of HEXPOL Profiles. The robot cell consists of two ABB robots with automatic packaging and pallet handling connections to handle shipments of rubber profiles.

The investment is the first of its kind in Gislaved, contributing strongly to higher extrusion speeds and eliminating the need for manual supervision of packaging operations. Automatic pallet handling has enabled the company to reduce manual handling.

As a result of the new packaging accuracy, every package can now be made larger, which provides significant added value for customers, enabling them to reduce pallet replacements during automatic assembly of profiles. Complaints about tangled portions of profiles have stopped.



"With proper planning, adding a conservatory to a house has the potential to be a profitable investment that will increase the value of the house. We meet the rigorous demands of our customers and a growing number of private homes today include a conservatory from Skånska Bygghvaror," says Tina Dalemo, Communicator, Skånska Bygghvaror AB.

Tailor-made profiles from Gislaved Gummi in Swedish conservatories

Gislaved Gummi AB has specialised for many years in solid, thin-wall rubber profiles designed to meet customer-specific preferences. No sealing profile is like any other. They may contain different materials or differ in size, shape and colour with or without surface treatment. A programme of cooperation started in 2007 with Skånska Bygghvaror has developed very favourably. Gislaved Gummi serves as a strategic supplier to Skånska Bygghvaror, supplying rubber profiles to the Swedish building materials company for one of its most popular products – conservatories – thus playing an active role in creating a more pleasant living environment for home owners.

Established in 1965, Skånska Bygghvaror AB is Sweden's leader in telephone and e-commerce sales of building materials. The company develops products such as conservatories, greenhouses, external doors, windows and bedroom furnishings based on proprietary specifications, and then puts its own brand on them. This is the company's stamp of quality for the customers. Most products are delivered in the company's own trucks – to owners of private homes and craftsmen in all parts of the country. Skånska Bygghvaror believes that any product sold under its name is a declaration to customers that it offers high quality at a fair price, and that it is manufactured using quality materials in a cost-efficient production process. The company, in turn, places meticulous demands on its suppliers and controls the products from original concept to delivery.

Through proprietary product development and production of large portions of its product range, Skånska Bygghvaror controls the entire value chain from product concept to end-customer. Gislaved Gummi's experienced technicians enter the product development chain at early stages to provide assistance and support in the development of rubber profiles and proposals for technical solutions for desired applications.

Corporate responsibility

A key component of our corporate culture



We attach major importance to matters concerning business ethics, the environment, the work environment and social responsibility. Corporate responsibility is integrated in our corporate culture and is a prerequisite for long-term value creation for our stakeholders.

Corporate responsibility is rooted in the Group's ethical guidelines and policies, meaning the fundamental rules that apply to everyone at HEXPOL, and are based on international guidelines and initiatives. The aim is to be a company with sound business principles and an expressed responsibility for people and the environment. The basic requirement is that the Group comply with the laws and guidelines that apply for listed companies, and that the individual companies fulfil the legal requirements concerning the environment, work environment, product safety, marketing and other areas. The term corporate responsibility also includes openness in relation to our stakeholders, where customers, employees and shareholders are of particular interest. Corporate responsibility also entails integrating the sustainability effort throughout the value chain – from the development stage to use, and when the products ultimately become waste.

OUR APPROACH TO CORPORATE RESPONSIBILITY

The Group's rules for corporate responsibility include the following components:

LEGAL REQUIREMENTS

With operations in ten countries and on three continents, HEXPOL faces a number of legal and other requirements in many areas. A fundamental undertaking is that companies and the individual employees comply with the ordinances, rules and laws that impact on business operations. A specific example is respecting export and import ordinances during international business transactions, in terms of both trade embargos and economic sanctions in the countries concerned.

BUSINESS ETHICS GUIDELINES

These fundamental values comprise HEXPOL's Code of Conduct and stipulate the principles that govern the relationship with employees, business partners and other stakeholders. They provide everyone in the Group with guidance on legal liability, accounting, conflicts of interest, working conditions, social issues and sound business principles.

COMPLIANCE PROGRAM

The program was introduced in 2011 and aims to ensure compliance with legal and other requirements

concerning competition conditions. The HEXPOL Compliance Program clearly indicates what is and what is not permitted in business contacts with customers, suppliers, competitors and distributors. Senior executives in the Group have received training in the application of guidelines and each manager is obliged to sign a pledge confirming that he/she will adhere to these guidelines.

SUSTAINABLE DEVELOPMENT

The environmental policy emphasizes continuous improvements in the environmental areas that are the most important for our operations. Such environmental aspects include the consumption of energy, commodities and chemicals, emissions of greenhouse gases and other toxins into the atmosphere, as well as the formation of waste. The policy also includes undertakings concerning environmental management systems, work-environment matters, product development and communications.

In 2011, a Group-wide environmental objective was formulated regarding the reduction of energy consumption and emissions of greenhouse gases. The objective includes having each facility formulate their own environmental objectives and implement specific measures.

OPENNESS

Corporate responsibility includes openness in various matters. This naturally applies to financial information to the capital market, but also to information concerning many other matters. In terms of sustainable development performance, the Group reports in accordance with the international Global Reporting Initiative (GRI) guidelines in a separate sustainability report. Information on emissions of climate impacting gases and how climate changes impact the Group are reported in accordance with the guidelines of the Carbon Disclosure Project (CDP).

Read more about the Group's ethical guidelines and policies at www.hexpol.com and in the separate sustainability report.

OUR STAKEHOLDERS

Since HEXPOL is a listed company with operations in a number of locations worldwide, its strategies and what is specifically achieved in business operations are monitored by a number of stakeholders in various countries, including:

- The capital market – shareholders, investors, analysts, banks and other players.
- Several thousand employees in ten countries.

- A vast number of customers and suppliers.
- Society – neighbours, authorities, the mass media, schools, universities and other stakeholders.

It is important for us to listen to our stakeholders' views and reactions. Within reason, we naturally aim to satisfy the expectations and requirements imposed on the Group.

OWNERS AND INVESTORS

Our aim is to provide shareholders and other players in the capital market with relevant information that offers a basis for an accurate valuation of the Group.

The objective is to apply a candid and factual approach and provide a high level of service in financial reporting. This is aimed at strengthening confidence in the company and encouraging interest in the Group among existing and potential shareholders.

HEXPOL complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. The Group applies a policy of transparency in its reporting and, in line with the Group's communication policy, provides the market with well-founded, comprehensive information.

Internal recruitments strengthen the organisation

Following the acquisition of Excel Polymers and our Leadership Development Program, HEXPOL Compounding NAFTA is continuing to help its employees further their careers. We have a long tradition of internal recruitment and the acquisition of Excel Polymers has created increased opportunities for our employees. The following are some examples of employees who have taken on new roles in the Group.

In conjunction with the integration of Excel Polymers, a new managing director was needed for the operations in Middlefield, Ohio, in the US. Jerry Saxion, former quality assurance manager of Excel Polymers, was appointed to the position. Jerry has done an outstanding job in his new role, assuming a great deal of responsibility for the integration of the operations in Middlefield, which reported record-high earnings in 2011.

Shannon Smith, former managing director of the Statesville unit in

North Carolina, has been promoted to the same position as managing director of the operations in Dyersburg, Tennessee. Dyersburg is the largest production plant within HEXPOL Compounding NAFTA. Through the years, Shannon has taken on new roles reflecting increasing responsibility and achieved significant success. Shannon was succeeded in Statesville by Mark George, former Technical Manager of the plant.

Some employees have transferred from technical assignments to positions on the commercial side of the business. Gary Brown, former third-shift foreman, had shown skills in his contacts with customers. He has now taken those skills into the field and done an excellent job as part of a sales team. Mickey Hess, a former chemist in the technical department, and his crew initiated work efforts in cooperation with customers to provide solutions to technical problems. He is now in charge of customer contacts in the field.

Other career changes include Brannon Murphy, who transferred from working with logistics at the Middlefield plant to assume a new role coordinating purchases for all nine NAFTA-region plants. Justin Roper has advanced from local IT support at the Middlefield plant to a more comprehensive role providing assistance and support to all plants in the NAFTA region.

HEXPOL Compounding NAFTA is continuing the leadership programme that was started during 2011. Employees who completed the year-long programme are already working in positions of greater responsibility. A new programme is now being started to reconnect with academic research and training. As one of its leading companies, we want to contribute to the polymer industry's development and perceptions of the industry as an interesting and challenging workplace for future employees.



Mark George



Mickey Hess



Gary Brown



Brannon Murphy



Justin Roper

HEXPOL's corporate governance is described in the Corporate Governance Report on pages 68-73 and is also available on our website. The website also includes all published financial information, such as presentations, press releases, financial reports and annual reports.

EMPLOYEES

Diversity in an international Group

In 2011, the Group had an average of 3,041 (2,133) employees and at year-end 2011 it had 3,020 (3,037) employees. At the end of the year, HEXPOL Compounding had 1,648 (1,616) employees and HEXPOL Engineered Products had 1,367 (1,416). Some 88 percent (88) of the employees worked outside Sweden. The Parent Company had five employees (five). HEXPOL has production facilities on three continents and in nine countries and our markets are highly global. Diversity in the form of employees from various cultures and background is thus ingrained in our everyday lives and we view the mix of expertise as a prerequisite for success, both locally and globally. For us, diversity entails mutual respect and professionalism, and factors that unify us are the corporate culture and our fundamental values. Good leadership is also pivotal and it is up to management to achieve a work climate that encourages creativity and innovation. We encourage participation and endeavour to involve all employees in improvement efforts. Considerable emphasis is placed on creating a culture of rapid decision-making paths without unnecessary bureaucracy.

Competence development and networks

In a fiercely competitive world, it is essential that employees possess the right expertise, experience and motivation. This is a prerequisite for HEXPOL to sustainably advance its operations and products. The Group's companies conduct various types of training and competence development programmes. The management development programme Materializing the Difference is available for younger managers who are in the midst of their career. Since we also view the building of networks as an efficient way to strengthen

collective expertise, employees from across the world gather regularly to discuss Group-wide development and purchasing projects. Another example comprises the annual conferences in which the Group's senior executives gather to share their experiences in business operations, development projects and geographic markets.

The high technical level in product development and production requires qualified and well-educated employees. This also applies to many other assignments in the Group. A local presence in the various geographic markets is important, which is why we strive to recruit the necessary expertise in each region and country.

Work environment, equality and diversity

According to the Group's fundamental values, the conditions at workplaces must be secure, stimulating, developing and meet the work-environment and labour legislation in each country. No one may be discriminated against on the basis of gender, religion, age, disability, sexual preference, nationality, political views or ethnicity. In the area of work environment, we take a preventative approach through risk analyses, training programmes and technical measures. Work on improving and advancing the work environment is conducted in a partnership between the employer, employees and trade-union organisations.

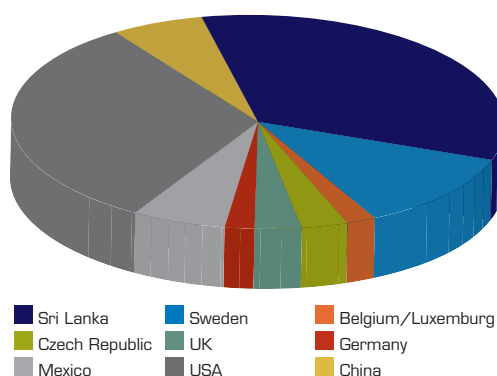
Our Business Ethics Guidelines and policies are based on internationally recognised agreements concerning social responsibility, human rights and sustainable development. We encourage diversity and discourage all forms of discrimination. Matters of equality are addressed centrally at our companies. Our employees are also entitled to form and join trade unions and have the right to collective bargaining agreements. The employees also have complete insight and co-determination rights in accordance with national legislation.

Nothing emerged during the year to indicate that we breached any of our guidelines on human rights, equality and diversity. However, we can state that our sector is male dominated for cultural and historical reasons. HEXPOL is no exception and the percentage of female employees was a fairly modest 12 percent (13) in 2011. The largest proportion of females was at units in Sweden, 40 percent, and the lowest was in Sri Lanka, 2 percent. On the Board, the percentage of female members was 17 percent (17), in Group management it was 0 percent (0) and in the management teams of subsidiaries it was 10 percent (10).

Remuneration

It is essential for us to identify the right person for the right position. This pertains to every conceivable assignment from product development to production and customer contacts. For most people, factors such as enjoying work, job security and the potential for personal development are very important, although receiving market-based and competitive remuneration is equally important. For HEXPOL, the fundamental principles are that remuneration complies with legislation, at least matches

Number of employees by country



"Materializing the Difference"

In December 2011, the first graduating class received their diplomas from our Leadership Development Program, Materializing the Difference. The primary aim of the programme is to train the participants for leadership positions in the HEXPOL Group. The 15-month programme simultaneously strengthens cooperation throughout the Group, with special emphasis on participants from recently acquired companies. The curriculum includes financial analyses, accounting and financial reporting, strategic planning and market analyses, as well as leadership and team dynamics. Corporate Social Responsibility (CSR) and our work on sustainability issues are also headlined.

During the programme, the participants also worked on key strategic development projects that will assume great importance for the future of HEXPOL. The programme is managed by Dr. Stein Kleppestø of Lund University. The second class of management trainees, with participants from HEXPOL companies in the US, Mexico, Sri Lanka and Europe, will start their programme in March 2012.



the minimum wage in the countries concerned and is fully competitive. Variable remuneration linked to the earnings trend that a person can influence is paid in certain parts of the Group. Personnel expenses totalled 804 MSEK (496) in 2011.

CUSTOMERS

Our customer relationships are hallmarked by professionalism and a high degree of service. According to the guidelines of the HEXPOL Compliance Program, we must uphold sound business policies and compete honestly in our commercial operations. This also applies to marketing and advertisements, and we comply with the prevailing local competition rules in the geographic markets in which the Group is active. Business decisions are naturally made on the basis of the Group's best interests and not on personal considerations or relationships.

Quality is a key competitive factor and quality efforts are conducted pursuant to the international ISO 9001 standard, or according to other specific customer requirements for management systems. Slightly more than 90 percent of the units are ISO 9001 certified and, in many cases, the quality system is integrated in the overall operating system. The aim of the quality effort is for the products to maintain high quality, fulfil safety and legislative requirements, and exceed the customers' needs and expectations. Customers and suppliers are thus often involved in the development process.

Some 80 percent of the facilities report that customers impose various types of environmental and social requirements, a percentage that has risen in recent years. This

pertains to such areas as certified management systems and product declarations concerning the environment, health and safety.

SUPPLIERS

Supplier assessments include a number of criteria that must be fulfilled in terms of technology, quality, delivery reliability and finances. With proprietary production units and suppliers worldwide, it is also important for us to partner with suppliers that can demonstrate sound business ethics and a proactive approach to the environment and social responsibility. Within the framework of the application of ISO 14001 and our sustainability effort, we thus continued to develop the supplier assessments in terms of the environment and social responsibility during the year.

SOCIAL COMMITMENT

We participate in various local social activities in the locations in which we operate. Contact with schools and universities is common and in 2011, about one-third of the facilities were visited and participated in partnership projects. One example is a European research project that has been in progress for about a year together with a German university concerning the development of more energy-efficient equipment and processes for the compounding of rubber. Another example is ELASTO's partnership with local schools in Åmål (see page 66). Involvement may also take the shape of various projects focused on social benefit, such as HEXPOL North America's participation in a project with the YMCA (see page 67) and that Elastomeric in Sri Lanka is providing financial support for school books for employees' children.



Our work toward sustainable development

At HEXPOL, various aspects concerning environmental impact and environmental risks, safe workplaces and our role in society have been addressed since the company was formed. In brief, the following events have taken place recent years:

2008

- Initial environmental reviews conducted at the facilities.
- Business Ethics Guidelines and an environmental policy are developed.
- Decision taken to implement ISO 14001 at the Group.
- Training programmes in environmental management.
- Implementation of sustainability reporting system.

2009

- ISO 14001 implemented on a broad front.
- Sustainability report according to GRI at the C level.
- Guidelines for environmental due diligence when making acquisitions.

2010

- Separate sustainability report at the B level according to GRI.
- Climate impact report according to CDP.
- Some 80 percent of the facilities ISO 14001 certified.
- Sustainability matters included in strategic planning.
- Project on energy-efficiency enhancements completed.

2011

- Group objectives concerning energy and climate introduced. Energy projects at most facilities.
- Positive sustainable performance trend in all areas.
- Continued implementation of ISO 14001 in acquired facilities.
- Compliance Program on business ethics.

SUSTAINABLE DEVELOPMENT

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

By integrating matters involving sustainable development in everyday work – and in strategic planning – we create the conditions to do the right things and to do things the right way. For us, environmental responsibility entails ensuring that adverse impacts on the environment and on peoples' health from our facilities and products are as low as possible. The term social responsibility also means that HEXPOL must be a good employer and a good business partner for our business contacts and other social stakeholders.

In the area of sustainability, we have accomplished a great deal since the company's shares were floated in 2008 (see the fact box on page 49). However, we realise that our sustainable development work has only just begun. Matters concerning energy consumption, fossil raw materials, climate change, chemicals, waste and social responsibility are highly prioritised in society and by us.

HOW WE GOVERN OUR SUSTAINABILITY WORK

In the Group's work on sustainable development, environmental matters are a key component. In many respects, the environmental effort is decentralised and responsibility is delegated to the business areas. The managers for the various companies and production facilities are responsible for managing and following up the environmental work. At Group level, strategic matters and risk analyses, as well as the follow-up and reporting of performance in the sustainability area are the primary focus. Environmental risks arising from acquisitions constitute another matter that is addressed at Group level. Tools in the Group's sustainability effort primarily comprise:

Preventative work

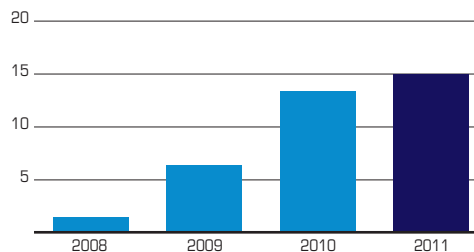
We take a preventative approach and apply, insofar as possible, the best available technology. The fact that

HEXPOL has many modern production facilities with effective systems for energy recycling, ventilation, air filtering, cooling water and waste management are positive from an environmental and resource perspective.

Environmental management systems

We employ the international ISO 14001 standard and experience shows that it contributes to effectively achieving continuous improvements. Regular internal and external environmental audits also contribute to maintaining a focus on the key environmental aspects. In 2011, GoldKey Processing (USA) and ELASTO (UK) were certified and about 60 percent of the facilities are now environmentally certified. At the remaining units activities are under way to implement ISO 14001.

Number of ISO 14001
certified facilities



Environmental objectives

Within the framework of ISO 14001, the facilities establish environmental objectives and implement environmental programmes. Overall, the target-guided work has resulted in many improvements concerning resource efficiency, emissions to the environment, waste and the work environment, and a number of other measures are being implemented. In 2010, to sharpen the focus on strategic areas, Group-wide environmental objectives were implemented concentrating on energy-efficiency enhancements and a reduced climate impact. In brief,



the objective is to establish independent energy and climate objectives and implement tangible measures. We are now beginning to see the results of this and you can read more in the section about energy and emissions to the atmosphere (pages 61-63).

For 2012, the same Group objectives apply concerning energy and the climate as in 2011, although we have added a goal that all facilities must implement systems to register “near misses” in the work environment. The aim is to reduce the number of work accidents and gain a clearer impression of the Group’s work-environment risks.

Sustainability report

A key component in the work on sustainable development is regular follow-ups of aspects concerning the environment, work environment and social responsibility at the Group’s production facilities. We use the information to formulate strategies. We openly report on HEXPOL’s sustainable development performance, which is conducted in accordance with the Global Reporting Initiative’s (GRI) international guidelines for sustainability reporting. The Group reports at the B level according to GRI and parts of the information are available on pages 60–64. The remaining information is found in the Group’s 2011 sustainability report, which is available on the company’s website. In 2011, we also participated for the first time in the reporting of climate matters under the guidelines of the CDP (Carbon Disclosure Project).

Risk analyses

The Group’s risk analyses include the impacts of new legislation, new customer requirements, new knowledge of the risks of chemical substances and the effect of climate changes (see the section on environmental risks). Environmental risks are a prioritised area in conjunction with the acquisition of other companies (see pages 63–64). When making such acquisitions, due diligence is conducted in many areas. Matters involving

sustainable development are important in this context and the aim is to avoid situations that could be difficult and costly to handle, such as ground contamination and breaches of environmental legislation. We also use the risk analysis to evaluate how a potential acquisition can be integrated into the Group’s sustainability effort.



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 2011 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 Mid Cap industrial segment of the NASDAQ OMX Nordic exchange. HEXPOL had 8,410 shareholders on 31 December 2011. The largest shareholder is Melker Schörling AB with 26 percent of the capital and 47 percent of the voting rights. The 20 largest shareholders own 73 percent of the capital and 81 percent of the voting rights.

OPERATIONS AND STRUCTURE

HEXPOL is a leading global polymers group with strong global positions in the market for advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklift and castor wheel applications (Wheels). Customers are mainly OEM manufacturers of plate heat exchangers and forklifts, the global automotive industry and systems suppliers to the engineering industry, as well as the medical technology industry. The Group is organised on the basis of two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 3,020 employees in ten countries at year-end 2011.

The Group concluded an agreement during 2011 concerning the acquisition of the German TPE compounding company, Müller Kunststoffe, which was completed in January 2012.

Financial year 2011

(Where appropriate, comparative figures for 2010 are reported excluding items affecting comparability *)

SALES AND OPERATING PROFIT

Consolidated sales increased strongly in 2011, rising 89 percent to 7,197 MSEK (3,798), of which 26 percent was organic. The sharp increase during the year was primarily attributable to the acquired Excel Polymers Group in November 2010, and also to growth among customers in the engineering, energy and automotive industries. Exchange-rate fluctuations had a negative impact of 323 MSEK on sales, due mainly to the strengthening of the SEK against the USD and EUR.

Operating profit increased 95 percent to 895 MSEK (460*), corresponding to an operating margin of 12.4 percent (12.1*). Exchange-rate fluctuations had a negative impact of 57 MSEK on operating profit.

Sales by the HEXPOL Compounding business area rose 109 percent to 6,450 MSEK (3,080). Operating profit increased 107 percent to 823 MSEK (398*), corresponding to an operating margin of 12.8 percent (12.9*). The business area's sales were high in all quarters of the financial year. The acquired Excel Polymers Group significantly outperformed expectations and the integration proceeded faster than expected. In Europe, demand and sales were significantly higher than in the preceding year, primarily to the engineering and automotive industries in Western, Central and Eastern Europe. In NAFTA, the sales trend was good in early 2011 and then remained high for the remainder of the year. In Asia, a strong sales increase was noted, primarily to automotive-related customers, but also to other sectors.

Sales by the HEXPOL Engineered Products business area increased to 747 MSEK (718). Operating profit improved to 72 MSEK (62), corresponding to an operating margin of 9.6 percent (8.6). Sales of gaskets for plate heat exchangers rose slightly during the year. The market for the product area HEXPOL Gaskets' products was hallmarked by increased activity during the year, although the situation of price pressure and few project orders continued. For the HEXPOL Wheels product area, sales increased in NAFTA and Asia. Price pressure was also high in HEXPOL Wheels' markets.

FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 23 MSEK (expense: 26), of which net interest expense accounted for 30 MSEK. Net financial items were positively impacted by re-valuation effects. Higher net debt during the year due to the acquisition of Excel Polymers Group was charged to net interest. During the year, the HEXPOL Group replaced elements of its acquisition financing with a rights issue that was completed during March, entailing loan repayment of approximately 551 MSEK before issue costs. Net debt was also reduced by the strong operating cash flow.

TAX EXPENSES

The Group's tax expenses amounted to 253 MSEK (116*), corresponding to a tax rate of 29.0 percent (26.7*). Tax costs were impacted by a substantial share of operating profit being generated in subsidiaries in countries in which the tax rate differs from that in Sweden, primarily in NAFTA.

NET PROFIT FOR THE YEAR

Consolidated profit after tax increased to 619 MSEK (318*), corresponding to earnings per share of 18.65 SEK (10.83*). Earnings per share, based on the number of shares at the year-end, totalled 17.98 SEK. After completion of the rights issue, historical share data has been adjusted to reflect the bonus issue element.

INVESTMENTS AND DEPRECIATION

Group investments amounted to 103 MSEK (32) and mainly comprised investments in maintenance. Depreciation and amortisation totalled 150 MSEK (88).

PROFITABILITY

The return on average capital employed rose strongly to

22.3 percent (16.2*). The improvement was attributable primarily to the substantial increase in operating profit compared with 2010. The return on average shareholders' equity was 30.4 percent (25.1*).

CASH FLOW

Operating cash flow rose sharply during the year to 911 MSEK (506). Operating cash flow includes the positive effects of the improved profit before depreciation/amortisation and the successful management of working capital. Cash flow from operating activities amounted to 726 MSEK (387).

FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio was 47.5 percent (27.0). The Group's total assets amounted to 5,208 MSEK (4,911). Net debt amounted to 1,096 MSEK (2,239), whereby the net debt/equity ratio amounted to a multiple of 0.4 (1.7).

The decrease in net debt/equity was due to the rights issue implemented during the year and to a strong operating cash flow. The interest-coverage ratio was a multiple of 28.3 (22.8). In May 2008, the Group signed a five-year credit agreement totalling 1.7 billion SEK with a number of Nordic banks. At year-end, the unutilised portion of the credit agreement amounted to 195 MSEK (240). In October 2010, in conjunction with the acquisition of the Excel Polymers Group, an additional five-year credit agreement totalling 100 MUSD was entered into. The unutilised portion of this credit agreement was 567 MSEK (232).

Since goodwill may no longer be amortised according to plan, the value of goodwill and similar fixed assets is impairment tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. At year-end, consolidated goodwill amounted to 2,291 MSEK (2,297). The principles applied in the analysis are presented on page 79 under the section accounting policies.

PRINCIPLES UNDERLYING REMUNERATION OF SENIOR EXECUTIVES

The 2011 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives. Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension. The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be maximised in relation to fixed salary. Variable remuneration for 2011 had a fixed cap and comprised a maximum of 40-120 percent of the fixed salary. Pension benefits shall comprise either defined-benefit or defined-contribution solutions, or a combination of both, based on an individually set retirement age, although never less than 60 years.

The Board's Remuneration Committee deals with matters related to remuneration of Group Management as well

as 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 2012 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable. Variable remuneration has a fixed cap and comprises a maximum of 90-110 percent of the fixed salary.

PERSONNEL

The average number of employees during the year increased to 3,041 (2,133), which was primarily attributable to the acquisition of Excel Polymers Group. During the year, the Group had employees in Sweden, Germany, The UK, Belgium, the Czech Republic, the US, Mexico, Luxembourg, Sri Lanka and China. Of the total workforce, 88 percent is outside Sweden. At year-end, the HEXPOL Group had 3,020 (3,037) employees, of whom HEXPOL Compounding accounted for 1,648 (1,616), and HEXPOL Engineered Products for 1,367 (1,416) with 5 (5) employees in the Parent Company. For further information, refer to Note 4.

RESEARCH AND DEVELOPMENT

Expenditure for research is expensed as incurred, while expenditure for development is capitalised in accordance with the prevailing accounting policies. In 2011, HEXPOL's research and development expenditure amounted to 49 MSEK (36).

EVENTS AFTER THE REPORTING PERIOD

In December 2011, HEXPOL entered into an agreement to acquire Horst Müller Kunststoffe GmbH & Co. KG from Rowa Group in Germany. The acquired company is a leading Central European developer and manufacturer of TPE compounding. Müller Kunststoffe has annual sales of about 46 MEUR with about 90 employees. Its EBITDA margin is somewhat lower than that of the HEXPOL Group and the company is expected to immediately make a positive contribution to earnings per share. The purchase consideration adjusted for acquired net debt was 39 MEUR. The acquisition was finalised in January 2012. Since information was not yet available, the preliminary acquisition balance sheet will be reported in the interim report for the first quarter of 2012.

PROPOSED DISTRIBUTION OF UNAPPROPRIATED EARNINGS

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

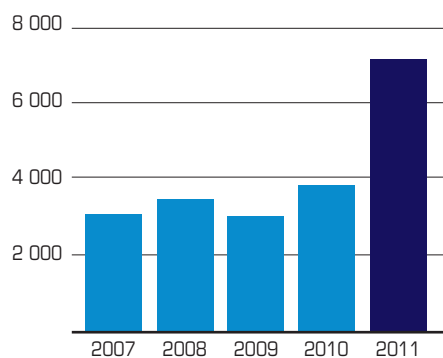
Profit brought forward from the preceding year	919,907
Premium reserve	597,880
Net profit for the year	352,224
Total unrestricted funds	1,870,011

The Board proposes that the unappropriated funds be disposed of as follows. That the shareholders be paid a dividend of 5.00 SEK per share.

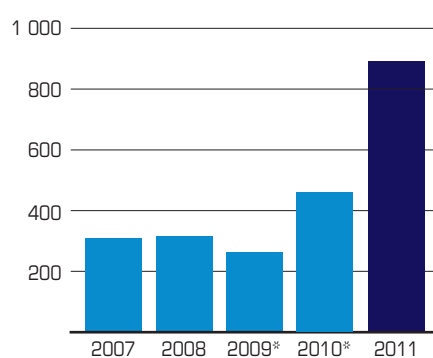
Total dividend from earnings brought forward	172,101
To be carried forward	1,697,910
Total	1,870,011

Five-year overview

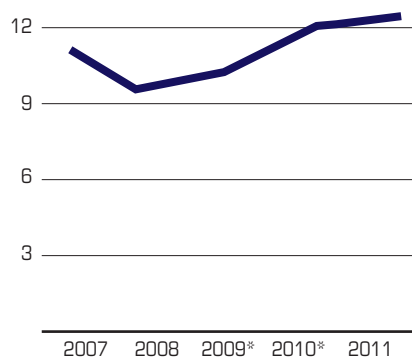
Sales, MSEK



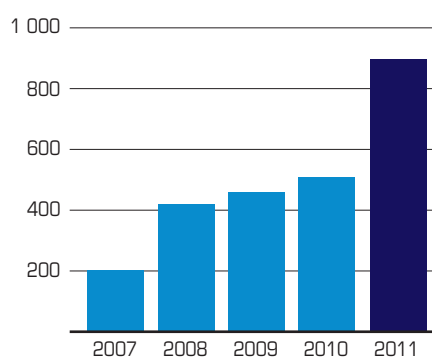
Operating profit, MSEK



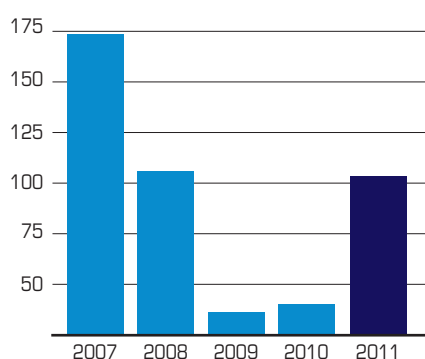
Operating margin, %



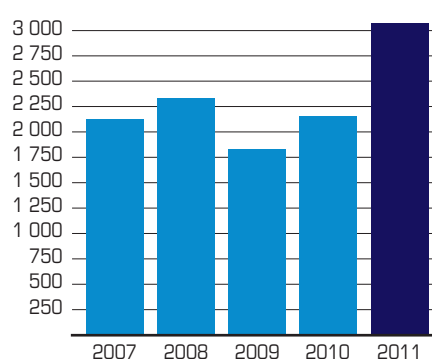
Operating cash flow, MSEK



Investments, MSEK



Average number of employees



*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 a certain country or region in which HEXPOL or HEXPOL's customers produce or sell their products.

As is the case for 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 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 in turn drives demand for cost-effective solutions. Through improvements of 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 the Group's competitiveness, investments will be required to maintain the Group's prominent position in the area of product development. While constantly striving to adapt to changes in the competitive situation, HEXPOL may also be forced to implement costly restructuring measures to be able to retain the 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. In recent years, trends in many raw materials markets have resulted in higher purchasing prices for raw materials that are crucial for HEXPOL. To offset continued increases in raw materials prices, HEXPOL devotes considerable effort to enhancing production efficiency and developing 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 by, for example, fires and stoppages or disruptions in some phase of the production process, such as breakdowns, weather conditions, geographic conditions, labour conflicts, terrorist activities and natural disasters could entail implications in the shape of direct property damages, and in the form of stoppages that impede the ability to fulfil customer undertakings. In turn, this could lead to customers selecting other suppliers. Such stoppages or disruptions could thus have an adverse impact on the Group's operations, financial position and earnings.

Suppliers

HEXPOL's products consist of raw materials and goods from several different suppliers. To be able to manufacture, sell and deliver products, HEXPOL depends on external supplied goods meeting agreed requirements with respect to factors such as quantity, quality and delivery time. Incorrect, delayed or missing deliveries from a company supplier could in turn mean that HEXPOL's deliveries are delayed, deficient or incorrect, which could result in reduced sales and have a negative impact on the Group's 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 was 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 effect on HEXPOL's

operations. This customer group thus entails 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. 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, resulting in a number of successful acquisitions. Strategic acquisitions will also be a part of the growth strategy in the future. It cannot be guaranteed, however, that HEXPOL will be able to find suitable acquisition targets nor can it be guaranteed that the necessary financing for future acquisition targets can be obtained on terms that are acceptable for the 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 thoroughly complies with the applicable laws, regulations and ordinances in each market and works to quickly adapt each company and the Group to the identified future changes in the area. However, 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 considers its operations, in all material

respects, to be 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 subject to 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 measures for the companies 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 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 problems and functional impediments. The system is self-financed and subject to limits, meaning it is a "stop-loss" insurance scheme. Further information concerning risks is available on pages 63–64.

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 precluded that the Group's interpretation of applicable laws, tax agreements and regulations or their interpretation or administrative application by the authorities could 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. Nor can it be precluded that the result of such disputes could have a negative impact on HEXPOL's earnings and financial position.

Intellectual property rights

HEXPOL sells its products under several well-known brands. It is of major commercial significance for the Group that these brands be protected against unauthorised use by competitors and that the goodwill associated with the brands can be maintained. HEXPOL must continually 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 applications for patents, brands and other intellectual property rights will be approved, or, if they are approved, that they will provide satisfactory protection that cannot be circumvented by competitors. Nor is there any guarantee that HEXPOL will not be considered to infringe 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 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 precluded 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, with a notice period of three months. Notice of termination of the agreement by Bayer would have a negative impact, since Vulkollan currently accounts for a 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. Currency fluctuations affect HEXPOL's earnings, in part when sales and purchases take place in different currencies (transaction exposure) and, in part when the income statements and balance sheets of foreign subsidiaries are translated to SEK (translation exposure).

HEXPOL's global operations cause 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 are 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 in the SEK against all currencies would have a negative impact on profit before tax of 71 MSEK (SEK +10%) and a positive impact of 58 MSEK (SEK -10%).

Interest-rate and credit risks

HEXPOL is also affected by interest-rate fluctuations. Changes in interest rates affect the Group's net interest income and cash flow. Based on the average fixed interest period in the Group's total loan portfolio at 31 December 2011, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect on full-year earnings of about 17 MSEK before tax.

The financial risk to which HEXPOL is exposed also includes 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 largely depends 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 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 due to a lack of cash assets.

Furthermore, HEXPOL could require additional financing to refinance loans that expire. The financing comprises two components: utilisation of part of an existing syndication facility that expires in May 2013 and a revolving loan of up to 100 MUSD that expires in October 2015. These two financing components comprise the basis for the Group's long-term financing requirements. Both financing components are subject to the traditional financial covenants. It cannot be precluded that

HEXPOL could ultimately be forced to breach these covenants due to, for example, the overall economy or disruptions in the capital and credit markets, which could have a negative impact on HEXPOL's financial position and earnings.

Goodwill

A significant portion of HEXPOL's intangible fixed assets comprises goodwill. Goodwill is tested annually in connection with the preparation of the annual accounts to identify any impairment requirements, as well as to ensure that these items do not exceed their respective assessed value in use. In the 2011 financial statements, no goodwill impairment losses were recognised. If future tests show a decline in the value of goodwill and thus lead to impairment losses, this could have a negative impact on HEXPOL's financial position and earnings.

EQUITY MARKET RISKS

Share price performance

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

Future dividends

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





Sustainability work

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL ASPECTS

Environmental issues that affect the Group's operations include the use of raw materials in the form of polymer raw materials (rubber, plastics), chemical products and energy and water. Other significant environment aspects comprise emissions into the atmosphere and the generation of waste. Indirect environmental effects arise in connection with supplier activities, transportation and applications of the Group's products.

In the Group's sustainability report, we present performance standards for the most important environmental aspects of our operations, in most cases over the past three years. The report covers 24 production plants in nine countries. In addition to the information below, reference is made to the section entitled "Corporate responsibility" on pages 44-51. For readers who want more detailed information about our sustainability work, there is a separate report on our website. The sustainability report also includes a declaration specifying the GRI indicators that are applied in the report. The Group's sustainability report complies with Level B of the GRI guidelines.

ENVIRONMENTAL LEGISLATION

Environmental legislation covers both HEXPOL's production facilities and specific areas such as products,

packaging and waste. The facilities in Sweden are subject to official approval pursuant to the Swedish Environmental Code. The production plants in the Czech Republic, Belgium, the US, Mexico, Sri Lanka and China have environmental licences that cover all areas of their operations or that apply to specific environmental aspects. The units in the UK and Germany are not subject to any specific environmental approval. Compliance with environmental legislation is monitored through measurements, inspections and environmental reports submitted to supervisory authorities. The following events related to environmental legislation occurred during the year:

- At the Gislaved Gummi plant, an application concerning the renewal of an environmental licence is now in the final stage and will be submitted during the spring of 2012. An important issue that has been resolved concerns reduced emissions of vulcanisation fumes, and the treatment equipment that has been installed has proved to be highly effective.
- At ELASTO in Åmål, Sweden, activities are now in progress to upgrade the plant in line with the ordinance governing hazardous explosive environments.
- At Stellana in Laxå, Sweden, an emission of solvents from a cooling tower was reported, and about 0.1 tonne was discharged into the sewage system. Relevant measures were implemented and no effects on the municipal waste treatment plant were discernible.
- At two plants in the US, minor deviations were reported in emissions into the atmosphere and waterways.

- The supervisory authorities conducted inspections at 10 plants during the year. No significant non-conformities were detected. Looking ahead, we do not anticipate that pending or future applications for environmental licences will necessitate any unforeseen actions.

ENERGY

Energy issues are important to HEXPOL, from both a cost and environmental perspective. Energy costs during 2011 totalled about 134 MSEK (80). Electricity, fuel oil, natural gas and other forms of energy are used mainly for production machinery and equipment, heating, cooling, ventilation and transportation of materials. Energy consumption during 2011 totalled 264 GWh (147) and electricity accounted for almost two-thirds of total consumption. In absolute terms, energy consumption increased sharply compared with previous years but, since the number of production plants and production volumes increased, the higher level of consumption was anticipated. A review of the Group's key performance indicators, in which energy consumption is related to sales, shows the trend is moving in the right direction. Various measures to enhance energy efficiency have yielded results, and the plants are working on many different energy projects aimed at achieving the Group's energy and climate goals.

RAW MATERIALS AND CHEMICAL PRODUCTS

Synthetic rubber, natural rubber, process oils and a large number of chemicals and additives are the most important raw materials for HEXPOL's products. Combinations of these substances provide the desired properties of the rubber products, and the Group has thousands of different formulas. In terms of volume, synthetic rubber polymers are the dominant raw material, with the Group using thousands of tonnes per year. Natural rubber accounts for about 11 percent of polymers used. In addition to rubber polymers, other raw materials include isocyanates, plastics, thermoplastic polymers, metals, solvents and dyes. Recycled plastic and rubber raw materials are used in some products.

From a historical perspective, the use of environmentally and health hazardous substances has been considerable in the rubber industry. Increased knowledge of risks to the environment and work environment, new EU legislation (REACH) to reduce the risks and phase out the most hazardous substances and growing customer demands are strong driving forces for proactive efforts in the chemicals industry.

HEXPOL has successively replaced hazardous substances with less hazardous materials and this work resulted in many changes during 2011. Certain phthalates, brominated flame retardants, accelerators and other substances are being phased out. Stronger attention to hazardous substances, as mandated by the requirements of REACH chemicals legislation and other legislation, will gradually have a major impact throughout all parts of the supply chains. Accordingly, our efforts to reduce chemical risks will continue at all of our plants in the foreseeable future.



EMISSIONS TO THE ATMOSPHERE

EMISSIONS OF CLIMATE-CHANGING GASES

Emissions of carbon dioxide – a climate-changing gas – are caused by the use of fuel oil, natural gas, district heating and electricity. Emissions of carbon dioxide during 2011 totalled about 99,000 tonnes (48,000). Indirect emissions of carbon dioxide through purchases of electricity dominated accounted for 83 percent (77).

Over the past four years, emissions of carbon dioxide have doubled. The increase is due to higher production volumes and more production plants. Expressed as a Group key performance indicator, for which energy consumption is gauged in relation to sales, the picture is more favourable. Greater energy efficiency is contributing to a downward trend but, due to the acquisition of several large production plants in the US, emissions increased both in absolute and relative terms. A large part of the electrical energy that HEXPOL uses in the US is generated in power plants fired with fossil fuels, which is one reason for the increase in emissions.

OTHER EMISSIONS TO THE ATMOSPHERE

The Group's production facilities gave rise to atmospheric emissions of about 90 tonnes (64) of sulphur dioxide and nitrogen oxide. These emissions are primarily attributable to the use of heavy fuel oil at the Sri Lankan units. Emissions of volatile organic compounds (VOC) from dyes and solvents totalled approximately 17 tonnes (7). During the year, an operational breakdown at a cooling plant in China resulted in the emission of some 150 kg of ozone-depleting cooling media (HCFCs), corresponding to about 11 percent of the total installed amount of cooling media. During the year, four complaints were made by neighbouring parties resulting from the emission of particles or odorous substances to the atmosphere.

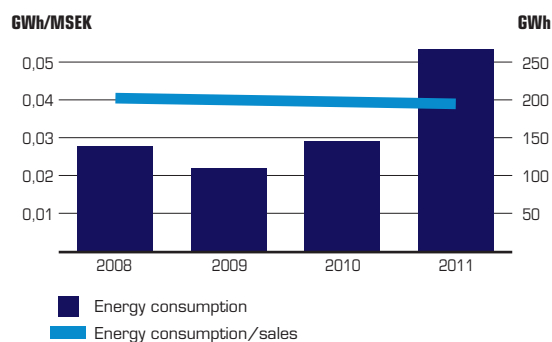
WATER CONSUMPTION

Water is used for cooling, cleaning and sanitary purposes. During 2011, HEXPOL consumed some 187,000 m³ (92,000) of municipally supplied water. In addition, some 15,000 m³ of water (10,000) was pumped from a well near a plant in Sri Lanka. The Group's water footprint increased significantly in 2011, mainly because of the water used by the acquired units in the US. To reduce water consumption, most of the plant-cooling systems are closed systems that use re-circulated water. Exceptions are Gislaved Gummi where about 250,000 m³ of water from the river Nissan is used as cooling water and Burton in the US, where cooling water from a nearby pond is used. The cost of water during the year totalled 2.4 MSEK (1.2). Emissions to wastewater facilities consist mainly of organic materials and nutrients from sanitary facilities and from the cleaning of premises. Emissions of cooling water and rainwater from roofs and land areas also occur. Production plants are connected to municipal wastewater treatment plants or equivalent. Measurements of the composition of the wastewater taken at a few of the facilities showed that emissions remained within permissible levels.

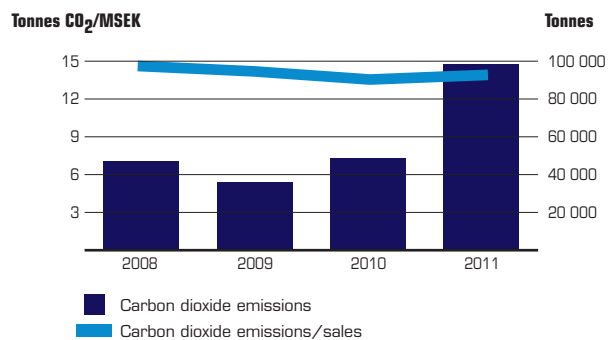
WASTE

In 2011, the amount of waste arising in the Group totalled 18,000 tonnes (8,500), of which 380 tonnes (279) was hazardous waste. The increase was due to higher production and the high number of production plants in the Group. About 50 percent of the waste was used at external facilities as energy or material. Slightly more than one third of the waste was sent to landfill, a treatment method that is mainly used in the US. Most of the plants pursue targets for reducing waste and raising the recycling level. The cost of external waste management totalled 9.7 MSEK (5.5).

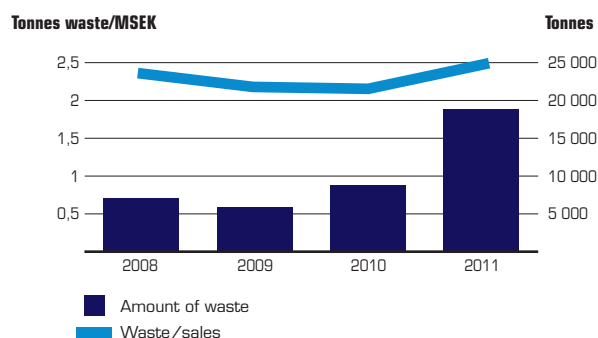
Energy consumption/sales



Carbon dioxide emissions/sales



Waste/sales





Targeted energy and climate efforts

Energy and climate issues are closely related to each other and HEXPOL has decided to primarily focus on improving the energy efficiency of processes, heating and lighting. Our over-riding corporate objectives are to reduce both energy consumption and carbon emissions. During 2011, many energy projects were implemented and the following are examples from the various countries:

Research cooperation

- Together with the university of Paderborn in Germany, projects aimed at reducing energy consumption from the manufacture of rubber compounds were implemented (Germany).

Electrical systems and equipment, and the use of electricity

- Installation of harmonic filters (Mexico, USA).
- Outmoded compressors, transformers, steam boilers and production equipment have been replaced or upgraded (USA, Czech Republic, UK, Sri Lanka)

Production planning and production processes

- Reduced cycle time for the production of rubber compounds (USA, Belgium, China).
- More efficient production planning for gasket manufacture (China).

Lighting, buildings and energy inquiries

- Installation of energy-efficient lighting (USA, Sweden, UK).
- Utilisation of more daylight in premises (China).
- Avoiding production when electricity grid is at a peak load (Mexico, China).
- Improved building insulation (Sweden).
- Energy inquiries (Sweden, USA, Germany).

REQUIREMENTS FOR SUPPLIERS

Many of the Group's suppliers of raw materials and chemicals are global chemical companies with high ambitions in terms of environmental issues. In addition to these business partners, there are, of course, a large number of local suppliers of products and services. Irrespective of the size of suppliers or their global or local status, we expect them to meet the same requirements that we impose on ourselves. Within the framework of our sustainability efforts, we have become more active in informing suppliers of the Group's policies and subjecting them to requirements. At present, about half of the companies work actively with environmental and social issues in the supplier chain, efforts that we will continue to develop in the next few years.

ENVIRONMENTAL ADAPTATION OF PRODUCTS

Several HEXPOL customers take actions to make their products more environmentally compatible, whereby the customers formulate various requirements concerning the products' environmental and health characteristics. We work proactively to meet such requirements and a number of the Group's products contribute to reducing the environmental load, such as:

- Rubber compounds in which substances that are hazardous to the environment and health have been phased out completely or have been reduced to low concentrations.
- Polymer gaskets used in plate-heat exchangers that help generate energy savings and reduced environmental impact. The gaskets also contribute to secure handling of chemicals and food products.
- Polyurethane wheels with a long life, thus reducing the need for wheel replacements. This reduces both the consumption of materials and the amount of waste.
- Porous rubber materials that contribute to lower vehicle weight and thus lower fuel consumption.
- Recyclable thermoplastic elastomers (TPEs) that are used in many applications, such as the automotive industry. TPEs can also replace PVC in certain applications.

ENVIRONMENT-RELATED RISKS

New environmental legislation and changes in environmental policy often represent challenges and costs for business and industry. Other environment-related risks involve climate change, the environmental impact of suppliers and social conditions, as well as the risk that the products do not offer the environmental performance that customers demand. We conduct regular risk assessments in a number of environment-related risk areas.

Environmental legislation and other official requirements

HEXPOL's production plants have the licences required for operations. At the plant in Gislaved, an application for official approval is being considered and actions have already been taken to reduce the environmental impact. At a number of other plants, permits are subject to regular updating. With respect to other environmental legislation, it is primarily legislation concerning chemical products

that impact the Group. In this area, we are talking about the REACH chemical legislation, requirements for safety data sheets and special restrictions on hazardous substances (RoHS). Our chemists are carefully monitoring the status of phase-out candidates, meaning certain chemicals that could be forbidden or be subject to restrictions.

Contaminated soil

Most of HEXPOL's facilities are built on land that has not been used by contaminating operations. Underground tanks are not used and no emissions, leakage, accidents with oils, solvents or chemicals of significance to the environment were registered in 2011. In Gislaved, Sweden, premises that are being rented are showing signs of soil contamination from petroleum hydrocarbons and other substances. 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.

There are no legal requirements for remediation of this land that affect the Group. In connection with corporate acquisitions, assessments of the risk of soil pollutants and other environmental damage are regularly performed.

Hazardous substances in buildings and installations

Ceilings containing asbestos are present in some buildings. Asbestos is also present in production equipment at a few locations. The situation does not require any special measures at this point in time. Polychlorinated biphenyls (PCBs) are present in window joints in buildings at the Gislaved plant. In accordance with legislative requirements, the sealing compounds will be remediated not later than 2013.

Accidents and uncontrolled emissions to the environment

Within the scope of the environmental management systems and the legislative requirements, procedures are in place to reduce the risk of fire, leakage and other accidents. During 2011, a minor fire incident occurred within the Group, as well as a minor emission of carbon black. However, these incidents had no material environmental impact and they did not result in demands from authorities.

Climate-related risks

Because landslides, flooding or extreme weather situations are occurring throughout the world, the Group is monitoring the risk and vulnerability analyses concerning climate change that are being conducted in various countries. Climate-related risks are taken into account in connection with corporate acquisitions. Two Group plants have identified flooding as a climate-related risk and certain precautions have already been taken.

Environmental adaptation of products

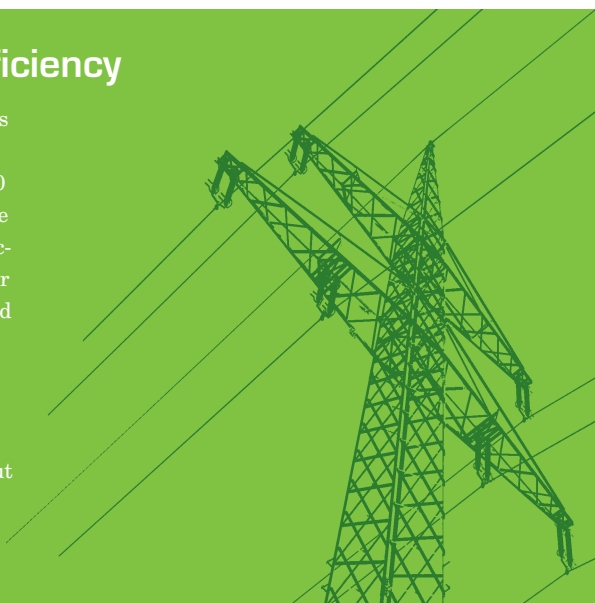
Monitoring developments and cooperating with customers and researchers reduces the risk that the product range includes products offering inferior environmental performance.

ENVIRONMENT AND FINANCIAL RESULTS

During 2011, HEXPOL invested 9.9 MSEK (6.0) in measures that benefit the environment and work environment. Substantial investments were made in increasing energy efficiency, the separation of vulcanisation fumes and improved ventilation, as well as measures to improve the work environment. Costs during the year totalled 14.9 MSEK (9.3). Most of the costs derived from waste management, and expenses incurred for management and administration of environmental and work-environment projects. Reductions in waste and energy costs provided savings of some 8.6 MSEK (5.9).

ELASTO increasing its energy efficiency

ELASTO has conducted several projects recently to reduce its energy consumption and environmental impact. In Sweden, construction of a warehouse with a total surface area of 2,200 square metres has reduced the need for outdoor storage space and, in turn, truck transportation. An energy analysis conducted at the Åmål unit has shown that remodelling pipelines for heat distribution, installations of energy-efficient lighting and improved insulation of the building could yield significant energy savings. Similar projects have been conducted in the UK, leading to the installation of an HPC compressor with a new and highly energy-efficient motor. As a result, energy consumption has declined, operating expenses are down about 20 percent and noise levels have been reduced.



SOCIAL RESPONSIBILITY

WORK ENVIRONMENT

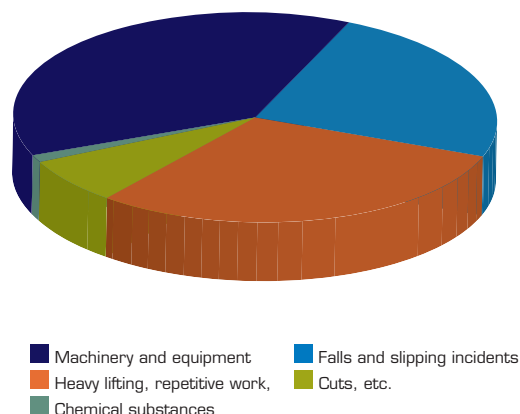
At production facilities, exposure to dust, hazardous chemicals, noise, heavy lifting, repetitive work and accidents occur. Accordingly, preventive programmes are important and comprise risk analyses, technical measures, training and safety inspections, for example. Formal safety committees are active at 15 of the 24 production plants. During 2011, risk analyses and work-environment measurements were conducted at most of the facilities. The focus was on noise, dust and chemical exposure. Special health checks are conducted on the workforce at units that handle isocyanates.

Occupational accidents and illness

During 2011, 122 (67) occupational accidents were registered that resulted in more than one day's absence from work. Total absence attributable to occupational accidents amounted to 891 days (771) days. Common causes underlying injuries were machinery and equipment. Personal injuries are also caused by slip accidents and work stages involving heavy lifting or repetitive movements. The accident profile is confirmed by the

incident reporting that is performed at about half of the units. Three occupational accidents involving contractors occurred during 2011. In addition, 11 (3) work-related illnesses were confirmed, which mainly comprised hearing impairment and damage to locomotor systems.

Factors underlying occupational accidents



Energy savings, environmental improvement and rationalisation are intimately connected

In Gislaved Gummi AB's strategy for sustainable development, the Profiles product area has been identified as an area in which strong measures need to be implemented to meet increasing customer demands while achieving energy savings, environmental improvements and operating efficiency.

During 2010, Gislaved Gummi made a decision to transfer the production of profiles from leased premises to proprietary premises and integrate the operations with existing gasket production operations. The action led to a reduction in leased expenses and increased efficiency and rationalisation of human resources. The proprietary premises are also more energy efficient, since surplus heat generated from gasket production can now be used through heat recovery systems.

In parallel with the transfer of production, a major investment was made in modern emission abatement equipment to treat the vulcanised fumes that are generated during the production of rubber profiles in the vulcanisation process.

The technology is based on separating the aerosol fraction in the vulcanised fumes using a glass-fibre particle filter, a process in which the aerosol fraction that adheres to the fibreglass material is rinsed continuously using water mist before it is finally recovered in liquid form for subsequent destruction. The degree of purification is so high that the treated air can be redirected back into the production plant. Another positive effect is that the treated (still warm) air can be used again in the vulcanisation process, thereby contributing further to reduced energy consumption.

TRAINING

During the year, many different types of personnel training were implemented. A total of 32,400 hours (18,000) of training was provided, corresponding to an average of 10.6 hours (6.2) per employee. Environmental, work-environment and safety training was carried out at many facilities and averaged 3.9 hours (3.1) per employee. Such training is compulsory for all new employees. During the year, a major training effort was also implemented involving HEXPOL's ethical guidelines and relating policies, and at about half of the plants all of the employees were informed. At the other plants, similar activities will be arranged during 2012.

COLLECTIVE AGREEMENTS

Our ethical guidelines 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 from 0 to 100 percent, depending on local conditions in the countries in which we are active. All employees are covered by collective agreements at 30 percent of the plants. This applies to the Group's units in Sweden and China.

EQUAL OPPORTUNITIES AND EQUAL RIGHTS

During the year, no cases were reported involving breaches of the Group's policies concerning equal opportunities, discrimination and social conditions at workplaces. Read more about our social responsibility programmes in the section entitled "Corporate responsibility" on pages 44-51.



ELASTO inspires future generations

ELASTO in Åmal has recognised the importance of inspiring future generation in matters involving industry and technology. As a result, the company has volunteered to partner a project that impacts local schools. Camilla Klässbo and Linnéa Sieler, who are both development engineers at ELASTO, visited local schools during the past year to describe the company's operations and talk about what working in the industrial sector is like. Their objective was to engage students – and girls in particular – in matters concerning science and technology.

ELASTO is also a cooperation partner in a project at Karlsberg School in Åmal, which is pursuing certification as a "Technology College." The school was certified as such in 2011. A Technology College consists of a network of skills in which companies cooperate with municipalities and schools in offering technology courses at various levels. The courses at a Technology College are quality assured in accordance with 10 different criteria. ELASTO is a member of the governing committee at the Karlsberg School and, during 2011, organised a study visit to ELASTO's plant in Manchester, England – thereby also providing international experience for two students.

Social responsibility in North America

It is important for HEXPOL North America to accept its social responsibility and support the communities where we have operations. Our employees and their families are very much part of a community. A recent example of social responsibility is reflected in our involvement in the YMCA of Tennessee. We share the organisation's approach to the positive changes that a community can achieve by investing in children, health and society in general. During 2011, HEXPOL therefore entered into a partnership with the YMCA focused on the following areas:

- Youth development
- Healthy living
- Social responsibility

During 2011, HEXPOL and 27 vendor partners contributed 50,000 USD to support efforts conducted by the YMCA. One project that impressed us particularly is the Community Action Project (Y-CAP) that reaches out to at-risk youth exposed to alcohol, drugs, violence and criminal behaviour. The programme offers them opportunities to develop and grow mentally, in spirit and in body. The goal of Y-CAP is to redirect the focus of youth from destructive behaviour to friendship and positive choices, thereby breaking the pattern that got them into trouble.

Several of our suppliers also wanted to make a contribution and were highly enthusiastic about the initiative.

Lion Copolymer was happy to support the YMCA's work. "The work they do is highly admirable," says Dennis Synnott, Vice President of Marketing and Sales at Lion Copolymer. Wayne Stair, President of Americas International, believes "the YMCA does a good job helping kids who want help." Americas International appreciated the opportunity to work with HEXPOL in supporting the YMCA's activities. And HEXPOL values the opportunity to participate actively in the communities where we operate and make a difference for the people who live there.



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 Nordics's rules for issuers and other applicable Swedish and foreign legislation and regulations.

GROUP GOVERNANCE AND APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

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

SHAREHOLDERS

Refer to page 12-15 for information on the ownership structure and the major shareholders.

ARTICLES OF ASSOCIATION

HEXPOL's current Articles of Association were adopted on 5 May 2009. The Articles of Association state that the objective of the company's operations is to acquire, own and actively manage shares 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 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.

ANNUAL GENERAL MEETING

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 6 May 2011.

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 2011 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, representing MSAB (Chairman), Åsa Nisell representing Swedbank Robur funds, Henrik Didner representing Didner & Gerge Fonder and Anders Algotsson represen-

Deviation from the Swedish Code for Corporate Governance

Rule	Rule in the Code	Comment
7.3	The Board shall establish an Audit Committee that consists of at least three members.	To create a proactive and effective Board, HEXPOL has elected to choose a limited number of Board members. As a result, the Audit Committee has a fewer number of 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	Holding ¹ Number of A shares	Holding ¹ 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	–	249,750
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–

1) The term "Holdings" refers both to shares held by the person indicated and shares held by related parties, as well as via companies at 31 December 2011

ting AFA Försäkring should be members of the Nomination Committee ahead of the 2012 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, 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 one minuted meeting 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 2012 AGM.

BOARD OF DIRECTORS

Board composition 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 6 May 2011 resolved to elect a Board consisting of six persons, including the President and CEO. Refer to the table above for the Board's composition. The Board was re-elected for the period up to the 2012 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 as well as the Audit Committee and Remuneration Committee, and also decides on matters involving the salary and other remuneration of the President and CEO. The activities of the Board and division of responsibility between the Board and executive management are governed by the Board's work procedures. Work procedures include instructions for the President and CEO in respect of financial reporting as well as instructions for the Audit Committee and Remuneration Committee. These are reviewed and set annually.

Board committees

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 than three members. The Audit Committee for 2011 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 2011, the committee consisted of Melker Schörling (Chairman) and Ulrik Svensson. The Remuneration Committee held two minuted meetings during 2011, which were attended by all of the Committee's members.

Board activities in 2011

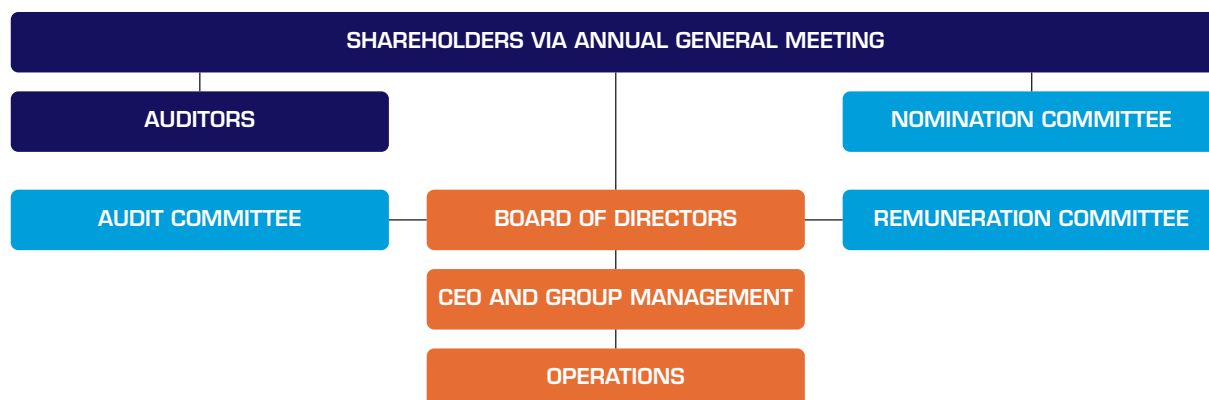
The Board held 12 minuted meetings during the year, at which the following items, among others, were addressed:

11 January	Decision concerning the rights issue
7 February	Year-end report for 2010 and debriefing with the auditors
22 March	Final calculation of the outcome of the rights issue
6 May	Q1 2011 interim report and statutory Board meeting after the 2011 AGM
21 July	Q2 2011 interim report
20 October	Q3 2011 interim report and strategic plan for 2012-2014
14 December	Decision concerning acquisition of Müller Kunststoffe, budget for 2012 and visits to subsidiaries

The Board also held an Extraordinary General Meeting on 7 February to resolve on the rights issue.

During 2011, all AGM-elected Board members attended all Board meetings





AUDITORS

The auditors are elected at the AGM and, on the behalf of the shareholders, are responsible for examining the Annual Report and accounting records, as well as the administration of the Board and President. HEXPOL's auditors normally attend at least one Board meeting annually at which they report their observations from the Group's internal control procedures and the annual financial statements. The auditors also report to and meet the Audit Committee. Moreover, the auditors participate in the AGM to present the auditors' report, which describes the audit conducted and the observations made.

HEXPOL's auditors, who have been elected up to year-end 2011, comprise the registered auditing firm, Ernst & Young AB, with the Authorised Public Accountant Ingvar Ganestam as auditor-in-charge, and Authorised Public Accountant Stefan Engdahl, with Authorized Public Accountant Johan Thuresson as deputy auditor, who are employed by Ernst & Young AB and are members of FAR SRS (Swedish accounting organisation). All auditors may be contacted at Ernst & Young AB, Torggatan 4, SE-211 40 Malmö, Sweden.

The auditors for 2012 will be elected at the 2012 AGM.

PRESIDENT/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/CEO is responsible for keeping the Board informed of the company's development between Board meetings.

The President/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 designed to provide short and prompt decision-making processes, with a distinct, decentralised responsibility. Group Management is presented on page 102, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

INFORMATION ON REMUNERATION

Refer to Note 4 on page 84 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 2011 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 the company'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 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. The Group's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board's monitoring of the company's assessment of its internal control includes contacts with the company's auditors. HEXPOL has no internal audit function, since the functions described above satisfy this need. All of HEXPOL's subsidiaries report complete financial statements on a monthly basis. This reporting provides the basis for the Group's consolidated financial reporting. Each legal entity has a controller responsible for the business area's financial control and for ensuring that the financial reports are correct, complete and delivered in time for consolidated financial reporting.

RISK 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, 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	2011	2010
Sales	1	7,197	3,798
Cost of goods sold		-5,900	-3,091
Gross profit		1,297	707
Sales costs		-101	-65
Administration costs		-254	-213
Research and development costs		-49	-36
Other income and expenses		2	3
Operating profit	1,3,4,5,9	895	396
Financial income	6	16	3
Financial expenses	6	-39	-29
Profit before tax		872	370
Tax	7	-253	-97
Profit after tax		619	273
of which, attributable to Parent Company shareholders		619	273
of which, attributable to minority interests		0	0

	2011	2010
Earnings per share, SEK	18.65	9.30*
Earnings per share excluding items affecting comparability, SEK	18.65	10.83*
Earnings per share after dilution, SEK	18.54	9.16*
Average number of shares, thousands	33,189	29,369
Average number of shares after dilution, thousands	33,387	29,775

* After completion of the rights issue, historical data has been adjusted to take into account the effects of the bonus issue element

Consolidated statement of comprehensive income

MSEK	2011	2010
Profit after tax	619	273
Cash-flow hedges	-3	1
Cash-flow hedges, tax	1	0
Translation difference	27	-146
Comprehensive income	644	128
of which, attributable to the Parent Company's shareholders	644	128
of which, attributable to minority interests	0	0

Consolidated balance sheets

MSEK	Note	2011	2010
ASSETS			
Fixed assets			
Intangible fixed assets	8	2,291	2,297
Tangible fixed assets	9	1,069	1,116
Financial fixed assets		1	1
Deferred tax assets	7	4	24
Total fixed assets		3,365	3,438
Current assets			
Inventories	10	477	487
Accounts receivable	11	718	616
Current tax receivables		54	9
Other current receivables		19	23
Prepaid expenses and accrued income		18	20
Cash and cash equivalents		557	318
Total current assets		1,843	1,473
TOTAL ASSETS		5,208	4,911
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	53
Other capital contributions		598	0
Reserves		52	27
Profit brought forward		1,135	965
Profit for the year		619	273
Total	12	2,473	1,318
Minority interests		-	9
Total shareholders' equity		2,473	1,327
Non-current liabilities			
Interest-bearing liabilities	13	1,630	1,909
Deferred tax liabilities	7	117	79
Pension provisions	14	13	11
Non-current liabilities		1,760	1,999
Current liabilities			
Interest-bearing current liabilities	13	68	683
Accounts payable		666	656
Current tax liabilities		19	18
Other current liabilities		19	16
Other provisions	15	5	52
Accrued expenses and deferred income	16	198	160
Total current liabilities		975	1,585
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,208	4,911
Pledged assets	17	27	27
Contingent liabilities	17	4	4

Consolidated changes in shareholders' equity

MSEK	Attributable to the Parent Company's shareholders								Attributable to minority interests		Total shareholders' equity	
	Share capital		Other capital contributions		Reserves		Profit brought forward		2011	2010	2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010				
Opening balance, 1 January	53	53	0	-	27	172	1,238	992	9	-	1,327	1,217
Profit after tax	-	-			-	-	619	273	0	0	619	273
Other comprehensive income	-	-			25	-145	-	-	-	-	25	-145
Total comprehensive income					25	-145	619	273		0	644	128
Acquisitions	-	-			-	-	-	-	-9	9	-9	9
Dividend	-	-			-	-	-103	-27	-	-	-103	-27
Nyemission	13	-	538	-	-	-	-	-	-	-	551	-
Costs associated with rights issue	-		-8	-	-	-			-		-8	-
Rights issue, exercise of warrants	3	-	68	-	-	-					71	-
Closing balance, 31 December	69	53	598	-	52	27	1,754	1,238	0	9	2,473	1,327

Consolidated cash flow statements

MSEK	Note	2011	2010
Cash flow from operations	18		
Operating profit		895	396
Adjustment for non-cash items		150	152
Net interest income		-24	-43
Tax paid		-219	-84
Cash flow from operations before changes in working capital		802	421
Cash flow from changes in working capital			
Changes in working receivables		-88	-115
Changes in working liabilities		57	105
Non-recurring items		-45	-24
Cash flow from operations		726	387
Investing operations			
Investments in tangible fixed assets		-102	-30
Sales of tangible fixed assets		0	0
Investments in intangible fixed assets		-1	-2
Acquisition of subsidiaries	21	1	-1,827
Cash flow from investing activities		-102	-1,859
Financing activities			
Loans raised		158	1,916
Amortisation of liabilities		-1,055	-391
Dividend		-103	-27
Rights issue		539	-
Exercise of warrants		71	-
Cash flow from financing activities		-390	1,498
Cash flow for the year		234	26
Cash and cash equivalents at January 1		318	317
Exchange-rate differences in cash and cash equivalents		5	-25
Cash and cash equivalents at December 31		557	318

Operating cash flow, Group

MSEK	2011	2010
Operating profit, excluding items affecting comparability	895	460
Depreciation/amortisation	150	88
Change in working capital	-31	-10
Investments	-103	-32
Operating cash flow	911	506

Accounting policies

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

Furthermore, recommendation RFR 1, 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 82.

The applied accounting policies correspond to those applied in the preceding year. No new or revised IASB standards that became effective in 2011 had any material impact on the Group.

New standards and interpretative statements to be applied for 2012 calendar year or later are not assessed to have any material impact on the consolidated financial statements. No standards or interpretative statements are applied in advance.

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

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

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

Preparing the reports in accordance with IFRS requires that company management and the Board of Directors carry out accounting estimates and assumptions that affect the application of the accounting policies and the reported figures for assets, liabilities, revenues and expenses. The actual outcome could deviate from these accounting estimates. Certain accounting matters involve a larger degree of subjectivity or complexity, which results in a higher risk of deviation from the accounting estimates and assumptions applied. Such matters include the outcome of complicated legal disputes, assessment of the present value of forecast cash flows during analyses of possible impairment requirements.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements consolidate the Parent Company and the other companies in which the Parent Company has a direct or indirect controlling influence. The consolidated financial statements have been prepared in accordance with the purchase method, which means that the Parent Company's acquisition

value of shares in subsidiaries is eliminated against subsidiaries' shareholders' equity at the time of acquisition. The shareholders' equity of acquired subsidiaries is determined on the basis of a 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. In connection with acquisitions of non-controlling interests, these are measured either at fair value, which gives rise to full goodwill, or at their proportional interest in the acquired net assets.

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

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

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

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

The Group has lending in foreign currency to certain subsidiaries, in which the loans represent an enduring portion of the Parent Company's financing of these companies. These loans are recognised at the exchange rate prevailing on the balance-sheet date, whereby the exchange-rate differences on the loans are recognised in other comprehensive income.

ASSOCIATED COMPANIES

The equity method is applied for associated companies. Associated companies are those companies over which the Parent Company, directly or indirectly, has a material influence. Any differences between the acquisition value

and equity value at the time of acquisition are termed goodwill, and are included in the acquisition value.

In the consolidated balance sheet, holdings in associated companies are recognised at acquisition value adjusted for dividends, shares in earnings/losses during the holding period and any impairment losses on goodwill.

The consolidated income statement includes shares in associated companies' earnings after elimination of any inter-company gains. Associated company taxes are included in the Group's tax expenses. At the close of every reporting period, the carrying amounts for associated companies, including implicit goodwill values, are impairment tested.

SEGMENT REPORTING

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

REVENUES

HEXPOL applies the following principles for revenue recognition:

Sale of goods

Revenues from sales of goods are recognised when all the following conditions are satisfied: The company has transferred the essential risks and benefits associated with the ownership of the goods to the buyer. The company does not retain any commitment in ongoing management usually associated with ownership, and nor does the company exert any actual control over the goods that have been sold. Revenues can be reliably calculated. It is likely that the financial benefits for the seller that are associated with the transaction will arise for the seller. The expenditure that has arisen or is expected to arise as a consequence of the transaction can be reliably calculated.

Interest income

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

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalised as follows: Capitalisation of development expenses in the Group are only applied to new products where significant development costs are involved, where the products have a probable earnings potential that 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 shorter of the asset's useful life period and the lease period. For capital leases the leased asset is carried on the balance sheet with a corresponding liability for future lease payments. The leased asset is depreciated over the same period as for assets of the same kind owned by the Group. The interest expense is recognised as a liability to the lessor.

FINANCIAL INSTRUMENTS

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

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

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

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

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

When hedging cash flow, the change in value of the hedging instrument is recognised in other comprehensive income until the hedged transaction has been recognised.

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

PENSION AND SIMILAR COMMITMENTS

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

Defined-benefit plans for which the insurer (Alecta in Sweden) cannot specify the Group's share of the total plan assets and, pending this information becoming available, pension obligations are recognised as defined-contribution plans. At 31 December 2011, Alecta's surplus in the form of the collective consolidation level was 113 percent.

PROVISIONS

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

INCOME TAXES

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

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

Deferred tax represents tax on temporary differences arising between the value of assets and liabilities for tax purposes and their carrying amount in the consolidated financial statements, deductible loss carry-forwards and other tax deductions. Deferred tax is 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.

RECEIVABLES AND LIABILITIES

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

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

INVENTORIES

Inventories are valued according to the lowest-value principle, meaning at the lower of acquisition value and net realisable value at the balance-sheet date. The acquisition value is measured in accordance with the first-in first-out principle. For manufactured goods, the acquisition value comprises the cost of raw materials, direct payroll costs, other indirect costs and a portion of indirect manufacturing costs.

Net realisable value comprises the selling price less variable selling costs.

Market terms are applied for intra-Group transactions.

GOODWILL

Goodwill comprises the difference between the acquisition cost and the fair value of the 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.

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	50 years
Land improvements	5-30 years

IMPAIRMENT LOSSES

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

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

The basic assumptions used to determine whether or not there is an impairment requirement are as follows: When calculating the present value of future cash flows, a cost of capital of 11.5 percent (11.5) before tax has been applied. This rate was determined in relation to an independent assessment of a reasonable cost of capital. The calculation is based on an internal assessment of the next five years. The definition of cash-generating units complies with the Group's organisation and comprises the Group's two business areas. According to the calculations, there is no impairment requirement.

ACCOUNTING POLICIES IN THE PARENT COMPANY

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

The Parent Company does not apply IAS 39.

In accordance with RFR, Group contributions are recognised as financial income as of 1 January 2011. 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 RFR2, 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

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, prepaid expenses and tangible and intangible fixed assets, as well as operating liabilities, such as accounts payable, other liabilities, other provisions and accrued expenses. Cash and cash equivalents, taxes and loans are not reported by business areas. No individual customer accounts for more than 10 percent of the Group's sales.

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2011	2010	2011	2010	2011	2010
Sales, external	6,450	3,080	747	718	7,197	3,798
Operating profit	823	334	72	62	895	396
Operating profit, excluding items affecting comparability	823	398	72	62	895	460
Operating margin, %	12,8	10,8	9,6	8,6	12,4	10,4
Operating margin, excluding items affecting comparability, %	12,8	12,9	9,6	8,6	12,4	12,1
Net financial items					-23	-26
Tax					-253	-97
Profit for the year					619	273
Operating assets	4,136	4,098	456	441	4,592	4,539
Operating liabilities	812	806	77	78	889	884
Operating capital	3,324	3,292	379	363	3,703	3,655
Investments	88	24	15	8	103	32
Depreciation/amortisation	123	58	27	30	150	88

Geographic markets MSEK	Sales per recipient country		Operating capital	
	2011	2010	2011	2010
Europe	2,431	1,928	1,163	1,172
NAFTA	4,358	1,639	2,059	2,110
Asia	408	231	481	373
Total	7,197	3,798	3,703	3,655

Note 2 Related-party transactions

Transactions between Group companies occur on market-based conditions.

In 2011, the Group purchased energy for 20 MSEK (20) from the associated company Megufo AB in Sweden. On 31 December 2011, the Group had a liability of 1 MSEK (2) to this associated company.

During 2011, HEXPOL AB acquired a residential property from the President and his wife for 24 MSEK. The property was transferred at market price based on independent market appraisals.

Note 3 Items affecting comparability

MSEK	2011	2010
Impairment of fixed assets	-	0
Non-recurring items	-	-64
Total	-	-64
Distribution by function		
Cost of goods sold	-	-22
Selling costs	-	-2
Administrative costs	-	-38
Research and development costs	-	-2
Total	-	-64
Distribution by business area		
HEXPOL Compounding	-	-64
HEXPOL Engineered Products	-	-
Total	-	-64

Note 4 Employees and personnel costs

Costs for remuneration of employees

MSEK	2011	2010
Salaries and remuneration, etc.	680	398
Total	680	398
To the Board and Presidents, of which bonus and similar items	57 17	47 8
Pension costs	17	16
Social security costs	107	82
Total	124	98

Personnel costs per country

MSEK	2011	2010
Sweden	205	175
Belgium	43	41
Czech Republic	21	19
Germany	34	33
Mexico	26	12
Luxembourg	2	0
USA	399	169
China	15	10
Sri Lanka	28	26
UK	31	11
Total	804	496

Average number of employees

	2011	Of whom, men	2010	Of whom, men
Sweden	350	60%	335	59%
Belgium	59	88%	64	86%
Czech Republic	101	95%	104	91%
Germany	67	96%	74	93%
Mexico	180	89%	98	89%
Luxembourg	2	67%	-	-
USA	986	89%	364	88%
China	175	65%	106	66%
Sri Lanka	1,027	98%	945	98%
UK	94	90%	43	86%
Total	3,041	88%	2,133	87%

Gender distribution on the Board of Directors

	2011	2010
Distribution between men and women		
Women	1	1
Men	5	5
Total	6	6

Gender distribution in company management

	2011	2010
Distribution between men and women		
Women	0	0
Men	7	7
Total	7	7

Remuneration of the Board of Directors 2011

KSEK	Board fee		Committee fee		Total	
	2011	2010	2011	2010	2011	2010
Melker Schörling, Chairman	460	400	75		535	400
Alf Göransson	230	200			230	200
Jan-Anders E. Månson	230	200			230	200
Malin Persson	230	200	75	75	305	275
Ulrik Svensson	230	200	200	150	430	350
Total	1,380	1,200	350	225	1,730	1,425

Board fees are not payable to employees of the Group.

Remuneration of senior executives	Basic salary		Variable salary*		Pension costs		Car, housing and other benefits		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Georg Brunstam, President and CEO	5,338	4,410	6,038	2,908	2,104	1,800	298	248	13,778	9,366
Other members of Group management, 6 persons (6)	12,494	11,761	9,963	5,414	1,750	1,990	806	768	25,013	19,933
Total	17,832	16,171	16,001	8,322	3,854	3,790	1,104	1,016	38,791	29,299

* Variable remuneration for 2010 was paid in 2011 and variable remuneration for 2011 was paid in December 2011 and January-February 2012.

Principles for remuneration of the Board and senior executives

Remuneration is paid to the Board of Directors in accordance with resolutions from the Annual General Meeting.

The Remuneration Committee submits proposals to the Board of Directors for remuneration of the President and other senior executives. Remuneration of the President and other senior executives comprises basic salary, variable remuneration, other benefits and pension. The variable remuneration is based on earnings and the return on capital employed.

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

Note 4, Continued

Warrants

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

Number of warrants	1,325,000
Options paid for during 2008	933,250
Options paid for during 2009	175,000
Number of shares per option	1
Option premium, SEK	8.00
Exercise period	1 March 2011 to 1 September 2011
Exercise price for options paid for in 2008, SEK	65.70
Exercise price for options paid for during 2009, SEK	56.60

During 2011, all outstanding options were redeemed, which resulted in a new subscription of 1,230,158 shares.

The number of subscribed shares and the exercise price were adjusted for dilution effects from HEXPOL AB's implemented new rights issues in 2011.

Note 5 Fees and cost remuneration paid to auditors

MSEK	2011	2010
Ernst & Young		
Audit assignment	5	4
Audit activities in addition to audit assignment	0	-
Tax consultancy	0	1
Other services	2	0
Other auditors		
Audit assignment	0	0
Tax consultancy	0	0
Other services	0	1
Total	7	6

Note 6 Financial income and expenses

MSEK	2011	2010
Interest income	2	0
Other financial income	14	3
Financial income	16	3
Interest expense	-32	-17
Other financial expense	-7	-12
Financial expense	-39	-29
Net financial expense	-23	-26

Note 7 Tax

MSEK	2011	2010
Current tax expense		
Tax expense on profit for the year	-182	-93
Total	-182	-93
Deferred tax expense		
Deferred tax pertaining to temporary differences	-40	-23
Utilised/revaluation of loss carryforwards	-31	19
Total	-71	-4
Total recognised tax expense	-253	-97

At 31 December 2011, the Group had loss carryforwards of 118 MSEK (102) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 48 MSEK (21) expires within five years.

Note 7 Continued

**Reconciliation of effective tax
MSEK**

	2011	%	2010	%
Profit before tax	872		370	
Tax according to applicable tax rate for the Parent Company	-229	-26	-97	-26
Effect of other tax rates for foreign subsidiaries	-41	-5	-8	-2
Non-deductible expenses	-1	0	-1	0
Non-taxable income	0	0	0	0
Deductible goodwill amortisation	6	1	6	2
Tax attributable to prior years	12	1	3	1
Skatt hänförlig till tidigare år	0	0	0	0
Total reported tax expense	-253	-29	-97	-26

Deferred tax asset/tax liabilities

MSEK	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Intangible assets	-26	0	-20	0	0	-26	-	-	-1	-	-47	-26
Tangible assets	-54	-34	-26	-9	0	-14	-	-	-3	3	-83	-54
Current assets	2	5	-4	-3	-	-	-	-	1	0	-1	2
Operating liabilities	4	3	13	1	-	-	-	-	0	0	17	4
Loss carryforwards	21	3	-31	19	11	-	-	-	-1	-1	0	21
Liabilities	-2	20	-3	-12	-	-	6	-10	0	0	1	-2
Other	0	0	0	0	-	-	-	-	0	0	0	0
Total	-55	-3	-71	-4	11	-40	6	-10	-4	2	-113	-55

Not 8 Intangible fixed assets**Accumulated acquisition value**

MSEK	Goodwill		Other intangible assets		Total	
	2011	2010	2011	2010	2011	2010
Opening balance on 1 January	2,209	1,238	164	26	2,373	1,264
Acquisitions	-7	1,083	-53	142	-60	1,225
Investments	-	-	1	2	1	2
Disposal/Impairment losses	-	-	0	-	0	-
Reclassification	-	-	-	-	-	-
Translation difference	20	-112	-1	-6	19	-118
Closing balance on 31 December	2,222	2,209	111	164	2,333	2,373

Accumulated amortisation

MSEK	Goodwill		Other intangible assets		Total	
	2011	2010	2011	2010	2011	2010
Opening balance on 1 January	-11	-10	-65	-17	-76	-27
Acquisitions	-	-1	42	-45	42	-46
Amortisation according to plan for the year	-	-	-10	-4	-10	-4
Disposal/Impairment losses	-	-	0	-	0	-
Translation difference	-	0	2	1	2	1
Closing balance on 31 December	-11	-11	-31	-65	-42	-76
Carrying amount on 31 December	2,211	2,198	80	99	2,291	2,297

Other intangible assets pertain to acquired customer relations, IT systems, etc.

Note 8, Continued

Goodwill distributed by operating segment

MSEK	Goodwill	
	2011	2010
HEXPOL Compounding	2,186	2,173
HEXPOL Engineered Products	25	25
Closing balance on 31 December	2,211	2,198

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 an asset's net realisable value and its value in use, meaning the discounted present value of future cash flows.

When calculating the present value of future cash flows, a cost of capital (WACC) of 11.5 percent before tax (11.5) has been used. Reconciliation has been conducted against an external estimation of a fair capital cost. The calculation is based on an internal estimation of the five years ahead, followed by assumed annual growth of 2 percent (2). The calculations did not indicate any need for impairing assets. 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 9 Tangible fixed assets and Operational leasing**Operational leasing****Non-cancellable leasing payments amount to**

MSEK	2011	2010
Within one year	19	20
Between one and five years	40	40
Longer than five years	15	4
Total	74	64

Leasing expenses

MSEK	2011	2010
Minimum leasing fees	19	13
Total	19	13

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

Tangible fixed assets

Accumulated acquisition value MSEK	Land and buildings		Machinery and equipment		Total	
	2011	2010	2011	2010	2011	2010
Opening balance on 1 January	515	382	1,814	1,129	2,329	1,511
Investments	27	3	75	27	102	30
Acquisitions	-3	158	-51	777	-54	935
Divestments, disposals and impairment losses	0	0	-37	-44	-37	-44
Reclassification	10	0	-10	0	0	0
Translation difference	4	-28	1	-75	5	-103
Closing balance on 31 December	553	515	1,792	1,814	2,345	2,329

Note 9 Continued

Accumulated depreciation MSEK	Land and buildings		Machinery and equipment		Total	
	2011	2010	2011	2010	2011	2010
Opening balance on 1 January	-152	-118	-1,061	-681	-1,213	-799
Acquisitions	2	-32	41	-401	43	-433
Depreciation according to plan for the year	-17	-13	-123	-71	-140	-84
Divestments, disposals and impairment losses	0	0	37	44	37	44
Translation difference	0	11	-3	48	-3	59
Closing balance on 31 December	-167	-152	-1,109	-1,061	-1,276	-1,213
Carrying amount on 31 December	386	363	683	753	1,069	1,116

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

MSEK	2011	2010
Production costs	139	79
Selling costs	2	0
Administration costs	7	7
Product development costs	2	1
Others	0	1
Total	150	88

Note 10 Inventories

MSEK	2011	2010
Raw materials	311	342
Goods in production	22	36
Finished goods	144	109
Total	477	487

No significant impairments have been made during the year.

Note 11 Accounts receivables

Age distribution of accounts receivables

MSEK	2011	2010
Not due	614	559
Past due, 1-60 days	104	57
Past due, more than 60 days	0	0
Accounts receivable	718	616

Provisions for bad debt losses

MSEK	2011	2010
Opening balance	-40	-34
Provision for the year	-10	7
Acquisitions	0	-13
Actual losses	4	0
Closing balance	-46	-40

Note 12 Shareholders' equity

Changes in the number of shares

	Class A shares		Class B shares		Total	
	2011	2010	2011	2010	2011	2010
Opening balance on 1 January	1,181,250	1,181,250	25,370,727	25,370,727	26,551,977	26,551,977
New share issue	295,312	–	6,342,681	–	6,637,993	–
New share issue, redemption of warrants	–	–	1,230,158	–	1,230,158	–
Closing balance on 31 December	1,476,562	1,181,250	32,943,566	25,370,727	34,420,128	26,551,977

Average number of shares before and after dilution, thousands

	2011	2010
Average number of shares before dilution	33,189	29,369
Estimated average number of potential shares pertaining to the option programme, redeemed Q1, 2011	198	406
Average number of shares after dilution	33,387	29,775

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

	Class A shares	Class B shares	Total
Number of votes	14,765,620	32,943,566	47,709,186

Note 13 Interest-bearing liabilities

Non-current liabilities

MSEK	2011	2010
Liabilities to credit institutions	1,630	1,909
Non-current liabilities	1,630	1,909

Current liabilities

MSEK	2011	2010
Liabilities to credit institutions	67	667
Other liabilities	1	16
Current liabilities	68	683

Loans MSEK	2011		2010	
	Utilised	Unutilised	Utilised	Unutilised
Syndicated loan, 1,700 MSEK	1,505	195	1,460	240
Bilateral loan, 100 MUSD	125	567	449	232
Total long-term liabilities	1,630		1,909	
Bank loan, Mexico, 20 MUSD	58	80	112	24
Bridge loan, 550 MSEK	–	–	550	–
Other	10		21	–
Total current liabilities	68		683	

The syndicated loan was raised in USD, EUR and SEK and carries floating interest. The syndicated loan is amortisation-free and falls due in May 2013. The bilateral loan was raised in USD and SEK and carries floating interest. The bilateral loan is amortisation-free and falls due in October 2015. Both the syndicated loan and the bilateral loan are subject to certain financial covenants, which were fulfilled at 31 December 2011.

The bank loan in Mexico falls due in December 2012 and carries floating interest. HEXPOL had no interest-bearing or currency derivatives at 31 December 2011 involving external borrowing.

Note 14 Pension provisions

MSEK	2011	2010
Provisions for pensions	13	11
Provisions	13	11

Change in provisions

MSEK	2011	2010
Opening balance on 1 January	11	11
Provisions for the year	2	0
Closing balance on 31 December	13	11

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

Note 15 Other provisions, provision for the restructuring programme

MSEK	2011	2010
Opening balance	52	15
Provisions during the year	0	53
Utilised during the year	–45	–13
Translation difference	–2	–3
Closing balance	5	52

Note 16 Prepaid expenses and accrued income

MSEK	2011	2010
Personnel-related expenses	119	91
Accrued goods and services	22	5
Bonus to customers	0	0
Others	57	60
Interest	0	4
Derivative instruments	0	0
Total	198	160

Note 18 Cash flow statement

Financial items received and paid MSEK	2011	2010
Financial income received	15	3
Financial expenses paid	-39	-46
Adjustments for non-cash items		
MSEK	2011	2010
Depreciation, amortisation	150	88
Non-recurring items	-	64
Total	150	152

Note 17 Pledged assets and contingent liabilities**Pledged assets**

MSEK	2011	2010
Fixed assets	0	0
Current assets	27	27
Total	27	27

Contingent liabilities

MSEK	2011	2010
Guarantee for the benefit of associated companies	4	4
Total	4	4

Note 19 Financial instruments and risk management

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

Sell forward contracts outstanding at 31 December

MSEK	2011		2010	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	16	16	47	44
Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/SEK	16	9.16	47	9.58

Note 19 Continued

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

Forward contracts outstanding at 31 December

MSEK	2011		2010	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	99	99	245	245
Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/SEK	0	0	137	9.01
CZK/SEK	68	0.35	84	0.36
USD/SEK	31	6.95	24	6.80

Sell forward contracts outstanding at 31 December

MSEK	2011		2010	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	137	137	103	104
Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/SEK	12	8.97		
GBP/SEK	125	10.71	103	10.48

Note 20 Quarterly data

MSEK	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	1,792	1,843	1,776	1,786	1,132	950	966	750
Operating profit	220	235	230	210	73	120	116	87
Operating profit, excluding items affecting comparability	220	235	230	210	137	120	116	87
Profit after tax	157	165	158	139	53	82	80	58

Note 21 Acquisitions

Acquisition of Excel Polymers 2010, final acquisition analysis

On 30 November 2010, the HEXPOL Group acquired 100 percent of the operations of Excel Polymers Group. The company is a leading supplier of elastomer solutions and offers a broad portfolio of polymer material compounds, chemical additives and technical know-how primarily to manufacturers of rubber components. Excel Polymers Group has an impressive breadth in terms of expertise and capacity for polymer compounds and a global presence through eight manufacturing units strategically located in the US, China, Mexico and the UK. During 2010, the operations had total sales of 377 MUSD and an EBITA of 34 MUSD. The number of employees on the acquisition date was approximately 800. The purchase consideration totalled 212.5 MUSD adjusted for net debts, corresponding to 1,486 MSEK.

The acquired net assets and goodwill are presented below:

MSEK	
Purchase consideration	1,545
Fair value of acquired net assets	-770
Goodwill	775

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the product offering existing in the Group. The acquisition generates synergy effects in the short and medium-terms, primarily in the areas of purchasing, product development, sales and administration. The fair value of the acquired net assets includes 79 MSEK for the estimated value of acquired customer relations.

Note 21 Continued

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	59
Current assets	625
Tangible assets	442
Deferred tax assets	16
Intangible assets	84
Interest-bearing liabilities	-10
Current liabilities	-419
Deferred tax liabilities	-27
Minority interests	0
Acquired net assets	770
Goodwill	775
Total purchase consideration	1,545
Cash and cash equivalents in acquired operations	-59
Change in the Group's cash and cash equivalents resulting from the acquisition	1,486

Acquisition of ELASTO Group 2010

On 1 April 2010, HEXPOL acquired 100 percent of the operations of ELASTO UK Ltd and the company ELASTO AB from the UK companies Vita Thermoplastic Compounds Ltd and Vita International Ltd, respectively, with operations in Manchester, UK, and Åmål, Sweden. ELASTO Group is a leading European manufacturer of thermoplastic elastomer compounds.

The operations had sales of 356 MSEK and profit after tax of 19 MSEK in 2010. On the acquisition date, the number of employees was approximately 85.

The acquired net assets and goodwill are presented below:

MSEK	
Purchase consideration	343
Net less acquired receivable	32
Total acquisition value	375
Fair value of acquired net assets	-74
Goodwill	301

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Compounding's current product offering. The acquisition generates synergy effects primarily in purchasing and sales.

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	2
Current assets	107
Tangible assets	47
Deferred tax assets	0
Intangible assets	1
Other long-term assets	0
Interest-bearing liabilities	0
Current liabilities	-66
Deferred tax liabilities	-17
Acquired net assets	74
Goodwill	301
Total purchase consideration	375
Interest-bearing receivable in acquired operation	-32
Cash and cash equivalents in acquired operations	-2
Change in the Group's cash and cash equivalents resulting from the acquisition	341

Income statement for the Parent Company's

MSEK	Note	2011	2010
Sales	22	31	23
Administrative costs		-44	-35
Operating profit	23, 24	-13	-12
Financial income	25	410	747
Financial expense	25	-38	-70
Profit before tax		359	665
Tax	26	-7	19
Profit after tax		352	684

Comprehensive income matches profit/loss after tax.

Balance sheets for the Parent Company's

MSEK	Note	2011	2010
ASSETS			
Fixed assets			
Tangible fixed assets	27	25	0
Intangible fixed assets		0	0
Interest-bearing intra-Group receivables		1,375	1,352
Financial fixed assets	29	2,202	2,432
Deferred tax assets		0	3
Total fixed assets		3,602	3,787
Current assets			
Intra-Group operating receivables		9	7
Interest-bearing intra-Group receivables		410	440
Prepaid expenses and accrued income		6	17
Cash and cash equivalents		329	72
Total current assets		754	536
TOTAL ASSETS		4,356	4,323
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	53
Total restricted shareholders' equity		69	53
Non-restricted shareholders' equity			
Share premium reserve		598	-
Accumulated earnings		920	339
Net profit for the year		352	684
Total non-restricted shareholders' equity		1,870	1,023
Total shareholders' equity		1,939	1,076
Non-current liabilities			
Interest-bearing liabilities to credit institutions	13	1,638	1,916
Total non-current liabilities		1,638	1,916
Current liabilities			
Accounts payable		0	0
Interest-bearing intra-Group liabilities		757	763
Interest-bearing liabilities to credit institutions	13	0	550
Other current liabilities		3	0
Accrued expenses and prepaid revenues	28	19	18
Total current liabilities		779	1,331
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,356	4,323
Pledged assets	30	129	111
Contingent liabilities		-	-

Change in shareholders' equity for the Parent Company

	Share capital		Share premium reserve		Accumulated profit		Total shareholders' equity	
MSEK	2011	2010	2011	2010	2011	2010	2011	2010
Opening balance, 1 January	53	53			1,023	312	1,076	365
Profit after tax					352	684	352	684
Dividend					-103	-27	-103	-27
Rights issue	13		538				551	-
Expenses in connection with rights issue			-8				-8	
Rights issue, redemption of warrants	3		68				71	-
Group contribution after tax						54	0	54
Closing balance, 31 December	69	53	598	-	1,272	1,023	1,939	1,076

Cash flow statements for the Parent Company

MSEK	2011	2010
Cash flow from operations		
Operating profit	-13	-12
Adjustment for non-cash items, depreciation	0	1
Financial income received	94	13
Financial expenses paid	-38	-23
Paid tax	0	0
Cash flow from operations before changes in working capital	43	-21
Cash flow from changes in working capital		
Changes in current receivables	2	-11
Changes in current liabilities	3	3
Cash flow from operations	48	-29
Investing activities		
Gross investments in tangible fixed assets	-25	0
Gross investments in financial fixed assets	0	0
Dividends from subsidiaries	541	964
Acquisition of subsidiaries	0	-914
Cash flow from investing activities	516	50
Financing operations		
Change in interest-bearing receivables	8	-1,409
Change in interest-bearing liabilities	-833	1,500
Group contributions received	11	72
Dividend	-103	-27
Rights issue	539	-
Redemption of warrants	71	-
Shareholder contribution	-	-254
Cash flow from financing operations	-307	-118
Cash flow for the year	257	-97
Cash and cash equivalents on 1 January	72	169
Cash and cash equivalents on 31 December	329	72

Note 22

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

Note 23 Employees and personnel expenses

Average number of employees	2011	2010
Women	2	2
Men	3	3
Total	5	5

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

MSEK	2011	2010
Board of Directors	2	1
CEO	12	7
Other employees	5	4
Social security costs, pension costs and payroll tax	10	9
Total	29	21

Note 24 Fees and expense reimbursement to auditors

KSEK	2011	2010
Ernst & Young		
Audit assignments	500	397
Tax consultancy	330	59
Other assignments	549	126
Total	1,379	582

Note 25 Financial income and expenses

MSEK	2011	2010
Dividend	541	964
Group contributions	11	0
Impairment losses on shares in subsidiaries	-230	-230
Interest income	0	0
Interest income from Group receivables	87	13
Exchange-rate gains	0	0
Other financial income	1	0
Financial income	410	747
Interest expense	-30	-15
Interest expense for Group liabilities	-4	-4
Exchange-rate loss	0	-47
Other financial expense	-4	-4
Financial expenses	-38	-70

Note 26 Taxes

MSEK	2011	2010
Current tax expense		
Tax expense for the period	-3	19
Total	-3	19
Deferred tax expense		
Deferred tax pertaining to temporary differences	-4	0
Utilisation/revaluation of losses carried forward	0	0
Total	-4	0
Total recognised tax expense	-7	19

Note 27 Tangible fixed assets**Tangible fixed assets**

Accumulated acquisition value MSEK	Lands and buildings		Equipment		Total	
	2011	2010	2011	2010	2011	2010
Opening balance, 1 January	-	-	2	2	2	2
Investments	25	-	0	0	25	0
Divestments and disposals	0	-	0	0	0	0
Closing balance, 31 December	25	-	2	2	27	2

Accumulated depreciation MSEK	Lands and buildings		Equipment		Total	
	2011	2010	2011	2010	2011	2010
Opening balance, 1 January	-	-	-2	-1	-2	-1
Depreciation for the year	0	-	0	-1	0	-1
Divestments and disposals	-	-	0	-	0	0
Closing balance, 31 December	0	-	-2	-2	-2	-2
Carrying amount, 31 December	25	-	0	-	25	0

Note 28 Accrued expenses and prepaid revenues

MSEK	2011	2010
Personnel-related expenses	14	11
Unrealised exchange-rate differences	0	1
Other	5	6
Total	19	18

Note 29 Group companies

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

MSEK

Subsidiaries	Corp. Reg. No.	Registered office	Proportion of equity	2011	2010
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101	101
Megufu AB	556421-2453	Gislaved, Sweden	50		
Stellana AB	556084-8870	Laxå, Sweden	100	29	29
Elastomeric Engineering Co., Ltd. 1)		Sri Lanka	99.6	58	58
Elastomeric Technologies (Pvt) Ltd.		Sri Lanka	100		
Elastomeric Tools & Dies (Pvt) Ltd. 2)		Sri Lanka	100		
HEXPOL Compounding HQ Sprl		Belgium	100	469	469
HEXPOL Compounding Sprl		Belgium	100		
HEXPOL Compounding s.r.o		Czech Republic	100	435	435
HEXPOL Compounding NC Inc.		USA	100	75	75
Stellana U.S. Inc.		USA	100	4	4
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	56
HEXPOL Compounding S.A de C.V		Mexico	100		
Gold Key Processing Inc.		USA	100	361	361
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33	33
Stellana (Qingdao) Co., Ltd.		China	100	7	7
Thona Canada BV		Netherlands	100	-	166
HEXPOL Compounding ULC		Canada	100		
HEXPOL Compounding GmbH		Germany	100	70	134
HEXPOL Compounding TPE GmbH		Germany	100		
ELASTO Sweden AB	556191-5777	Åmål, Sweden	100	250	250
ELASTO UK Ltd.		UK	100	23	23
HEXPOL sàrl		Luxembourg	100	0	-
HEXPOL Holding Inc.		USA	100	231	231
HEXPOL Compounding LLC		USA	100		
HEXPOL Compounding Services Queretaro S.A. de C.V.		Mexico	100		
HEXPOL Compounding Queretaro S.A. de C.V.		Mexico	100		
EXLP H.K Co., Ltd.		Hong Kong	100		
Excel Asia LLC		USA	100		
HEXPOL Compounding (Foshan) Co., Ltd.		China	100		
HEXPOL Compounding (UK) Ltd		UK	100		
Chase Elastomer (UK) Ltd.		UK	100		
Total carrying amount in the Parent Company				2,202	2,432

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

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

Note 30 Assets pledged

MSEK	2011	2010
Sureties for subsidiaries	129	111
Total	129	111

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	919,907
Share premium reserve	597,880
Net profit for the year	352,224
Total non-restricted funds	1,870,011

The Board proposes that the unappropriated funds be disposed of as follows:
A dividend to the shareholders of 5.00 SEK per share.

Total dividend from earnings brought forward	172,101
To be carried forward	1,697,910
Total	1,870,011

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

Malmö, 12 March 2012

Melker Schörling
Chairman of the Board

Alf Göransson
Board Member

Malin Persson
Board Member

Ulrik Svensson
Board Member

Jan-Anders E. Månson
Board Member

Georg Brunstam
President and CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 12 March 2012. 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 4 May 2012 for adoption.

Our audit report was submitted on 12 March 2012.

ERNST & YOUNG AB

Ingvar Ganestam
Authorised Public Accountant
Auditor-in-charge

Stefan Engdahl
Authorised Public Accountant

Auditors' Report

To the Annual General Meeting of HEXPOL AB (publ)
Corp. Reg. No: 556108-9631

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED FINANCIAL STATEMENTS

We have audited the annual accounts and consolidated financial statements for HEXPOL AB (publ) for 2011, with the exception of the Corporate Governance Report on pages 68-73. The company's Annual Report and the consolidated financial statements are included on pages 52-97 of the printed version of this document.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the annual accounts and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated financial statements 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 financial statements. The auditor chooses such procedures based on such assessments as the risk of material misstatement in the annual accounts and consolidated financial statements, whether such misstatement is due to fraud or error. In making these risk assessments, the auditor considers internal control measures relevant to the company's preparation and fair presentation of the annual accounts and consolidated financial statements in order to design audit procedures that are appropriate taking the circumstances into account, 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 President, as well as evaluating the overall presentation of the annual accounts and consolidated financial statements.

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

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 2011 and its financial performance and cash flows for the year in accordance with the Annual Accounts Act, and the consolidated financial statements 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 2011 and its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act.

Our opinion does not cover the Corporate Governance Report on pages 68-73. The statutory administration report is compatible with the other parts of the Annual Report and consolidated financial statements.

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 financial statements, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of HEXPOL AB (publ) for the year 2011. We also conducted a statutory review of the Corporate Governance Report.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal concerning the appropriation of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act, as well as the preparation of the Corporate Governance Report on pages 68-73 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 complies 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 financial statements, 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 President is liable to the company. We also examined whether any member of the Board of Directors or the President 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 we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition, we have read the Corporate Governance Report and based on this and our knowledge about the company and the Group, we believe that we have sufficient basis for our opinions. This means that our statutory review of the Corporate Governance Report has another direction and scope compared with an audit in accordance with International Standards on Auditing and generally accepted 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 President be discharged from liability for the financial year.

A Corporate Governance Report has been prepared, and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Malmö, 12 March 2012

ERNST & YOUNG AB

Ingvar Ganestam

Authorised Public Accountant

Stefan Engdahl

Authorised Public Accountant

Board of Directors, auditors 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 the company's major shareholders	Holding ¹ Number of Class A shares	Holding ¹ Number of Class B shares
Melker Schörling Chairman of the Board	1947	Swedish	2007	No	Yes	Yes	No	1,476,562	7,563,715
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	249,750
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–

1) The term "Holdings" refers both to shares held by the person indicated and shares held by related parties, as well as via companies at 31 December 2011



Melker Schörling

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

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

HEXPOL shareholding:

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



Georg Brunstam

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

Other assignments: Member of the Board of Nibe Industrier AB, AB Wilh Becker, DIAB Group AB and Båstads Tennis & Hotell AB.

HEXPOL shareholding:

249,750 Class B shares.



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 and Chairman of the Board of Loomis AB. Member of the Board of Axel Johnson Inc., USA.

HEXPOL shareholding: –



Malin Persson

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

Other assignments: Member of the Board and President and CEO of Volvo Technology AB. Member of the Board of Volvo Lastvagnar AB, Volvo Technology Transfer AB, Volvo Information Technology AB, KCI Konecranes Plc., Swerea AB, Chalmers Industriteknik AB and Universeum AB. Partner in Ancanthis AB.

HEXPOL shareholding: –



Ulrik Svensson

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

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

HEXPOL shareholding: –



Jan-Anders E. Månson

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

Other assignments: Professor at Ecole Polytechnique Fédérale de Lausanne. Chairman of the Board of AISTS. Member of the Board of EELCEE SA and Vinnova (Swedish Governmental Agency for Innovation Systems).

HEXPOL shareholding: –

Auditors

At the Extraordinary General Meetings held on 2 April 2008 and 21 April 2008, the registered accounting firm Ernst & Young AB, with Authorised Public Accountant Ingvar Ganestam as auditor-in-charge and Authorised Public Accountant Stefan Engdahl, with Authorised Public Accountant Johan Thuresson as deputy auditor, active at Ernst & Young AB and members of FAR SRS, were elected for the current year up to the end of 2011. All auditors can be reached at Ernst & Young AB, Box 7850, SE-103 99 Stockholm, Sweden.



Ingvar Ganestam

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

Other audit assignments: Doro AB, the Bergendahl Group and AB Tetra Pak.



Stefan Engdahl

Född 1967. Authorised Public Accountant and member of FAR SRS.

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

Senior executives



Georg Brunstam

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

Other assignments: Member of the
Board of Nibe Industrier AB, AB Willh
Becker, DIAB Group AB and Båstads
Tennis & Hotell AB.

HEXPOL shareholding:
249,750 Class B shares.



Urban Ottosson

Born 1961, B.Sc. (Econ.)
Chief Financial Officer and Investor
Relations Manager; employed in 2009.

Other assignments: Member and
Chairman of the Board of Modity
Energy Trading AB.

HEXPOL shareholding:
123,500 Class B shares.



Lars-Åke Bylander

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

Other assignments: SMember of the
Board of Anicho Invest AB, Cue Dee AB
and Ferbe Tools AB. Partner in Body &
Beauty SW.

HEXPOL shareholding:
83,443 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 and HEXPOL Com-
pounding Global Purchasing/Techno-
logy, President of HEXPOL TPE
Compounding, employed in 1997.

Other assignments: –

HEXPOL shareholding:
66,600 Class B shares.



Ralph Wolkener

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

Other assignments: –

HEXPOL shareholding:
38,850 Class B shares.

Shareholder information

Annual General Meeting

The Annual General Meeting (AGM) will be held on 4 May 2012 at 3:00 p.m. in Malmö (Börshuset, Skeppsbron 2). The 2011 Annual Report will be available on HEXPOL's website and at the head office not later than 13 April 2012 and will be distributed to shareholders not later than during the week starting with April 16. Shareholders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB not later than 27 April 2012 and notify their intention to participate to HEXPOL's head office not later than 30 April at 12:00 noon. Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than 27 April to be entitled to participate in the AGM.

Dividend proposal

The Board of Directors proposes that the Annual General Meeting on 4 May resolve to pay a dividend of 5.00 SEK (3.00).

Calendar for financial information

HEXPOL AB will submit financial information on the following dates:

Aktivitet	Datum
2011 Annual Report, published	April 2012
Interim report first quarter 2012	4 May 2012
Annual General Meeting	4 May 2012
Six-month report 2012	19 July 2012
Interim report, third quarter 2012	23 October 2012
Year-end report 2012	February 2013

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

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

For more information, please contact:

- Georg Brunstam,
President and Chief Executive Officer
Tel: +46 708 55 12 51
- Urban Ottosson,
Chief Financial Officer, Investor Relations
Tel: +46 767-855 144

Five-year summary

MSEK	2011	2010	2009	2008	2007
INCOME STATEMENTS, condensed					
Sales	7,197	3,798	2,608	3,190	2,730
Operating expenses	-6,302	-3,402	-2,445	-2,880	-2,425
Operating profit	895	396	163	310	305
Net financial items	-23	-26	-23	-52	-50
Profit before tax	872	370	140	258	255
Tax	-253	-97	-38	-75	-69
Profit after tax	619	273	102	183	186
BALANCE SHEETS, condensed					
Assets					
Fixed assets	3,365	3,438	1,977	2,167	1,871
Current assets	1,286	1,155	494	692	696
Cash and cash equivalents	557	318	317	342	228
Total assets	5,208	4,911	2,788	3,201	2,795
Shareholders' equity and liabilities					
Shareholders' equity	2,473	1,327	1,217	1,157	1,025
Interest-bearing liabilities	1,698	2,592	1,128	1,535	1,386
Other liabilities and provisions	1,037	992	443	509	384
Total shareholders' equity and liabilities	5,208	4,911	2,788	3,201	2,795
CASH FLOW STATEMENT					
Cash flow from operating activities	726	387	359	393	265
Net investments in tangible and intangible fixed assets	-103	-32	-23	-105	-173
Acquisitions of operations	1	-1,827	-	-	-350
Cash flow from financing activities	-390	1,498	-358	-194	370
Cash flow for the year	234	26	-22	94	112
Cash and cash equivalents, January 1	318	317	342	228	116
Exchange rate difference in cash flow	5	-25	-3	20	-
Cash and cash equivalents, December 31	557	318	317	342	228

	2011	2010	2009	2008	2007
Key figures					
Average shareholders' equity, MSEK	2,038	1,268	1,187	1,091	953
Average capital employed, MSEK	4,057	2,780	2,530	2,562	2,136
Profit margin before tax, %	12.1	9.7	5.4	8.1	9.3
Return on shareholders' equity, %	30.4	21.5	8.6	16.8	19.5
Return on capital employed, %	22.3	13.9	6.4	13.2	15.1
Net sales growth, %	89.5	45.6	-18.2	16.8	9.7
Operating margin, %	12.4	10.4	6.3	9.7	11.2
Earnings per share, SEK*	18.65	9.30	3.47	6.23	6.33
Net debt/equity ratio, times	0.4	1.7	0.6	1.0	1.1
Equity ratio, %	47.5	27.0	43.7	36.1	36.7
Shareholders' equity per share, SEK*	71.85	44.88	41.44	39.40	34.90
Dividend, MSEK	103	27	-	-	-
Dividend per share, SEK	3.00	1.00	-	-	-
Cash flow from operating activities, MSEK	726	387	359	393	265
Cash flow from operating activities per share, SEK*	21.87	13.18	12.22	13.38	9.02
Average number of employees	3,041	2,133	1,809	2,315	2,120
Number of employees at year end	3,020	3,037	1,827	2,230	2,327
Sales per employees, MSEK	2.37	1.78	1.44	1.38	1.29
Key figures adjusted for items affecting comparability					
Operating profit, MSEK	895	460	261	310	305
Operating margin, %	12.4	12.1	10.0	9.7	11.2
Profit before tax, MSEK	872	434	238	258	255
Profit margin before tax, %	12.1	11.4	9.1	8.1	9.3
Profit after tax, MSEK	619	318	172	183	186
Earnings per share, SEK*	18.65	10.83	5.86	6.23	6.33
Return on shareholders' equity, %	30.4	25.1	14.5	16.8	19.5
Return on capital employed, %	22.3	16.2	10.3	13.2	15.1

*After the implemented rights issue in 2011, the historic 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 change in working capital.

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

Earnings per share Net profit after tax attributable to Parent Company shareholders divided by 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 losses.

EBITDA Operating profit before depreciation/amortisation and impairment losses.

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

Interest cover ratio Profit before tax and interest expenses divided by interest expenses.

Investments Purchases less sales of tangible and intangible fixed assets, excluding those included in acquisitions and divestitures 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, plus 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 capital employed Profit before tax plus financial expenses as a percentage of average capital employed.

Return on equity Profit after tax attributable to Parent Company shareholders as a percentage of average shareholders' equity excluding non-controlling interests.

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

Business definitions

Calendering Plastic processing of a material whereby it passes two or more rotating rollers, thus reducing the size of the material while its inner structure is changed.

CDP Carbon Disclosure Project, an organization which provides information to global investors and financial institutions about how the 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).

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).

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

HCFCs Substances that deplete the ozone layer.

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

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

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

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

PAH Polycyclic aromatic hydrocarbons are a group of environmentally and health hazardous substances arising from such products as black coal and petroleum.

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

PHE Plate Heat Exchanger.

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

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

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

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

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

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

Group companies, addresses



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Photo: HEXPOL's subsidiaries, Fredrik Mårtensson/Reklamfoto,
Larz G Johansson/G-byran, Future Image Bank, among others.

Texts: HEXPOL AB

Translation: The Bugli Company AB

Production: G-byran AB, www.g-byran.se

Project Managers: Larz G Johansson/Anders Ohrgren

Art Director: Anders Ohrgren

Artwork: Richard Sanell

Print: Rolf, 2012



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792



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