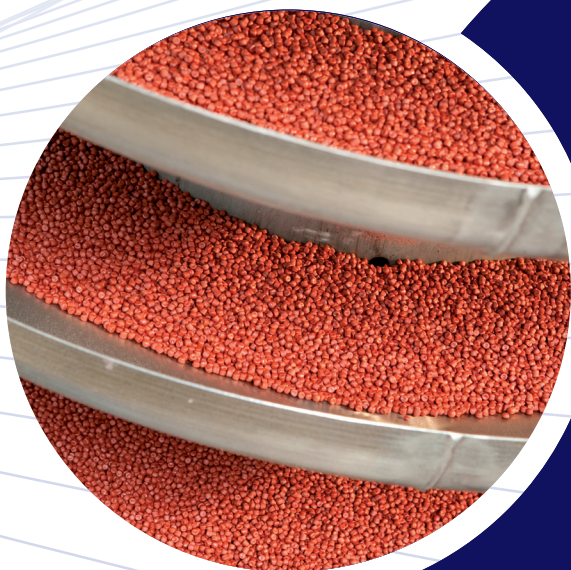




HEXPOL AB (publ)
Annual Report 2012



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

HEXPOL in brief

- Innovative solutions in advanced polymer compounds, gaskets for plate heat exchangers and wheels for forklifts and castor wheel applications
- Sharp growth with strong and improved margins
- Strong global market positions – Number one globally in market for rubber compounds
- Leading European thermoplastic elastomer compounder (TPE Compounding)
- Organised in two business areas with in-depth and extensive polymer and applications expertise
- Well invested with strong cash flow
- Strong financial position
- Acquisition-oriented: - Müller Kunststoffe 2012
- Robbins 2012

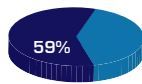
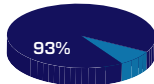
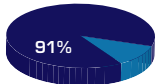
Business area HEXPOL Compounding

The business area's share of the HEXPOL Group (2012):

Sales

Operating profit

Number of employees



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

- Rubber compounding
 - Thermoplastic elastomer compounds (TPE Compounding)
- HEXPOL Compounding supports customers globally through 25 manufacturing units in Europe, Asia and NAFTA.

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

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

Sales 7,270 MSEK (6,450)

Operating profit 996 MSEK (823)

Number of employees, 31 December 1,956 (1,648)

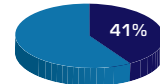
Business area HEXPOL Engineered Products

The business area's share of the HEXPOL Group (2012):

Sales

Operating profit

Number of employees



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

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

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

Sales 737 MSEK (747)

Operating profit 73 MSEK (72)

Number of employees, 31 December 1,371 (1,367)



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 are primarily system suppliers to the global automotive and engineering industry, the energy, oil and gas sector, medical equipment manufacturers and OEM manufacturers of plate heat exchangers and forklifts. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. Customers outside Sweden account for more than 95 percent of invoiced sales, and 11 of the Group's 33 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 and engineering industry, the energy, oil and gas sector and medical equipment manufacturers. 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. 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 to 50 percent of profit after tax for the year will be distributed as a dividend to HEXPOL's shareholders, provided the company's financial position is regarded as satisfactory.

BUSINESS CONCEPT

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

VISION

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

STRATEGY

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

- Product development through in-depth and broad polymer and applications expertise
- 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 pursue a strategy of conducting proactive environmental efforts and taking social responsibility. Such activities help HEXPOL to contribute to sustainable development and we are convinced that this will benefit society, our employees, the shareholders and our business operations. Our strategy for achieving sustainable development includes the introduction of environmental management systems, improved energy efficiency, reduced risks arising from chemical products and transparent reporting of the Group's performance in terms of environmental and social responsibility.

VALUE ENHANCING AND SUCCESS FACTORS

Since 2002, Group operations have expanded from annual sales of 631 MSEK to 8,007 MSEK, with strong and improved operating margins. This favourable trend is the result of deep and comprehensive product development skills, cost-effective production plants and successful new establishments and company acquisitions. The Group is also well positioned in segments characterised by healthy growth. The corporate culture is strong, with skilled and experienced employees led by experienced management teams with short and prompt decision-making routes. In 2012, sales increased 11 percent and two major acquisitions were completed during the year. The acquisition of Müller Kunststoffe resulted in a leading European position in TPE Compounding. The acquisition of Robbins strengthened positions in the North American market.

2012 in brief

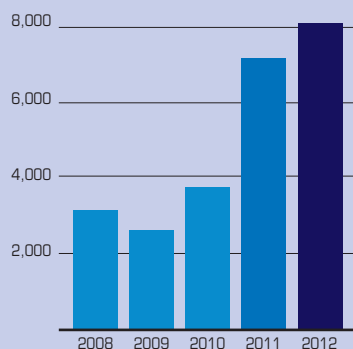
- Sales rose 11 percent to 8,007 MSEK (7,197)
- Operating profit rose 19 percent to 1,069 MSEK (895)
- The operating margin improved to 13.4 percent (12.4)
- Profit after tax increased to 753 MSEK (619)
- Earnings per share rose 17 percent to 21.88 SEK (18.65).
- Operating cash flow was strong 1,209 MSEK (911)
- The Board of Directors proposes a dividend of 6.00 SEK (5.00) per share

Significant events by quarter:

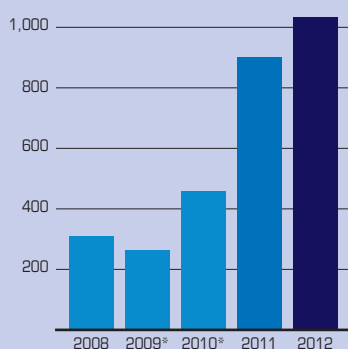
- Q1: Acquisition of Müller Kunststoffe, a leading Central European developer and manufacturer of thermoplastic elastomer compounds (TPE Compounding)
- Q2: Record-high quarterly earnings with strong growth and additionally improved margins
- Q3: Continued growth with strong and additionally improved margins
- Q4: Acquisition of Robbins, a leading US manufacturer of rubber compounds

Key figures	2012	2011	
Sales, MSEK	8,007	7,197	+ 11 %
Operating profit, (EBIT), MSEK	1,069	895	+ 19 %
Operating margin, %	13.4	12.4	
Profit before tax, MSEK	1,047	872	
Profit after tax, MSEK	753	619	
Earnings per share, SEK	21.88	18.65	+ 17 %
Equity/assets ratio, %	49.2	47.5	
Return on capital employed, %	24.0	22.3	
Operating cash flow, MSEK	1,209	911	

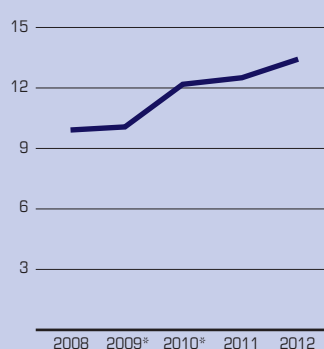
Sales, MSEK



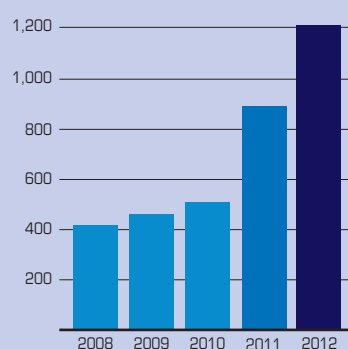
Operating profit, MSEK



Operating margin, %



Operating cash flow, MSEK



*Excluding items affecting comparability

CEO comments on the year

Our best year – so far

DEAR SHAREHOLDER,

2012 was a very good year for the HEXPOL Group, our best year so far. We increased our sales by 11 percent to 8,007 MSEK (7,197). We continued to strengthen our market positions in all our main markets and also expanded sharply in emerging markets. With the acquisition of Müller Kunststoffe in early 2012, we created a leading European developer and manufacturer of thermoplastic elastomer compounds. The acquisition of the US rubber compounding group, Robbins, in November 2012 strengthened our positions in the North American market. The HEXPOL Group is progressing in emerging markets, where sales in China and Mexico for example grew substantially. We are also investing in

new capacity in these markets, where we foresee long-term growth for HEXPOL.

During 2012, we increased our earnings per share by 17 percent to 21.88 SEK (18.65). Once again, we managed our working capital well and the operating cash flow was very strong, amounting to 1,209 MSEK (911). Thanks to focused internal efforts, we improved our operating margin to 13.4 percent (12.4).

Over the course of 2012, we conducted extensive development and marketing efforts that enhanced our market position. In our core business, we also completed two significant acquisitions that added new skilled employees. The acquisitions have been successful and were integrated in the usual manner into the HEXPOL organisation. We always have an integration plan for our acquisitions, through which we highlight competencies and synergies.

The HEXPOL Group has a strong financial position, thanks to healthy earnings and good management of working capital. Our equity/assets ratio exceeds 49 percent and the net debt/equity multiple is low (0.4), providing an excellent platform for continuing expansion.

CONTINUING STRONG GROWTH AND FURTHER IMPROVED MARGINS

Our strategy is to grow both organically and through acquisitions but always with good margins and a strong operating cash flow.

The companies we acquire are always active in our core business areas and we often monitor the company over a protracted period, giving us detailed knowledge of our acquisition targets. All our acquisitions are integrated into our existing organisation and structure. We have consistently acquired companies on existing markets and established new units under our own auspices in emerging markets such as China and Mexico.

Through organic growth and acquisitions, we have grown from sales of almost 500 MSEK in 2001 to sales of 8,007 MSEK in 2012. Expansion has been combined with improved operating margins, thanks to extensive internal efficiency-enhancement programmes, through which all units are measured and compared with each other. During 2012, we completed two major acquisitions in our



Georg Brunstam
President and CEO,
HEXPOL AB

core business areas. In early 2012, we acquired Müller Kunststoffe, which has two operating units in southern Germany, around 90 employees and annual sales of around 46 MEUR. At the end of the year, we acquired Robbins, a North American rubber compounds group, with around 240 employees distributed among three units in the US. In 2012 Robbins' annual sales were about 100 MUSD. Robbins broadens and strengthens our rubber compounding operations with new end-users, such as in agriculture and the mining industry.

CONTINUING SKILLS DEVELOPMENT AND INTERNAL RECRUITMENT

Our strategy is based on comprehensive and in-depth polymer and application skills, combined with good commercial and ethical competence. We continuously develop our motivated employees either in local company training programmes, individual programmes or through our Group-wide corporate HEXPOL LEADERSHIP DEVELOPMENT PROGRAMME. We always prioritise internal recruitment and conducted a number of them during the year. Internal recruitment always provides positive signals to the organisation and represents a key strategy for the HEXPOL Group. Our acquisition strategy also provides the Group with many new skilled employees. Many of our senior executives as well as a number of Group management members originate from acquired operations. Our organisation is developing continuously but is basically stable, with very few organisational changes.

I am very proud and impressed by the competency and energy that our employees possess. Thank you, impressive.

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

We have growing customers and we have growing geographic areas. We see growth in the automotive, engineering and energy segments. In energy, we note particularly strong growth in the shale gas area, in which we have developed many proprietary compounds for customers. In the TPE area, we are also noting sharp growth in many consumer applications (such as caps and closures). In addition we also see geographic growth, especially in China, Mexico and Eastern Europe. We are increasing our capacity investment in these markets. We are doubling our rubber compounding capacity in Qingdao, China and are sharply expanding our rubber compounding capacity in Mexico. We are also substantially increasing our pressing capacity for PHE gaskets in China and in 2012 we started a wheel plant for polyurethane wheels in China. Moreover, we have built an entirely new plant for TPE compounds in Foshan, China. These efforts are aimed at expanding along with our customers and having a strong presence in growth markets.

NAFTA, where the automotive industry is our largest customer segment, accounts for 62 percent of the HEXPOL Group's sales and Europe, with the focus on

Central (notably Germany) and Eastern Europe, accounts for 33 percent.

We have customers in areas showing substantial growth such as oil, gas and energy and medical technology. Our largest market segment is the globally expanding automotive industry, which following the acquisition of Robbins, accounts for some 33 percent of Group sales.

STRONG FINANCIAL POSITION

HEXPOL have a business model that functions both in good and bad times. In particular, we proved this in 2009 when the financial and automotive crisis emerged. Like all players, we lost some sales but reported an operating margin of 10.0 percent (excl. items affecting comparability) for the year. We generate strong operating cash flows and this factor, along with good earnings and strong financing, gives us a healthy balance sheet that can cope both with expansion (through acquisitions and organically) and dividend payments. We comply with our dividend policy, with dividends ranging from 25 to 50 percent of our net profit, and the Board's proposal regarding the dividend is 6.00 SEK/share (5.00) – an increase by 20 percent.

PRIORITIES FOR 2013

As usual, I would firstly like to comment on last year's priorities. I promised a continued orientation towards acquisitions and a continuing focus on margins. During 2012, we completed two significant acquisitions, namely, Müller Kunststoffe and Robbins, which gave us many new skilled employees and customers. We also continued to improve our operating margin. I also promised to continue our proactive sustainability and social responsibility work. In the Annual Report, we provide a transparent account of our work and results in these areas. You can also read about a number of examples of our efforts in this respect.

During 2013, we will focus on increasing our market shares through extended and focused development and sales efforts. We are also continuing our acquisition strategy and I see opportunities in all our core business areas, but notably in the fragmented polymer compounding industry. We will also continue our proactive sustainability and social responsibility programmes.

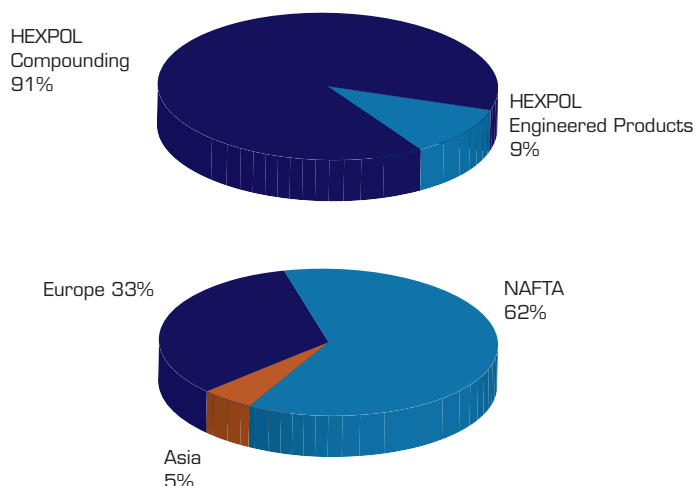
Finally, I would like to thank our customers, suppliers and shareholders for their confidence and excellent cooperation during 2012. Our employees have made fantastic efforts – thank you all. Today, we have a larger HEXPOL Group, with strong market positions, deep competencies and a solid financial position. I am convinced that we can continue to develop the HEXPOL Group in a positive direction, despite a somewhat troubled and turbulent world.

Malmö, March 2013

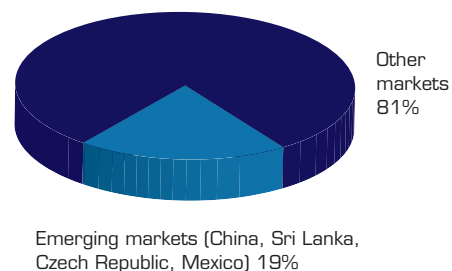
Georg Brunstam
President and CEO

About the HEXPOL Group

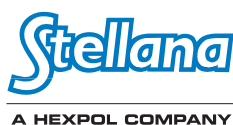
Sales for 2012 distributed by business area and geographically:



Geographic distribution of production in 2012:



The Groups' brands



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

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

More than 95 percent of invoicing was to customers outside Sweden. In addition, 11 of the Group's 33 production units are situated in expansive regions of Asia, Mexico and Eastern Europe. The workforce totals slightly more than 3,300 employees, mainly in Asia and the US.

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

BUSINESS CONCEPT

HEXPOL's business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of poly-

mer products. HEXPOL aims to be the most attractive partner for customers in key industries, such as the automotive, engineering and construction, energy, oil and gas, medical technology and material-handling industries, by offering innovative and specialised polymer products and solutions.

VISION

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

OPERATIONAL STRATEGY

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

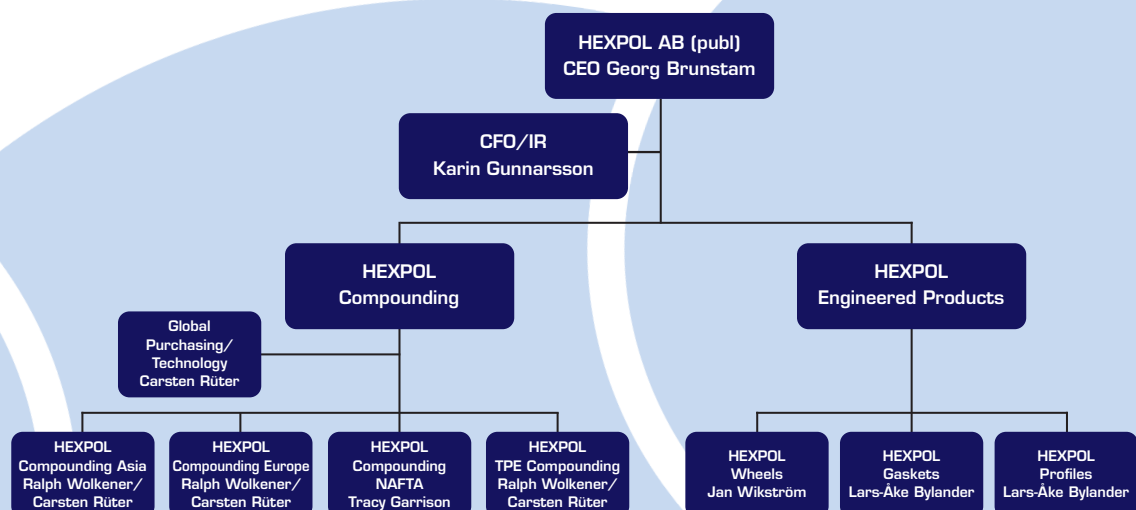
In order to attain the company's vision, the following five operational strategies are applied:

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

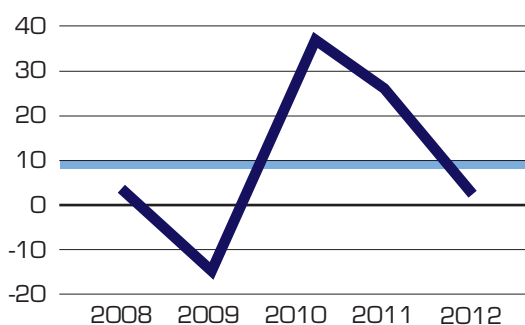
GROWTH STRATEGY

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 markets. The Group is endeavouring to position itself so that it can capitalise on development and growth in these markets. The Group strategy also includes continuing to leverage opportunities arising when rubber manufacturers face the decision of whether to switch from proprietary compounding operations to outsourcing.

Organic sales growth % (Target 7–10%)



Acquisition strategy

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

BRANDS

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

FINANCIAL OBJECTIVES

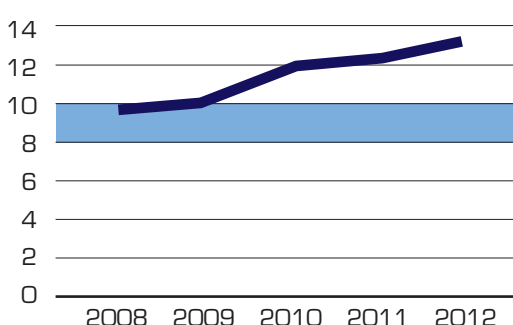
The Board of Directors has established the following financial objectives over a business cycle: The aim is that organic sales growth will average 7–10 percent annually and that the operating margin will average at least 8–10 percent annually.

TARGET FULFILLMENT

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

HEXPOL has met its targets in terms of the operating margin over the past five years. The operating margin in 2012 was 13.4 percent, well above 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. In 2012, organic growth was 2 percent, which was below the growth target. 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.

Operating margin* % (Target 8–10%)



* Excluding items affecting comparability

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.

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

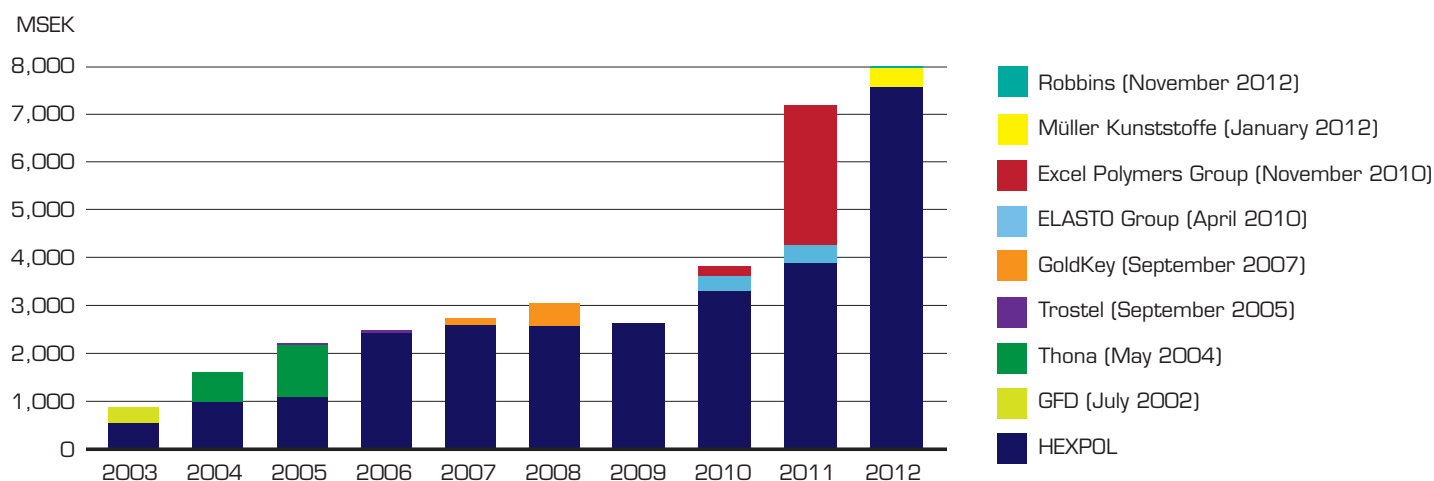
The principal phases in the development into the current HEXPOL have been:

- 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
- 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
- 2012 The German TPE compounding company, Müller Kunststoffe, is acquired
- 2012 Capacity investments in the emerging markets Mexico and China
- 2012 Robbins, a leading US rubber compounding company, is acquired

Strong growth

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



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

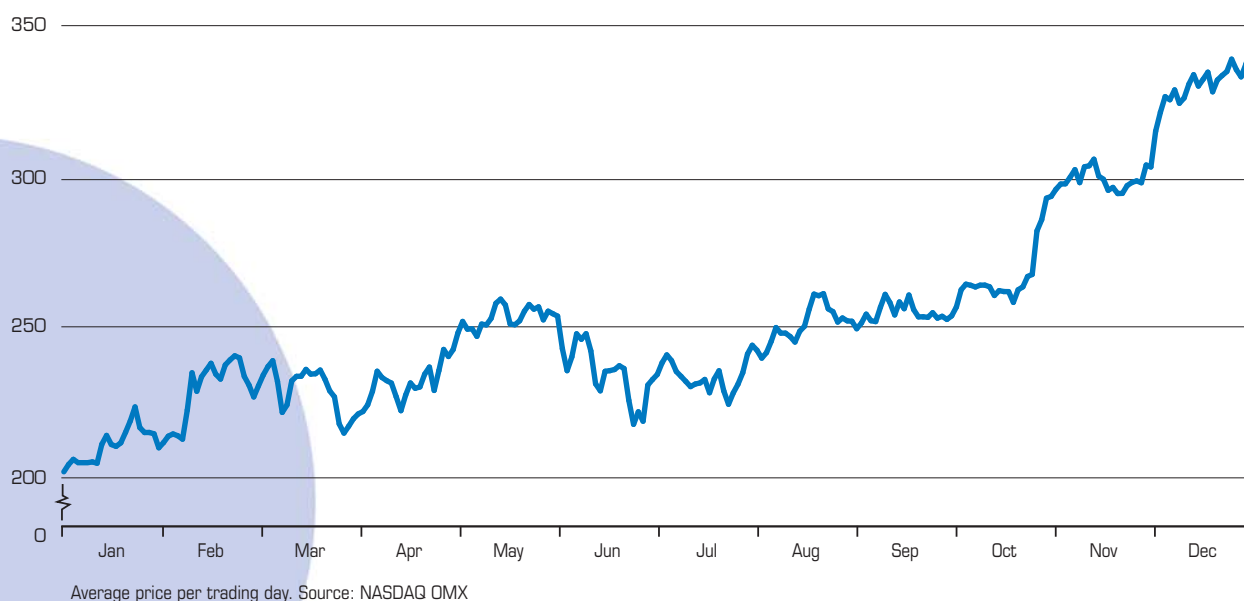
The share and shareholders



Share price trend in 2012

(SEK)

+70%



THE HEXPOL SHARE

HEXPOL AB was listed on NASDAQ OMX Nordic on June 9 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 2012 by 70 percent and the closing price at the end of the year was SEK 343.50. The highest closing price during 2012 was SEK 343.50 (December 28). The lowest closing price during 2012 was SEK 202.00 (January 2). During 2012, 19.8 million (18.0) HEXPOL shares were traded. Average trading per day in the share was 79,080 shares (70,815). The number of shares traded represented 58 percent (52) of the total number of shares.

OWNERSHIP STRUCTURE

As of December 31 2012, HEXPOL AB had 7,917 shareholders (8,410). The proportion of shares held by Swedish institutions and funds at December 31 2012 corresponded to 29 percent (43) of the capital. The number of shares held by non-Swedish shareholders totalled 28 percent (13) of the capital. The 20 largest shareholder groups accounted for 64 percent (73) of the capital and 74 percent (81) 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.

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, share holders and the media.

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

- SEB Enskilda, Daniel Schmidt and Sebastian Lang
daniel.schmidt@enskilda.se, sebastian.lang@enskilda.se
- Handelsbanken Capital Markets, Jon Hyltner
johy01@handelsbanken.se
- Swedbank, Mats Liss
mats.liss@swedbank.se
- Erik Penser Bankaktiebolag, Johan Dahl
johan.dahl@penser.se
- Carnegie Investment Bank, Agnieszka Vilela
agnvil@carnegie.se

THE LARGEST SHAREHOLDERS, DECEMBER 31 2012

Owner/manager/custodial bank	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	2,358,000	6.85	4.94
Swedbank Robur fonder	0	1,923,904	5.59	4.03
Afa Försäkring	0	1,757,434	5.11	3.68
Enter fonder	0	634,759	1.84	1.33
SSB and Trust Ombibus, OM14	0	610,198	1.77	1.28
SSB CL Ombibus AC OM07 (15 PCT)	0	589,760	1.71	1.24
BP2S London/Saudi Arabian Monetary, Agency	0	546,116	1.59	1.14
Handelsbanken fonder AB RE JPMEL	0	532,022	1.55	1.12
Odin Sverige Aksjefondet	0	523,461	1.52	1.10
Gamla Livförsäkringsaktiebolaget	0	520,690	1.51	1.09
SEB Investment Management	0	424,152	1.23	0.89
Bonnier, Simon	0	383,428	1.11	0.80
Andra AP-fonden	0	376,613	1.09	0.79
Lannebo fonder	0	301,312	0.88	0.63
SSB CL Omnibus AC OM03 (0 PCT), Pension Fund	0	298,369	0.87	0.63
DWPBANK RE Dresdner Bank	0	290,788	0.84	0.61
Försäkringsaktiebolaget, Avanza Pension	0	288,762	0.84	0.61
NTC Exempt ACC US Pens Fnd Lend	0	284,501	0.83	0.60
Mellon US TAX Exempt Account	0	277,906	0.81	0.58
Total for the 20 largest shareholders	1,476,562	20,485,890	63.81	73.89
Total for other shareholders	0	12,457,676	36.19	26.11
Total	1,476,562	32,943,566	100.00	100.00

OWNERSHIP BY COUNTRY, DECEMBER 31 2012

Country	Share of the total number of shares [%]
Sweden	71.67
US	10.10
UK	7.18
Switzerland	1.94
Luxembourg	1.59
Other	7.52
Total	100.00

Source: Euroclear Sweden.

DISTRIBUTION OF OWNERSHIP, DECEMBER 31 2012

Shareholder	Number of shareholders	Shareholders (%)	Holding (%)	Voting rights (%)
Individuals	7,010	88.54	11.91	8.59
<i>Of whom, domiciled in Sweden</i>	<i>6,922</i>	<i>87.43</i>	<i>10.65</i>	<i>7.69</i>
Legal entities	907	11.46	88.09	91.41
<i>Of whom, domiciled in Sweden</i>	<i>496</i>	<i>6.26</i>	<i>61.02</i>	<i>71.87</i>
Total	7,917	100.00	100.00	100.00
<i>Of whom, domiciled in Sweden</i>	<i>7,418</i>	<i>93.70</i>	<i>71.67</i>	<i>79.56</i>

Domiciled in Sweden	7,418	93.70	71.67	79.56
Other Nordic countries	110	1.39	0.98	0.71
Rest of Europe (excl. Nordic region)	256	3.23	13.89	10.02
US	83	1.05	10.11	7.29
Rest of the world	50	0.63	3.35	2.42
Total	7,917	100.00	100.00	100.00

NUMBER OF SHARES PER SHAREHOLDER, DECEMBER 31 2012

	Number of shareholders	Number of Class A shares	Number of Class B shares
1-500	6,316	0	807,572
501-1 000	653	0	491,884
1 001-5 000	663	0	1,360,942
5 001-10 000	72	0	525,100
10 001-15 000	41	0	511,126
15 001-20 000	26	0	466,828
20 001-	146	1,476,562	28,780,114
Total	7,917	1,476,562	32 943,566

SHAREHOLDER CATEGORIES, DECEMBER 31 2012

Shareholder	Number of Class A shares	Number of Class B shares	Holding (%)	Voting rights (%)
Financial companies	0	9,827,465	28.55	20.60
<i>Of which, banks and funds</i>	<i>0</i>	<i>7,076,285</i>	<i>20.55</i>	<i>14.84</i>
<i>Of which, insurance companies and pension institutions</i>	<i>0</i>	<i>2,751,180</i>	<i>8.00</i>	<i>5.76</i>
Other financial companies	0	23,742	0.07	0.05
Social insurance funds	0	701,229	2.04	1.47
Government of Sweden	0	3,080	0.01	0.01
Municipal sector	0	17,870	0.05	0.04
Interest organisations	0	103,721	0.30	0.22
Other Swedish legal entities	1,476,562	8,024,843	27.60	47.77
Uncategorised legal entities	0	823,262	2.40	1.71
Foreign-domiciled individuals	0	9,751,118	28.33	20.44
Swedish individuals	0	3,667,236	10.65	7.69
Total	1,476,562	32,943,566	100.00	100.00

Source: Euroclear Sweden.

Business area HEXPOL Compounding

Another year of 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. HEXPOL Compounding consists of one product area, HEXPOL TPE Compounding, and three geographic regions: HEXPOL Compounding NAFTA, HEXPOL Compounding Europe and HEXPOL Compounding Asia.

Market

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

Customers

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

Sales 7,270 MSEK (6,450)

Operating profit 996 MSEK (823)

Number of employees at 31 December: 1,956 (1,648)

Operating units

- HEXPOL Compounding Aguascalientes, Mexico
- HEXPOL Compounding Statesville, NC, USA
- GoldKey Processing Middlefield, OH, USA
- HEXPOL Compounding – Burton Rubber Processing (Burton), OH, USA
- HEXPOL Compounding – Colonial Rubber Works, TN, USA
- HEXPOL Compounding – Burton Rubber Processing (Jonesborough), TN, USA
- Chase Elastomer, TX, USA
- HEXPOL Compounding – California, CA, USA
- HEXPOL Compounding Queretaro, Mexico
- Robbins Muscle Shoals, AL, USA
- Robbins Findlay, OH, USA
- Robbins Tallapoosa, GA, USA
- HEXPOL Compounding Eupen, Belgium
- HEXPOL Compounding Gislaved, Sweden
- HEXPOL Compounding Hückelhoven, Germany
- HEXPOL Compounding Unicov, Czech Republic
- HEXPOL Compounding UK, Manchester, UK
- HEXPOL Compounding Qingdao, China
- HEXPOL Compounding Foshan, China
- Elastomeric Group, Bokundara, Sri Lanka
- ELASTO Sweden, Åmål, Sweden
- ELASTO UK, Manchester, UK
- Müller Kunststoffe, Lichtenfels, Germany
- Müller Kunststoffe, Lichtenfels, Germany
- HEXPOL TPE Compounding Foshan, China



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.

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

Whether the need is for flame retardant, oil resistant, UV stable or medically approved polymer materials, HEXPOL Compounding engineers solutions that precisely match application requirements.

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

- Rubber Compounds
- Thermoplastic Elastomer (TPE) Compounds

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

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

ORGANISATION

HEXPOL Compounding's operations include 25 production units with production, sales and development operations. The units are divided into four areas: the geographic regions of NAFTA, Europe and Asia, as well as the HEXPOL TPE-Compounding product area.

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

- research and development (coordination between production plants and development of new materials and products)
- global delivery agreements (strategic supplier choices, price negotiations)
- engineering (design of equipment to meet requirements)

- information and communications technology (certain critical software, information databases)

Most units are structured as separate companies with complete organisational functions for sales, product development and production. However, they also co-operate closely with each other in all areas. Major global customers are also served on a worldwide basis through Key Account Managers.

MARKET

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

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

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

Following the acquisition of ELASTO Group, Excel Polymers Group, Müller Kunststoffe and Robbins, the HEXPOL Group's portion of sales to industries other than the automotive industry significantly increased. The Group's share of sales to the automotive industry is about 33 percent (2011 37%/2010 50%). For many car manufacturers, particularly in the premium segment, high-quality sealing strips represent for example 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.



1 Santa Fe Springs, USA



2 Kennedale, USA



3 Aguascalientes, Mexico



4 Queretaro, Mexico



5 Dyersburg, USA



6 Jonesborough, USA



7 Burton, USA



8 Middlefield, USA



9 Statesville, USA



10 Muscle Shoals, USA



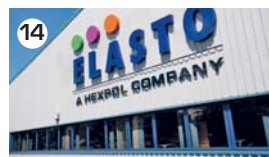
11 Findlay, USA



12 Tallapoosa, USA



13 Dukinfield, UK



14 Manchester, UK



15 Eupen, Belgium



16 Hückelhoven, Germany



17 Lichtenfels, Germany



18 Lichtenfels, Germany



19 Åmål, Sweden



20 Gislaved, Sweden



21 Unico, Czech Republic



22 Bokundara, Sri Lanka



23 Foshan, China



24 Foshan, China



25 Qingdao, China

HEXPOL Compounding's operating units

Unit	Location	Number of employees Dec 31, 2012	Area m ²	Production- capacity, tonnes
HEXPOL Compounding North Carolina	Statesville, USA	92	3,400	20,000
GoldKey Processing	Middlefield, USA	179	14,900	40,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	181	19,900	55,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	118	9,800	50,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	236	38,200	150,000
Chase Elastomer	Kennedale, USA	79	7,200	18,000
HEXPOL Compounding – California	Santa Fe Springs, USA	38	2,900	13,500
Robbins	Muscle Shoals, USA	110	20,900	12,000
Robbins	Findlay, USA	46	26,900	22,000
Robbins	Tallapoosa, USA	43	15,300	30,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	91	6,500	16,000
HEXPOL Compounding Queretaro	Queretaro, Mexico	106	8,300	20,000
HEXPOL Compounding Belgium	Eupen, Belgium	72	3,400	16,000
HEXPOL Compounding Sweden	Gislaved, Sweden	56	9,200	16,000
HEXPOL Compounding Germany	Hückelhoven, Germany	62	5,400	35,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	96	8,600	35,000
HEXPOL Compounding UK	Manchester, UK	49	2,500	5,500
HEXPOL Compounding Qingdao	Qingdao, China	58	5,900	20,000
HEXPOL Compounding Foshan	Foshan, China	36	6,350	20,000
Elastomeric Group	Bokundara, Sri Lanka	(60) ¹	2,000	6,000
ELASTO Sweden	Åmål, Sweden	60	5,300	20,000
ELASTO UK	Manchester, UK	39	4,500	13,000
Müller Kunststoffe	Lichtenfels, Germany	65	6,300	16,500
Müller Kunststoffe	Lichtenfels, Germany	34	3,600	6,500
HEXPOL TPE Compounding Foshan	Foshan, China	10	750	5,000
Total		1,956	238,000	661,000

¹ Including organisationally in HEXPOL Engineered Products.

Managers at HEXPOL Compounding's operating units



Randy Simpson,
COO HEXPOL Compounding, NAFTA



Lars-Åke Bylander,
Managing Director
HEXPOL Compounding,
Sweden



Paul Campbell,
General Manager
HEXPOL Compounding,
Qingdao, China



Tom Freshly,
General Manager
Chase Elastomer, US



Ed Dowdall,
Managing Director
HEXPOL Compounding UK



Kjell Fagerström,
Managing Director
ELASTO Sweden



Mark George,
Managing Director
HEXPOL Compounding
North Carolina, US



John Gorrell,
General Manager
HEXPOL Compounding –
Burton Rubber Processing
Burton, US



Georg Ender,
Managing Director
Müller Kunststoffe,
Germany



René Herbiet,
Managing Director
HEXPOL Compounding
Belgium and Germany



Han Lee,
Country Manager
HEXPOL Compounding,
China



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



Milos Pitela,
Managing Director
HEXPOL Compounding
Czech Republic



Saul Reyes,
Managing Director
HEXPOL Compounding
Agua Calientes, Mexico



Jerry Saxion,
Managing Director
GoldKey Processing, US



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



Francisco Villesid,
Managing Director
Hexpol Compounding
Queretaro, Mexico



Andrew Wallace,
General Manager
HEXPOL Compounding –
California, US



Jeremy Francken,
General Manager HEXPOL
Compounding Foshan,
China



Dominic Philpot,
Managing Director
ELASTO UK



Tom Scott,
General Manager
Robbins, Muscle Shoals,
US



Bob Thewes,
General Manager
Robbins, Findlay, US



John McCoy,
General Manager
Robbins, Tallapoosa, US

In the wake of the strong economic downturn in the second half of 2008 and 2009, the production of passenger cars declined sharply, by a total of 11.9 percent in 2009 on a global basis. In 2010, the market recovered and global production rose compared to the preceding year. According to the market institute IHS Global Insight, a total of 72.2 million light vehicles were produced in 2010. In 2011, the market continued to grow by 6.6 percent to 77 million light vehicles and in 2012 the growth continued with 5.7% to 81.2 million light vehicles. The number of light vehicles manufactured is expected to rise in the coming year, primarily as a result of increased demand in emerging markets such as China and India. For 2013, an increase of 2.5 percent is expected, with even greater increases in China and other emerging markets. Accordingly, many automotive producers are increasing manufacturing in these expansive markets. For system suppliers, this trend, combined with requirements for proximity and export and import tariffs, is leading customers to demand that HEXPOL follow suite and offer manufacturing in these markets.

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

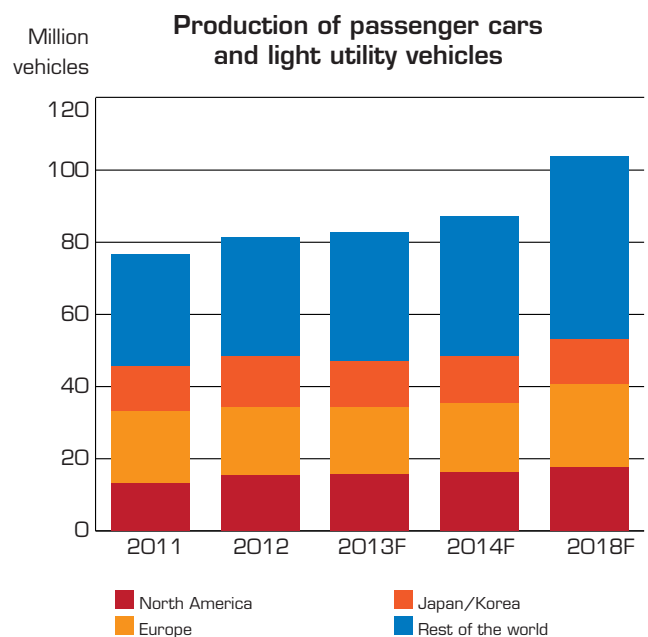
COMPETITORS

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

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

BUSINESS MODEL

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



Source: IHS Global Insight.



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

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, American and Korean manufacturers.

Focus on innovation and cost efficiency

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

Further growth in existing and new markets

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

High-quality products for demanding applications

HEXPOL Compounding's largest customer segments are the automotive, engineering, construction, energy, oil and gas sectors. Customers in the automotive industry are not the automotive manufacturers themselves, but rather large system suppliers to

vehicle manufacturers (Tier 1). However, it is essential for these system suppliers to meet the automotive industry's meticulous demands.

Continuous improvements

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

BRANDS

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

OPERATIONS IN 2012

2012 was another strong year of growth for HEXPOL Compounding. Volumes rose in many markets and units. Sales were strong to the global automotive industry's system suppliers and the engineering industry, with other markets segments, such as the energy, oil and gas sector, experiencing very strong growth. The US, Chinese and Mexican units reported the strongest sales increases while the European units suffered from the general economic downturn.

Sales rose a full 13 percent to 7,270 MSEK (6,450) and operating profit increased sharply to 996 MSEK (823), resulting in an operating margin of 13.7 percent (12.8).

Shale Gas revolution favours HEXPOL Compounding in North America

The development of shale gas resources can profoundly change the energy map of the world. This new way of extracting crude oil and natural gas from shale formations deep underground is mostly developed in North America. The method used is called hydraulic fracking and means that fluids are injected in shale formations under high pressure which allow oil and natural gas to escape and flow up out of the ground.

The equipment used in horizontal drilling and hydraulic fracking contains high quality rubber (EPDM, NBR, HNBR) in several parts and applications. HEXPOL offers customized compounds for several of the major applications such as stators used in drilling motors and packers used for bore hole seals.

HEXPOL has been in this segment for several years and works together with most major stator and packer manufacturers. HEXPOL's success in the shale gas area is driven by the ability to develop solutions for difficult environments containing abrasive fluids and heat. HEXPOL is today one of few custom compounders offering a proprietary range of compounds for shale gas applications.

HEXPOL has experienced strong growth in this segment which is expected to continue through the next coming years, as the industry deals with new types of rock formations and deeper wells, which create higher pressures and temperatures.



GoldKey upgrading and improving

The GoldKey Processing facility upgraded Line 1 dedicated color mixer in December 2012 as part of the ongoing extensive preventative maintenance program.

All HEXPOL processing equipment is maintained on a regularly scheduled maintenance program and monitored for failure modes to allow the HEXPOL Management, Maintenance and Engineering teams to make proactive decisions for repair and/or replace equipment.

As part of the maintenance program, the original GoldKey K6A intermesh mixer was replaced with a new GK250E intermesh mixer including new gear box, hydraulic unit, ram, hopper etc. This installation was accomplished by collaboration with outside contractors, a lot of long days and hard work by the GoldKey Maintenance team and the HEXPOL Engineering team. During the mixer change out, the process control system was also upgraded to SPECTRUM, HEXPOL's proprietary system. SPECTRUM was also installed in 2012 on Line 7 with GoldKey's best practice of RFID traceability and will be installed on the remaining two lines in early 2013. The SPECTRUM upgrade also included a new mixer panel, scales and electronic work stations that provide asso-

ciates with schedules and control plan work instructions. These upgrades bring expanded controls, traceability, data analysis, SPC, Poka Yoke and additional capabilities that compliment GoldKey's ISO 9001 and 14001 continuous improvement programs. The SPECTRUM installation was accomplished through a team effort with maintenance and engineering teams working closely to support the HEXPOL Process Control Team and the GoldKey IT team. Both projects were also supported by the GoldKey implementation team in conjunction with support from GoldKey associates in all departments. During the installation the entire GoldKey production team pulled together to do a complete clean, reorganization and painting of the Line 1 walls and equipment.

The dedication, hard work and pride exhibited during this project emphasize the true spirit of team work and how alone we can do so little but together we can do so much! The successful result of this project at GoldKey is an upgraded color mixing line with state of the art equipment, systems, controls and appearance that compliment GoldKey's high level of focus on providing our customers with world class service, support and compounds.



In 2012, the German company, Müller Kunststoffe, was acquired. Together with ELASTO UK and ELASTO Sweden, this created a leading European TPE compounder. The completion of a newly constructed TPE compounding plant in China, in early 2013, will strengthen the global TPE compounding business.

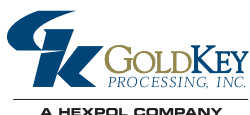
In November 2012, the US rubber compounder Robbins was acquired to strengthen the US presence in end-customer segments such as agriculture and mining.

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

2013 will be another exciting year characterised by intensive efforts to increase market shares through technological and process advancements together with customers. Priority is on continued initiatives in medical-equipment, energy, oil and gas applications, as well as continued efforts in growing markets such as China, Mexico and Central and Eastern Europe. HEXPOL Compounding will also continue to introduce the ISO 14001 environmental management systems in all units. In 2013, we will increase manufacturing capacity for rubber compounds in Qingdao, China, and in Aguascalientes, Mexico, and launch a state-of-the-art manufacturing unit for TPE compounds in Foshan, China, as well as increasing capacity in Müller Kunststoffe, Lichtenfels, Germany. During 2013, we will also focus on integration of the newly acquired US rubber compounder, Robbins.

Brands in the business area



HEXPOL has acquired Robbins – a leading US manufacturer of rubber compounds

HEXPOL has acquired Robbins Holdings, Inc. including Robbins LLC. Robbins is a leading US rubber compounder and a global leader in moulded envelopes and curing tubes for primarily truck, heavy equipment and airplane tires.

The acquisition is a very good compliment to HEXPOL Compounding and broadens our presence with rubber compounds into end user markets such as agriculture, mining, oil and gas. It also brings a global leadership in moulded envelopes and curing tubes to the tire industry. In 2012, Robbins has estimated annual sales were about 100 MUSD with around 240 employees and has three production facilities in the US; Muscle Shoals, AL, Findlay, OH and Tallapoosa, GA.



A HEXPOL COMPANY

HEXPOL is growing in TPE Compounding

HEXPOL has acquired Müller Kunststoffe, a leading Central European developer and manufacturer of thermoplastic elastomer compounds (TPE Compounding), with two production units in Lichtenfels, Germany with around 90 employees. Müller Kunststoffe has a strong and experienced team, led by the Managing Director Mr. Georg Ender. The acquisition constitutes yet another step in our ambition to broaden our product range within our Compounding business area. The market for TPE compounding is undergoing great growth with interesting and increasing customer applications within the field of medical, consumer, general industry and automotive. Müller Kunststoffe perfectly complements our European TPE compounding operations where we already have units in the UK (ELASTO UK) and Sweden (ELASTO Sweden). We have also built a manufacturing plant in southern China for TPE compounding. Müller Kunststoffe is a well-established and well-managed company with strong management and a strong brand. Müller Kunststoffe was consolidated as of January 2012 and is a part of the business area HEXPOL Compounding.

Interview with Georg Ender, Managing Director at Müller Kunststoffe, at acquisition

Welcome to HEXPOL Group - What is your reaction?

I'm very pleased that the HEXPOL Group has expressed its interest in Müller Kunststoffe and has finally taken over this company. We are convinced that this was the best solution for Müller Kunststoffe and this gives us confidence that the company can continue to grow and invest in capacity expansion.

HEXPOL is a decentralized company and will of course keep the Müller Kunststoffe name and all the brands. Where do you see the synergies to the HEXPOL Group?

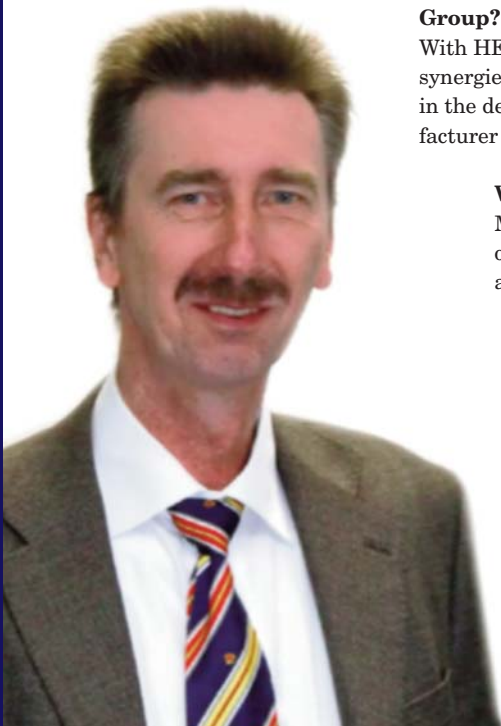
With HEXPOL we do have a strong partner who is operating globally. Certainly purchasing synergies can be formed between ELASTO and Müller Kunststoffe. Furthermore, synergies in the development of new TPE applications can be built up. Specialties of each TPE manufacturer can now be used widespread by everybody.

Where do you see the biggest possibilities for the future?

Many of our customers have several production facilities worldwide. The expansion of TPE production to China and afterwards to US will give us the possibilities to advance the customer service on-site. Long transport distances can also be eliminated.

What are your main objectives for Müller Kunststoffe?

Our benefits are short delivery times, good service and fast performance in development for our customers. We aim on further improvement of these advantages. We also intend to put additional product groups on the market, which will entail improved profitability of Müller Kunststoffe.



Continuous improvements and upgrades in Czech Republic

HEXPOL Compounding in Czech Republic has been mixing premium compounds for many of the finest rubber producers in Europe for over 14 years. Drawing from this diverse experience, the global HEXPOL team has worked together to create many unique improvements in mixing technologies.

At the end of 2012 and after fourteen years of continual use, the time had come for the comprehensive refurbishment of Mixer 1 in particular and Line 1 in general. The development process culminated in a successful implementation of many proprietary innovations, which again place us at the cutting edge of quality with state-of-the-art mixing technology.

Improvements include more accurate and faster loading, more thorough and efficient mixing, faster cooling during the batch-off and a bagging process that improves the working environment and reduces the environmental impact.

Over the next several years, HEXPOL plans to refurbish the remaining mixers, which will further improve capabilities and quality.

Many of the made improvements have also been included in the design of other new HEXPOL mixing facilities in other parts of the world. Mutually shared excellence has enabled HEXPOL to grow into the number one independent global compounding group. This is giving us an advantage in sharing ideas between plants, allowing HEXPOL to further increase its developmental edge, excellence in both products and service, and overall customer satisfaction.



HEXPOL starts TPE Compounding production in China

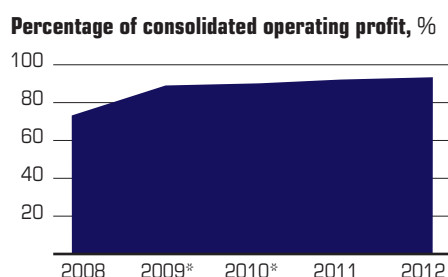
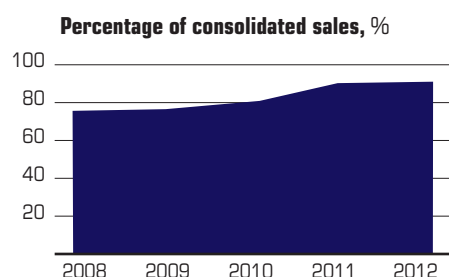
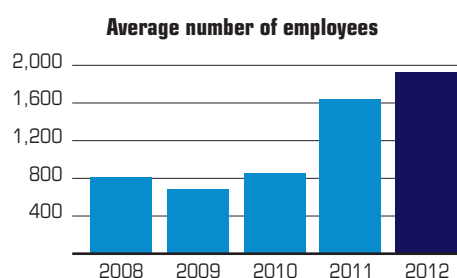
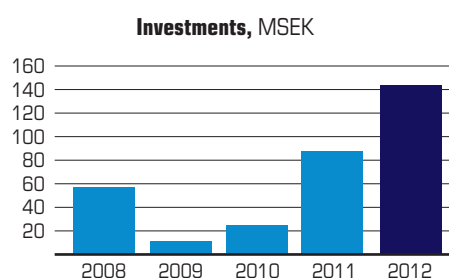
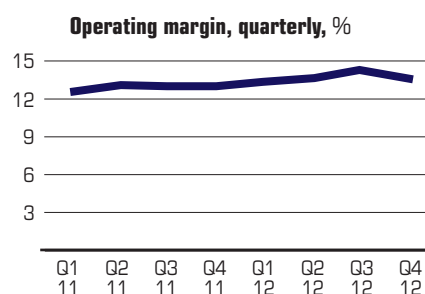
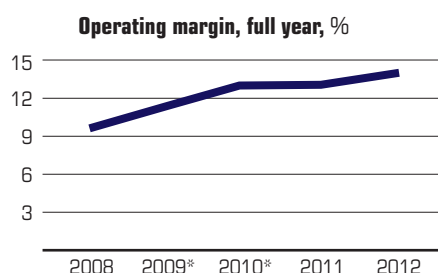
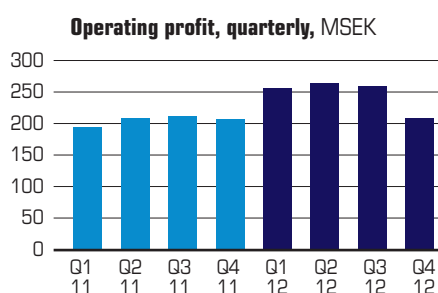
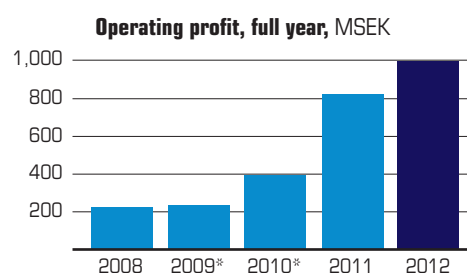
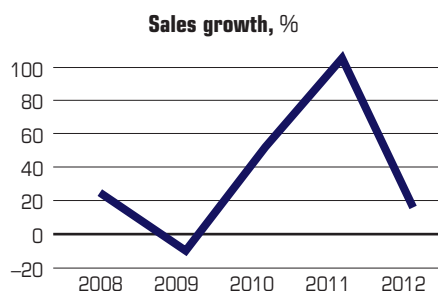
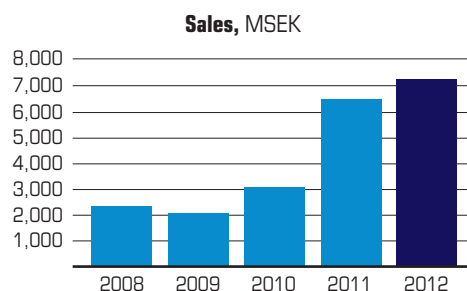
HEXPOL has built a TPE production plant in Foshan, China. The new production facility will operate from HEXPOL Compounding's existing Foshan site in the expansive Guangzhou area, a key location for polymer component manufacturing.

The new China operation will initially focus on the group's Dryflex range of TPE compounds based on SBS and SEBS technologies. Dryflex TPE compounds are used in ever widening applications in the household, automotive, construction, appliances and sports markets. They have been very successful in the toy and baby products market where their combination of quality raw materials, soft-touch appeal and exact and consistent compounding deliver a winning formula.

The China site will replicate the advanced compounding processes HEXPOL TPE Compounding operate at their European sites, encompassing twin screw technology and supporting sub systems, automated technology and feeders alongside extensive laboratory facilities.

As sales in Asia continue to grow, it is important to us that our existing and new customers benefit from the same high quality production, technical expertise and local support as our European customer base.

HEXPOL Compounding over five years



*Excluding items affecting comparability



HEXPOL Rubber Compounding

ORGANISATION

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

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

In November 2012, HEXPOL further strengthened its position with the acquisition of Robbins – a leading US rubber compounder. This was yet again an acquisition within the core rubber compounding area, which is expanding both the customer offering and the product portfolio.

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

TECHNOLOGY AND PRODUCTS

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

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

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

HEXPOL Rubber Compounding's production plants have sophisticated quality assurance systems. The production process is computerised to ensure efficiency and quality. Mixing rubber in a closed mixer is what is termed as a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe or formula. The various weighing

stages are monitored by IT systems to ensure maximum precision and enable traceability of the entire batch. Since the formula and the mixing process are both critically important to product quality, HEXPOL Compounding's research and development engineers are responsible for creating the formulas and for the mixing process in accordance with the intended application, ingredients and quality requirements.

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

HEXPOL expanding in Mexico

HEXPOL Compounding has several expansions, both ongoing and planned, at its two operations in Mexico. During 2012 we installed pre-forming equipment in order to expand production capabilities at HEXPOL's Mexican plants. Construction is also underway of a new cold room to control temperature for manufacturing of sensitive, specialized product demands from HEXPOL customers in Mexico.

Furthermore we will add a fourth mixing line in Mexico to be completed in autumn 2013. The new line will have capacity for 8,000 metric tons of material per year. It will meet HEXPOL standards being a GK90E fully automated with in line straining capacity. Our operations in Aguascalientes and Queretaro have recorded substantial production growth over the past year and the market in Mexico is predicted to grow further during 2013 and 2014.

"All of these investments will help our customers to meet the challenges they face while meeting their growth plans during the coming years," said Saul Reyes, Managing Director of HEXPOL Compounding Aguascalientes, Mexico.



HEXPOL Specialty Products



HEXPOL Compounding's Specialty Products offers a broad range of proprietary additives. From dispersed accelerators and fillers to vulcanizers and tackifiers, we have extensive elastomer and rubber additive technologies plus the experience to provide cost-effective solutions to our customer's toughest problems.

HEXPOL Compounding's Specialty Products are carefully prepared colorants and additives are designed to minimize manufacturing costs and reduce worker handling and exposure, while maintaining excellent color consistency.

HEXPOL Specialty Products include following product types; Accu-Way, Desa-Cal, DSC Silanes, Lubrex, Mastermix, Polybound, Redimix, Stan-Mag, VVO and Mastermix Colorants.

Robbins a world-leader in envelopes and curing tubes

Robbins moulded products set the standard for envelopes and curing tubes in the worldwide retreading industry. The company's success in the industry is attributed to the widely held recognition of its ability to produce superior, high quality products, through the use of a proprietary formula, that provide retreaders with a lower cost per cure.

Robbins started manufacturing envelopes in the early 1970's with five moulds to cover a few sizes for medium truck tires, and now have seventy plus sizes to cover all of the small commercial, medium and large truck tires using the compression moulding process. We also build envelopes using cured calendared material for small industrial through large off the road tires.

Our products are channeled through a distribution network throughout the world, mainly by our key alliances. Although the company enjoys a majority market share in North America, there exist an excellent platform for growth in the worldwide market.

Our operating processes consist of mixing the rubber on a GK250 mixer, extruding the rubber into a pre weigh (slug) to be moulded and then cure in a compression mould at 180°C. We control the weights and lengths of the pre-weights produced and have one of our tightest customer controls for mixing compound in the plant to hold our production and product capability to a very high standard.

We have recently gone through an expansion to increase the moulding press capacity by adding a seventh press to our bank of compression moulders or 16 percent increase of available press capacity to serve a growing international market. With other process improvements our goal is to gain an overall output increase of 30 percent and reduce the overtime in this area.

We have the in-house capability to test the tires in a similar process (autoclave) as the end customers use in their process. We do weekly production test, R&D testing and life cycle testing on our products to maintain our superior product performance to our customers.



HEXPOL expanding in China: New rubber compounding line in Qingdao

As the China automotive industry is still one of the most rapidly developing sectors in the world, producing more than one million vehicles per month, HEXPOL China's facilities, are ideally placed to take advantage of this major growth opportunity.

In keeping with HEXPOL's growth strategy for the Asian region given that the current operations were nearing full capacity, an expansion plan was outlined to increase capacity. Building upon our core concepts of strong service and customized solutions, and in order to position ourselves competitively to serve the market, the expansion plan resulted in an increase of the existing capacity from 12,000 to 20,000 tonnes annually.

The installed equipment comprises of a 90L intermesh mixer, inline gear pump and strainer, dip-tank, batch-off, auto-stacking, as well as an expansion to the warehouse. In order to install this equipment a collaborative team was set-up with HEXPOL's global engineering team and local team in China to define and set in place the actions to realize the project.

The Qingdao team believes that the combination of the different sized mixing lines provide more security, flexibility and competitiveness in this rapidly changing and exhilarating market to better serve customer needs by providing a broader range of products. The main infrastructure of the plant was originally designed to encompass a two line operation, when the first investment was made, back in 2006.

New advanced and sophisticated planning system

HEXPOL Compounding is growing on the turbulent rubber market. In order for HEXPOL Compounding to remain successful we need to have the efficient support of information technologies. The information and communication technologies (ICT) of HEXPOL Compounding (HPC) is a complex system consisting of specialized modules.

To cover the various requests of our customers in a short time, our production must be very flexible. So the production planning must be just as flexible, and the production planning software plays a very important role in this process.

In 2009-2010 we made an analysis how to improve our production planning software. All persons involved in the production planning process discussed internally in each plant where the bottlenecks of the current planning system was, and their requests were summarized in global specifications. Based on this analysis, the top management appointed a group for the implementation of a new planning system.

The specifications for the new planning tool for rubber compounding production were too specific for any existing product already on the market, therefore the group decided to develop a new tool. The name of the new tool was chosen as T2G.

The T2G main specifications are:

- Specific property of a rubber product.
- Graphic user interface of a production plan.
- Independent planning on each rubber mixing line with accepting specific features of the line.
- Rubber material flow in the production: purchase, raw material inspection, material resource planning, finished goods identification with respect of rubber features.
- Support for inter-plant cooperation – sharing of information between plants.
- Full compatibility with standard “Advanced planning system” technologies.

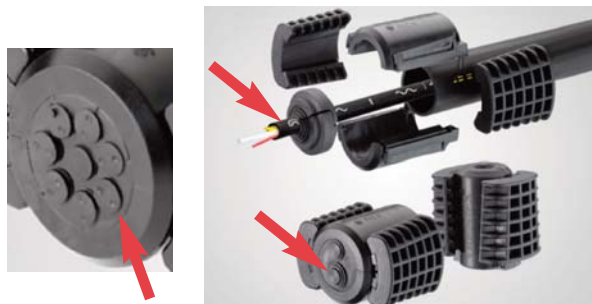
T2G implementation started in April 2012 in the plant in Foshan, China. The Foshan plant had one rubber mixing line so we tested this new system in the real production in this small environment. After this successful implementation we installed T2G in Eupen, Belgium in July 2012, in Hückelhoven, Germany in October 2012 and in Unicov, Czech Republic in November 2012.

HEXPOL Compounding has built a TPE plant, in Foshan, China, the T2G system is extended to cover the TPE production process. The T2G system is going to cover all production planning processes and following sub-processes for the rubber mixing production and the TPE production.

HEXPOL supporting customer development

HEXPOL supporting customer's product development Gabo Systemtechnik is based in Niederwinkling, Germany. The company is market leader in a particular quality-orientated branch where Gabo are developing and producing micro duct systems for telecommunication and power engineering. Among their customers and partners are notable European telecommunication enterprises and network operators.

At the end of August 2012, Gabo contacted HEXPOL in Hückelhoven, Germany and asked for several lab samples of seals with improved compression sets. Gabo was facing quality issues with their current sealing elements and needed HEXPOL's help with necessary improvements of these complex and the high performance parts. Their current seals, which must be re-usable and gas and water tight up to 0.5 bar, showed leakages and therefore caused water and dust penetrating into the duct systems.



First the modified compounds offered by HEXPOL were mixed and produced in our central lab in Eupen, Belgium by Rainer Walter, development engineer. Shortly after Gabo's inquiry, compounds with different compression sets and mixing conditions were tested. The tests showed better properties, but they were still not good enough.

During a visit in Niederwinkling together with R&D staff from HEXPOL it was determined what should be done next. Thanks to the direct exchange between HEXPOL and the customer, we were able to implement trial batches effectively. With these compound modifications, Mr. Alexander Geiger, manager of application engineering, ran on-site trials at the customer. The first evaluations show that the properties are now even better and the final results will be available in the beginning of 2013.

Thanks to this in-deep and cross-border collaboration, we were significantly involved in covering the needs of the customer Gabo Systemtechnik. HEXPOL Compounding was from the beginning the preferred development partner thanks to being close to the market and knowing about the requirements of the whole supply chain - from compound to finished goods - leading to success.



HEXPOL TPE Compounding

ORGANISATION

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

In January 2012, HEXPOL completed the acquisition of Müller Kunststoffe. The manufacturer has two production units in Germany which complement the units in the UK and Sweden. In response to growing demand, HEXPOL is increasing the capacity at the German plant with a new production line that is expected to come on-stream in the first quarter of 2013. With the integration of ELASTO and Müller Kunststoffe, HEXPOL has now established a robust European organisation for TPE Compounding, with progressive solutions, a very high level of technical expertise and ideally located to capture growth.

In parallel, HEXPOL is also starting up TPE compounding operations in southern China. The new production facility will operate from HEXPOL Compounding's existing Foshan site in the expansive Guangzhou area, a key location for polymer component manufacturing. HEXPOL TPE Compounding has supplied customers in Asia for a number of years, initially to EU and US transplants

and increasingly to locally owned moulders. As sales to Asia continue to grow, it is important that our existing and new customers benefit from the same high-quality production, technical expertise and local support as our European customer base.

With the creation of HEXPOL TPE Compounding, we are realising immediate growth and innovation synergies. Building on our successes, HEXPOL TPE Compounding is focused on delivering TPE solutions for high-growth, with high potential markets such as the consumer, medical, toys and automotive markets, as well as for caps and closures.

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

TECHNOLOGY AND PRODUCTS

Within the TPE market, there are a number of material classes, each based on different chemistries and technologies. The various classes display different properties and end-use application.



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

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

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

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

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

With European and Asian production facilities and sales offices, HEXPOL TPE Compounding is ideally placed to give flexible, local support to customers, responding quickly to demands. As a number of customers operate across both Europe and Asia, they now work with HEXPOL on a global scale.

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

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

This close personalised service, diversified product offering and high-technology operations translate to high value solutions for HEXPOL's customers, facilitating enhanced margin expansion and growth opportunities.



Flame-retardant TPE compounds for railroad applications

Müller Kunststoffe in Germany, part of HEXPOL TPE Compounding, has developed a range of halogen free, flame-retardant TPE compounds suitable for applications in the rail industry.

The compounds, known as Lifoflex FLAM, are halogen and antimony free, therefore they do not produce corrosive and toxic gases such as hydrochloric acid or aromatic bromine in case of fire. The material conforms to UL94 V0 and European directives 2011/65/EU (RoHS) and 2003/11/EC at various wall thicknesses.

The Lifoflex FLAM 700 series has been especially designed for applications inside railway vehicles (such as profiles, cable grommets, connectors and electrical insulation). The compounds have been tested along DIN 5510-2:2009-05, a preventive fire protection test in railway vehicles.

Lifoflex FLAM grades are available in a range of hardnesses. They offer good adhesion to thermoplastics such as PP and PE for overmoulding and co-extrusion applications. Grades can also be combined with additional compounding technologies, such as colour, antistatic or electrical conductivity, while maintaining the materials RoHS compliance.

Applications for Lifoflex FLAM TPE compounds include; cords, connectors, electrical insulation, railway vehicles, cavity wall sockets as well as miscellaneous gasket profiles.

Mediprene TPE offers alternative to rubber in plunger seals for single-use medical syringes



Producing consistent, quality products in a cost-efficient manner with fast cycle times; this is the challenge facing the medical device manufacturer of high volume, disposable devices. ELASTO, part of HEXPOL TPE Compounding, are helping customers achieve this with the development of Mediprene thermoplastic elastomers (TPE) for plunger seals in single-use syringes.

The TPE seal, which is mounted on the end of the plunger, needs to provide a leakproof seal with the syringe barrel. As ease of use for the medical practitioner and patient comfort are also key requirements, the seal helps to optimize plunger movement for accurate dosage control and ease of injection.

The Mediprene materials are latex free, which reduces the risk of allergic reactions. Representative grades have passed cytotoxicity tests according to ISO 10993-5 and biocompatibility tests according to USP Class VI. ELASTO offer these grades as translucent or coloured compounds, made from medical grade raw materials. The colour masterbatch supplier has been selected with care, ensuring that not only the pigments and carriers are compliant but also that the masterbatches are manufactured under rigorous controls with regard to traceability, consistency and change control thereby fitting the Mediprene concept at ELASTO's ISO 13485 accredited facilities.

Alongside their material advantages, because of the cost and speed at which they can be manufactured, Mediprene TPEs are being specified as an alternative to thermoset rubber. They require no vulcanisation and are 100 percent recyclable. Fewer process steps without the need for additional operations such as trimming means less energy is used and production is faster and more cost-efficient. TPEs have a lower specific gravity compared to several alternative materials, you can therefore not only create lighter-weight parts, but you can also produce more parts per kilogram of material.



EPSeal TPE compounds offer taste free sealing solutions for the beverage industry

EPSeal TPE compounds from Müller Kunststoffe are custom formulated to address the specific demands of the beverage closure market. A range of compounds have been developed with series dedicated to different types of closures including crown corks, aluminium closures, plastic closures, out shell and in shell liner moulding.

EPSeal compounds are PVC free and conform to FDA and EU regulations. Certification and suitability for use in direct food contact was carried out by Nehring Institute. EPSeal compounds give excellent organoleptic results, ensuring neutral taste properties, a key requirement for sensitive filling goods such as mineral waters. They offer consistent, short, medium and long term opening torques, providing consumer friendly functionality and making it easier to open the bottles.

Solutions are available for carbonated soft beverages, beer, fruit juice, cold, hotfill or pasteurisation processes. EPSeal compounds have been developed for roll on and roll on pilfer proof systems. The material's elasticity and softness ensure excellent sealing properties, even on returnable bottles which can often be damaged. Compounds have been formulated which address the issue of gushing in carbonated drinks and with superior pressure retentions.

"Customer specific solutions, manufactured from quality raw materials and compounded under exact and consistent conditions, this is what makes us a trusted and reliable partner for the beverage industry", commented Ray Exon, caps and closures product manager at Müller Kunststoffe. "Working alongside our customers we put our experience and know-how to work to develop intelligent, custom built solutions. Our customers manufacture beverages with a pure and natural taste; EPSeal compounds keep them that way."

Business area HEXPOL Engineered Products

Strong market positions and stable margins



HEXPOL Engineered Products in brief

Operations

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

Customers

HEXPOL focuses mainly on OEM customers, for whom service, technical competency and long-term relations are of vital importance. These customers are market leaders in their respective segments, such as manufacturers of plate heat exchangers, forklifts and castor wheels, as well as profiles for construction and engineering industries.

Sales 737 MSEK (747)

Operating profit 73 MSEK (72)

Number of employees at 31 December 1,371 (1,367)

Operating units

- Gislaved Gummi Gaskets, Gislaved, Sweden
- Gislaved Gummi, Bokundara, Sri Lanka
- Gislaved Gummi Qingdao, China
- Stellana Laxå, Sweden
- Stellana Lake Geneva, WI, 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 a unique combination of material and application technology in polymer materials and special components. Controlling the entire development process from polymer compounds to finished products enables HEXPOL to deliver cost-effective solutions that are technologically superior to the competition. This approach influences operations throughout HEXPOL Engineered Products.

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

ORGANISATION

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

MARKET

The market for gaskets for plate heat exchangers is a global niche. The market has its emphasis on the three continents of Europe, Asia and North America. The Asian market is becoming increasingly important, and is expected to continue to outgrow the markets in Europe and North America. In 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. This also entails deliveries outside the Nordic region to Nordic customers active in other countries.

HEXPOL Gaskets' customers consist primarily of leading OEM manufacturers of plate heat exchangers in Europe, the US and Asia. The market is characterised by long-term growth driven by energy conservation and an increased focus on environmental issues. Other factors fuelling demand are increased living standards and an upswing in global commodity trading (marine transports).

The global gasket market was stable in 2012, with the exception of applications designed for the marine sector, nuclear power and biofuels. The continued high global market prices for oil and gas has resulted in more efficient use of energy and increased investments in alternative energy sources. The market is currently driven by maintenance investments in existing facilities, but also by increased demand for small and mid-sized plate heat exchangers.

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

HEXPOL Wheels operates in the expansive market for wheels and castor wheels for electric and hand pallet forklifts. The market is dominated by a handful of major players in Europe and North America. Global sales of new forklifts were on a par with the preceding

Brands in the business area





1
Lake Geneva, USA
HEXPOL Wheels



2
Laxå, Sweden
HEXPOL Wheels



3
Gislaved, Sweden
HEXPOL Gaskets



4
Gislaved, Sweden
HEXPOL Profiles



5
Bokundara, Sri Lanka
HEXPOL Gaskets



6
Horana, Sri Lanka
HEXPOL Wheels



7
Qingdao, China
HEXPOL Wheels



8
Qingdao, China
HEXPOL Gaskets

HEXPOL Engineered Products operating units

Unit	Location	Number of employees December 31, 2012	Area m ²
HEXPOL GASKETS			
Gislaved Gummi Gaskets	Gislaved, Sweden	121	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	514	7,000
Gislaved Gummi China	Qingdao, China	74	8,000
Total		709	21,000
HEXPOL WHEELS			
Stellana Sweden	Laxå, Sweden	79	8,000
Stellana US	Lake Geneva, USA	48	6,660
Stellana China	Qingdao, China	44	1,080
Elastomeric Wheels	Horana, Sri Lanka	460	16,590
Total		631	32,330
HEXPOL PROFILES			
Gislaved Gummi Profiles	Gislaved, Sweden	31	2,500
Total		31	2,500
Total HEXPOL Engineered Products		1,371	55,830

year. The aftermarket for forklift wheels increased somewhat more than the OEM market and is dominated by OEM manufacturers and independent distributors. A forceful consolidation process has been under way in the forklift market in recent years and it is now dominated by a handful of Western European and North American manufacturers, in several cases with Japanese owners. The castor wheel market is more diversified with a few major players and a large number of local manufacturers. HEXPOL Wheels is the only global player in the forklift wheel market and is well-positioned to capture additional market shares.

HEXPOL Profiles is a strong player in the global market for rubber profiles. Most of the HEXPOL profiles are delivered to OEM manufacturers active in the construction industry, where they are primarily used as sealings for windows, doors, gates, facades, patios and ventilation facilities, but also to some extent in engineering-related industries in the Nordic region.

STRATEGY

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

BRANDS

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

OPERATING UNITS

HEXPOL Gaskets has production plants in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka, and Qingdao, China). The production units are modern and feature local development resources and well-functioning quality systems. Production is conducted cost-effectively with joint planning and logistics.

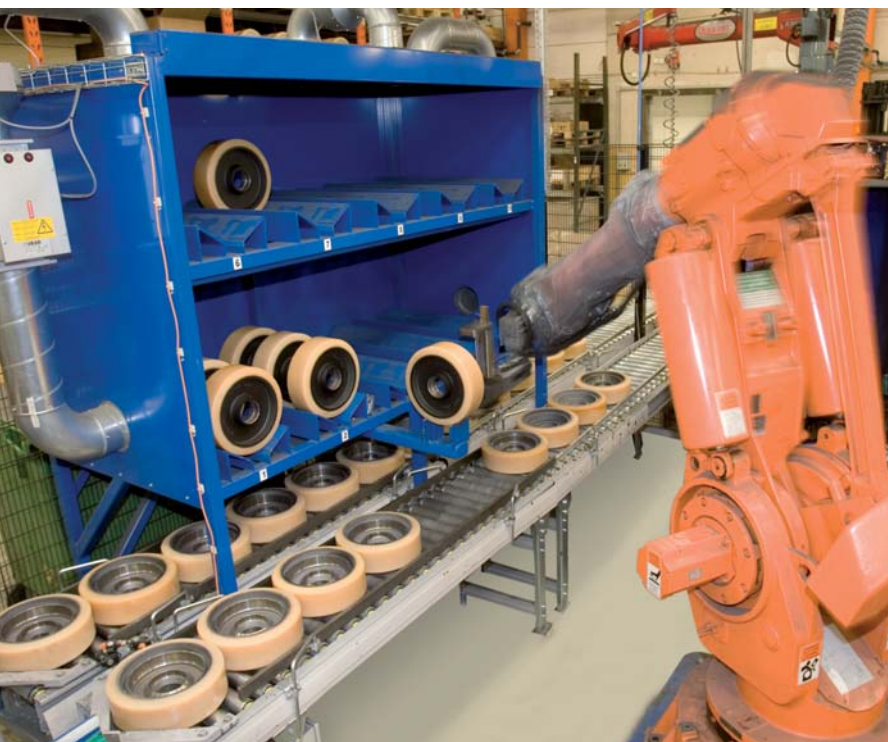
HEXPOL Wheels has production facilities in Europe (Laxå, Sweden), the US (Lake Geneva, Wisconsin) and Asia (Horana, Sri Lanka, and Qingdao, China). The plants are well-adapted to local markets conditions. The unit in Sri Lanka, however, is geared toward exports to Europe and Asia.

HEXPOL Profiles conducts operations in Gislaved, Sweden.

COMPETITORS

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

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



mented market is resulting in opportunities for continued growth through acquisitions.

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

OPERATIONS IN 2012

In 2012, HEXPOL Engineered Products' sales totalled 737 MSEK, in line with the 747 MSEK reported in 2011. Operating profit during the same period was also in line with the preceding and amounted to 73 MSEK (72). The operating margin increased to 9.9 per cent (9.6).

In the gaskets segment, demand was somewhat lower during the year compared with the preceding mainly because of lower activity in the marine, nuclear power and biofuel areas. The share of major projects was also somewhat lower. The Asian market continues to grow in importance.

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

The market for forklift and castor wheels was stable during 2012. The price pressure remains high especially in the market for wheels for warehouse forklifts in Europe. HEXPOL Wheels' volume trend was favourable in all markets during the year.

The market for profiles weakened during the year as a result of the downturn in the construction sector, which led to somewhat lower volumes. However, HEXPOL Profiles increased its market shares in this sector during the year and advanced its positions with a number of important customers.

OUTLOOK AND PRIORITIES

HEXPOL Gaskets is pursuing the objective of being a main supplier to all leading OEM manufacturers of plate heat exchangers.

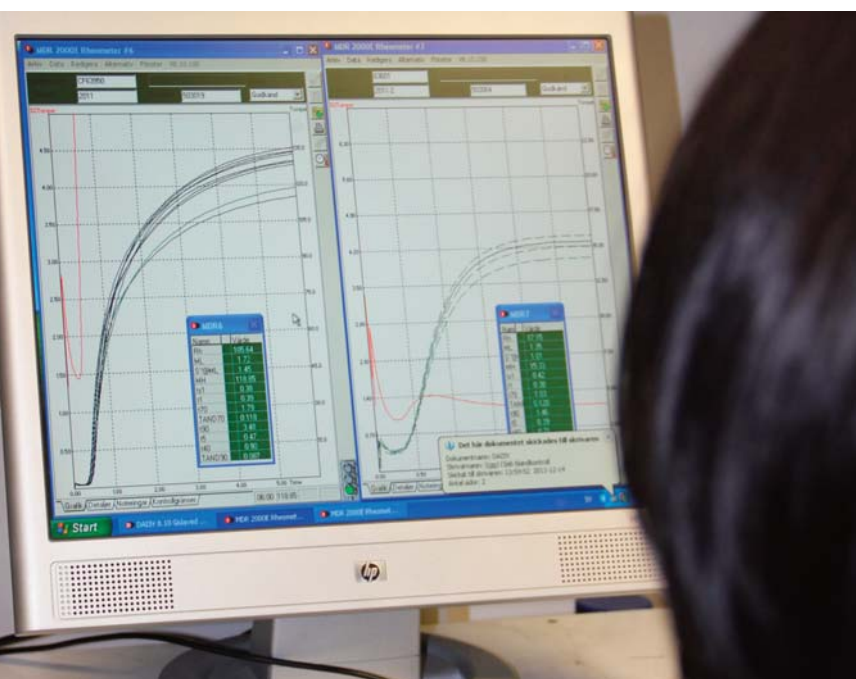
The market for gaskets for plate heat exchangers is growing long term, as a result of high energy costs and increasing demand for energy-efficient solutions. HEXPOL Gaskets is driving the developments of technology and logistics in the industry, which in combination with cost-effective and scalable manufacturing is creating competitive advantages.

HEXPOL Gaskets' effort to penetrate new markets in Asia and North America is continuing. During the year, moulding capacity in China increased 50 percent and HEXPOL can now offer a complete locally produced range of products in the Asian market.

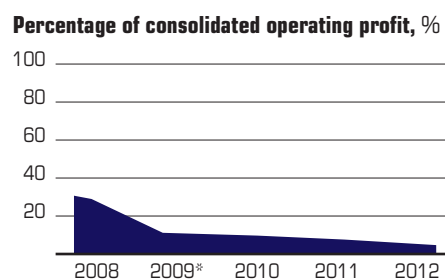
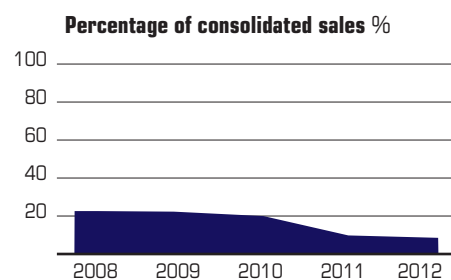
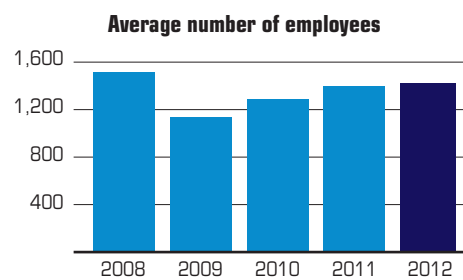
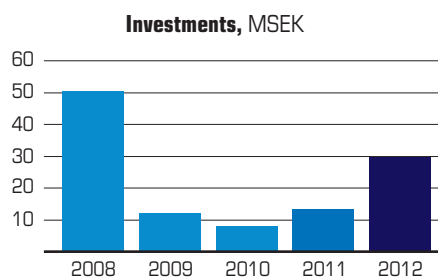
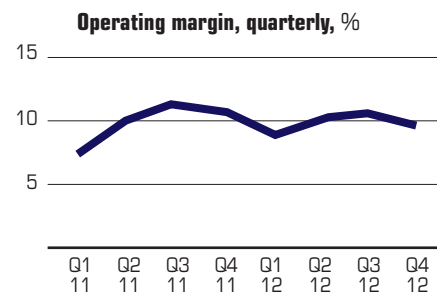
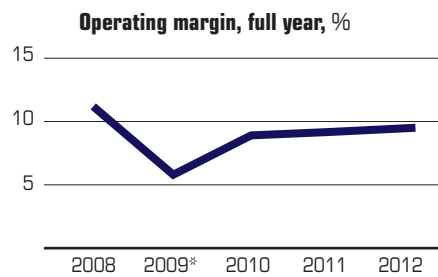
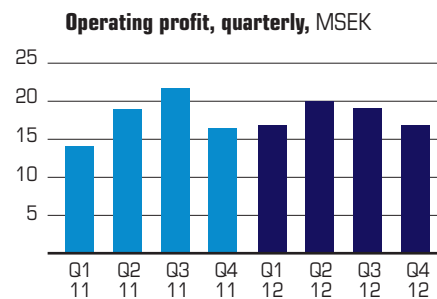
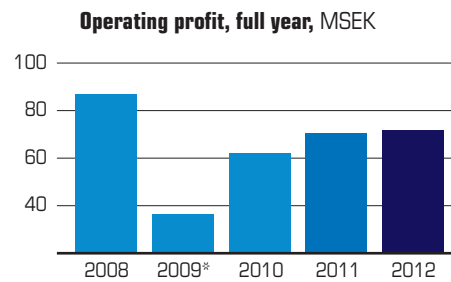
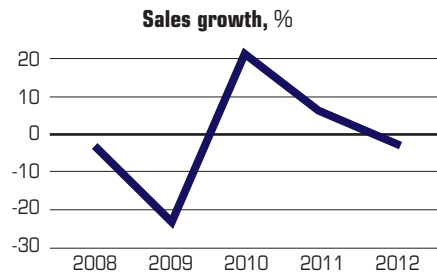
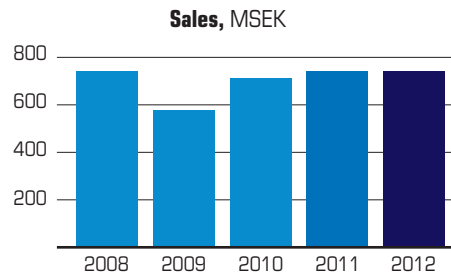
HEXPOL Wheels continued to invest and optimise its operations during 2012. During the year, a completely new manufacturing line for polyurethane wheels was deployed in China. The factories in Sweden and Sri Lanka also invested in new production equipment.

We are of the opinion that the currently fragmented wheel market will enter a consolidation phase. HEXPOL is well positioned to play an active part in possible structural projects. In our opinion, continued efforts involving customer service and product development will be critical success factors for 2013.

HEXPOL Profiles entered a consolidation phase during 2012 following the investments and organisational changes implemented in 2011. Ahead of 2013, HEXPOL Profiles is well positioned to actively cultivate new customers and markets in the Nordic region.



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, a modern machinery fleet and efficient processes, form the cornerstones of HEXPOL's customer offering. Developing a new rubber material for gaskets can occasionally entail several years of extensive materials development. HEXPOL Gaskets continuously conducts advanced development projects to strengthen the product portfolio and its market position.

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

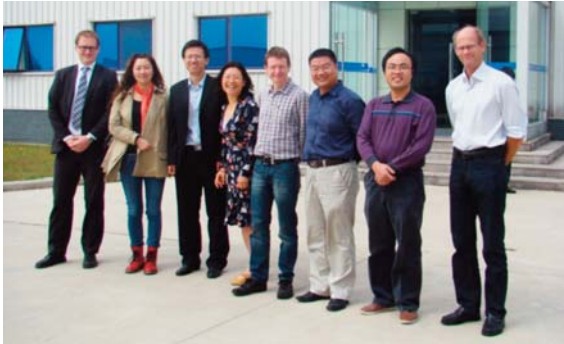
BUSINESS MODEL AND STRATEGY

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

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

As a result of efficiently functioning ISO-certified quality systems, strictly controlled manufacturing parameters and skilled staff, HEXPOL Gaskets can offer identical products regardless of production location. HEXPOL Gaskets provides a variety of online tools to simplify the work of customers, such as a customer portal, VMI, Kan-ban, EDI solutions and materials databases. The aim is that conducting business with HEXPOL will be easy.

Enhanced cooperation in China between Gislaved Gummi and Alfa Laval



Gislaved Gummi and Alfa Laval decided to launch enhanced cooperation in 2011, whereby Alfa Laval outsourced its proprietary production of gaskets in China to Gislaved Gummi. Since autumn 2012, Gislaved Gummi delivers the agreed volume.

When the agreement between Gislaved Gummi and Alfa Laval was entered into, an intensive period of work for both parties started in summer 2011. For manufacturing gaskets in China, Gislaved Gummi required new moulds for each gasket type in addition to increased press capacity. A project schedule based on Alfa Laval's forecast volume of gaskets was made and capacity increased gradually during 2012 as the new moulds were produced. All products were approved in time to meet the overall up-ramping plan which the parties had initially agreed.

In connection with the start-up of gasket manufacturing in China, Alfa Laval conducted a supplier audit before Gislaved Gummi was allowed to deliver any gaskets. A delegation from Alfa Laval with auditors from both Sweden and China performed the audit, which Gislaved Gummi successfully passed. In autumn 2011, Alfa Laval insisted that Gislaved Gummi obtain a "PHE Products Safety Registration Certificate", which is a national standard for manufacturers of plate heat exchangers in China. The standard also means that the gasket manufacturer must be approved in order to have the complete plate heat exchanger approved in certain application areas. The Chinese Standardization Committee for Boilers and Pressure Vessels, which issues the certificates, carried out an audit of the operations during the early summer, which resulted in Gislaved Gummi in China passing the audit. The certificate was handed over at an awards ceremony in summer 2012. This means that Gislaved Gummi is the first and only international OEM manufacturer of gaskets for plate heat exchangers that has been assigned this registration in China.

"Alfa Laval is pleased with how the project has been completed. Gislaved Gummi has clearly shown that it can handle new business in a flexible manner, despite changes of requirements during the project", says Michael Byman, CU Manager, Alfa Laval China.



HEXPOL Gaskets continuous expansion in China

"In connection with a larger business agreement for OEM gaskets in 2011, HEXPOL Gaskets decided to vigorously expand the capacity in its plant in China. The investments carried out in 2012 were deployed gradually during the year. Also during the year, a new significant sized contract was signed for the supply of gaskets to a global American Group that manufactures plate heat exchanger in China", says Lars-Åke Bylander, President of HEXPOL Gaskets.

The investment mainly consisted of an increase in press capacity by 50 percent. The additional capacity primarily related to machinery for manufacturing medium and large gaskets.

The plant, which has been in operation since early 2009, has an infrastructure that makes it easy to install new machinery in a quick and efficient way. From the beginning, the plant has been sized for future volume growth in terms of production areas, warehousing and administration.

OPERATING UNITS

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

HEXPOL makes regular investments in production equipment to remain at the forefront of process efficiency and quality. In 2012, capacity at the Chinese unit was increased by 50 percent.

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

Geographically, the 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.



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



Roger Jonsson,
Managing Director
Gislaved Gummi Lanka,
Sri Lanka



David Jia,
Managing Director
Gislaved Gummi China

Gislaved Gummi supports continuous growth for gaskets to Alfa Laval's aftermarket

In a year with proven difficult market conditions, the volume of gaskets for plate heat exchangers supplied from Gislaved Gummi to Alfa Laval's Product Group Parts increased by 10 percent. Continuous improvements in the supply chain are required as spare parts are characterised by a broad product range, wide variation in demand and rigorous demands in terms of delivery times.

Developing a customer-supplier relationship that has been under way for many years is not always easy. When volumes increased, while demands for short delivery times became ever greater, the collaboration between Alfa Laval's Distribution Centre in Lund and Gislaved Gummi's production facility in Gislaved, which primarily focuses on low-volume production for the aftermarket, was brought to a head. 2012 was characterised by an increased and above all shared focus on delivery performance, lead times and communication.

To ensure that all the promises made to customers could be kept, a stable supply chain is an absolute necessity. Greater understanding and improvements were achieved by regularly analysing the reported delivery performance at both Alfa Laval and Gislaved Gummi. Forecasts and actual demand were analysed in the same way in order to create opportunities for the end customers to feel that every promise is kept.

It is definitely a challenge administrating nearly 3,000 purchase transactions that are often attached to individual production

orders. It is essential that a large base flow with minimal manual work functions smoothly, at the same time as unique transactions with a higher priority really get the special attention needed. This has been ensured by creating a weekly forum where purchasers from Alfa Laval together with customer service representatives and production planners from Gislaved go through the present and desired situation. In this forum, people who really know the business in both companies can together optimise deliveries.

With a product range consisting of a least 1,000 unique items, of which two thirds are sold very irregularly, it is not possible to always ensure short lead times to the end customers through warehousing. In 2012, Gislaved Gummi's production facility for the aftermarket and Alfa Laval's Distribution Centre in Lund jointly created a shared process in order to prioritise selected orders that get significantly shorter lead times without additional effort. This process may prove to be a future order winner for fastidious clients of Alfa Laval spare parts, while providing increased flexibility for production planning at Gislaved Gummi.

"The most important conclusions are that development must be the result of cooperation and communication. Neither a customer nor a supplier can alone improve a supply chain. In this case, we have really shown the common desire to improve operations. We look forward to exceeding expectations in the future", says Anders Granelli, Senior Project Manager, Alfa Laval.



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 electric-powered warehouse and hand pallet forklifts, as well as tyres and special wheels in natural rubber, thermoplastics and thermosets. HEXPOL's size enables it to offer new development and access to a highly extensive product portfolio. 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.

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. Technical excellence, broad product portfolio and cost efficiency frequently make HEXPOL Wheels the first choice among OEM manufacturers of forklifts in all major markets.

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

OPERATING UNITS

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

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

The US unit in Lake Geneva is one of the largest suppliers of polyurethane 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 be able to adjust the wheel's properties to the desired results at an early stage in the development process.

The plant in Horana, Sri Lanka, manufactures rubber castor wheels, injection-moulded thermoplastic wheels and solid 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.

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



Jan Wikström,
President HEXPOL Wheels,
Managing Director
Stellana Sweden



Roger Jonsson,
Managing Director
Elastomeric Wheels,
Sri Lanka



Peter Li,
Managing Director
Stellana China



Mark Shea,
Managing Director
Stellana US

Stellana in Laxå invests in automation

Increasing volumes for small polyurethane wheels and rollers has led to the need to increase the assembly capacity at Stellana Sweden.

During the project phase the decision was made to incorporate as many quality assurance steps as possible inside the cell to ensure that the quality of the delivered products is first class. The result is a very flexible assembly cell with two robots assembling the products in addition to checking all components prior to assembly as well as the finally assembled product.

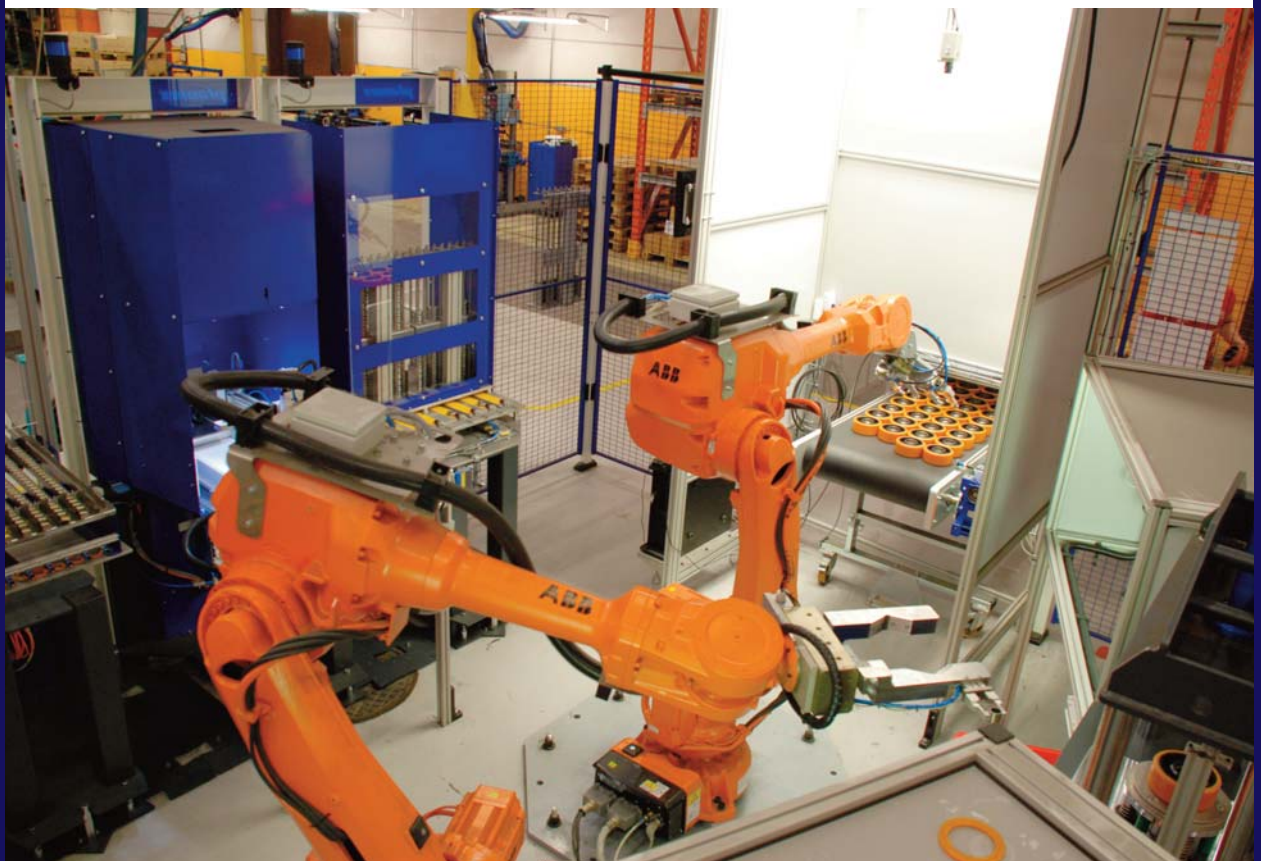
Prior to investment there were several work stations that were used for this manual operation. This assembly was a time consuming task, where focus was on cycle times.



Complete wheels generally consist of two pcs of hubcaps, two pcs ball bearing, one pcs shaft or sleeve and a polyurethane wheel that are pressed together. The total number of combinations of hub caps and ball bearings are creating around 55 different article numbers. The large number of variants, often based on common component did pose a challenge to secure the quality.

There are for example over ten different sizes of hub caps. The differences in these hubcaps are sometimes only a couple tens of a millimeter and not easy for operators to check in an efficient way. By incorporating five visual systems, we let the robot cell not only control each component to make sure the component to be assembled is the correct one but also that they are within specification. It also checks the assembled product ensuring that there are no missing parts and that the overall measurements are correct.

For future needs, the robot cell is prepared to print a serial number on each assembled part in order to improve traceability of products in the field.



Elastomeric Wheels enters the North American market

Elastomeric Wheels holds a unique combination of technical know-how, standardized production methods (Lean, Kaizen and Kan-Ban), management systems for environment, health and safety (ISO 14001, OHSAS 18001) and a cost-efficient production. This has proven to be successful with European OEM's for a long time.

The Elastomeric Wheels marketing team has done extensive research on the North American market over the last couple of years. The conclusion is that there is demand for a cost-efficient product offering in the wheels market. Many potential US customers are however reluctant to switch to a foreign supplier due to concerns about service levels, credibility and social responsibility.

The Elastomeric Wheels team managed to communicate their strong offering to one of the leading US distributors of casters for shopping carts, food service carts and backroom equipment. This resulted in a co-op project to develop a range of wheels specially designed for the US market. A three year volume agreement was signed which further strengthened the commitment from both parties.

A lot of time was spent defining the scope of the project. This effort proved to be time well spent resulting in a quick and successful product launch.

Several new projects are discussed and this beachhead on the US market proves the power of leveraging existing capabilities within the organization in new regions and to new product offerings. Elastomeric Wheels shows that a cost efficient producer can meet the highest quality standards and be serious about corporate social responsibility.



HEXPOL invests in PU-wheels manufacturing in China

Stellana has expanded its local polyurethane wheel production at its facility in Qingdao, China. The investment of additional production capability of locally produced high quality polyurethane wheels has been required by Stellana's multinational OEM customers for a long time.

Driven by the increasing demand of efficient and environmental friendly indoor material handling, the market for electrical warehouse trucks has been under fast growth during recent years. As a global wheels' supplier to world's material handling industry, this local production line will provide a perfect facility to better serve our OEM customers, both international and local Chinese material handling OEM manufacturers, and will further strengthen Stellana's market position in this region.

The production line is equipped with top modern polyurethane casting and wheel testing equipment. All local made products meet Stellana's global quality standard. Starting from CNC metal-processing, the facility will include the entire process of polyurethane wheel production, which will significantly increase our competitiveness in terms of flexible and cost-efficient production. The annual production output is designed to be 200,000 pcs and with essentially less investment the capacity can be doubled in coming years. The production was started in the end of 2012.

In parallel with the investment in a polyurethane wheel manufacturing line, Stellana is also expanding its manufacturing of plastic wheels for the Asian market. By investing in additional injection moulding machines we are expanding to meet the increased demand from both new and existing customers. Stellana has recently secured a number of new customers in Asia for our PA/PU wheels.

Together with an investment at Stellana's facility in the US, where a new Polyurethane casting line was installed at the end of 2011, the investments in China gives Stellana a unique possibility to serve our customers globally with a wide range of wheels. Adding Polyurethane manufacturing capability to our Chinese facility is the last step to becoming a truly global partner to 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 highly specialised for various OEM applications.

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

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

BUSINESS MODEL AND STRATEGY

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

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

OPERATING UNITS

Operations are located in Gislaved, Sweden.



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

Corporate responsibility

An important part of our corporate culture



Global driving forces that involve environmental impact, climate change and access to energy – as well as requirements in terms of social responsibility and sound business ethics – are becoming increasingly important for the business community, as well as for society in general. Integrating sustainable development in strategic work and daily operations contributes to HEXPOL's position as a leading company in our industry. Corporate responsibility is integrated into 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. To meet the expectations of customers, society, employees and other stakeholders, we have integrated sustainable development in our strategic planning. The aim is to be a company with sound business principles in both long term and in everyday activities and show responsibility for people and the environment.

We comply with the laws and guidelines that apply to listed companies and the legal requirements that apply in terms of, for example, the environment, work environment, product safety and marketing. The term corporate responsibility also includes openness in relation to our stakeholders and that sustainability is part of the Group's value chain. Here, we observe aspects that apply to our suppliers, product development, the utilisation of our products and how the products are managed when they ultimately become worn out. The management of sustainability issues includes preventive programmes, the use of modern technology, analyses of the environment, work environment and social risks, objectives at the Group and company level, systematic work via environmental management systems, and the monitoring and reporting of performance in the sustainability area.

OUR APPROACH TO CORPORATE RESPONSIBILITY

Corporate responsibility includes the following fundamental requirements:

LEGAL AND OTHER REQUIREMENTS MUST BE OBSERVED

HEXPOL pursues operations in ten countries on three continents, which means that HEXPOL encounters many legal and other requirements that must be fulfilled. One interesting challenge is that both the legal requirements and customer requirements in terms of the environment and social responsibility are increasing. Naturally, the companies and individual employees must identify and comply with ordinances, rules and laws that impact on business operations. Examples include respecting the ban on the formation of cartels, export and import ordinances during international business transactions, trade embargoes and economic sanctions.

BUSINESS ETHICS GUIDELINES APPLY TO EVERYBODY

These fundamental values comprise HEXPOL's Code of Conduct and stipulate the principles that govern the relationship with employees, business partners and other stakeholders. The guidelines provide guidance to everybody in the Group in respect of legal liability accounting, conflicts of interest, work conditions, social issues and sound business ethics.

COMPLIANCE PROGRAMME IN ORDER TO FOLLOW GUIDELINES

HEXPOL's Compliance programme was introduced two years ago and aims to ensure that employees comply with the Group's ethical guidelines and policies. The programme provides detailed guidelines as to 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 the guidelines and each manager is obliged to sign a pledge confirming that he/she will adhere to these guidelines.



UNDERTAKING TO CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

The environmental policy highlights the importance of working with environmental aspects that impact on our processes and products and that seek continuous improvements. Key environmental aspects include the consumption of energy, raw materials and chemicals, emissions of greenhouse gases and other pollutants into the atmosphere as well as the generation of waste. The policy also includes undertakings concerning environmental management systems, work environment matters, product development and communications. The purpose is to contribute to sustainable development and solutions to the global challenges. In selected areas, we give concrete examples of the environmental policy through Group-wide goals. This also applies to other issues that involve energy and climate.

As the diagram below shows, many activities have been conducted since HEXPOL was listed in 2008 to realise the undertakings to contribute to sustainable development.

OPENESS IN INFORMATION TO OUR STAKEHOLDERS

Openness applies to information to the capital market, but also to information in many other issues. In terms of sustainable development performance, the Group reports in accordance with the International Global Reporting Initiatives (GRI) in a separate sustainability report. Information on emissions of climate impacting gases and how they affect the Group is reported in accordance with guidelines of the Carbon Disclosure Project (CDP).

More detailed information on the Group's ethical guidelines and policies is available at www.hexpol.com and in the separate sustainability report.

GLOBAL STAKEHOLDERS

HEXPOL is a listed company with a global presence. The Group's strategies – and what may be realised in business operations – are thus monitored by many different stakeholders, including:

- Customers and suppliers in a large number of countries.
- The capital market – shareholders, investors, analysts, banks and other players.
- More than three thousand employees in ten countries.
- Society – neighbours, authorities, the mass media, schools, universities and other stakeholders.

It is important for us to listen to our stakeholders' views and reactions and, whenever possible, to engage in active dialogue. Naturally, our aim is to optimally satisfy the expectations and requirements imposed on the Group and our employees.

FAVOURABLE CUSTOMER RELATIONS

Our customer relations are hallmarked by professionalism, a high service level and a quality approach. According to HEXPOL's ethical guidelines, we shall apply sound business principles and compete honestly in business operations, which also applies to marketing and advertising. We comply with local competition rules in the geographical markets in which the Group is active. Naturally, business decisions are made on the basis of the Group's interests and not on the basis of personal considerations or relationships.

A core component of HEXPOL's strategy is to involve employees in assuming responsibility and making improvements – an approach that may be described as quality at all levels. For us, quality issues are a key competitive factor and quality programmes are conducted in accordance with the international standard, ISO 9001, or in line with other specific customer requirements imposed on the management system. More than 95 percent of the units are certified in accordance with ISO 9001 and, in many cases, the quality system is integrated in the overall operational system. The purpose of quality programmes is to ensure that the products maintain high quality, meet safety requirements and legal requirements, and exceed customers' requirements and expectations. Customers and suppliers are thus often involved during the development process. During the year, the facilities in Sri Lanka received the distinctions "Kaizen Award" and "National Productivity Award" for their quality and productivity work.

As regards sustainable development, 80 percent of the companies report that customers impose requirements in terms of the environment and social responsibility. The requirements may apply to certified management systems and product declarations in respect of the environment, health and safety. In recent years, an increasing number of customers have extended their requirements to include social responsibility and a code of conduct.

REQUIREMENTS IMPOSED ON SUPPLIERS

The companies' assessment of suppliers includes a number of criteria in respect of, for example, technology, quality, delivery capacity and financial status that must be met.

EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

2008

- Initial environmental reviews conducted at the facilities.
- Business Ethics Guidelines and environmental policy are developed.
- Decision to implement ISO 14001.
- Training programmes in environmental management.
- Reporting system for sustainability issues.

2009

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

For us, it is also important to cooperate with suppliers who can demonstrate sound business ethics and a proactive approach to the environment and social responsibility. Consequently, within the framework of the applications of ISO 14001 and our sustainability work, we continued during 2012 to develop supplier assessment criteria regarding the environment and social responsibility.

RELEVANT INFORMATION FOR OWNERS AND INVESTORS

HEXPOL aims to provide shareholders and other players on 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 among existing and potential shareholders.

The Group complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. HEXPOL applies a policy of transparency in its reporting and, in line with the Group's communication policy, provides the market with well-founded, comprehensive information. Corporate governance is described in the corporate governance report on pages 74-79 and is available at www.hexpol.com. The website also features all published financial information available, such as press releases, financial reports and annuals reports.

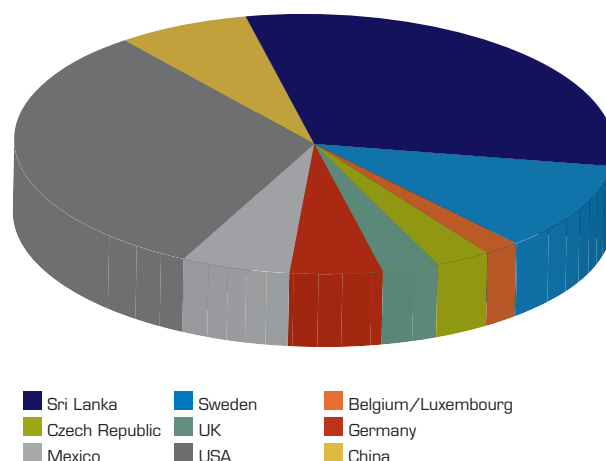
DIVERSITY, COMPETENCE, COMMITMENT AND WELL-BEING

Employees in many countries

During 2012, the average number of employees in the Group was 3,112 (3,041) and, at year-end 2012, the number of employees was 3,332 (3,020). At year-end, the number of employees at HEXPOL Compounding was 1,956 (1,648), while the workforce at HEXPOL Engineered Products was 1,371 (1,367). Of the total workforce, 89 percent (88) worked outside Sweden. The Parent Company has 5 employees (5).

The Group has operations in many regions worldwide and the markets are truly global. Diversity in the form of employees from different cultures and backgrounds 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 is a matter of a

Number of employees by country



comprehensive perspective, mutual respect and professionalism. What brings us together is our corporate culture, our core values and the desire to work with continuous improvements. Good leadership is also pivotal and it is up to management to achieve a work climate that encourages responsibility, 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 and motivation

Since HEXPOL's development of its operations and products requires employees with the appropriate competence, experience and motivation, 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 careers.

As we also view the building of networks as an effective way of increasing the collective expertise, it is common for projects to be completed with participants from various cultures, with multi-disciplinary skills. Employees also 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 of processes, technology, sustainable development, development projects and geographic markets.

2010

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

2011

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

2012

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

Materializing the Difference

The second class in our leadership development programme, “Materializing the Difference”, started in March 2012. In HEXPOL, we strongly believe in recruiting managers internally – also to senior positions. As part of our integration strategy, we also emphasise involving managers from our recently acquired companies. Understanding our business model and our corporate culture is very important. This very ambitious development programme over 14 month is one key initiative in securing future senior managers. In addition to a curriculum including such subjects as finance, accounting, strategy and business intelligence, leadership and team dynamics, we also work on strategically important development programmes. These will play important roles for HEXPOL in the future. CSR and our work on sustainability are also predominant features of the programme. The programme director is Stein Kleppestø, Senior lecturer at the School of Economics and Management, Lund University and Partner in Blueberry Hill Management Consulting. Participants in this class come from our companies all around the world.



Many sustainable development activities in Sri Lanka

Almost one third of HEXPOL's employees are active at the two plants in Sri Lanka. Rubber gaskets for plate heat exchangers are produced in Bokundara and solid tyres, rubber castor wheels and injection-moulded thermoplastic wheels are produced in Horana. For Elastomeric, the concept of continuous improvement is an integral part of corporate culture and, over the years, many improvements have been made in areas involving the environment, work environment and social responsibility.

First HEXPOL unit to have its work environment certified

During the year, both of the plants in Sri Lanka were certified in accordance with OHSAS 18001, a standard for health and safety at work. By assessing the risks that arise in the work environment, working systematically and determinedly, and by engaging the support of the employees, prerequisites are created for future-oriented measures. At Elastomeric, OHSAS 18001 has been integrated into ISO 9001, ISO 14001 and the Elastomeric/Gasket Production System.

“We believe work-environment certification offers many benefits,” states Roger Jonsson, Managing Director of Elastomeric. Obviously, we want to prevent accidents at work and to create a good work environment, but we also view the certificate as a way of showing customers and other stakeholders that we focus on continuous improvement in all areas,” Roger continues. “During the year, we implemented training programmes at all levels of the company and we focused on such objectives as increasing awareness of the risks arising in the work environment, and enhancing knowledge about fire safety,” says Roger Jonsson in conclusion.

Energy savings

At the plants in Sri Lanka, several measures in the environmental area were implemented during 2012.

- Installation of steam traps at the vulcanisation presses, which reduced steam consumption by 5 percent.
- Increasing combustion efficiency by 5 percent by introducing a computerised system for the monitoring and control of the steam boiler. Project planning implemented for the installation of a new biomass boiler at the plant in Bokundara.
- Installation of a more modern compressor with lower capacity, thus saving energy, and a new skylight in the workshop, which reduces the need of lighting.
- Measures for improved treatment of sanitary wastewater and activity to reduce water consumption.

Social responsibility

Elastomeric has a strong tradition of taking social responsibility and, during the year, it implemented the following measures, among others:

- School books were donated to the children of all employees.
- Scholarships were granted to the employees' children that achieved the best results in school and who could thus progress to higher studies.
- Donation of mobile phones to improve intercommunication at the hospital in Pilyandala.



Developing people and organizations

HEXPOL North America has practiced internal job promotion and transfer programs for several years. This program has been very successful in providing opportunities for associates to advance within either their current role or into an entirely new area of the business. Recent opportunities in HEXPOL's internal management recruitment program include Managing Directors – Shannon Smith, Jerry Saxion, Mark George, Tom Freshly; Sales Representatives – Gary Brown, Mickey Hess; Technical – Dan Cleary, Jeremy Lawson; Quality – Omar Guifarro, James Maupin; Human Resources – Sandy Fiscus; Production – Terry Elgin; and Procurement – Joey Young, Ellen Clunk.

The success of an internal promotion program has challenged the North American management team to further address organizational needs. This review identified gaps in future external recruitment to fulfill a strong succession plan as well as a gap between industry and academics. The development of a program which addressed leadership and management training was needed. Management began to immediately create a program to address these gaps. The initial program enhancement began in June 2011 with the implementation of a leadership training program. This program began with 4 associates

and today has expanded across the North America locations to include more than 150 associates.

A plan was then developed to bridge the gap between industry and academia as well as future succession planning. HEXPOL began to establish a relationship with universities in specific geographic regions in which we do business. In May 2012 the organizational development program was further enhanced with the employment of four cooperative students in the Ohio locations. The cooperative program includes students in the academic studies of chemistry, mechanical engineering and electrical engineering. From spring 2012 through spring 2013 HEXPOL has employed 15 students through this cooperative program.

Organizationally, both programs are vital to the future growth and success of HEXPOL's business model. As a leader in the custom mix market we are constantly exploring ideas, processes, procedures, technology and training programs which stimulate opportunities for our company's greatest asset – people.

Market and customer expectations are continuously developing and it is necessary for us to further develop the technology level in product development and production. This requires qualified and well-educated employees and the same 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.

A good work environment and human rights

In the work environment area, we focus on preventive programmes through risk analysis, training programmes and technical improvements. It is particularly important to highlight incidents and adopt preventive measures. Creating a good work environment and well-being are the responsibilities of executive management and improvement programmes are conducted in cooperation with employees and employee representatives.

According to our fundamental values, workplaces should be safe, stimulating, developing and comply with the work environment and labour rights legislation in each country. Nobody should be treated differently because of gender, religion, age, functional disability, sexual orientation, nationality, political views or origin. HEXPOL's business ethics guidelines and policies have their background in internationally recognised agreements and guidelines relating to human rights, social responsibility and sustainable development. Consequently, we encourage diversity and refute all forms of special treatment. Issues affecting equality are pursued on a decentralised basis at the Group's units and employees are entitled to form and affiliate to trade unions and to conduct collective negotiations. They also have complete insight into and the right of codetermination in accordance with the provisions of national legislation.

During the year, a variety of training and information programmes were conducted on the subject of business ethics guidelines and employee surveys were conducted at a handful of facilities. Nothing has emerged that indicates that we breached our own guidelines regarding human rights, equality and diversity. For cultural and historical reasons, our industry is male dominated and HEXPOL is no exception. The number of female employees is low and amounted to 13 percent (12) in 2012. The units in Sweden account for the largest number of female employees, with the lowest proportion in Sri Lanka, at 2 percent. On the Board, the percentage of female members was 17 percent (17). Among senior executives, the proportion was 14 percent, with 10 percent (10) in the management teams of subsidiaries.

Personal development and remuneration

Irrespective of the work assignment, it is important for us to have the right person in the right position and permit them to develop in pace with their working tasks. For most people, factors such as work satisfaction, job security and 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 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 848 MSEK (804) in 2012.

Part of society

In recent years, we have extended our social activities. These can involve financial support for sports, medical care and associations, but also take the form of efforts to create an interest in working in our industry. Thus, contacts with schools and universities are important and during 2012 some 20 activities were conducted, such as study visits, practical work experience and academic-based work. A number of more extensive cooperation projects were conducted and one example is the Group's participation in a European research project aimed at developing energy-efficient equipment and processes for compounding rubber. Another example is ELASTO's active role in encouraging girls to move into technology professions.

Involvement may also take the form of various projects aimed at social utility, such as HEXPOL North America participating in social projects with YMCA and Elastomerics in Sri Lanka contributing financial support for school books for the employees' children and wheel-chairs for hospitals.

SUSTAINABLE DEVELOPMENT

FOCUS ON PEOPLE AND THE ENVIRONMENT

HEXPOL's sustainability work is integrated into all operations and improvement programmes based on getting it right from the beginning and eliminating waste with natural resources and human resources. Work involving energy efficiency has priority and the same applies to activities to replace hazardous chemical substances with more environmentally compatible alternatives. Issues concerning waste and a safe work environment are other priority areas. In hindsight, we can state that we have achieved improvements in many areas since the company was listed in 2008. However, progress toward a sustainable society has only begun.

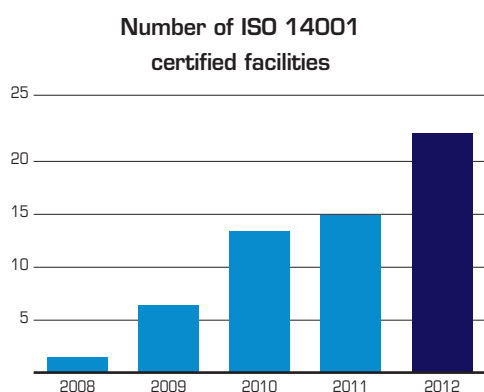
Preventive measures and continuous improvements

Sustainability work is decentralised and responsibility is delegated to the business areas. The managers of the various companies and production facilities are responsible for managing and following up activities involving the environment, work environment and social responsibility. 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.

HEXPOL works preventively using high-class technical solutions. The Group's in many cases 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.

Continuous improvements permeate HEXPOL's environmental work, with ISO 14001 serving as the Group standard. We have considerable positive experience of working systematically with the significant environmental aspects of the facilities. The results subsequently appear in the form of reduced risks and lower environmental impact, but also in the form of substantial cost savings. The regular internal and external environmental audits also contribute to the development and improvement of environmental work. During 2012, seven facilities at HEXPOL Compounding were certified, of which five were in the US, one in Mexico and one in China.

During the year, a total of 100 internal environmental audits and 36 audits by certification organisations in various countries were conducted. Currently, 88 percent of the facilities are environmentally certified, while activities aimed at introducing ISO 14001 at the remaining facilities have commenced. During the year, both facilities in Sri Lanka were certified according to the OHSAS 18001 work environment standard.



Group objectives and local goals

HEXPOL formulates overriding objectives for sustainable development and, within the framework of ISO 14001,

the facilities establish their objectives and action plans. This target-oriented work leads to improvements in respect of resource efficiency, emissions to the environment, waste, work environment and a great deal more. An account of how efforts to achieve the targets relating to energy efficiency, climate impact and safe workplaces have developed is presented on pages 52–53. Ahead of the coming years, we are tightening the current targets and supplementing them with new objectives (see fact box below).

Sustainability Report

Aspects that involve the environment, work environment and social responsibility at the production plants are monitored regularly. The information is used to analyse the situation, monitor sustainability objectives and formulate strategies. We openly report on HEXPOL's sustainable development performance, which is conducted in accordance with the B level of the Global Reporting Initiative's (GRI) international guidelines for sustainability reporting, and some of the information is presented on pages 66–70. The remaining information is presented in the Group's Sustainability Report for 2012, which is available on the website. HEXPOL also participates in the reporting of climate issues 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. 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 strategy for sustainable development.

Sustainability targets

Energy efficiency

Energy consumption is to be reduced by 10 percent by the end of 2014. All HEXPOL companies are to establish internal targets and implement measures for energy-efficiency enhancement.

Climate impact

Emissions of carbon dioxide from energy consumption is to be reduced by 10 percent by the end of 2014. All HEXPOL companies are to establish internal targets and implement measures to reduce the climate impact.

Environmental management systems

All manufacturing facilities are to be certified according to ISO 14001. Acquired facilities are to be certified within two years from the date of acquisition.

Hazardous chemicals

The use of hazardous chemicals included in the Reach list of prioritised hazardous substances will be reduced or completely discontinued.

Safe workplaces

The number of workplace accidents is to be reduced. By the end of 2013, all facilities are to have introduced systems to register near misses, established internal targets and implemented preventive measures.

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 2012 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 of the NASDAQ OMX Nordic exchange. HEXPOL had 7,917 shareholders on December 31 2012. 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 64 percent of the capital and 74 percent of the voting rights.

OPERATIONS AND STRUCTURE

HEXPOL is one of the world's leading polymers Groups with strong global positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for truck and castor wheel application (Wheels). Customers are mainly system suppliers to players in the global automotive and engineering industries, the energy, oil and gas sectors, medical technology and OEM manufacturers of plate heat exchangers and forklifts. The Group is organised on the basis of two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 3,332 employees in ten countries at year-end 2012.

Financial year 2012

SALES AND OPERATING PROFIT

The HEXPOL Group's sales rose 11 percent during the year to 8,007 MSEK (7,197), of which 2 percent was organic. Operating profit rose strongly by 19 percent to 1,069 MSEK (895), resulting in the operating margin improving to 13.4 percent (12.4). Higher operational efficiency improved the operating margin. In addition, operating profit was positively impacted by the successful acquisitions during the year; the acquisition of Müller Kunststoffe, which was completed in January, and the acquisition of Robbins, which was finalised in late November.

Currency effects had a positive impact of 153 MSEK on sales and 51 MSEK on operating profit during the year, with the main factors being a strengthening of the USD (positive impact) and a weakening of the Euro (negative impact).

Sales in the HEXPOL Compounding business area rose

13 percent to 7,270 MSEK (6,450), which also resulted in strongly improved operating profit of 996 MSEK (823). The operating margin increased to 13.7 percent (12.8). Sales increased in most of the business area's markets and were particularly strong in NAFTA, mainly Mexico. In Europe, demand declined gradually, but most of the sales were to customers in Central and Eastern Europe, where demand was relatively better. The HEXPOL TPE Compounding product area performed well and sales rose strongly during the year.

The HEXPOL Engineered Products business area's sales amounted to 737 MSEK (747). Operating profit amounted to 73 MSEK (72), resulting in an operating margin of 9.9 percent (9.6). A stable trend was noted for sales of both gaskets for plate heat exchangers and of wheels. However, HEXPOL Engineered Products continued to experience price pressure for the business area's products. Sales from the business area's operations in China developed positively.

FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 22 MSEK (expense: 23). Net financial items were charged with financing expenses for the acquisition of Müller Kunststoffe, which was completed in January, and the acquisition of Robbins, which was finalised in late November. However, net financial items improved due to strong operating cash flow.

TAX EXPENSES

The Group's tax expenses amounted to 294 MSEK (253), corresponding to a tax rate of 28.1 percent (29.0). Tax expenses for the year were impacted by positive effects including the changes in Swedish corporate tax, which had an impact of 6 MSEK.

NET PROFIT FOR THE YEAR

The Group's profit after tax rose to 753 MSEK (619), corresponding to earnings per share of 21.88 SEK (18.65). This was an increase of 22 percent compared with 2011 (17.98 SEK), based on the actual number of shares following the rights issue in March 2011.

INVESTMENTS AND DEPRECIATION

Group investments totalled 177 MSEK (103) and pertained primarily to capacity investments in China and Mexico, and to maintenance investments. Depreciation and amortisation totalled 152 MSEK (150).

PROFITABILITY

The return on average capital employed rose to 24.0 percent (22.3). The improvement was attributable to the significant upswing in earnings and to continued efficient management of working capital. The average return on shareholders' equity was 28.0 percent (30.4).

CASH FLOW

The Group's operating cash flow rose strongly to 1,209 MSEK (911). The operating cash flow includes effects of the favourable management of working capital and a strong improvement in operating profit. Cash flow from operating activities amounted to 1,115 MSEK (726).

FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio increased to 49.2 percent (47.5). The Group's total assets amounted to 5,907 MSEK (5,208). The Group's net debt amounted to 1,215 MSEK (1,096) and the net debt/equity multiple was 0.4 (0.4).

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 147 MSEK (195). In conjunction with the acquisition of the Excel Polymers Group, the HEXPOL Group entered into an additional five-year credit agreement totalling 100 MUSD in October 2010. The unutilised portion of the bilateral credit amounted to 424 MSEK (567).

Since the five-year credit agreement that was signed in May 2008 falls due in May 2013, the HEXPOL Group signed bilateral loan agreements in early February 2013 with two Nordic banks. One of the loans is a five-year agreement with a limit of 125 MUSD and the second loan is a three-year agreement with a limit of 750 MSEK.

Since goodwill may no longer be amortised according to plan, the value of goodwill 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 and intangible assets amounted to 2,718 MSEK (2,291). The principles applied in the analysis are presented on page 84 under the section accounting policies.

PRINCIPLES UNDERLYING REMUNERATION OF SENIOR EXECUTIVES

The 2012 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 and shall not be pensionable. Variable remuneration is capped at 90–110 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 2013 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable. Variable remuneration has a fixed cap and comprises a maximum of 90–120 percent of the fixed salary, with the exception

of a senior executive in the US, for whom the upper limit this year is a maximum of 170 percent, including a potential acquisition-integration bonus.

PERSONNEL

The average number of employees during the year increased to 3,112 (3,041), which was primarily attributable to the acquisition of Müller Kunststoffe in January and Robbins in late November. 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, 89 percent is outside Sweden. At year-end, the HEXPOL Group had 3,332 (3,020) employees, of whom HEXPOL Compounding accounted for 1,956 (1,648), HEXPOL Engineered Products for 1,371 (1,367), and the Parent Company for 5 (5) employees. For further information, refer to Note 3.

RESEARCH AND DEVELOPMENT

In 2012, HEXPOL's research and development expenditure amounted to 56 MSEK (49). HEXPOL currently has no research expenditure that meets the criteria for capitalisation.

EVENTS AFTER THE REPORTING PERIOD

Since the five-year credit agreement that was signed in May 2008 falls due in May 2013, HEXPOL signed bilateral loan agreements in early February 2013 with two Nordic banks. One of the loans is a five-year agreement with a limit of 125 MUSD and the second loan is a three-year agreement with a limit of 750 MSEK.

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	1,100,030
Premium reserve	597,880
Net profit for the year	1,314,680
Total unrestricted funds	3,012,590

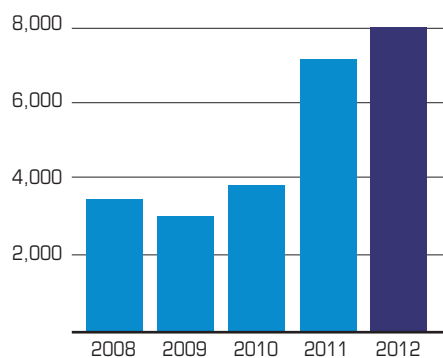
The Board proposes that the unappropriated funds be disposed of as follows:

That the shareholders be paid a dividend of 6.00 SEK per share.

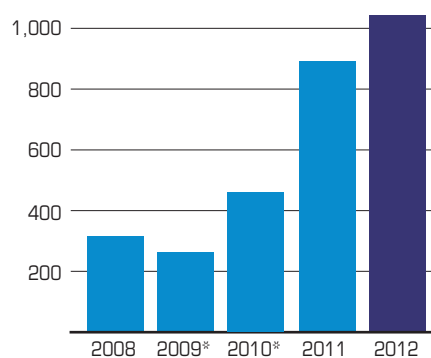
Total dividend from earnings brought forward	206,521
To be carried forward	2,806,069
Total	3,012,590

Five-year overview

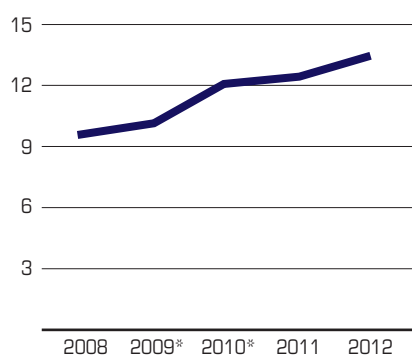
Sales, MSEK



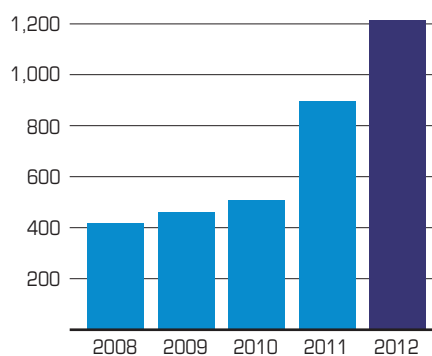
Operating profit, MSEK



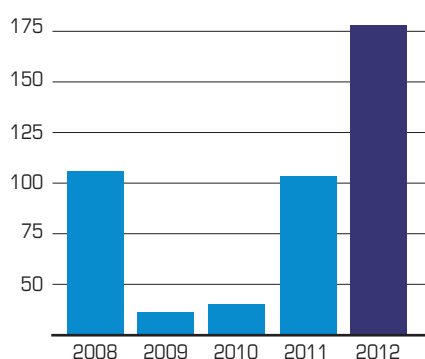
Operating margin, %



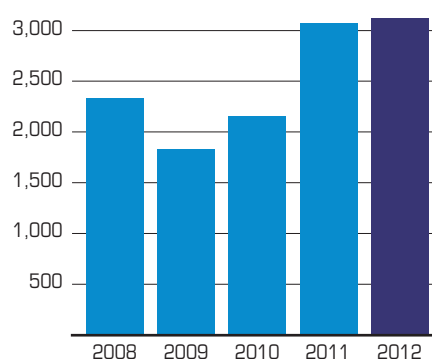
Operating cash flow, MSEK



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 is in turn driving demand for cost-effective solutions. Through improvements to their technology and production expertise, competing companies may begin to produce at low cost and thus increase competition with HEXPOL's products. HEXPOL's future competitive capacity is dependent on its ability to utilise the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this know-how into attractive products and customised solutions at competitive prices. To ensure 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. Trends in many raw materials markets could result in higher purchasing prices for raw materials that are crucial for HEXPOL. To offset continued increases in raw materials prices, HEXPOL strives to enhance production efficiency and to develop more cost-effective processes. Given the competitive market situation, however, there is a risk that HEXPOL will not be able to increase prices sufficiently to fully offset higher costs, thus resulting in reduced margins. Higher purchasing prices for materials and energy could have an adverse impact on the Group's operations, financial position and earnings.

Production disruptions

Damage to production facilities caused 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 or natural disasters could have adverse consequences 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 externally supplied goods meeting agreed requirements with respect to factors such as quantity, quality and delivery time. Incorrect, delayed or missing deliveries from the Group's suppliers could in turn mean that HEXPOL's deliveries are delayed, deficient or incorrect, which could result in reduced sales and thus negatively impact the Group's operations, financial position and earnings.

Although HEXPOL does not believe the Group to be significantly dependent on any individual supplier, adaptation costs could arise and there could be some loss of efficiency in the operation if HEXPOL were to be forced to replace one or several suppliers.

Customers

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

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

Key personnel

HEXPOL's future success largely depends on its ability to recruit, retain and develop qualified managers and other key personnel. Being an attractive employer is thus an important success factor. 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

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

LEGAL RISKS

Legislation and regulation

HEXPOL's principal markets are subject to extensive regulation. HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works to quickly adapt 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's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health, safety and the environment. A number of companies within the Group conduct operations that are subject to permits or mandatory declaration under applicable local environmental legislation. Accordingly, these operations are under the supervision of the appropriate authorities. HEXPOL regularly ensures that it holds all of the necessary permits and that it fulfils all of the necessary applicable declaration obligations. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs and other 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 arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes having a negative impact on the Group's operations, financial position and earnings cannot be excluded. HEXPOL has an agreement concerning a health insurance system in the US, whereby the employees are offered compensation for health care. The Group's expenses are maximised to a fixed amount per individual per year. Further information concerning risks, mainly environmental, is available on pages 70 and 73.

Tax risks

HEXPOL conducts its operations through subsidiaries in a number of countries. Its business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of prevailing tax legislation, tax agreements and regulations in the various countries and tax authorities in question. The Group has obtained advice on these matters from independent tax advisors. However, it cannot be generally ruled out that the Group's interpretation of applicable

laws, tax agreements and regulations or their interpretation or administrative application by the authorities 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 financial position and earnings.

Disputes

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

Intellectual property rights

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

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

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

According to a licence agreement with Bayer AG, HEXPOL is entitled to use the Vulkollan brand and logotype in connection with the manufacture and marketing of wheels produced by HEXPOL Wheels. The licence agreement with Bayer extends for one-year periods and notice may be given three months prior to the end of the agreement. Notice of termination of the agreement by Bayer would have a negative impact, since Vulkollan currently accounts for a major share of the sales of the subsidiary Stellana AB.

FINANCIAL RISKS

Currency risk

In its operations, HEXPOL is exposed to various financial risks, of which currency risk is the dominant one. 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 give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss.

In conjunction with translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange-rate fluctuations could have an impact on the Group's balance sheet. Exchange-rate fluctuations could have an adverse impact on HEXPOL's sales, financial position and earnings. A sensitivity analysis shows that a shift of 10 percent in the SEK against all currencies would have an impact of 126 MSEK on operating profit.

Interest-rate and credit risks

HEXPOL is also affected by interest-rate fluctuations. Changes in interest rates affect the Group's net interest income and cash flow. Based on the average fixed interest period in the Group's total loan portfolio at December 31 2012, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect on full-year earnings of about 18 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 depends to a great extent on successful sales of the Group's products and services. There are no guarantees that

HEXPOL will be able to secure the necessary capital. In this regard, general developments in the 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.

HEXPOL could also require additional financing to refinance loans that expire. The financing comprises two components: utilisation of part of an existing syndicated facility that expires in May 2013 and a revolving loan of up to 100 MUSD that expires in October 2015. Since the five-year credit agreement that was signed in May 2008 falls due in May 2013, HEXPOL signed bilateral loan agreements in early February 2013 with two Nordic banks. One of the loans is a five-year agreement with a limit of 125 MUSD and the other is a three-year agreement with a limit of 750 MSEK. These two financing components form the basis for the Group's long-term financing requirements and include traditional financial covenants. It cannot be ruled out that HEXPOL could ultimately be forced to breach these covenants due to, for example, the general economic trend or disruptions in the capital and credit markets, which could have a negative impact on HEXPOL's financial position and earnings.

Goodwill

Goodwill accounts for a significant portion of HEXPOL's intangible fixed assets. Goodwill is tested annually in connection with the preparation of the annual accounts to identify any impairment requirements, as well as to ensure that these items do not exceed their respective assessed value in use. In the 2012 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 will have a negative impact on HEXPOL's financial position and earnings.

EQUITY MARKET RISKS

Share price development

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

Future dividends

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





Sustainability work

ENVIRONMENTAL RESPONSIBILITY

KEY ENVIRONMENTAL ISSUES

Key environmental issues that affect HEXPOL's operations include the use of raw materials in the form of polymer raw materials (rubber and 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 for example supplier activities, transportation and applications of HEXPOL's products.

HEXPOL reports on the performance of a number of parameters affecting sustainable development. Emphasis is placed on environmental issues related to development during 2008–2012. The report covers 25 production plants in nine countries. The latest acquisition, Robbins, with three units acquired in November 2012 is not included in the report. In addition to the information below, reference is made to the section entitled "Corporate responsibility" on pages 50–57. For readers seeking 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 affects the majority of HEXPOL's production facilities through permits and operational terms and conditions. Environmental legislation in the form of EU directives (such as REACH, RoHS and WEEE) and other national or international legislation affect many of the Group's operations. The facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The production plants in the Czech Republic, Belgium, the US, Mexico, Sri Lanka and China either have environmental licences that cover all areas of their operations or that apply to specific environmental aspects. The units in the UK 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 was submitted to local authorities.
- At ELASTO in Åmål, Sweden, activities are now in progress to upgrade the plant in line with the ordinance governing hazardous explosive environments. The main part of the improvements has been completed and the remaining facilities will be upgraded during 2013.

- Supervisory authorities conducted inspections at about half of the plants during the year. Some minor non-conformities were detected and corrective measures have been taken.
- Three complaints were filed during the year concerning emissions of malodorous substances, particulates and vibrations. Actions have been taken to eliminate the cause of the problems.

ENERGY OPTIMISATION – A PRIORITISED AREA

Energy issues are important to HEXPOL, from both a cost and environmental perspective. 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. The Group's overall objective is to reduce consumption, and during the year all of HEXPOL's production plants set their own targets and implemented many different types of reduction measures.

Energy consumption during 2012 totalled 258 GWh (264) and purchased electricity accounted for about two-thirds of total consumption. In absolute terms and expressed as a key performance indicator for the Group, energy consumption decreased compared with the preceding year. Most of the production plants reported reduced or unchanged energy consumption. In some cases, increased production volumes led to a rise in energy consumption. The total energy cost during 2012 totalled about 150 MSEK (134).

REDUCED USAGE OF HAZARDOUS CHEMICALS

The principal raw materials for the manufacture of rubber-compounds are synthetic rubber, natural rubber, process oils and a large number of chemicals and additives. 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 tens of thousands of tonnes per year. Natural rubber accounts for about 14 percent of polymers used. The use of recycled rubber has also increased and accounts for approximately 2 percent of polymers used. Apart from rubber polymers, the raw materials include isocyanates, plastics, thermoplastic polymers, metals, solvents and dyes.

A prioritised area is to reduce the use of chemicals that are hazardous to the environment and health. In addition to our own driving forces to accomplish this, there is also intense pressure from many customers. Legislation is also becoming increasingly demanding. In this regard, it is mainly the EU legislation, REACH, that is of great significance to our industry. In 2012, a number of chemicals were phased out or had their usage reduced, such as certain phthalates, brominated flame retardants, accelerators and materials that generate nitrosamines. A number of chemical products are under review for being phased out and our assessment is that efforts to reduce chemical risks will continue at all of our plants in the foreseeable future.



EMISSIONS TO THE ATMOSPHERE

REDUCED EMISSIONS OF CLIMATE-CHANGING GASES

HEXPOL's use of fuel oil, natural gas, district heating and electricity result in emissions of the climate-changing gas, carbon dioxide. Emissions of carbon dioxide during 2012 totalled about 99,000 tonnes (99,000). Indirect emissions of carbon dioxide through purchases of electricity dominated accounted for 85 percent (83). Energy optimisation is contributing to a reduction in the Group's emissions, which is measured as a key performance indicator. An important investment that will reduce our future climate impact is the installation of a biomass-powered (saw dust, wood) steam boiler at one of the production plants in Sri Lanka.

OTHER EMISSIONS TO THE ATMOSPHERE

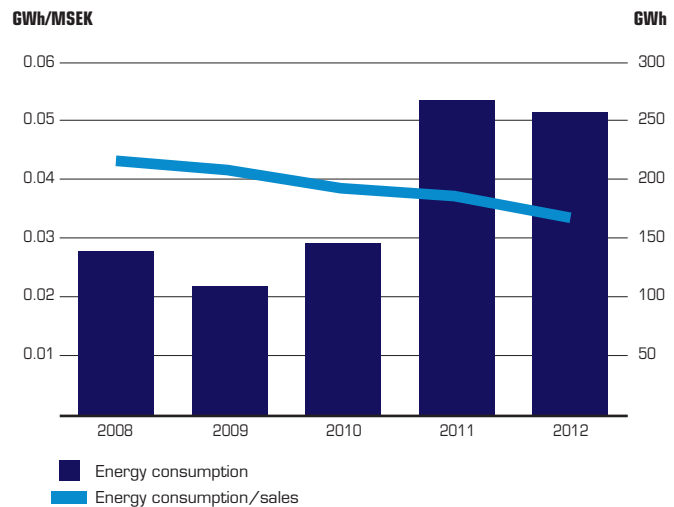
The Group's production facilities gave rise to atmospheric emissions of about 68 tonnes (90) of sulphur dioxide and nitrogen oxide. These emissions are primarily attributable to the use of heavy fuel oil at the Sri Lankan units. Emissions of volatile organic compounds (VOC) from dyes and solvents totalled approximately 24 tonnes (17). During the year, an operational breakdown at a cooling plant in Czech Republic resulted in the emission of some 140 kg of ozone-depleting cooling media (HCFCs), corresponding to about 19 percent of the Group's total installed amount of cooling media. During the year, two complaints were made by neighbouring parties resulting from the emission of particles or malodorous substances to the atmosphere.

WATER CONSUMPTION

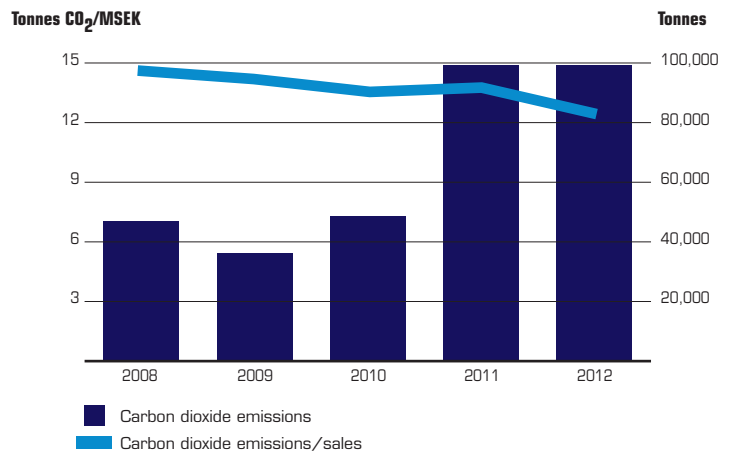
The Group's water consumption has increased in recent years and is primarily attributable to increased production and additional production plants. Water is used for cooling, cleaning and sanitary purposes. During 2012, HEXPOL consumed some 166,000 m³ (187,000) of municipally supplied water. Some 24,000 m³ of water (15,000) originated from proprietary wells and about 260,000 m³ (250,000) was pumped from nearby watercourses. None of the production plants are located in areas subject to water shortages. To reduce water consumption, most of the plant-cooling systems are closed systems that use re-circulating water. A number of units work with programmes to reduce water consumption. The total cost of water was 3.1 MSEK (2.4).

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. During 2012, HEXPOL invested in water treatment (sand filtration units) to minimise discharges of sanitary wastewater to surrounding watercourses.

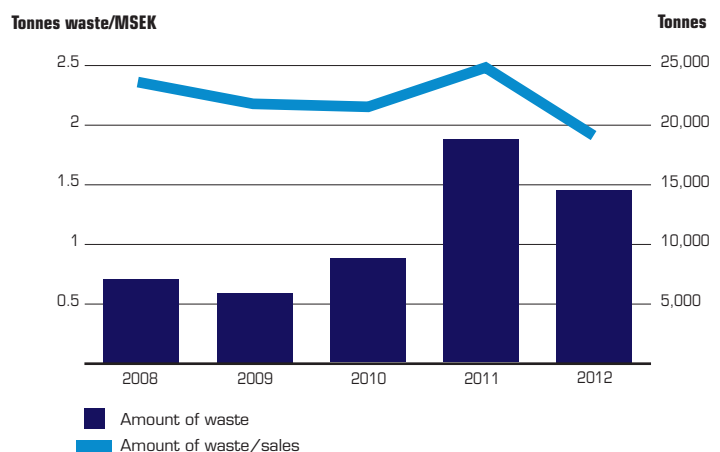
Energy consumption/sales



Carbon dioxide emissions/sales



Amount of waste/sales





Energy and climate efforts

Our overriding corporate objectives are to reduce energy consumption and carbon emissions. During 2012, many 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

- Reduced usage of natural gas (USA).
- Thermal insulation of presses (Sri Lanka).
- Upgrade of compressors and cooling equipment (USA, Sri Lanka).
- Optimised operation of steam boiler (Sri Lanka).

Production planning and production processes

- Reduced cycle time for the production of rubber compounds (USA, Belgium, China).
- Optimised production planning and reduced number of equipment activations (USA, China).

Lighting, buildings and energy inquiries

- Installation of energy-efficient lighting, such as LED lamps (USA, Czech Republic, UK).
- Utilisation of more daylight in premises (China).
- Avoiding production when electricity grid is at a peak load (Mexico, China, USA).

Renewable energy

- Design of biofuel boilers. Installation planned for 2013 (Sri Lanka).

REDUCTION IN WASTE VOLUME

The total volume of waste was approximately 14,900 tonnes (18,000), of which 357 tonnes (380) comprised hazardous waste. We notice a positive trend with many actions being taken to reduce wastage in production and improve the sorting of waste at the source. More than 50 percent of the waste was used at external facilities as energy or material. Approximately 40 percent of the waste was sent to landfill, a treatment method that is mainly used in the US, as well as the Czech Republic and Belgium. The cost of external waste management totalled 6.9 MSEK (9.7).

REQUIREMENTS PLACED ON SUPPLIERS

HEXPOL is part of the chain from the extraction of raw materials to the production of various industrial and consumer products. Many of our suppliers of polymers and chemicals are global chemical companies that are well-developed in environmental-conservation efforts. 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 upstream in the supplier chain. During the year, some 60 suppliers were evaluated concerning the environment and corporate social responsibility.

ENVIRONMENTAL ADAPTATION OF PRODUCTS

There is considerable interest in various environmental adaptations of products in many of the industries to which HEXPOL delivers products, such as the automotive, toy, construction and appliance industries. Specifically, this entails customers formulating various requirements concerning the products' environmental and health characteristics. We work proactively to meet such requirements. Some examples of products that contribute environmental benefits are:

- Polymer gaskets used in plate-heat exchangers that help generate energy savings and reduce environmental impact. The gaskets also contribute to the 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.
- 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.
- 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.

Environmental legislation and other official requirements
HEXPOL's production plants have the licences required for operations. An application for a renewed licence has been submitted to local government authorities for the plant in Gislaved. We are of the opinion that HEXPOL has taken relevant precautionary measures, but it cannot be ruled out that terms and conditions and other requirements could impact operations. 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 regard, we are referring to 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 or accidents of significance to the ground and groundwater were registered in 2012. 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 and tanks. Decontamination of asbestos-contaminated equipment was carried out during the financial year.

Polychlorinated biphenyls (PCBs) are present in window joints in buildings at the Gislaved plant. The sealing compounds will be remediated as the windows are gradually replaced.

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. There were no occurrences of such uncontrolled events in 2012.

Thermoplastic elastomer (TPE) from renewable raw materials

In many industries, interest in using renewable materials in various applications is increasing. Cork is a material that is perhaps mainly associated with the cork used for wine bottles, building material and shoe soles. The material is extracted from the bark of the cork tree (*Quercus suber*) and when the tree is 20-25 years old, the bark is removed from the trunk of the tree. The cork tree survives and builds a new bark, which can then be harvested again after ten years. The tree lives for 150-200 years and supplies an average of 16 harvests during its lifetime.

Müller Kunststoffe, one of the companies in HEXPOL TPE Compounding, has developed a method to combine cork with thermoplastic raw materials. The products are called Lifocork® and combine low weight, durability and the feel of a natural product with processing properties of a plastic material. Lifocork® is manufactured through a special process developed by Müller Kunststoffe, in which the cork is combined with thermoplastic material, in a cost and energy-efficient manner. The method is based on technology that is common in the TPE industry, namely injection moulding and extrusion.



Lifocork® can be used in many different products and new opportunities arise nearly every day. The material is light, easy to grip, pleasant to touch and therefore perfect for all types of handles. Accordingly, it is found in tools, sporting equipment and various household articles. Lifocork® is also used in bowls, trays, toys and flower pots.

In dual-component injection moulding and co-extrusion, Lifocork® can be attached to TPE, PP or PE, thus creating the potential for sophisticated designs, whereby soft surfaces can be a feature of production. Through extrusion, such products as plates, belts, tapes and profiles can be manufactured from Lifocork®. Foam Lifocork® can be used as cushioning in orthopaedic shoes.



Elastomeric certified OHSAS 18001 as first company in HEXPOL Group

Continuous improvement is a key success factor at Elastomeric, which was recently awarded the OHSAS 18001 occupational health and safety management system certificate from Sri Lanka Standards Institute for both plants located in Sri Lanka.

The aim of OHSAS 18001 is to improve the work environment and the new management system is integrated with the quality management system (ISO 9001), the environmental management system (ISO14001) and Elastomeric/Gasket Production System. The latter system is created as a strategic tool, based on Lean Management principles, to improve the production chain by eliminating non-value activities. The combination of management systems will support Elastomeric to become a world-class organization in order to meet ever increasing global demands from interested parties.

OHSAS 18001 is designed to place a proactive and preventative emphasis on risk control factors by identifying and assessing the likelihood of hazards in the workplace. An effective occupational health and safety management systems will help us to identify OHS “hazards” and assess risks in the work environment, provide development methods to eliminate hazards and risks and take appropriate measures to mitigate consequences. In addition, OHSAS 18001 is a management system concerned with enhancing the health and safety of all the employees of the factory and third parties who are engaged with the industry under various agreements, for example, contractors. Certification on occupational health and safety will foster an accident free environment and will enhance trust amongst employees, customers, authorities and other interested parties.

Prior to the certification, management, staff members and shop floor employees underwent a series of extensive training programs in order to increase awareness on workplace risks and how to avoid accidents and injuries. For example, all staff members are now well-educated and trained to handle a fire at the workplace, and fire teams have been appointed to ensure fast and safe evacuation. The emergency preparedness, to handle an external disaster situation, has also been put in place.

HEXPOL supporting youth soccer program

It is important for HEXPOL to embrace 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 Franklin Family YMCA. During 2012, HEXPOL Compounding North America supported the youth soccer program.

"The Franklin Family YMCA extends our appreciation to HEXPOL Compounding for their support of our youth soccer program. Our youth sports program offers players ages 3 - 12 the chance to improve their skills, increase confidence, make new friends, be active and learn from adult role models (volunteers) committed to the YMCA's values of caring, honesty, respect and responsibility. In many cases youth activities such as the soccer program would not exist without the support of local employers. Thank you for your support and investment in our community!"

– Jodi Schroer, Executive Director,
Franklin County, US, YMCA



HEXPOL supporting the children's education in Sri Lanka

HEXPOL define corporate social responsibility strategically as how our companies manage economic, social and environmental impacts, as well as the relationship between our employees and their families.

At Elastomeric in Sri Lanka we support education. Each year with the dawn of the New Year we join hands with our employee's children and support them with their education. This year General Manager Gaskets Robert Knutsson took pride in giving away the school books.



Climate-related risks

Landslides, flooding and extreme weather situations are occurring throughout the world. Consequently, HEXPOL 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. Three of our plants have identified flooding as a climate-related risk and certain precautions have already been taken.

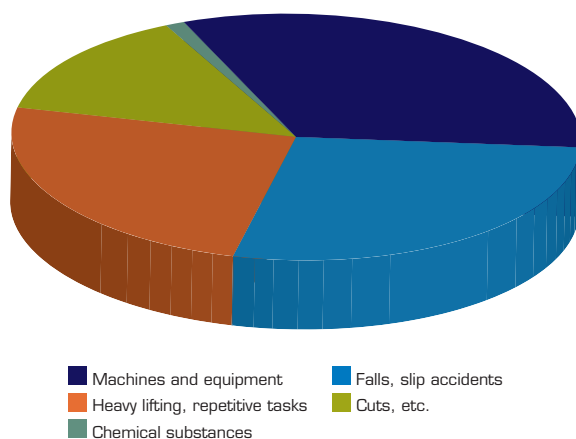
Environmental adaptation of products

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 2012, HEXPOL invested 16.7 MSEK (9.9) in measures that benefit the environment and occupational health and safety. Approximately two thirds of investments concerned measures for energy optimisation. Substantial investments were also made in measures to improve occupational health and safety and in air-purification equipment. Costs totalled 14.5 MSEK (14.9), of which nearly half was related to the handling of waste products. Fees for initiatives related to the management and administration of the environment and occupational health and safety accounted for approximately one quarter of the costs. Reduced waste volumes and energy optimisation, as well as other measures related to the environment resulted in savings of about 13.0 MSEK (8.6).

Causes of occupational accidents 2012



SOCIAL RESPONSIBILITY

OCCUPATIONAL HEALTH AND SAFETY HIGHLY PRIORITISED

HEXPOL's target for 2012 was to improve the reporting of near misses, meaning events that could cause a workplace accident. Two thirds of our units now have

such a reporting system in place and a total of 140 near misses were registered. The near misses were related to areas in which occupational accidents occur, meaning injuries caused by machinery and equipment, exposure to dust and hazardous chemicals, noise, heavy lifting, repetitive tasks and falling accidents.

In 2012, there were 73 occupational accidents (122) that resulted in more than one day's absence from work. Total sickness absence attributable to occupational accidents amounted to 847 days (891) days. One occupational accident involving a contractor occurred during 2012. In addition, 17 work-related illnesses (11) were confirmed, mainly pertaining to allergies, hearing impairment and damage to locomotor systems.

Preventive programmes comprise risk analyses, technical measures, training and safety inspections. Formal safety committees are active at 21 of the 25 production plants. During 2012, risk analyses and work-environment measurements were conducted at essentially all facilities. The focus was on noise, dust exposure, chemical handling, fire risks and the use of personal protective equipment. The workforce at units that handle isocyanates undergoes special health checks.

TRAINING

A total of 48,000 hours (32,000) of training was provided, corresponding to an average of 15 hours (11) per employee. Environmental and occupational-health-and-safety training was carried out at all production units and averaged 4.5 hours (3.9) per employee. Environmental and occupational-health-and-safety issues are brought to the attention of new employees.

During the year, a large number of specialised training courses were also held, which mainly focused on environmental risks, and health and safety. At the units certified in accordance with ISO 14001, training was provided on environmental issues and how the environmental management system works. Information about HEXPOL's ethical guidelines and policies was communicated at two thirds of the plants.

COLLECTIVE AGREEMENTS

The Group's 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. At 25 percent of the plants, all employees are covered by collective agreements. This applies to 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 HEXPOL's social responsibility programmes in the section entitled "Corporate responsibility" on pages 50–57.

Corporate governance report



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

GROUP GOVERNANCE AND APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

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

SHAREHOLDERS

Refer to 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 May 5 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 on the adoption of the income statement and balance sheet, the dividend to be paid, amendments to the company's Articles of Association, discharge from liability for the Board and President, election of Board members and auditors, and the setting of remuneration for the Board members and auditors. The company's auditor attends the AGM. HEXPOL's most recent AGM was held on May 4 2012.

NOMINATION COMMITTEE

HEXPOL's AGM resolves on the composition of the company's Nomination Committee. The Nomination Committee's task is to submit proposals regarding the Chairman of the AGM, the Chairman of the Board 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 2012 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 representing AFA Försäkring should be members of the Nomination Committee ahead of the 2013 AGM. Should a shareholder who is represented by one of the members

Deviation from the Swedish Code for Corporate Governance

Rule	Rule in 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	Holdings ¹ Number of A shares	Holdings 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 December 31 2012.

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 2013 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 4 May 2012 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 2013 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 by the Nomination Committee, is presented in the table above. According to the requirements presented in the Code, the majority of the Board members elected by the AGM shall be independent in relation to the company and its management, and at least two of the Board members shall also be independent in relation to the company's major shareholders. As shown in the table, HEXPOL meets these requirements. Members can be reached at the address of HEXPOL's head office.

Responsibilities of the Board of Directors

The Board is responsible for determining the Group's overall objectives, developing and monitoring the general strategy, decisions on major acquisitions, divestments and investments and ongoing monitoring of operations during the year. The Board is also responsible for ongoing evaluation of management and for ensuring that there are effective systems for monitoring and internal control of the company's operations and its financial position, and for the Group's organisation and management pursuant to the Swedish Companies Act. The Board also appoints the President and CEO, the Audit Committee and Remuneration Committee, and 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, which 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. The Code requires the Board to 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 2012 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 2012, the committee consisted of Melker Schörling (Chairman) and Ulrik Svensson. The Remuneration Committee held two minuted meetings during 2012, which were attended by all of the Committee's members.

Board activities in 2012

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

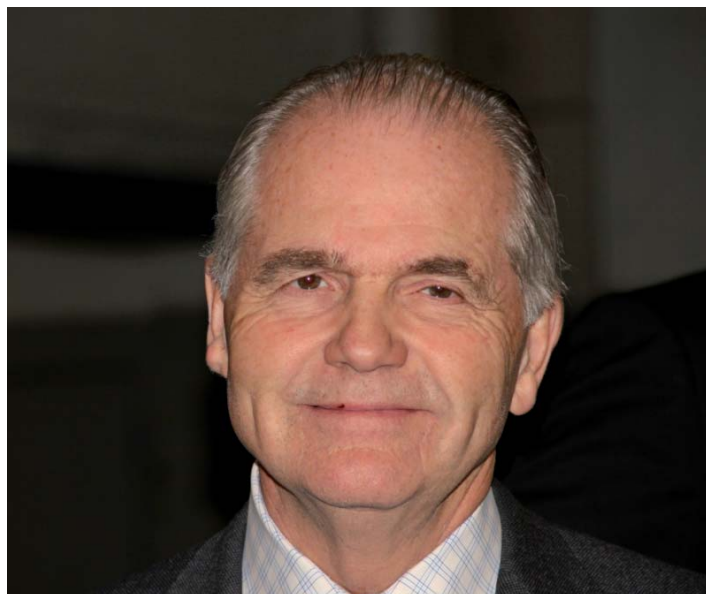
February 6	Year-end report for 2011 and debriefing with the auditors
May 4	Q1 2012 interim report and statutory Board meeting after the 2012 AGM
July 19	Q2 2012 interim report
October 22	Q3 2012 interim report and strategic plan for 2013–2015
December 12	Visits to subsidiaries and decision concerning budget

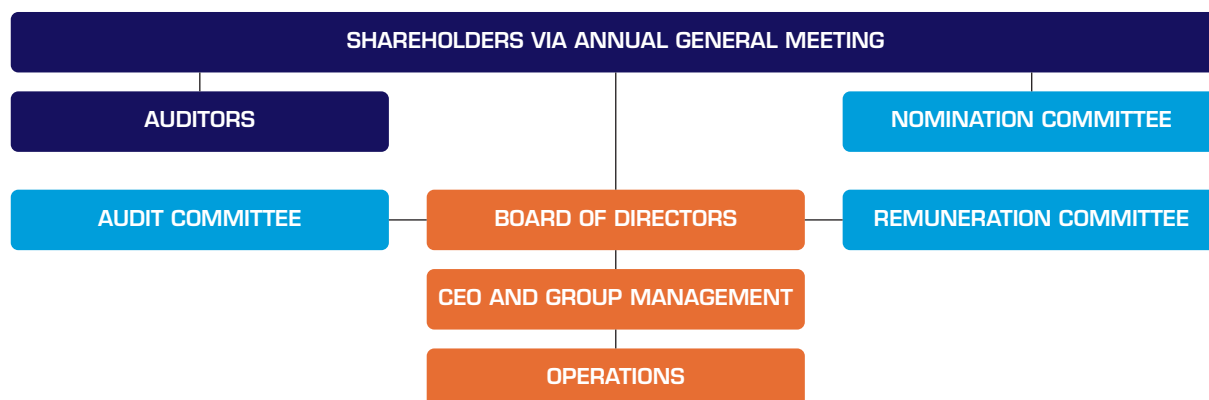
During 2012, five AGM-elected Board members attended all Board meetings and one Board member attended five out of six Board meetings.

AUDITORS

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

The 2012 AGM re-elected the registered auditing firm, Ernst & Young AB, for the term of one year up to the end of the next AGM, with Authorised Public Accountant





Stefan Engdahl as auditor-in-charge, and Authorised Public Accountants Håkan Olsson Reising and Johan Thuresson as jointly responsible auditors. All auditors may be contacted at Ernst & Young AB, Torggatan 4, SE-211 40 Malmö, Sweden. The auditors to be in office for 2013 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 and CEO shall ensure that the Board receives unbiased, detailed and relevant information required to enable the Board to make well-founded decisions. In addition, the President and CEO is responsible for keeping the Board informed of the company's development between Board meetings.

The President and CEO has appointed a Group Management consisting of the 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 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 105, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

INFORMATION ON REMUNERATION

Refer to Note 3 on page 88–89 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 2012 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 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 sub-headings 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 attestation arrangements established by the CEO.

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

RISK MANAGEMENT

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

CONTROL ACTIVITIES

The risks identified with respect to the financial reporting process are managed via the company's control activities, which are designed to prevent, uncover and rectify errors and non-conformities. Their management is conducted by means of manual controls in the form of, for example, reconciliations and audits, as well as 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	2012	2011
Sales	1	8,007	7,197
Cost of goods sold		-6,485	-5,900
Gross profit		1,522	1,297
Sales costs		-107	-101
Administration costs		-293	-254
Research and development costs		-56	-49
Other income and expenses		3	2
Operating profit	1,3,4,8	1,069	895
Financial income	5	24	16
Financial expenses	5	-46	-39
Profit before tax		1,047	872
Tax	6	-294	-253
Profit after tax		753	619
of which, attributable to Parent Company shareholders		753	619
of which, attributable to Non-controlling interests		-	0
		2012	2011
Earnings per share, SEK		21.88	18.65
Earnings per share after dilution, SEK		21.88	18.54
Average number of shares, thousands		34,420	33,189
Average number of shares after dilution, thousands		34,420	33,387

Consolidated statement of comprehensive income

MSEK	2012	2011
Profit after tax	753	619
Cash-flow hedges	0	-3
Cash-flow hedges, tax	0	1
Translation difference	-145	27
Comprehensive income	608	644
of which, attributable to the Parent Company's shareholders	608	644
of which, attributable to Non-controlling interests	-	0

Consolidated balance sheets

MSEK	Note	2012	2011
ASSETS			
Fixed assets			
Intangible fixed assets	7	2,718	2,291
Tangible fixed assets	8	1,227	1,069
Financial fixed assets		1	1
Deferred tax assets	6	25	4
Total fixed assets		3,971	3,365
Current assets			
Inventories	9	536	477
Accounts receivable	10	671	718
Current tax receivables		108	54
Other current receivables		44	19
Prepaid expenses and accrued income		13	18
Cash and cash equivalents		564	557
Total current assets		1,936	1,843
TOTAL ASSETS		5,907	5,208
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
Other capital contributions		598	598
Reserves		-93	52
Profit brought forward		1,582	1,135
Profit for the year		753	619
Total	11	2,909	2,473
Non-controlling interests		-	-
Total shareholders' equity		2,909	2,473
Non-current liabilities			
Interest-bearing liabilities	12	228	1,630
Deferred tax liabilities	6	181	117
Pension provisions	13	13	13
Total non-current liabilities		422	1,760
Current liabilities			
Interest-bearing current liabilities	12	1,581	68
Accounts payable		665	666
Current tax liabilities		93	19
Other current liabilities		12	19
Other provisions	14	0	5
Accrued expenses and deferred income	15	225	198
Total current liabilities		2,576	975
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,907	5,208
Pledged assets	16	9	27
Contingent liabilities	16	4	4

Consolidated changes in shareholders' equity

	Attributable to Parent Company shareholders						Attributable to non-controlling interests				Total shareholders' equity	
	Share capital		Other capital contributions		Reserves		Profit brought forward					
MSEK	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Opening balance on January 1	69	53	598	0	52	27	1,754	1,238	0	9	2,473	1,327
Profit after tax	-	-	-	-	-	-	753	619	0	0	753	619
Other comprehensive income	-	-	-	-	-145	25	-	-	-	-	-145	25
Total comprehensive income	-	-	-	-	-145	25	753	619	0	0	608	644
Acquisitions	-	-	-	-	-	-	-	-	-	-9	0	-9
Dividend	-	-	-	-	-	-	-172	-103	-	-	-172	-103
New share issue	-	13	-	538	-	-	-	-	-	-	0	551
Costs associated with rights issue	-	-	-	-8	-	-	-	-	-	-	0	-8
Rights issue, exercise of warrants	-	3	-	68	-	-	-	-	-	-	0	71
Closing balance, December 31	69	69	598	598	-93	52	2,335	1,754	0	0	2,909	2,473

Consolidated cash flow statements

MSEK	Note	2012	2011
Cash flow from operating activities	17		
Operating profit		1,069	895
Adjustment for non-cash items		152	150
Net interest items		-26	-24
Tax paid		-240	-219
Cash flow from operations before changes in working capital		955	802
Cash flow from changes in operating capital			
Changes in operating receivables		183	-88
Changes in operating liabilities		-18	57
Non-recurring items		-5	-45
Cash flow from operations		1,115	726
Investing operations			
Investments in tangible fixed assets		-174	-102
Sales of tangible fixed assets		0	0
Investments in intangible fixed assets		-3	-1
Acquisition of subsidiaries	20	-926	1
Cash flow from investing activities		-1,103	-102
Financing activities			
Loans raised		796	158
Amortisation of liabilities		-591	-1,055
Dividend		-172	-103
Rights issue		-	539
Exercise of warrants		-	71
Cash flow from financing activities		33	-390
Cash flow for the year		45	234
Cash and cash equivalents at January 1		557	318
Exchange-rate differences in cash and cash equivalents		-38	5
Cash and cash equivalents at December 31		564	557

Operating cash flow, Group

MSEK	2012	2011
Operating profit	1,069	895
Depreciation/amortisation	152	150
Change in working capital	165	-31
Investments	-177	-103
Operating cash flow	1,209	911

Accounting policies

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

Furthermore, recommendation RFR 1, Supplementary accounting rules for corporate groups, issued by the Swedish Financial Reporting Board has been applied.

The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 75.

The applied accounting policies correspond to those applied in the preceding year. No new or revised IFRSs that entered into force in 2012 have had any significant impact on the Group.

With the exception of IAS 19, which it has been decided will be applied as of the 2013 calendar year or later, the revised standards (IFRS 7, IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IAS 1, IAS 19, IAS 32) are not deemed to have any material impact on consolidated financial statements. No standards or interpretative statements are applied in advance. The revised IAS 19, Employee Benefits, has been applied from 1 January 2013. The most significant amendment is the discontinuation of the option to postpone actuarial gains and losses according to the corridor method and these are to be recognised in other comprehensive income. Consequently, the pension liability will increase by approximately 3 MSEK.

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 to be recognised 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, thus resulting 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 Parent Company and the other companies in which the Parent Company has a direct or indirect controlling influence are consolidated in the consolidated financial statements. 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 recognised 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 the 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 probable 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 is 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 on the liability to the lessor.

FINANCIAL INSTRUMENTS

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

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

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

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

Loan receivables and Accounts receivable

Receivables are recognised at the amount expected to be received on a case-by-case basis. Impairment losses for accounts receivable are recognised in operating expenses.

Cash and cash equivalents

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

Other financial liabilities

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

Hedge accounting

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

Receivables and liabilities in foreign currency

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

Borrowing costs

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

PENSION AND SIMILAR COMMITMENTS

HEXPOL predominantly has defined-contribution pension obligations. In addition, a few employees have defined-benefit pensions. Expenditure for defined-contribution plans are expensed as incurred. Expected expenditure under defined-benefit plans are recognised as a liability calculated in accordance with actuarial models. 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 profit or loss. 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 December 31 2012, Alecta's surplus in the form of the collective consolidation level was 130 percent (113).

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.

INVENTORIES

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

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

Market terms are applied for intra-Group transactions.

GOODWILL

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

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

DEPRECIATION/AMORTISATION ACCORDING TO PLAN

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

The following depreciation/amortisation according to plan is applied:

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

IMPAIRMENT LOSSES

Goodwill is tested on an annual basis with regard to any impairment requirements. Other assets are tested for indications of impairment requirements, meaning whether the recognised value of an asset exceeds its recoverable amount.

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

The basic assumption used to determine whether or not there is an impairment requirement is as follows: When calculating the present value of future cash flows, a cost of capital of 12.1 percent (11.5) before tax has been applied. This rate has been 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 January 1 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 RFR 2, in respect of loans in foreign currencies intended to effectively hedge assets in subsidiaries denominated in corresponding currencies. Accordingly, changes in exchange rates are not recognised for such loans.

Notes of the Group

Note 1 Segment reporting

Information about operating segments

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

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

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

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2012	2011	2012	2011	2012	2011
Sales, external	7,270	6,450	737	747	8,007	7,197
Operating profit	996	823	73	72	1,069	895
Operating margin, %	13.7	12.8	9.9	9.6	13.4	12.4
Net financial items					-22	-23
Tax					-294	-253
Profit for the year					753	619
Operating assets	4,787	4,136	424	456	5,211	4,592
Operating liabilities	826	812	78	77	904	889
Operating capital	3,961	3,324	346	379	4,307	3,703
Investments	145	88	32	15	177	103
Depreciation/amortisation	126	123	26	27	152	150

Geographic markets MSEK	Sales per recipient country		Operating capital	
	2012	2011	2012	2011
Europe	2,653	2,431	1,428	1,163
NAFTA	4,936	4,358	2,473	2,059
Asia	418	408	406	481
Total	8,007	7,197	4,307	3,703

Note 2 Related-party transactions

Transactions between Group companies occur on market-based conditions.

In 2012, the Group purchased energy for 19 MSEK (20) from the associated company, Megufo AB, in Sweden. On December 31, 2012, the Group had a liability of 2 MSEK (1) 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 Employees and personnel costs

Costs for remuneration of employees

MSEK	2012	2011
Salaries and remuneration, etc.	719	680
Total	719	680
To the Board and Presidents, of which bonus and similar items	64 22	57 17
Pension costs	18	17
Social-security costs	111	107
Total	129	124

Average number of employees	2012	of whom men	2011	of whom men
Sweden	334	61%	350	60%
Belgium	58	84%	59	88%
Czech Republic	98	95%	101	95%
Germany	161	90%	67	96%
Mexico	193	90%	180	89%
Luxembourg	3	67%	2	67%
USA	988	89%	986	89%
China	215	64%	175	65%
Sri Lanka	970	98%	1,027	98%
UK	92	90%	94	90%
Total	3,112	87%	3,041	88%

Note 3, cont.

Personnel costs per country

MSEK	2012	2011
Sweden	210	205
Belgium	32	43
Czech Republic	19	21
Germany	66	34
Mexico	23	26
Luxembourg	10	2
USA	413	399
China	19	15
Sri Lanka	27	28
UK	29	31
Total	848	804

Gender distribution on the Board of Directors	2012	2011
Distribution between men and women		
Women	1	1
Men	5	5
Total	6	6

Gender distribution in company management	2012	2011
Distribution between men and women		
Women	1	0
Men	6	7
Total	7	7

Remuneration of the

Board of Directors	Board fee		Committee fee		Total	
TSEK	2012	2011	2012	2011	2012	2011
Melker Schörling, chairman	500	460	75	75	575	535
Alf Göransson	250	230			250	230
Jan-Anders E. Månson	250	230			250	230
Malin Persson	250	230	75	75	325	305
Ulrik Svensson	250	230	200	200	450	430
Total	1,500	1,380	350	350	1,850	1,730

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	
TSEK	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Georg Brunstam, President and CEO	5,338	5,338	4,686	6,038	2,438	2,104	609	298	13,071	13,778
Other members of Group management, 6 persons (6)	13,657	12,494	7,415	9,963	2,242	1,750	834	806	24,148	25,013
Total	18,995	17,832	12,101	16,001	4,680	3,854	1,443	1,104	37,219	38,791

Principles for remuneration of the Board and senior executives

Remuneration is paid to the Board of Directors in accordance with resolutions passed by 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 principle is that 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.

Warrants

On August 18, 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	March 1, 2011 to September 1, 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 4 Fees and cost remuneration paid to auditors

MSEK	2012	2011
Ernst & Young		
Audit assignment	4	5
Audit activities in addition to audit assignment	0	0
Tax consultancy	1	0
Other services	1	2
Other auditors		
Audit assignment	1	0
Tax consultancy	0	0
Other services	0	0
Total	7	7

Note 5 Financial income and expenses

MSEK	2012	2011
Interest income	3	2
Exchange rate gains and other financial income	21	14
Financial income	24	16
Interest expense	-24	-32
Exchange rate loss and other financial expenses	-22	-7
Financial expense	-46	-39
Net financial expense	-22	-23

Note 6 Tax

MSEK	2012	2011
Current tax expense		
Tax expense on profit for the year	-258	-182
Total	-258	-182
Deferred tax expense		
Deferred tax pertaining to temporary differences	-36	-40
Utilised/revaluation of loss carryforwards	0	-31
Total	-36	-71
Total recognised tax expense	-294	-253

At December 31, 2012, the Group had loss carryforwards of 53 MSEK (118) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 12 MSEK (48) expires within five years.

Reconciliation of effective tax	2012	%	2011	%
Profit before tax	1,047		872	
Tax according to applicable tax rate for the parent Company	-275	-26	-229	-26
Effect of other tax rates for foreign subsidiaries	-56	-5	-41	-5
Non-deductible expenses	-1	0	-1	0
Non-taxable income	8	1	0	0
Deductible goodwill amortisation	6	1	6	1
Revaluation of tax-loss carry-forwards/ temporary differences	21	2	12	1
Tax attributable to prior years	3	0	0	0
Total reported tax expense	-294	-28	-253	-29

Deferred tax assets/liabilities

MSEK	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Intangible assets	-47	-26	-15	-20	-9	0	-	-	2	-1	-69	-47
Tangible assets	-83	-54	-11	-26	2	0	-	-	4	-3	-88	-83
Current assets	-1	2	11	-4	-	-	-	-	2	1	12	-1
Operating liabilities	17	4	-20	13	-	-	-	-	-3	0	-6	17
Loss carryforwards	0	21	0	-31	0	11	-	-	0	-1	0	0
Liabilities	1	-2	-1	-3	-	-	-5	6	0	0	-5	1
Other	0	0	0	0	-	-	-	-	0	0	0	0
Total	-113	-55	-36	-71	-7	11	-5	6	5	-4	-156	-113

Note 7 Intangible fixed assets

Accumulated acquisition value

MSEK	Goodwill		Other intangible assets		Total	
	2012	2011	2012	2011	2012	2011
Opening balance on January 1	2,222	2,209	111	164	2,333	2,373
Acquisitions	499	-7	56	-53	555	-60
Investments	-	-	3	1	3	1
Disposals/impairment losses	-	-	-1	0	-1	0
Reclassification	-	-	0	-	0	-
Translation difference	-106	20	-8	-1	-114	19
Closing balance, December 31	2,615	2,222	161	111	2,776	2,333

Accumulated amortisation

MSEK	Goodwill		Other intangible assets		Total	
	2012	2011	2012	2011	2012	2011
Opening balance on January 1	-11	-11	-31	-65	-42	-76
Acquisitions	-	-	-10	42	-10	42
Amortisation according to plan for the year	-	-	-9	-10	-9	-10
Disposal/Impairment losses	-	-	1	0	1	0
Translation differences	-	-	2	2	2	2
Closing balance, December 31	-11	-11	-47	-31	-58	-42
Carrying amount on December 31	2,604	2,211	114	80	2,718	2,291

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

Goodwill distributed by operating segment

MSEK	Goodwill	
	2012	2011
HEXPOL Compounding	2,581	2,186
HEXPOL Engineered Products	23	25
Closing balance, December 31	2,604	2,211

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 12.1 percent before tax (11.5) has been used for both operating segments, since the risk profile is considered to be similar. 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 8 Tangible fixed assets and Operational leasing

Operational leasing

Non-cancellable leasing payments amount to

MSEK	2012	2011
Within one year	25	19
Between one and five years	44	40
Longer than five years	14	15
Total	83	74

Leasing expenses

MSEK	2012	2011
Minimum leasing fees	26	19
Total	26	19

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	
	2012	2011	2012	2011	2012	2011
Opening balance on January 1	553	515	1,792	1,814	2,345	2,329
Investments	4	27	170	75	174	102
Acquisitions	96	-3	142	-51	238	-54
Divestments, disposals and impairment losses	0	0	-5	-37	-5	-37
Reclassification	19	10	-21	-10	-2	0
Translation difference	-24	4	-86	1	-110	5
Closing balance on December 31	648	553	1,992	1,792	2,640	2,345

Accumulated depreciation value

MSEK	Land and buildings		Machinery and equipment		Total	
	2012	2011	2012	2011	2012	2011
Opening balance on 1 January	-167	-152	-1,109	-1,061	-1,276	-1,213
Acquisitions	-8	2	-46	41	-54	43
Amortisation according to plan for the year	-20	-17	-123	-123	-143	-140
Divestments, disposals and impairment losses	0	0	3	37	3	37
Translation difference	6	0	51	-3	57	-3
Closing balance on December 31	-189	-167	-1,224	-1,109	-1,413	-1,276
Carrying amount on December 31	459	386	768	683	1,227	1,069

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

MSEK	2012	2011
Production costs	144	139
Selling costs	0	2
Administration costs	6	7
Product development costs	2	2
Other	0	0
Total	152	150

Note 9 Inventories

MSEK	2012	2011
Raw materials	358	311
Goods in production	29	22
Finished goods	149	144
Total	536	477

No significant impairments have been made during the year.

Note 10 Accounts receivable

Age distribution of accounts receivable		
MSEK	2012	2011
Not due	616	614
Past due, 1–60 days	55	104
Past due, more than 60 days	0	0
Accounts receivable	671	718

Provisions for bad debt losses		
MSEK	2012	2011
Opening balance	-46	-40
Provision for the year	-8	-10
Acquisitions	0	0
Actual losses	3	4
Closing balance	-51	-46

Note 11 Shareholders' equity

Changes in the number of shares	Class A shares		Class B shares		Total	
	2012	2011	2012	2011	2012	2011
Opening balance on January 1	1,476,562	1,181,250	32,943,566	25,370,727	34,420,128	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	1,476,562	32,943,566	32,943,566	34,420,128	34,420,128

Average number of shares before and after dilution

Thousands	2012	2011
Average number of shares before dilution	34,420	33,189
Estimated average number of potential shares pertaining to the option programme, redeemed Q1, 2011	-	198
Average number of shares after dilution	34,420	33,387

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 12 Interest-bearing liabilities

Non-current liabilities

MSEK	2012	2011
Liabilities to credit institutions	228	1,630
Non-current liabilities	228	1,630

Current liabilities

MSEK	2012	2011
Liabilities to credit institutions	1,581	67
Other liabilities	0	1
Current liabilities	1,581	68

Loans MSEK	2012		2011	
	Utilised	Unutilised	Utilised	Unutilised
Syndicated loan, 1,700 MSEK	-	-	1,505	195
Bilateral loan, 100 MUSD	228	424	125	567
Total long-term liabilities	228		1,630	
Syndicated loan, 1,700 MSEK	1,553	147	-	-
Bank loan, Mexico, 20 MUSD	-	-	58	80
Other	28		10	
Total current liabilities	1,581		68	

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 December 31, 2012.

HEXPOL had no interest-bearing or currency derivatives at December 31, 2012, involving external borrowing.

Note 13 Pension provisions

MSEK	2012	2011
Provisions for pensions	13	13
Total	13	13
Change in provisions		
MSEK	2012	2011
Opening balance on January 1	13	11
Provisions for the year	0	2
Closing balance on December 31	13	13

The Group has pension provisions in a Swedish subsidiary and in subsidiaries in Sri Lanka. The revised IAS 19, Employee Benefits, has been applied from January 1, 2013 and entails an increase of 3 MSEK in pension liabilities. Adjusted for this change, the closing balance on December 31, 2012, totals 16 MSEK.

Note 14 Other provisions, provision for the restructuring programme

MSEK	2012	2011
Opening balance	5	52
Provisions for the year	0	0
Utilised during the year	-5	-45
Translation difference	0	-2
Closing balance	0	5

Note 15 Prepaid expenses and accrued income

MSEK	2012	2011
Personnel-related expenses	136	119
Accrued goods and services	23	22
Others	66	57
Total	225	198

Note 16 Pledged assets and contingent liabilities

Pledged assets		
MSEK	2012	2011
Fixed assets	0	0
Current assets	9	27
Total	9	27
Contingent liabilities		
MSEK	2012	2011
Guarantee for the benefit of associated companies	4	4
Total	4	4

Note 17 Cash flow statement

Financial items received and paid		
MSEK	2012	2011
Financial income received	24	15
Financial expenses paid	-50	-39
Adjustments for non-cash items		
MSEK	2012	2011
Depreciation/amortisation	152	150
Total	152	150

Note 18 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 December 31				
MSEK	2012		2011	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	—	—	16	16
Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/SEK	—	—	16	9.16

Note 18 cont.

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.

Forward contracts outstanding at December 31 MSEK	2012		2011	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	110	110	99	99
Currency distribution	2012		2011	
	Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK	87	0.34	68	0.35
USD/SEK	23	6.51	31	6.95
Sell forward contracts outstanding at December 31 MSEK	2012		2011	
	Nominal value	Fair value	Nominal value	Fair value
Currency forward contracts	120	120	137	137
Currency distribution	2012		2011	
	Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/SEK	13	8.66	12	8.97
GBP/SEK	107	10.53	125	10.71

Note 19 Quarterly data

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	1,764	1,980	2,121	2,142	1,792	1,843	1,776	1,786
Operating profit	230	280	287	272	220	235	230	210
Profit after tax	186	192	194	181	157	165	158	139

Note 20 Acquisitions

Acquisition of Müller Kunststoffe

On January 1 2012, the HEXPOL Group acquired 100 percent of Horst Müller Kunststoffe GmbH & Co KG. Müller Kunststoffe is a leading Central European developer and manufacturer of TPE Compounding and has two manufacturing units in Lichtenfels, Germany. Müller Kunststoffe has annual revenues of approximately 46 MEUR and about 90 employees. The purchase consideration adjusted for acquired net debt was 39 MEUR.

The acquired net assets and goodwill are presented below:

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

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

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	2
Current assets	102
Tangible assets	63
Intangible assets	10
Current liabilities	-26
Deferred tax liabilities	-3
Non controlling interests	0
Acquired net assets	148
Goodwill	196
Total purchase consideration	344
Cash and cash equivalents in acquired operations	-2
Change in the Group's cash and cash equivalents resulting from the acquisition	342

Note 20 cont.

Acquisition of Robbins

In November 2012, the HEXPOL Group acquired 100 percent of Robbins Holding Inc, including Robbins LLC. Robbins is a leading US rubber compounder and a global leader in moulded envelopes and curing tubes, particularly for truck, heavy equipment and airplane tires.

Robbins has annual revenues of approximately 100 MUSD and about 240 employees. The company has three manufacturing units in the US: Muscle Shoals in Alabama, Findlay in Ohio and Tallapoosa in Georgia. The purchase price was 89.2 MUSD, debt-free. Integration and transaction expenses charged against profit amounted to 20 MSEK in December 2012.

The acquired net assets and goodwill are presented below:

MSEK

Purchase consideration	612
Fair value of acquired net assets	-309
Goodwill	303

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the Group's existing product offering. 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 estimated value of acquired customer relations of 20 MSEK. The purchase price allocation is preliminary and can be changed during 2013.

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	29
Current assets	172
Tangible assets	120
Intangible assets	35
Deferred tax assets	15
Current liabilities	-43
Deferred tax liabilities	-19
Acquired net assets	309
Goodwill	303
Total purchase consideration	612
Cash and cash equivalents in acquired operations	-29
Change in the Group's cash and cash equivalents resulting from the acquisition	583

Parent Company's income statements

MSEK	Note	2012	2011
Sales	21	30	31
Administration costs		-50	-44
Operating profit	22, 23	-20	-13
Financial income	24	1,374	410
Financial expenses	24	-25	-38
Profit after financial items		1,329	359
Appropriations		-8	-
Profit before tax		1,321	359
Tax	25	-7	-7
Profit after tax		1,314	352

Comprehensive income matches profit after tax.

Parent Company's balance sheets

MSEK	Note	2012	2011
ASSETS			
Fixed assets			
Tangible fixed assets	26	25	25
Intangible fixed assets		0	0
Interest-bearing intra-Group receivables		677	1,375
Financial fixed assets	28	4,308	2,202
Deferred tax assets		0	0
Total fixed assets		5,010	3,602
Current assets			
Intra-Group operating receivables		4	9
Interest-bearing intra-Group receivables		689	410
Prepaid expenses and accrued income		6	6
Cash and cash equivalents		261	329
Total current assets		960	754
TOTAL ASSETS		5,970	4,356
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	69
Total restricted shareholders' equity		69	69
Non-restricted shareholders' equity			
Share premium reserve		598	598
Accumulated earnings		1,100	920
Profit after tax		1,314	352
Total non-restricted shareholders' equity		3,012	1,870
Total shareholders' equity		3,081	1,939
Untaxed reserves		8	-
Non-current liabilities			
Liabilities to credit institutions	12	228	1,638
Total non-current liabilities		228	1,638
Current liabilities			
Accounts payable		0	0
Current tax liabilities		7	0
Interest-bearing intra-Group liabilities		1,051	757
Interest-bearing liabilities to credit institutions	12	1,574	0
Other current liabilities		0	3
Accrued expenses and prepaid revenues	27	21	19
Total current liabilities		2,653	779
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,970	4,356
Pledged assets	29	83	129
Contingent liabilities		-	-

Changes in the Parent Company's shareholders' equity, cash flow statements

MSEK	Share capital		Share premium reserve		Accumulated earnings		Total shareholders' equity	
	2012	2011	2012	2011	2012	2011	2012	2011
Opening balance on January 1	69	53	598		1,272	1,023	1,939	1,076
Profit after tax					1,314	352	1,314	352
Dividend					-172	-103	-172	-103
New share issue		13		538				551
Expenses associated with rights issue				-8				-8
Rights issue, redemption of warrants		3		68				71
Closing balance on December 31	69	69	598	598	2,414	1,272	3,081	1,939

Parent Company's cash flow statements

MSEK	2012	2011
Cash flow from operations		
Operating profit	-20	-13
Adjustment for non-cash items	0	0
Financial income received	80	94
Financial expenses paid	-25	-38
Tax paid	0	0
Cash flow from operations before changes in working capital	35	43
Cash flow from changes in working capital		
Changes in working receivables	5	2
Changes in current receivables	0	3
Cash flow from operations	40	48
Investing operations		
Investments in tangible fixed assets	0	-25
Investments in intangible fixed assets	0	0
Dividends from subsidiaries	66	541
Shareholders' contribution	-11	-
New share issue in subsidiaries	-2,535	-
Intra-Group divestment of subsidiaries	1,669	-
Cash flow from investing activities	-811	516
Financing operations		
Change in interest-bearing receivables	418	8
Change in interest-bearing liabilities	457	-833
Group contributions received	-	11
Dividend	-172	-103
Rights issue	-	539
Redemption of warrants	-	71
Cash flow from financing operations	703	-307
Cash flow for the year	-68	257
Cash and cash equivalents at January 1	329	72
Cash and cash equivalents at December 31	261	329

Notes of the Parent Company

Note 21

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

Note 22 Employees and personnel expenses

Average number of employees	2012	2011
Women	2	2
Men	3	3
Total	5	5

Salaries, other remuneration and social-security costs

MSEK	2012	2011
Board of Directors	2	2
CEO	11	12
Other employees	6	5
Social security costs, pension costs and payroll tax	11	10
Total	30	29

The total sickness absence in the Parent Company was 0 percent (0).

Note 23 Fees and expense reimbursement to auditors

TSEK	2012	2011
Ernst & Young		
Audit assignment	500	500
Tax consultancy	312	330
Other services	430	549
Total	1,242	1,379

Note 24 Financial income and expenses

MSEK	2012	2011
Dividend	66	541
Group contributions	-	11
Impairment losses on shares in subsidiaries	-	-230
Capital gain from intra-Group divestment of subsidiaries	1,229	-
Interest income	0	0
Interest income from Group receivables	70	87
Exchange-rate gains	9	0
Other financial income	0	1
Financial income	1,374	410
Interest expense	-20	-30
Interest expense for Group liabilities	-3	-4
Exchange-rate loss	0	0
Other financial expense	-2	-4
Financial expenses	-25	-38

Note 25 Taxes

MSEK	2012	2011
Current tax expense		
Tax expense for the year	-7	-3
Total	-7	-3
Deferred tax expense		
Deferred tax pertaining to temporary differences	-	-4
Utilised/revaluation of loss carryforwards	-	0
Total	-	-4
Total reported tax expense	-7	-7

Note 26 Tangible fixed assets

Tangible fixed assets

	Lands and buildings		Equipment		Total	
Accumulated acquisition value MSEK	2012	2011	2012	2011	2012	2011
Opening balance on January 1	25	-	2	2	27	2
Investments	-	25	-	0	-	25
Divestments and disposals	-	-	-	0	-	0
Closing balance, December 31	25	25	2	2	27	27

	Lands and buildings		Equipment		Total	
Accumulated depreciation MSEK	2012	2011	2012	2011	2012	2011
Opening balance on January 1	0	-	-2	-2	-2	-2
Depreciation for the year	0	0	0	0	0	0
Divestments and disposals	-	-	0	0	0	0
Closing balance on December 31	0	0	-2	-2	-2	-2
Carrying amount on December 31	25	25	0	0	25	25

Note 27 Prepaid expenses and accrued income

MSEK	2012	2011
Personnel-related expenses	18	14
Unrealised exchange-rate differences	0	0
Other	3	5
Total	21	19

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

MSEK			Proportion of equity (%)	Carrying amount
Subsidiaries	Corp. Reg. No.	Registered office		2012
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101
Megufu AB	556421-2453	Gislaved, Sweden	50	
Stellana AB	556084-8870	Laxå, Sweden	100	29
Elastomeric Engineering Co., Ltd. 1)		Sri Lanka	99,6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100	
Elastomeric Tools & Dies (Pvt) Ltd. 2)		Sri Lanka	100	
HEXPOL Compounding HQ Sprl		Belgium	100	469
HEXPOL Compounding Sprl		Belgium	100	
HEXPOL Compounding s.r.o		Czech Republic	100	435
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56
HEXPOL Compounding S.A de C.V		Mexico	100	
HEXPOL Services Compounding S.A de C.V		Mexico	100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7
Thona Canada BV		The Netherlands	100	
HEXPOL Compounding GmbH		Germany	100	70
Müller Kunststoffe GmbH		Germany	100	
ELASTO Sweden AB	556191-5777	Åmål, Sweden	100	261
ELASTO UK Ltd.		UK	100	23
HEXPOL sàrl		Luxembourg	100	0
HEXPOL Holding Inc.		USA	100	231
Robbins Holding Inc.		USA	100	
Robbins LLC		USA	100	
Synpol LLC		USA	100	
HEXPOL UK Ltd		UK	100	
Stellana U.S. Inc.		USA	100	
GoldKey Processing Inc.		USA	100	
HEXPOL Compounding NC Inc.		USA	100	
HEXPOL Compounding LLC 3)		USA	100	
HEXPOL Compounding (UK) Ltd		UK	100	
Chase Elastomer (UK) Ltd.		UK	100	
HEXPOL Compounding Services Queretaro S.A. de C.V.		Mexico	100	
HEXPOL Compounding Queretaro S.A. de C.V.		Mexico	100	
HEXPOL H.K Co., Ltd.		USA	100	
HEXPOL Asia LLC		USA	100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100	
HEXPOL Finance UK Ltd		UK	100	2,535
Total carrying amount in the Parent Company				4,308

1) Gislaved Gummi AB owns 200 shares included in this holding. The remaining 0.4 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.

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

Note 29 Assets pledged

MSEK	2012	2011
Sureties for subsidiaries	83	129
Total	83	129

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	1,100,030
Share premium reserve	597,880
Net profit for the year	1,314,680
Total non-restricted funds	3,012,590

The Board proposes that the unappropriated funds be disposed of as follows:
That the shareholders be paid a dividend of 6.00 SEK per share.

Total dividend from earnings brought forward	206,521
To be carried forward	2,806,069
Total	3,012,590

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

Malmö, March 13, 2013

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 March 13, 2013. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on May 2, 2013 for adoption.

Our audit report was submitted on March 13, 2013.

ERNST & YOUNG AB

Stefan Engdahl
Authorised Public Accountant, Auditor-in-charge

Håkan Olsson Reising
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 2012, with the exception of the Corporate Governance Report on pages 74–79. The company's Annual Report and the consolidated financial statements are included on pages 58–100 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

present fairly, in all material respects, the financial position of the Parent Company as of December 31, 2012 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 December 31, 2012 and its financial performance and cash flows for the year 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 74–79. 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 2012. 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 74–79 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 is of a considerably smaller 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, March 13, 2013

ERNST & YOUNG AB

Stefan Engdahl
Authorised Public Accountant

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

¹ The term “Holdings” refers both to shares held by the person indicated and shares held by related parties, as well as via companies at 31 December 2012.

Board of Directors HEXPOL AB



Melker Schörling

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

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

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



Alf Göransson

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

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

HEXPOL shareholding: –



Georg Brunstam

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

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

HEXPOL shareholding:
249,750 Class B shares.



Malin Persson

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

Other assignments: Industrial advisor, Member of the Board of KCI Konecranes Plc., Swerea AB, Chalmers Industriteknik, Universeum AB and Beckers Group 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 École Polytechnique Fédérale de Lausanne. Chairman of the Board of AISTS. Member of the Board of EELCEE SA and the Royal Swedish Institute of Technology (KTH).

HEXPOL shareholding: –

AUDITORS ERNST & YOUNG AB



Stefan Engdahl

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

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



Håkan Olsson Reising

Born in 1961. Authorised Public Accountant and member of FAR SRS.

Other audit assignments: Alfa Laval, Höganäs Biuf, Fiat Sweden and Pilkington.

Group Management



Georg Brunstam

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

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

HEXPOL shareholding:
249,750 Class B shares.



Karin Gunnarsson

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

Other assignments: –

HEXPOL shareholding:
18,325 Class B shares.



Lars-Åke Bylander

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

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

HEXPOL shareholding:
66,443 Class B shares.



Tracy Garrison

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

Other assignments: –

HEXPOL shareholding:
105,450 Class B shares.



Jan Wikström

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

Other assignments: –

HEXPOL shareholding:
83,250 Class B shares.



Carsten Rüter

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

Other assignments: –

HEXPOL shareholding:
10,000 Class B shares.

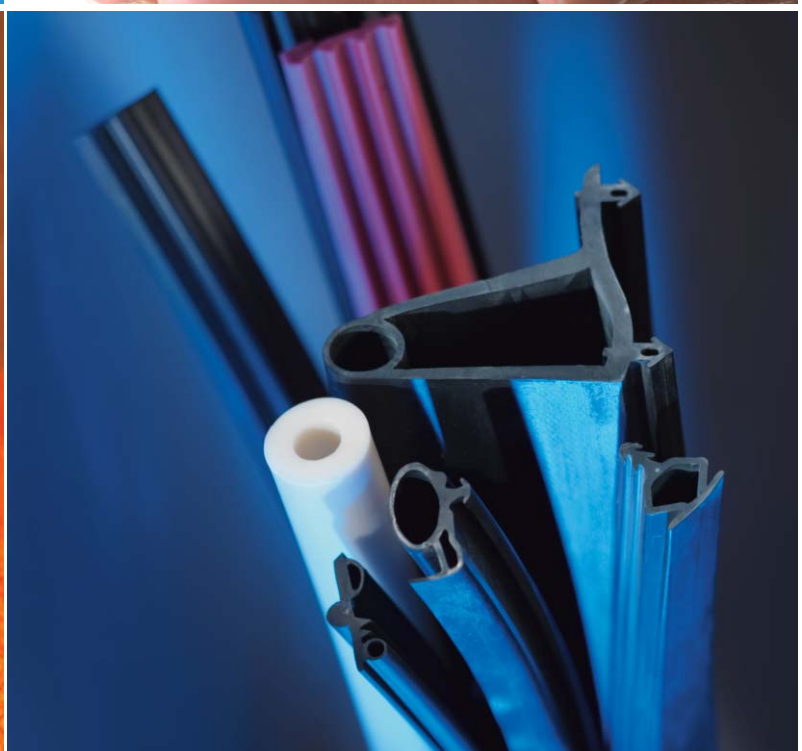


Ralph Wolkener

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

Other assignments: –

HEXPOL shareholding:
8,850 Class B shares.



Shareholder information

Annual General Meeting

The Annual General Meeting will be held on May 2, 2013 at 3:00 p.m. in Malmö (Börshuset, Skeppsbron 2), Sweden. The Annual Report for 2012 will be available on HEXPOL's website and at the head office no later than April 11, 2013 and will be distributed to shareholders no later than in the week beginning with Monday April 15. Shareholders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB not later than April 25, 2013 and notify their intention to participate to HEXPOL's head office not later than April 29. Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than April 25 to be entitled to participate in the AGM.

Proposal for dividend

The Board proposes to the Annual General Meeting on May 2 that a dividend of 6.00 SEK (5.00) be paid.

Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

Aktivitet	Datum
2012 Annual Report, published	April, 2013
Interim report first quarter 2013	May 2, 2013
Annual General Meeting	May 2, 2013
Half-year report 2013	July 18, 2013
Interim report, third quarter 2013	Oct. 24, 2013
Year-end report 2013	February, 2014

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

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

For more information, contact:

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

Five-year summary

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

	2012	2011	2010	2009	2008
Key figures					
Average shareholders' equity, MSEK	2,691	2,038	1,268	1,187	1,091
Average capital employed, MSEK	4,458	4,057	2,780	2,530	2,562
Profit margin before tax, %	13.1	12.1	9.7	5.4	8.1
Return on shareholders' equity, %	28.0	30.4	21.5	8.6	16.8
Return on capital employed, %	24.0	22.3	13.9	6.4	13.2
Net sales growth, %	11.3	89.5	45.6	-18.2	16.8
Operating margin, %	13.4	12.4	10.4	6.3	9.7
Earnings per share, SEK*	21.88	18.65	9.30	3.47	6.23
Net debt/equity ratio, multiple	0.4	0.4	1.7	0.6	1.0
Equity/assets ratio, %	49.2	47.5	27.0	43.7	36.1
Shareholders' equity per share, SEK*	84.51	71.85	44.88	41.44	39.40
Dividend, MSEK	172	103	27	-	-
Dividend per share, SEK	5.00	3.00	1.00	-	-
Cash flow from operating activities, MSEK	1,115	726	387	359	393
Cash flow from operating activities per share, SEK*	32.39	21.87	13.18	12.22	13.38
Average number of employees	3,112	3,041	2,133	1,809	2,315
Number of employees at year-end	3,332	3,020	3,037	1,827	2,230
Sales per employee, MSEK	2.57	2.37	1.78	1.44	1.38
Key figures adjusted for items affecting comparability					
Operating profit, MSEK	1,069	895	460	261	310
Operating margin, %	13.4	12.4	12.1	10.0	9.7
Profit before tax, MSEK	1,047	872	434	238	258
Profit margin before tax, %	13.1	12.1	11.4	9.1	8.1
Profit after tax, MSEK	753	619	318	172	183
Earnings per share, SEK*	21.88	18.65	10.83	5.86	6.23
Return on shareholders' equity, %	28.0	30.4	25.1	14.5	16.8
Return on capital employed, %	24.0	22.3	16.2	10.3	13.2

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

Financial definitions

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

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

EBIT Operating profit after depreciation, amortisation and impairment

EBITDA Operating profit before depreciation, amortisation and impairment.

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

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

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 the average number of shares.

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

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

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

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

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

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

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

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

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

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

Business definitions

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

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).

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).

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.

HCFC Hydrochlorofluorocarbon, also known as Freons, used as refrigerants and is ozone-depleting.

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.

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

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.

PA Polyamid, a common thermoplastic.

PE Polyethylene is a thermoplastic resin with high elasticity.

PHE Plate Heat Exchanger.

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

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

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

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.

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