

Strong global positions in advanced polymer compounds

Annual Report 2018 with Sustainability Report

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We help customers worldwide to secure critical applications with advanced polymer solutions.

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 found among the global automotive and engineering industry's system suppliers, in the building and construction, the transportation, energy, oil and gas sectors, the consumer sector, the cable and wire industry, and among manufacturers of medical technology, plate heat exchangers, forklifts and castor wheels.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products.



Acquisitions and green growth

THE HEXPOL Group's strategy is to continue acquiring companies in the area of polymers, primarily in the current business areas but also including a broadening of application areas, types of material and geography. Three examples of this are presented in the Annual Report:

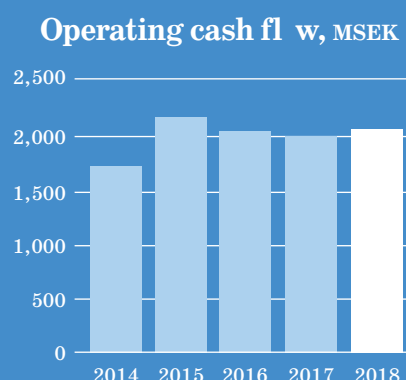
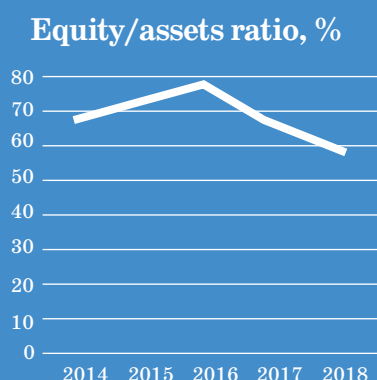
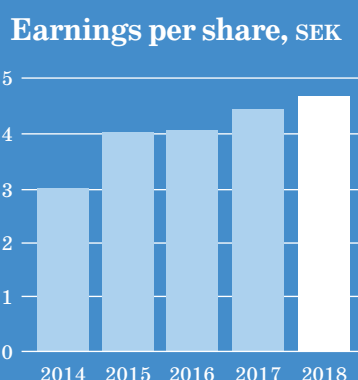
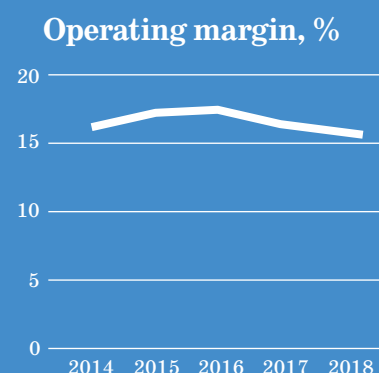
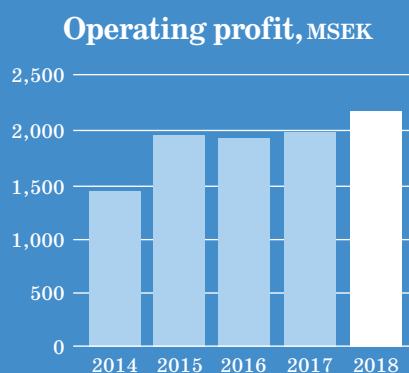
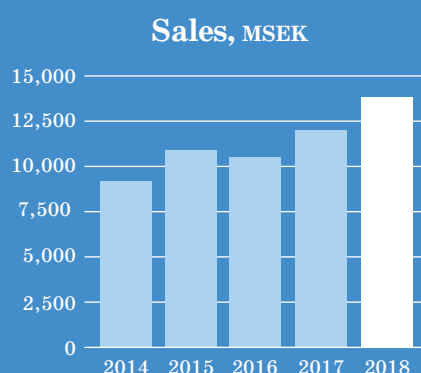
- ▶ The acquisition of Kirkhill, in California, strengthening HEXPOL strategically on the US West Coast.
- ▶ The acquisition of Italian Mesgo adds a number of interesting niches in high-performance elastomers.
- ▶ Products and services that generate both environmental and commercial benefit – green growth – and that are continuously increasing in terms of sales and customer interest, particularly within the automotive industry.

Key performance indicators 2018

Sales 2018
13,770
MSEK

Earnings per share
4.78
SEK

Proposed dividend
2.25
SEK



Significant events in 2018

Q1

- ▶ Positive volume trend and sales increased by 5 percent.
- ▶ Best quarter to date for both sales and operating profit.

Q2


- ▶ Sales increased by 7 percent and operating profit by 9 percent.
- ▶ Best quarter to date for both sales and operating profit.

Q3

- ▶ Sales increased by 17 percent and operating profit by 12 percent.
- ▶ Strategic acquisition of Kirkhill Rubber, a well-known Rubber Compounder in the US.

Q4

- ▶ Sales increased by 22 percent and operating profit by 12 percent.
- ▶ Strategic acquisition of the Italian Mesgo Group, a leading European compounder, including in high-performance elastomers.

A man with short brown hair, wearing a dark suit jacket over a light blue button-down shirt, is smiling at the camera. He is holding two pieces of laboratory glassware: a small glass bottle with a stopper in his right hand and a larger glass bottle with a screw cap in his left hand. The background is a blurred indoor setting with large windows.

“We are able to deliver, not only on our customer’ sometimes demanding expectations, but also with regard to the challenges they face in the future.”

Organic growth, major acquisitions and improved earnings

Dear shareholder,

2018 was a strong year for the HEXPOL Group. We again managed to both increase our sales and achieve greater profit. We continued to strengthen our market positions in our main markets. Most important of all, however, were the two acquisitions implemented during the year and which, in line with our strategy, take us into new segments with value-generating offers in advanced elastomers while also allowing us to reach new geographic markets.

“Broad and in-depth expertise in polymers and applications, combined with good commercial and ethical expertise, forms the foundation of our operations.”

In 2018, my first full year as CEO of HEXPOL, I was privileged to visit a large number of our facilities around the world, meeting many dedicated employees. What strikes me as I travel around is what an effective platform we have built up in recent years and how we are able to deliver, not only on our customers' sometimes demanding expectations, but also with regard to the challenges they face in the future.

Today, HEXPOL has a global organization that not only can deliver and act locally but is able to do so both for smaller local players as well as the most demanding global customers. Our culture – **DECENTRALIZED BUT EXTREMELY COORDINATED** – works because we are able to combine local entrepreneurship and excellent market awareness with global coordination of business-critical processes.

We also have every opportunity to develop and refine this strong platform. Our basic strategies for growth and profitability stand firm and we continue to work with our core areas to deliver excellence in technologically advanced products. At the same time, we continue to continuously evaluate new opportunities, in terms of market, segment and materials alike, that can complement how we respond to our customers and resolve their challenges.

The two acquisitions we made in 2018 are excellent examples of the latter, as we are now strengthening our offering with largely new materials that can be offered to both existing and new customers.

In September, we acquired Kirkhill Rubber, with annual sales of approximately 50 MUSD. Kirkhill is an industry leader with experience in the aerospace, automotive and medical technology industries, as well as in other demanding industrial segments, most recently expanding within silicone and fluoro-carbon rubber. The state-of-the-art facility in Long Beach, California will be Kirkhill's sole production unit. Production not handled there is being transferred to other HEXPOL units in the US, generating additional synergies.

Just a few weeks later, HEXPOL acquired 80 percent of the shares in Mesgo Group, which has annual sales of approximately 100 MEUR and 190 employees at six facilities in Italy, Poland and Turkey. Mesgo is a leading player in high-performance elastomers such as fluoro-carbon rubber and silicone but is also a specialist in conventional rubber compounds and thermoplastics. Its principal customer segments are industry, consumer products, transportation and automotive. With the acquisition, we are taking a strategic step into high-performance elastomers and, with Mesgo's strong position in Italy and local manufacturing in Poland and Turkey, we are also adding new geographic markets to our group.

Continued strong development in 2018

Both of HEXPOL's business areas, Compounding and Engineered Products, advanced their positions during the year. During 2018, sales increased a full 13 percent to 13,770 MSEK (12,230). Organically too, we experienced a positive sales trend of 4 percent over the year.

Earnings per share improved again in 2018, with a profit of 4.78 SEK per share, an increase of 8 percent.

Our constant focus on the efficient management of working capital also generated results in the form of a strong operating cash flow, 2,019 MSEK, and a healthy return on capital employed of 22.5 percent, as well as a return on equity of 20.4 percent.

Thanks to favourable profit and good management of working capital, the HEXPOL Group has a strong financial position, allowing the Board of Directors to propose an ordinary dividend for 2018 of 2.25 SEK per share.

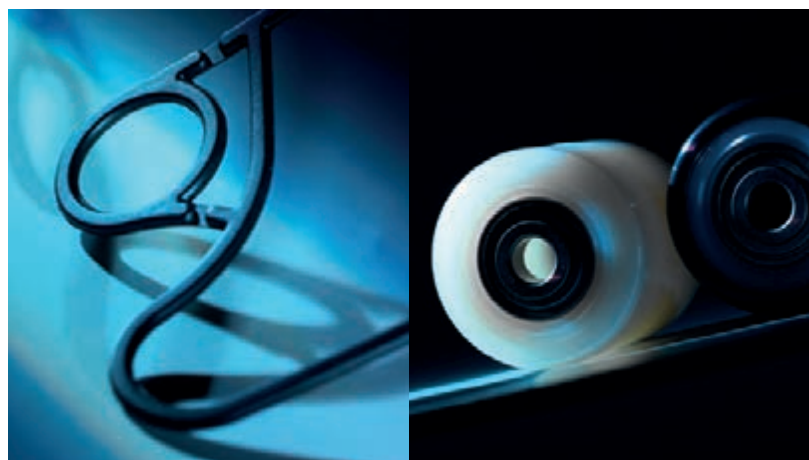
Capacity for continued growth

Our strategy is to grow both organically and through acquisitions, and we have grown from sales of just under 500 MSEK in 2001 to sales of 13,770 MSEK in 2018. Moving forward, the strategy remains to grow organically, to increase our sales in all of our markets and to identify new growth markets and areas. The strategy is linked to our continuous growth with favourable margins and strong operating cash flow. We have usually monitored the companies we acquire for some time, meaning that we have detailed knowledge of those units. All our acquisitions are integrated into our existing organization and structure. HEXPOL has good prospects of realizing its growth objectives. This is made possible by a strong financial position with stable cash flows and diversified financing, combined with a global production platform and an organization that masters both demanding customer challenges as well as internal efficiency.

A coordinated organization

Broad and in-depth expertise in polymers and applications, combined with good commercial and ethical expertise, forms the foundation of our operations. Coordination and cooperation, together with a decentralized organization, create economies of scale while many decisions can be taken close to the operations, which ensures local commitment and responsibility.

Dedicated and motivated employees are a key factor regardless of function and we work continuously with local and regional business education initiatives, or individual programmes. We also prioritize internal recruitment,



“Moving forward, cross-selling will be a priority where we will be able to make use of one another’s different customer contacts to provide broader offers and sharper solutions.”



which sends positive signals within the organization and is a key strategy for our skills supply.

Along our growth journey, we have welcomed many new and skilled employees into the Group, and many of our senior executives come from acquired operations.

It is worth noting that the owners and management of our two acquisitions in 2018 have chosen to continue their personal journeys with HEXPOL in various formats.

Ethical and sustainable business operations are an aspect on which we are focusing, and have been doing so for many years. We are working not only with our own operations and their footprint, but also with a number of development projects and new materials that we see generating green growth for us and new opportunities for our customers. We report on and monitor our sustainability work transparently and monitor the development closely. This is also why we have chosen to include this work as our sixth business strategy, which is described in detail in our Sustainability Report.

As we grow and strengthen our positions, both geographically and with new solutions and materials, the incentives and opportunities for additional sales and new collaborations also increase. Moving forward, cross-selling will be a priority where we will be able to make use of one another’s different customer contacts to provide broader offers and sharper solutions for the customers, as demonstrated in particular by our two latest acquisitions. By means of benchmarking and exchanges between units, we can also streamline our own operations and make use of one another’s knowledge to reach new customers and niches.

Well-positioned for long-term growth

Our customers are growing and are present in geographic markets that are growing. We see long-term growth in most segments, such as the automotive, engineering and building and construction industries, as well as in consumer applications and medical technology. In the Wheels operations, we are seeing broad growth related to increased activity in logistics driven by e-commerce.

The automotive industry, our largest market segment, accounts for about 36 percent of consolidated sales. The latest acquisitions have brought in growing segments in other parts of the transportation industry, aerospace and electricity distribution applications.

In addition, we are also seeing geographical growth in our principal markets, such as China and Mexico.

Geographically, 60 percent of the HEXPOL Group’s sales are made in the Americas, 35 percent in Europe and 5 percent in Asia. Asia is the smallest, but is growing

rapidly and we increased our sales there by 19 percent over the year.

HEXPOL's priorities in 2019

Our growth strategy stands firm. Organically, we will grow through focused marketing and development efforts. In terms of acquisitions, we are evaluating a number of opportunities that will be able to strengthen our offering to customers, always targeting good profitability and strong cash flow.

A future priority is to utilize our strong platform and knowledge-based organization for both increased cross-selling and benchmarking between our units to streamline everything from production to customer relations. To improve efficiency, we will continue to conduct targeted activities at a number of units.

Our proactive work in the areas of sustainability and social responsibility remain a priority, as well as generating green growth by offering our customers smarter solutions with less negative external impact.


In 2018, a preliminary study was initiated regarding how we can improve our digital capabilities both in customer communications and for more efficient collaborations. The potential of an increased and sharper digitization, more focused marketing channels and more efficient customer contacts will be important projects over the coming years.

In conclusion, I would like to extend my sincere thanks to our customers, suppliers and shareholders for your trust and positive partnership during 2018. Our employees around the world have reliably continued to deliver quality to our customers - my warm thanks to all of you. Here, I would also like to welcome new colleagues from acquired units.

The HEXPOL Group stands strong - with global positions in the right segments, a coordinated organization and financial capacity. I am convinced that we can continue to grow and develop our Group, generating value for our stakeholders in 2019.

Malmö, Sweden, March 2019

Mikael Fryklund, President and CEO

A photograph of two scientists, a man and a woman, in a laboratory setting. They are both wearing white lab coats and safety goggles. The woman is in the foreground, holding a test tube and looking at it intently. The man is behind her, also looking at the test tube. The background shows laboratory equipment and shelves with various bottles and containers.

Since its initial public offering in 2008, HEXPOL has generated shareholder value with a steady return on equity, in recent years exceeding 20 percent. HEXPOL's dividend policy is to distribute 25 to 50 percent of profit after tax for the year as a dividend to HEXPOL's shareholders, provided that the company's financial position is regarded as satisfactory. Over the past five years, HEXPOL's Class B shares have had an average total return of 10.5 percent annually.

HEXPOL share as an investment

Strong growth orientation

HEXPOL'S strategy is to grow both organically and through acquisitions with good operating margins and strong operating cash flows. The companies that are acquired are always within the company's core areas, requiring detailed knowledge about the units acquired and the relevant market. The Group has consistently acquired companies in already established markets and built new units under its own auspices in emerging markets, such as China and Mexico.

HEXPOL has grown organically and through acquisitions, from sales of nearly 500 MSEK in 2001 to sales of 13,770 MSEK in 2018. The expansion has been combined with significantly improved operating margins.

Read more about HEXPOL's growth strategy on page 15 and pages 18–19.

Global market positions

HEXPOL holds 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). The ambition is to be a market leader, ranking number one or two, in selected technological or geographical segments.

HEXPOL has 47 production units and sales organizations in Europe, America and Asia that, through a co-ordinated network, can deliver flexible solutions to global system suppliers and OEM manufacturers in the automotive and engineering, building and construction, transportation, energy, oil and gas, consumer and the cable and wire industry, the medical technology segment, as well as manufacturers of plate heat exchangers and of forklifts and castor wheels.

Read more about HEXPOL's market positions on pages 27–28 and 37–38.

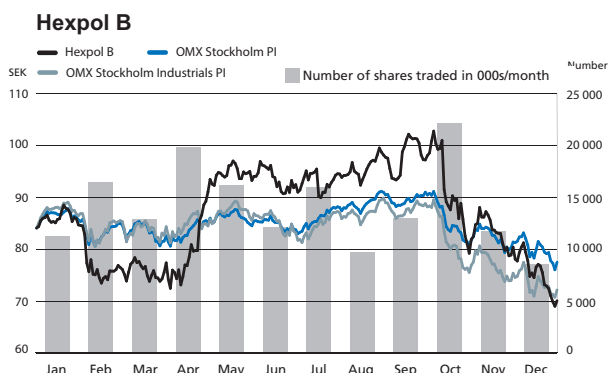
High value in customer offering

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components (gaskets, wheels) that are to resolve new challenges, often in the most demanding environments. Other requirements include uniform quality and global delivery capabilities.

By offering the best service in the market, cutting-edge expertise in polymeric materials and solid knowledge of applications, HEXPOL demonstrates that it strengthens its customers competitiveness in their relevant markets, frequently in direct cooperation with OEM and system suppliers' own development departments. HEXPOL offers customer-specific solutions in areas of compounding including rubber, TPE and TP.

Read more about HEXPOL's product range on pages 26–27 and 36–37.

Share price trend and trading volume, 1 Jan–31 Dec 2018



Share price trend and trading volume

The price paid for HEXPOL's Class B share fell by 16 per cent (-1) in 2018, while an index of comparable industrial companies, SX2000 Stockholm Industrials, fell by 14 per cent (16). The Stockholm stock exchange as a whole, Nasdaq Stockholm, fell by 8 per cent (6). The highest closing price for HEXPOL's B share was noted on 3 October at 102.70 SEK and the lowest on 27 December at 69.00 SEK.

During 2018, 166.7 million (152.3) HEXPOL shares were traded. Average trading per day in the share was 666,814 shares (606,631). The number of shares traded represented 48 per cent (44) of the total number of shares. As well as Nasdaq Stockholm, the HEXPOL share is traded on marketplaces such as Chi-X, Turquoise and BATS Europe. Trade on Nasdaq Stockholm is the most extensive, accounting for approximately 66 per cent of the total trade in the share.

Over the past five years, HEXPOL's Class B share has had an average total return of 10.5 per cent annually, compared with a total return of 8.0 per cent for the SIXRX index¹.

Ownership structure

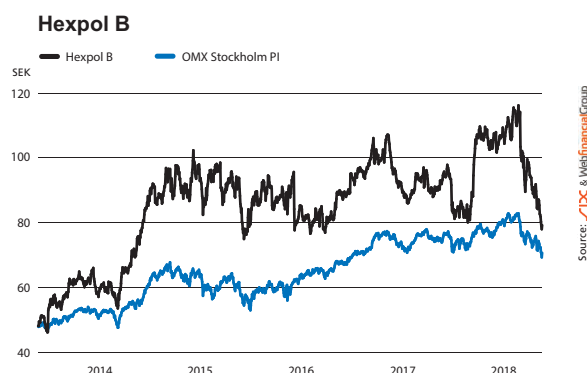
HEXPOL's Class B share has been listed on the stock exchange since 2008. Today, the share is included on Nasdaq Stockholm's large company list, Large Cap, under HPOL B. The share capital in HEXPOL AB totals 68,840,256 SEK, represented by 344,201,280 shares. Of these, 14,765,620 are Class A shares and 329,435,660 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.

As of 31 December 2018, HEXPOL AB had 12,212 shareholders (14,716). The major shareholder is Melker Schörling AB, who owns all Class A shares. Melker Schörling AB also owns Class B shares and owns in total 25 per cent of the share capital and 46 per cent of the voting rights. The number of shares held by non-Swedish shareholders totalled 38 per cent (34) of the capital. The 20 largest shareholders accounted for 69 per cent (63) of the capital and 78 per cent (74) 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 per cent of profit after tax for the year will

Total return on HEXPOL shares compared with the SIX Return Index, 2014–2018



be distributed as a dividend to HEXPOL shareholders, on condition that the Group's financial position is deemed satisfactory. For 2018, the Board of Directors proposes a dividend of 2.25 SEK (1.95), corresponding to approximately 47 per cent of net profit for the year.

Warrants programme

During 2016, a warrants programme was implemented for Group management, senior managers and key employees within the Group. Under the programme, 2,100,000 subscription warrants entitling to subscription for the corresponding number of new shares of series B in HEXPOL AB offered for sale to participants of the programme. During 2016, 1,408,000 subscription warrants were subscribed for by senior executives and key employees.

The warrant price was 9.00 SEK per warrant and each warrant entitles subscription for 1.01 shares at a strike price of 88.70 SEK, adjusted for the extra dividend in May 2017 according to the warrant terms. During 2017, 225,000 warrants were subscribed for by one senior executive with the warrant price of 9.00 SEK per warrant and each warrant entitle to subscribe for 1 share with the strike price of 88.70 SEK.

The remaining warrants was reserved for future senior management and recruitment of persons within the categories eligible. The rate is based on a market valuation taking into account the established option consideration in accordance with the Black & Scholes method. The options may be exercised from 1 June, 2019 to 31 December, 2020.

Shareholder value and analysts

HEXPOL's executive management works continuously to develop the company's financial information to create favourable conditions for valuing the Group in the most accurate manner possible. This includes working actively through meetings with analysts, shareholders and the media. For a current list of the analysts who continuously monitor HEXPOL, visit www.hexpol.com.

¹ SIXRX, Six Return Index, the average trend on Nasdaq Stockholm, including dividends.

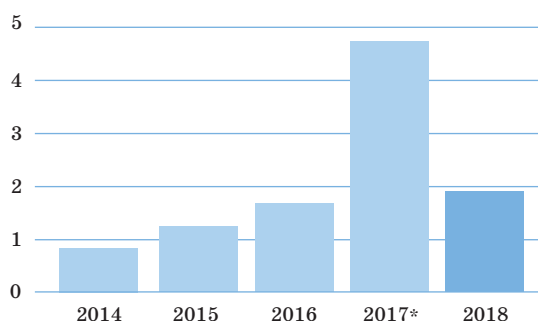
Shareholder distribution

Number of shares per shareholder	Number of shareholders	Number of Class A shares	Number of Class B shares
1–500	7,317	0	1,014,406
501–1,000	1,464	0	1,204,978
1,001–5,000	2,235	0	5,309,114
5,001–20,000	767	0	3,461,393
20,001–	429	14,765,620	318,445,769
Total	12,212	14,765,620	329,435,660

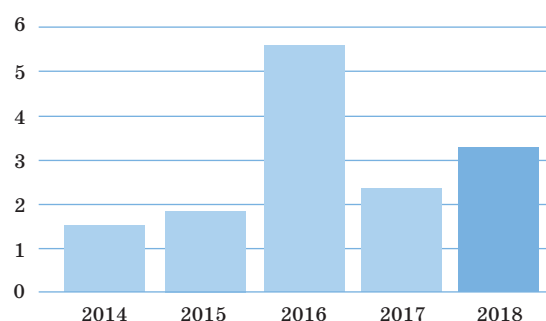
Key performance indicators per share – adjusted for share split 10:1 2015

SEK	2018	2017	2016	2015	2014
Earnings	4.78	4.44	4.06	4.05	3.05
Shareholders' equity	24.96	20.37	21.96	18.11	14.67
Paid dividend	1.95	4.75*	1.70	1.20	0.90
Share price, Class B share	70.05	83.15	84.35	91.10	73.65
Last price paid, 31 Dec					

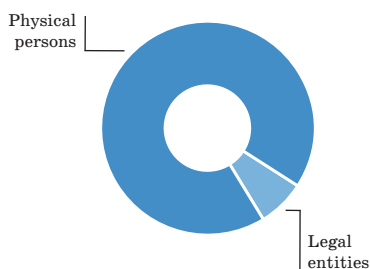
Paid dividend per share, SEK



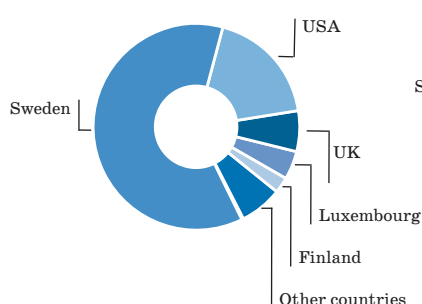
Direct yield, %



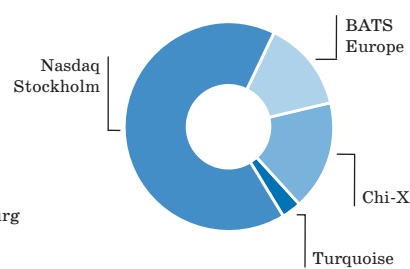
Shareholder categories, % of capital



Geographic distribution of shareholdings as per 31 December 2018



Stock trading on different marketplaces 2018



Major shareholders, 31 December 2018

Owner/manager/custodial bank	Number of Class A shares	Number of Class B shares	Share capital (%)	Votes (%)
Melker Schörling AB	14,765,620	72,612,944	25.4	46.2
Didner & Gerge Fonder Aktiebolag	0	24,814,812	7.2	5.2
Allianz Global Investors GmbH	0	17,497,000	5.1	3.7
Swedbank Robur fonder	0	14,690,196	4.3	3.1
Alecta Pensionsförsäkring, mutual	0	12,000,000	3.5	2.5
Handelsbanken fonder	0	8,836,659	2.6	1.9
Fidelity Management & Research Co.	0	7,591,000	2.2	1.6
The Vanguard Group, Inc.	0	6,627,000	1.9	1.4
SEB Investment Management	0	6,423,236	1.9	1.3
Baillie Gifford & Co.	0	5,341,000	1.6	1.1
Total of the 10 largest shareholders	14,765,620	176,433,847	55.6	68.0
Total other shareholders	0	153,001,813	44.4	32.0
Total	14,765,620	329,435,660	100.0	100.0

* Including a special dividend of 3.00 SEK.

Source graphs/tables: Euroclear Sweden, Six Financial Information.

The transaction: In September 2018, HEXPOL acquired the business of Kirkhill Rubber. Kirkhill has an annual sales of approximately 50 muso and has a state-of-the-art facility in Long Beach, California, US.





Kirkhill Rubber strengthens HEXPOL's offering to high-tech customers in California

In September 2018, HEXPOL acquired Kirkhill Rubber from the founder Mr Edward Reker, his family and other partners. Kirkhill Rubber is a leader in its sector, with experience in the aerospace, automotive and medical technology industries, as well as in other demanding industrial segments, most recently having expanded in the areas of silicone and perfluoroelastomer compounds. With Kirkhill's extensive knowledge in advanced elastomers and its broad range of equipment, specialized equipment and complete laboratory testing facilities, the acquisition brings us closer to achieving our objective of being the best compounder.

The acquisition complements HEXPOL Compounding in the US very well, broadening and strengthening our presence in Rubber Compounds, particularly in relation to major aerospace industry and medical technology customers in California. Examples of applications where Kirkhill's materials are used in the aerospace industry are wiring clamps for both aircraft and space rockets. Within medical technology, materials from Kirkhill are used among other to valves within the surgery to be able to inject liquid in relation to surgeries. There are very high demands on the material in both areas. In the aerospace industry it's, among other things, required that the material has the ability to cope with big temperature changes and turbulence and in the medical technology it is, among other things, high demands that the material is clean and that it does not contaminate the liquid passing through the valve.

The acquisition is expected to generate excellent cross-selling opportunities within the HEXPOL Group.

“We will see an immediate benefit from having access to HEXPOL's global reach, expanded development resources and advanced quality systems. This will quickly be translated into better service and products for our customers.”

*Edward Reker, Western Sales Director, Americas
(former President of Kirkhill Rubber, who will
continue to run the operation within HEXPOL).*





We help customers worldwide to secure critical applications with advanced polymer solutions.

Strategies that generate value

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.

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 sectors, such as the automotive, building and construction, engineering and transportation sectors, the energy, oil and gas sectors, the consumer sector, the cable and wire industry and manufacturers of medical technology, plate heat exchangers, forklifts and castor wheels, by offering innovative and specialized polymer compounds and solutions.

Operational strategies

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

Profitable growth

By being the easiest company to do business with in each customer interface, growing within existing and new segments and geographies and by being the leading company in the industry within innovation and product development we generate profitable growth.

Efficient supply management

Through continuously focus on finding cost-effective supplier solutions were volume- and technology benefits are taken advantage of we ensure an efficient supply management. Close cooperation with the customers through local presence also creates the opportunity for efficient solutions.

Adding value for our customers

With the best service in the market, cutting-edge expertise in polymer materials and solid knowledge of applications, technical support and constant development, we strengthen our customers' competitiveness in their markets.

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. As well, short and prompt decision-making processes and time efficient implementation boost the organization's capacity.

Most cost-effective company

Through continuously improved processes, by decreasing costs and eliminating waste, having well-invested production units with a high level of technology and broad-based expertise in a flat and cost-effective organization, we ensure that we are the most cost-effective company.

Responsibility and care

HEXPOL's 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 regarding environmental and social responsibility. These efforts benefit society, employees, shareholders and the operations alike.

HEXPOL's contribution to increased value for stakeholders

Stakeholder

Ambitions, demands and expectations

Customers



HEXPOL is convinced that being ambitious in sustainable development reinforces its relationship with customers. Many customers demand a Code of Conduct and certified environmental management systems. Other requirements concern the phasing out of hazardous chemical substances and sustainability issues being implemented in the supply chain.

Employees



It is important that the Group retain and develop employees, and also attract new ones. For employees, health, safety, financial compensation, personal development, social conditions and good business ethics are important.

Suppliers



HEXPOL strives for open and long-term relationships with its suppliers. The objective is to guarantee suitable quality, financial stability and active sustainability work for both parties.

Shareholder



For our shareholders, growth and dividends are central in generating value. Integrating sustainability issues into the business strategy reduces risks and generates business opportunities, for example through the development of environmentally-adapted products and through resourceefficient production and investments in environmentally adapted technologies.

Society



Social commitment is an important aspect and is expected by local communities in which the Group operates. As a global company, the Group is expected to take measures contributing to national and global goals for sustainable development.

Authorities



Compliance with legal requirements is essential for HEXPOL.

Value generated

With cutting-edge expertise in polymer materials and solid knowledge of applications, technical support and constant development, we strengthen our customers' competitiveness in their markets. The Group's sustainability efforts are assessed regularly by customers. Last year, surveys and audits were conducted at 20 (19) facilities. The outcome was favourable and the companies received positive reviews of their efforts.



During the year, HEXPOL had 1,785 MSEK (1,569) in personnel costs. The accident rate declined over the year. The number of training hours was 118,200 (94,200). Some 3,200 (3,200) employees participated in development interviews. Surveys regarding employee satisfaction at the workplace gave good results.



During the year, the guidelines on sustainable development for suppliers were applied. Over the past three years, more than 1,200 suppliers of raw materials have been assessed.



The dividend to shareholders amounted to 671 MSEK (1,635) and, over the past five years, HEXPOL's Class B shares had an average total return of 10.5 percent annually. During the year, dialogues were conducted with investors and the Group was evaluated by several independent institutions. We facilitate such analyses through transparent sustainability reporting.



HEXPOL's Sustainability Report describes in greater detail how the Group's companies contributed in so many different ways to their local communities. HEXPOL's tax expense for 2018 amounted to 515 MSEK (441).



In 2018, some minor violations of emission conditions and other environmental and occupational health and safety legislation occurred. The infringements resulted in marginal penalties and did not result in any further actions by the regulators.



A clear growth strategy

Over the years, HEXPOL has expanded sharply on the basis of both healthy organic growth, as well as strategic acquisitions. The growth orientation stands firm, with the Board of Directors having set a target for sales growth (adjusted for exchange rate effects) of more than 10 percent annually over a business cycle. The expansion has been combined with significantly improved operating margins, resulting largely from internal improvement efforts in which all units are benchmarked and compared with one another.

Positioned for organic growth

The Group's main markets are driven by development in the global automotive and engineering industries, the building and construction industry, the transportation sector, the energy, oil and gas sector, the cable and wire industry, and among manufacturers of medical technology, plate heat exchangers, forklifts and castor wheels. The Group is positioning itself to benefit from development and growth in these markets through new innovations and by expanding in new customer segments. The Group strategy also includes continuing to leverage opportunities arising when manufacturers of rubber components face the decision of whether to switch from proprietary compounding operations to outsourcing.

A clear acquisition strategy

The Group's strategy is to continue acquiring companies in the area of polymers, primarily in current business areas but also by broadening the areas of application, types of materials and geographies. Potential acquisition targets are monitored continuously in accordance with a distinct acquisition model, whereby attractive targets are analyzed 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 capitalize on interesting acquisition opportunities.

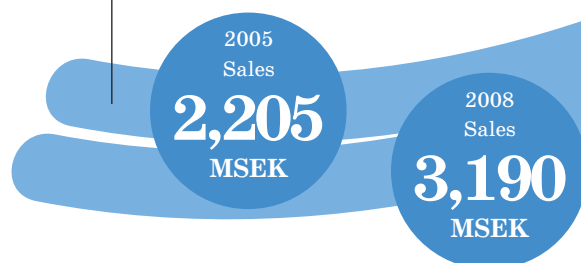
Growth journey over the years

HEXPOL dates back to the late 19th century. Hexagon acquired the company in 1994 and it was then part of the Hexagon Group until 2008 when HEXPOL was hived off to Hexagon's shareholders and listed on the Nasdaq Stockholm stock exchange. The operations have since experienced strong growth through investments in product development and acquisitions of companies complementing the business. On average, HEXPOL has increased its sales by slightly more than 1,100 MSEK or 14 percent annually between 2013 and 2018.

Read more about the latest additions on the growth journey, the acquisitions of Kirkhill and Mesgo, on pages 12–13 and 44–45, respectively.

2004:

A large and important step in this development was the acquisition of the Thona Group.





Targets and outcomes 2018

Well-defined financial and sustainability targets demonstrate how the HEXPOL Group generates value for its various stakeholders over time. The targets are well-rooted and have been integrated into the business units of the decentralized organization and into their own targets. The financial targets form the basis for the Group's strategies:

Financial targets

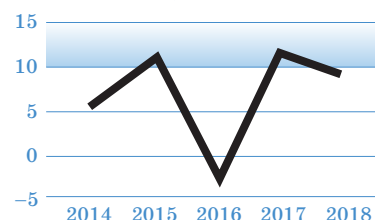
Sales growth Target >10%

Sales growth (adjusted for currency effects) should amount to more than 10 percent, over a business cycle.

Outcome 9%

Sales growth amounted to 9 percent, of which organic growth was 4 percent while acquisitions contributed 5 percent.

Sales growth, %



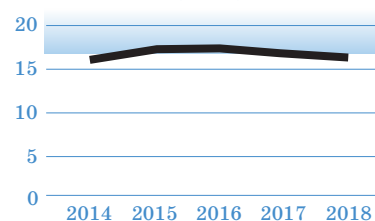
Operating margin Target >17%

The operating margin (adjusted for items affecting comparability) is to exceed 17 percent, over a business cycle.

Outcome 15.6%

The operating margin of 15.6 percent was slightly lower than in the preceding year.

Operating margin, %



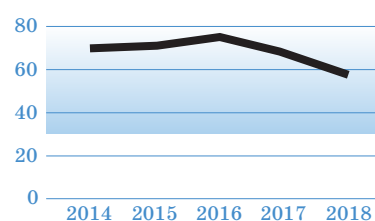
Equity/assets ratio Target >30%

The equity/assets ratio is to exceed 30 percent.

Outcome 59%

The balance sheet remained strong and the equity/assets ratio for 2018 was 59 percent.

Equity/assets ratio, %



Sustainability targets *More sustainability targets are reported on pages 57–59.*

Energy

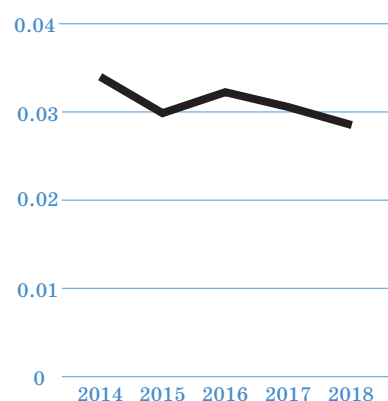
Target: Reduced energy use

Energy consumption (GWh/sales) is to be reduced continuously. Within the framework of ISO 14001, many of the production units are working with detailed targets for increased energy efficiency.

Outcome

Work involving energy surveys and measures to increase efficiency continued. Installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring contributed to more efficient energy use. In a five-year perspective, energy efficiency has increased and the key performance indicator for energy consumption has decreased by about 25 percent since 2010.

Energy consumption, GWh/MSEK



Climate

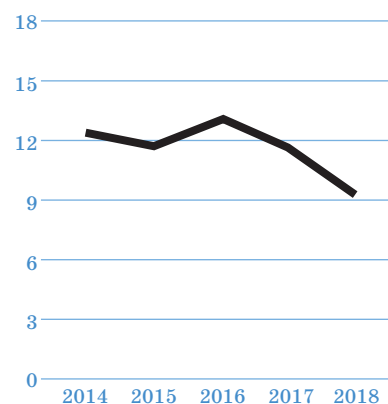
Target: Reduced carbon dioxide emissions

Carbon dioxide emissions (tonnes/sales) are to be reduced by 15 percent by 2018 compared with the average for 2010–2011. This target pertains to carbon dioxide emissions resulting from the use of energy. The target will be updated during 2019.

Outcome

The use of biofuels, purchases of green electricity and energy optimization reduce emissions of greenhouse gases. Currently, about 24 percent of energy use consists of fossil-free electricity and biofuels. Over a five-year perspective, the key performance indicator has developed in the right direction and the target has been achieved with a good margin.

Carbon dioxide emissions, tonnes/MSEK



Safe work environment

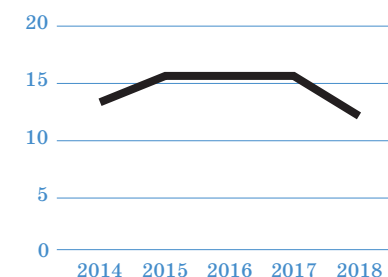
Target: 0 accidents

The vision is that no accidents will occur at our workplaces. The target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations.

Outcome

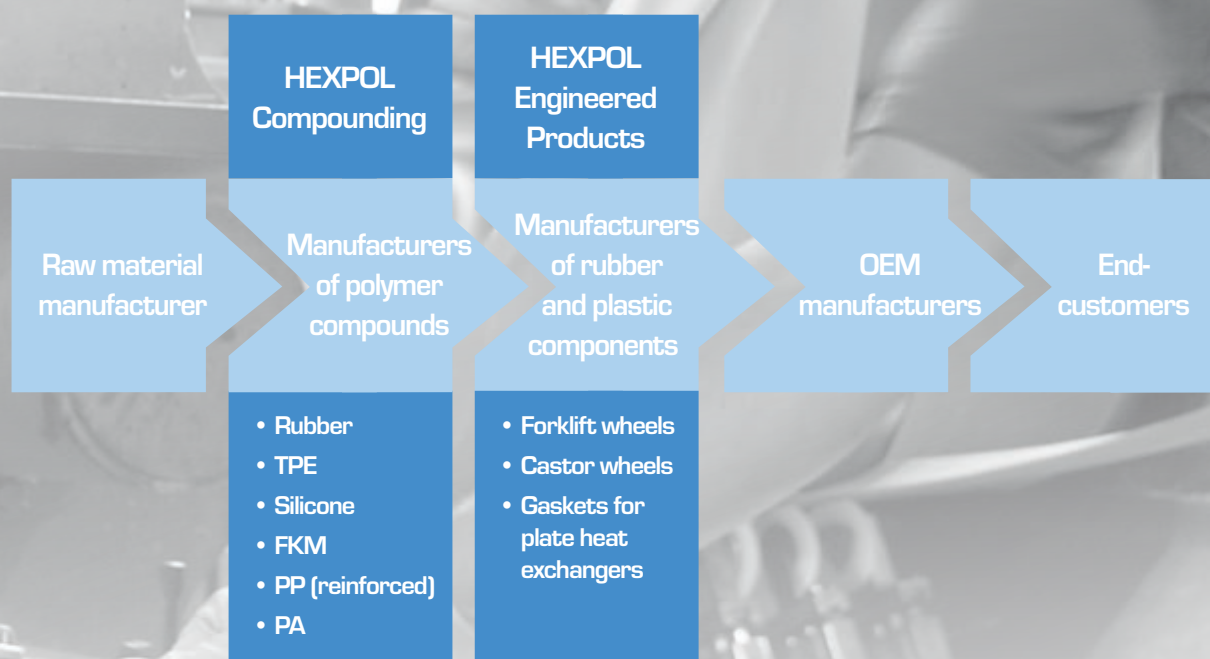
The number of accidents with absence and the number of lost working days decreased compared with the preceding year. The outcome was the lowest in the past five years and the preventive efforts carried out at the operations units in the US, for example, contributed to the positive development.

Occupational accidents/million worked hours



Group summary

The HEXPOL Group comprises two business areas: HEXPOL Compounding and HEXPOL Engineered Products, with a total 4,635 employees and 47 production units in the Americas, Europe and Asia.



Business Area HEXPOL Compounding

Operations

The business Area HEXPOL Compounding is one of the world's leading suppliers in the development and manufacturing of high-quality advanced polymer compounds for demanding applications and demanding end users. HEXPOL Compounding comprises five parts: HEXPOL Rubber Compounding, which is divided into the three geographical regions of the Americas, Europe and Asia and the two product areas HEXPOL TPE Compounding and HEXPOL TP Compounding.

Market

HEXPOL Compounding's market is global and the largest end-customer segments are the automotive and engineering industries, followed by the building and construction sector. Other important customer segments are the transportation sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

Customers

Customers are manufacturers of polymer products and components who impose rigorous demands on quality, global delivery capacity and product development.

Sales

12,745 MSEK

(2017: 11,326 MSEK)

Operating profit

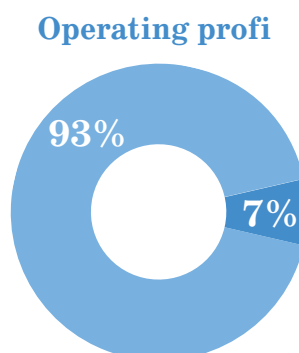
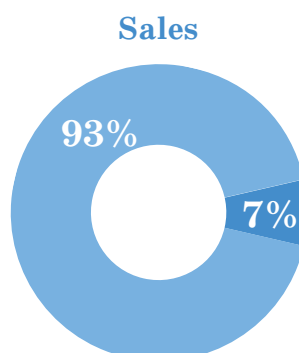
2,006 MSEK

(2017: 1,873 MSEK)

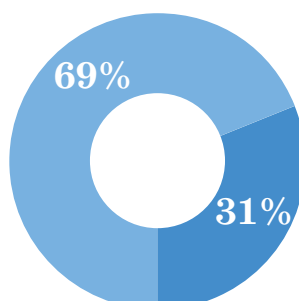
Number of employees (31 December)

3,211

(2017: 2,955)



Number of employees



Business Area HEXPOL Engineered Products

Operations

HEXPOL Engineered Products holds global strong positions in gaskets for plate heat exchangers and in polyurethane, rubber and plastic wheels for forklifts and material handling. The operations are organized into two product areas, HEXPOL Gaskets and HEXPOL Wheels.

Market

Within its niche areas, HEXPOL Engineered Products operates in the global market with a keen focus on discerning customers and advanced applications. HEXPOL is a leading supplier of rubber gaskets that are used in plate heat exchangers and of polyurethane forklift wheels.

Customers

HEXPOL Engineered Products' customers are usually major global OEM manufacturers with market leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product.

Sales

1,025 MSEK

(2017: 904 MSEK)

Operating profit

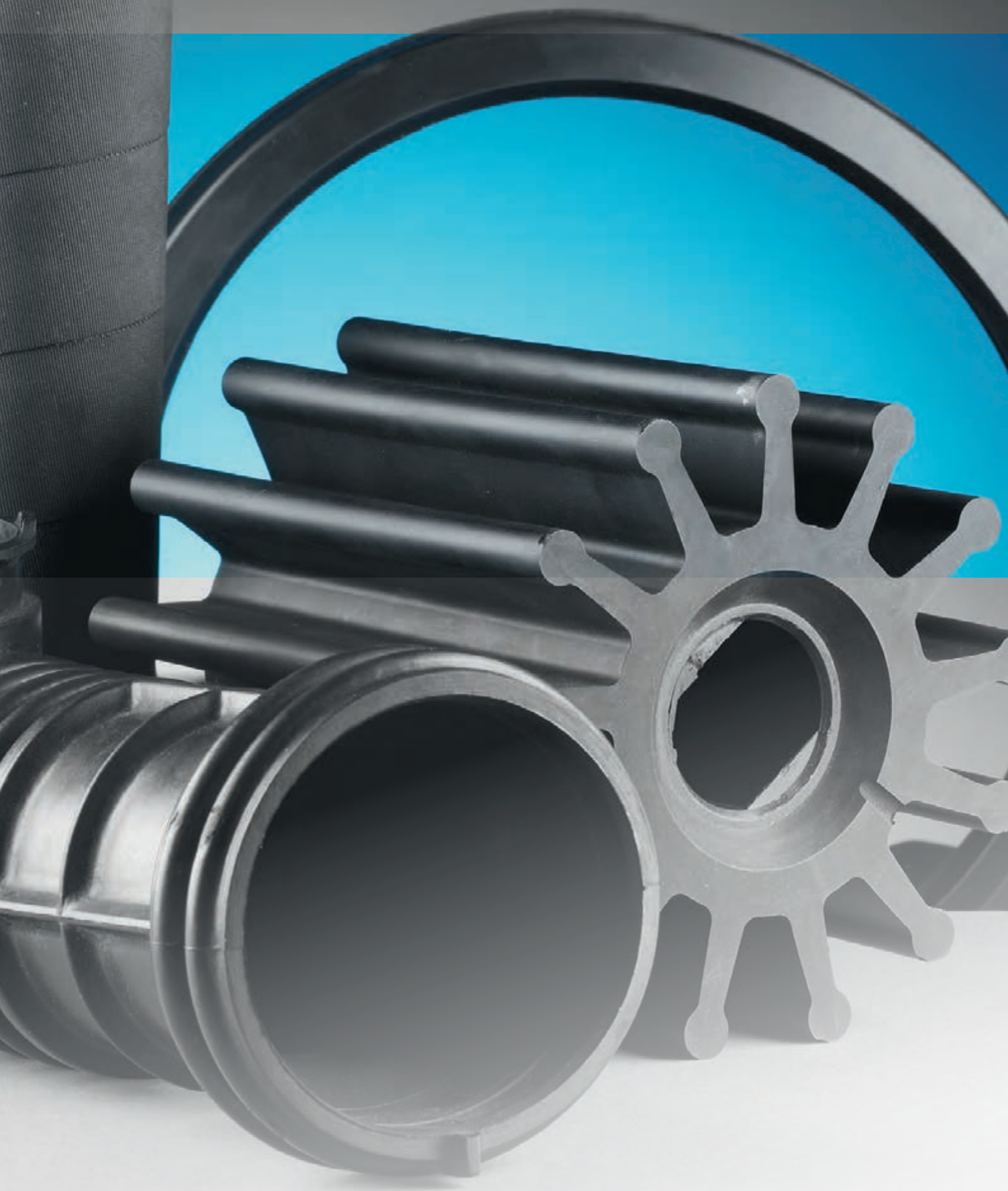
144 MSEK

(2017: 113 MSEK)

Number of employees (31 December)

1,424

(2017: 1,429)



Business area HEXPOL Compounding

Continued growth and further acquisitions

Business Area HEXPOL Compounding is one of the world's leading suppliers of high-quality advanced polymer compounds for demanding applications and demanding end users.

HEXPOL Compounding comprises five parts: HEXPOL Rubber Compounding, which is divided into the three geographical regions of the Americas, Europe and Asia and the two product areas HEXPOL TPE Compounding and HEXPOL TP Compounding. The business area has 3,211 employees and had sales of 12,745 MSEK in 2018.

World-leading in advanced polymer compounds

The HEXPOL Compounding business area is one of the world's leading suppliers in the development and manufacturing of high-quality advanced polymer compounds for demanding applications and demanding end users. Customers are manufacturers of polymer products and

HEXPOL Compounding offers customers world-class polymer compounds and services.

components who impose rigorous demands on quality and global delivery capacity. HEXPOL Compounding's market is global and the largest end-customer segments are the automotive and engineering industries, followed by the building and construction sector. Other important customer segments are the transportation sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

Polymer compounding is a high-tech process that enhances the properties and performance of base polymers by blending them with various components, such as additives and stabilizers, to create new and tailor-made material combinations. Whether a customer needs flame retardant, oil resistant, UV stable or medical technology approved polymer materials, HEXPOL Compounding offers solutions that precisely match application requirements.

With operations in the Americas, Europe and Asia HEXPOL Compounding assists customers across the globe in building strong partnerships through advanced technical competence and a strong portfolio.

HEXPOL Compounding primarily focuses on three important polymer compounding areas:

- ▶ Rubber compounds – including high-performance elastomers including silicone and fluoro-carbon rubber
- ▶ Thermoplastic elastomer compounds (TPE)
- ▶ Thermoplastic compounds (TP)

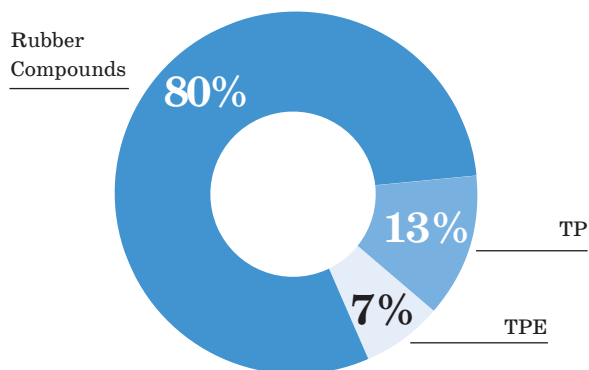
These products contribute improved characteristics to a wide array of applications in the automotive, construction, energy, medical technology, industrial and consumer industries.

HEXPOL Compounding offers customers world-class polymer compounds and services.

Long-term growth, which is an overall objective, is achieved through effective organizations in a safe environment hallmarked by continuous improvement.

This is made possible by well-trained and highly skilled employees who are dedicated to do their utmost to satisfy customers.

Production capacity



Global organization, coordinated to meet customer requirements

HEXPOL Compounding's operations include 39 units with production, sales and development operations. The units are divided into the geographic regions of the Americas, Europe and Asia, as well as into the product areas HEXPOL TPE Compounding and HEXPOL TP Compounding.

Most units are structured as separate units with complete organizational functions for sales, product development and production. The units are strongly coordinated and cooperate closely with each other in key areas including:

- ▶ Research and development (coordination between the units and development of new materials and products)
- ▶ Global supplier agreements (strategic supplier choices, price negotiations)
- ▶ Engineering (design of equipment)

A complete offering in advanced polymers

HEXPOL RUBBER COMPOUNDING

is a global leader in advanced rubber compounds with an extensive product range for a wide range of customer segments and application areas:

- ▶ Rubber Compounding – development of custom compounds and recipes
- ▶ High-performance elastomers, such as silicone and fluoro-carbon rubber
- ▶ Specialty Products – a comprehensive range of custom and standardized chemical additives and colour concentrates. Curing envelopes and tubes for retreading. Products with specific properties in terms of high temperatures, cooling, static electricity, electrical insulation.

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

The production facilities apply advanced quality assurance systems. The production process is computerized to ensure efficiency and quality. 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, since production takes place in a closed process for each batch.

HEXPOL TPE COMPOUNDING

By means of acquisitions, HEXPOL has expanded its product offering to include the rapidly growing segment for thermoplastic elastomer compounds (TPE).

TPE compounds can be described as bridging the gap between rubber and plastics. They share several of the characteristics of rubber, such as flexibility and softness, but they have the versatility, recyclability and processing advantages offered by plastics.

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

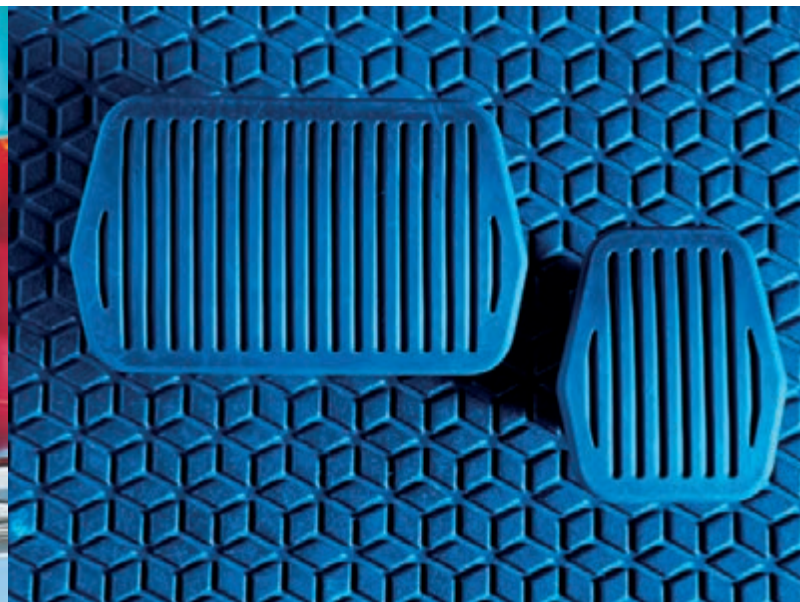
and North America with a strong emphasis on operational development and optimization.

HEXPOL invests in high-quality compounding technology and supporting sub-systems, while also operating extremely versatile processes that have allowed HEXPOL to develop a comprehensive product offering.

HEXPOL's technical and sales teams work hand-in-hand with the customer, providing in-the-field support and the expertise to engineer solutions that transform the customers' ideas into superior products.

HEXPOL TP COMPOUNDING

Through the acquisition of RheTech Thermoplastic Compounding, HEXPOL increased its product range with specialized Thermoplastic Compounds (TP). RheTech's expertise in the TP Compounding market is Reinforced Polypropylene Compounds (PP), Reinforced Polyamide Compounds (PA), and Polyolefin and Engineered resin based Colour Concentrates and Additives. The manu-



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

- ▶ Styrenic block copolymers (TPE-S or TPS)
- ▶ Polyolefin compounds (TPE-O or TPO)
- ▶ Elastomeric compounds (TPE-V or TPV)
- ▶ Thermoplastic polyurethanes (TPE-U or TPU)

In recent years HEXPOL TPE Compounding have also

introduced a range of bio-based TPE compounds with raw materials from renewable resources, such as plant and vegetable crops, in its product offering. The range was developed to meet increasing demands for improved sustainability and help to reduce the usage and dependency on limited fossil resources.

A number of the markets in which HEXPOL TPE Compounding is active, for example, the markets for medical technology, toys and food contact, require the highest level of production control, material traceability and consistency.

The business area operates state-of-the-art compounding and product development facilities in Europe, Asia

and North America with a strong emphasis on operational development and optimization. The production process provides flexibility and continuity, safeguarding optimum efficiency and quality and meeting market demand with an effective problem-solving capacity regardless of the scale of the volumes.

RheTech offers a broad product line. Each product line has an extensive portfolio of formulations. These formulations are customized for OEM's specifications offering distinct performance and specification requirements in the following technologies:

- ▶ Glass and mineral reinforced and co-reinforced PP compounds
- ▶ TPO (thermoplastic polyolefin) compounds
- ▶ Blow molded and extrusion grade PP compounds
- ▶ Recycled PP-graded compounds
- ▶ RheVision natural fibre reinforced compounds
- ▶ Polyolefin and engineered resin-based colour concentrates and additives

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, followed by the building and construction sector. Other important customer segments are the transportation sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

A large portion of the products in HEXPOL's markets are geared towards the automotive industry and includes rubber compounds for products such as sealing strips for doors and windows, hoses and gaskets and for example reinforced polypropylene compounds.

The Group's share of sales to the automotive industry is about 36 percent (38). For manufacturers, particularly in the premium segment, high-quality sealing strips, for example, represent a key component, since the strip often influences the end-customer's impression of quality in the form of a quiet passenger compartment. HEXPOL Compounding is a leading supplier of rubber compounds in areas such as sealing strips for the automotive industry. The major manufacturers in the automotive industry and their system suppliers are active globally. HEXPOL Compounding, who focuses on global delivery capabilities for the market's best products, offering identical quality regardless of the production unit, is a good partner.

The number of light vehicles manufactured is expected to rise in the coming years, primarily as a result of increased demand in emerging markets such as China. Accordingly, many automotive producers are increasing manufacturing in these expansive markets.

For system suppliers, this trend, combined with requirements for proximity as well as export and import tariffs, is leading customers to demand that HEXPOL follow suite and offer manufacturing in these markets.

A clearly growing niche, in which HEXPOL's products contribute to improved weight performance, is the electric car market. Attractive niches in the transportation sector, with growth opportunities for HEXPOL, are trains and aerospace.

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. HEXPOL is well-positioned in the market. In addition, HEXPOL has established a modern new facility for TPE compounds in Foshan, China, to cover the growing Chinese market, and has further increased its global capacity with the commencement of TPE production and product development in North America.

The market for TP Compounds is also in growth with interesting and growing customer applications not least for reinforced polypropylene (PP) compounds and polyamide (PA) compounds.

2018 year of operations – continued growth and further acquisitions

HEXPOL Compounding's sales increased by 13 percent to 12,745 MSEK (11,326) in 2018.

Operating profit increased by 7 percent to 2,006 MSEK (1,873) and the operating margin amounted to 15.7 percent (16.5).

HEXPOL Compounding Americas' sales increased, even excluding acquired operations, with stable sales to automotive-related customers and increased sales to the engineering sector and general industry.

HEXPOL Compounding Europe's sales also increased, even excluding acquired operations, with increased sales to the engineering sector, general industry and the building and construction industry, and with stable sales to automotive-related customers.

HEXPOL Compounding Asia's sales increased, with higher sales to automotive-related customers. Sales were lower in the fourth quarter, however.

HEXPOL TPE Compounding developed positively during the year with higher sales.

HEXPOL TP Compounding's sales increased, primarily to automotive-related customers.

In September, the Kirkhill Rubber operations were acquired, a well-known rubber compounder in the US. Kirkhill has extensive knowledge of advanced elastomers and has a state of the art facility in Long Beach, California. *Read more about the acquisition of Kirkhill on pages 12–13.*

In October, the Italian Mesgo Group was acquired, with operations in Italy, Poland and Turkey – a strategically important step for HEXPOL in the silicone and fluoro-carbon rubber segments. *Read more about the acquisition of Mesgo on pages 44–45.*



The “think globally, act locally” concept describes accurately how HEXPOL Compounding functions.



Business model and strategic priorities

Business model – think globally, act locally

Production is primarily customer order-based and focused on a considerable number of selected raw materials, which 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, most of the compounds sold on the European market are based on HEXPOL's own recipes. Sales are handled mainly through the Group's own qualified sales organization including experienced technical support. The concept "Think globally, act locally" accurately describes how HEXPOL Compounding functions.

Close relations with customers

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

Focus on innovation and cost efficiency

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

Further growth in existing and new markets

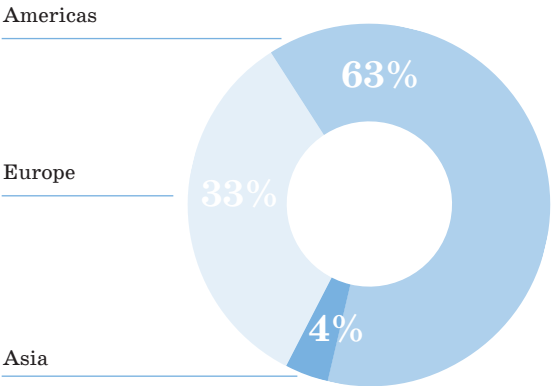
HEXPOL Compounding is well-positioned to increase its shares in existing markets and leverage its strong global presence and development capability to increase volumes in new markets.

Continuous improvements

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



Sales by region



Other players

Major international manufacturers of rubber, TPE and TP compounds: AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS, Kraiburg, Preferred Compounding, A. Schulman and Washington Penn.

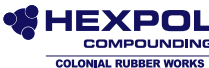
There are also a large number of smaller, locally active manufacturers and, within rubber compounds, also customers with their own rubber compounding operations. However, the trend is for small and medium-sized component manufacturers to find it difficult to maintain production of rubber compounds within their own operations in the long term, choosing instead to outsource some of their production to HEXPOL Compounding, among others. 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.

Brands

Globally



Americas



Europe



HEXPOL Compounding key performance indicators

Sales 2018

12,745
MSEK

Operating profit 201

2,006
MSEK

Number of employees 2018

3,211
individuals

Sales 2017

11,326
MSEK

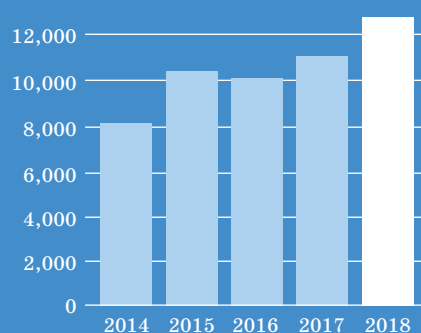
Operating profit 201

1,873
MSEK

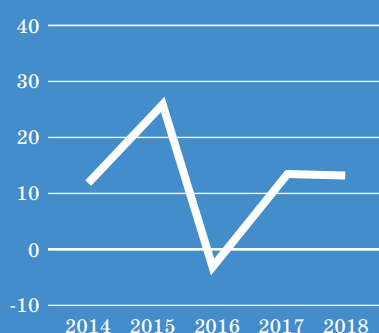
Number of employees 2017

2,955
individuals

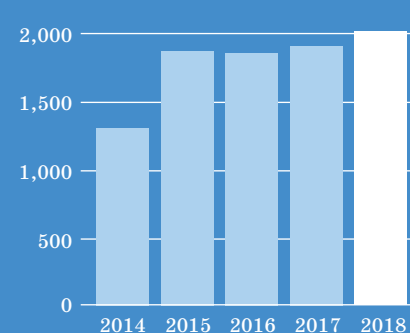
Sales, MSEK



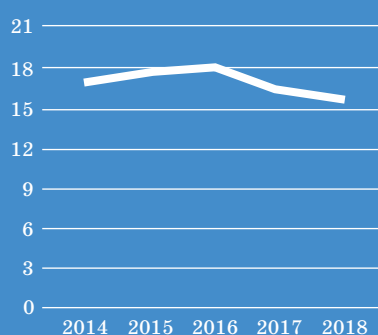
Sales growth, %



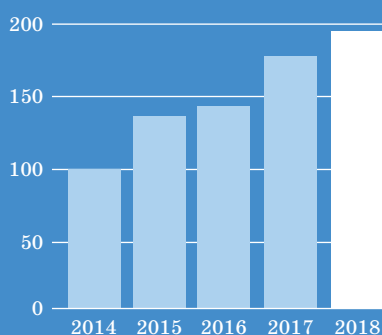
Operating profit, MSEK



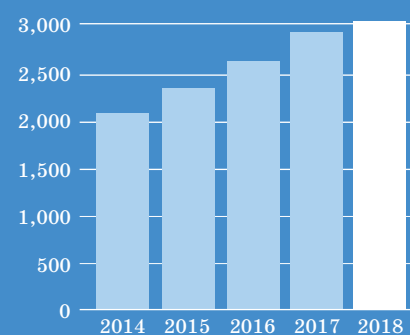
Operating margin, %



Investments, MSEK



Average number of employees



Americas

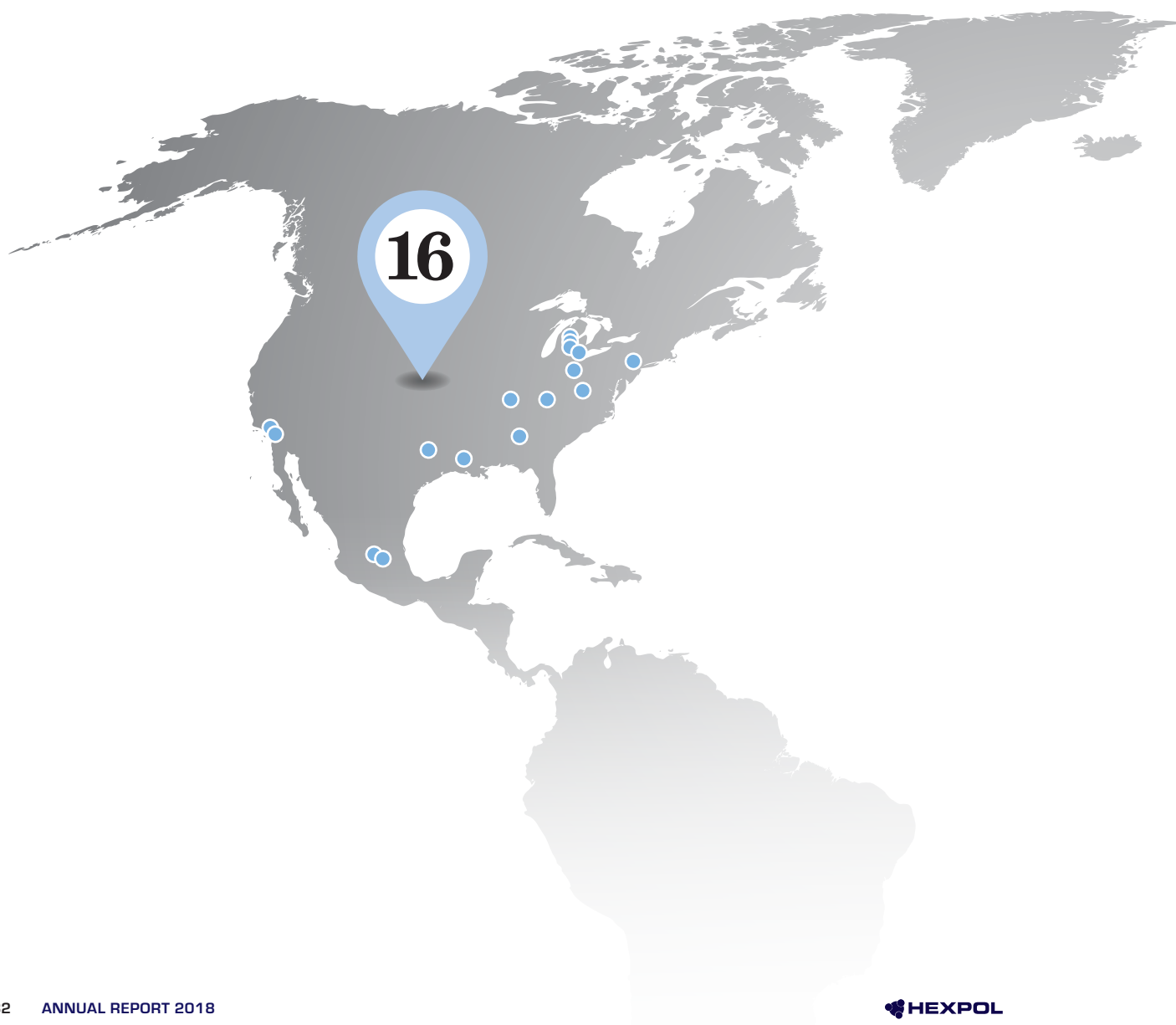
Operating units

			
HEXPOL Compounding North Carolina	Statesville, USA	92	20,000
GoldKey Processing	Middlefield, US	194	40,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	266	55,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	242	136,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	123	50,000
Chase Elastomer	Kennedale, USA	83	18,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	137	24,600
HEXPOL Compounding Querétaro	Querétaro, Mexico	189	53,000
Robbins	Muscle Shoals, USA	48	0
Kardoes Rubber	La Fayette, USA	83	59,000
HEXPOL Silicone Compounding	Mogadore, USA	15	7,500
VALLEY Processing California	City of Industry, USA	115	56,000
Kirkhill	Long Beach, USA	57	48,000
RheTech Compounding	Whitmore Lake, USA	104	65,000
RheTech Compounding	Fowlerville, USA	43	38,000
RheTech Colors and HEXPOL TPE North America	Sandusky, USA	56	4,500

Manager responsible



Tracy Garrison, President
HEXPOL Compounding
Americas and President
HEXPOL TP Compounding



Europe

Operating units			
HEXPOL Compounding Belgium	Eupen, Belgium	73	20,000
HEXPOL Compounding Germany	Hückelhoven, Germany	66	35,000
HEXPOL Compounding Sweden	Gislaved, Sweden	67	19,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	111	35,000
HEXPOL Compounding UK	Manchester, UK	59	5,500
Flexi-cell	Manchester, UK	14	1,200
Berwin Rubber	Manchester, UK	91	30,000
HEXPOL Compounding Spain	Barcelona, Spain	85	30,000
Berwin Industrial Polymers	Lydney, UK	80	21,000
HEXPOL Compounding Lesina	Lesina, Czech Republic	124	35,000
MESGO S.p.A.	Gorlago, Italy	50	10,000
MESGO S.p.A.	Carobbio degli Angeli, Italy	48	15,000
MESGO IRIDE COLORS S.r.l.	Garlasco, Italy	47	8,000
3A MCOM S.r.l.	Grigno, Italy	17	20,000
MESGO POLSKA Sp. z o.o.	Tomaszów Mazowiecki, Poland	18	3,000
MESGO ASIA KAUÇUK	Şekerpınar, Çayırova, Turkey	10	2,000
HEXPOL TPE Germany Plant 1	Lichtenfels, Germany	47	10,000
HEXPOL TPE Germany Plant 2	Lichtenfels, Germany	100	25,000
HEXPOL TPE Sweden	Åmål, Sweden	78	20,000
HEXPOL TPE UK	Manchester, UK	47	13,000

Managers responsible



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



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

20

3

Asia

Operating units			
HEXPOL Compounding Qingdao	Qingdao, China	73	20,000
HEXPOL Compounding Foshan	Foshan, China	49	20,000
HEXPOL TPE Compounding Foshan	Foshan, China	10	5,500



Business Area HEXPOL Engineered Products

Continued profitable growth

HEXPOL Engineered Products holds global strong positions in gaskets for plate heat exchangers and polyurethane, rubber and plastic wheels for forklifts and material handling. The operations are organized into two product areas, HEXPOL Gaskets and HEXPOL Wheels. The business area has 1,424 employees at eight production units in the US, Asia and Europe and had sales of 1,025 MSEK (904) in 2018.

Globally strong positions in niche areas

HEXPOL Engineered Products has operations in a number of niche areas in which it occupies strong global positions in gaskets for plate heat exchangers, as well as wheels for forklifts and material handling. The operations are organized into two product areas, HEXPOL Gaskets and HEXPOL Wheels.

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

HEXPOL Engineered Products wants to develop and renew itself together with its customers in order to jointly strengthen the competitiveness and profitability of all parties.

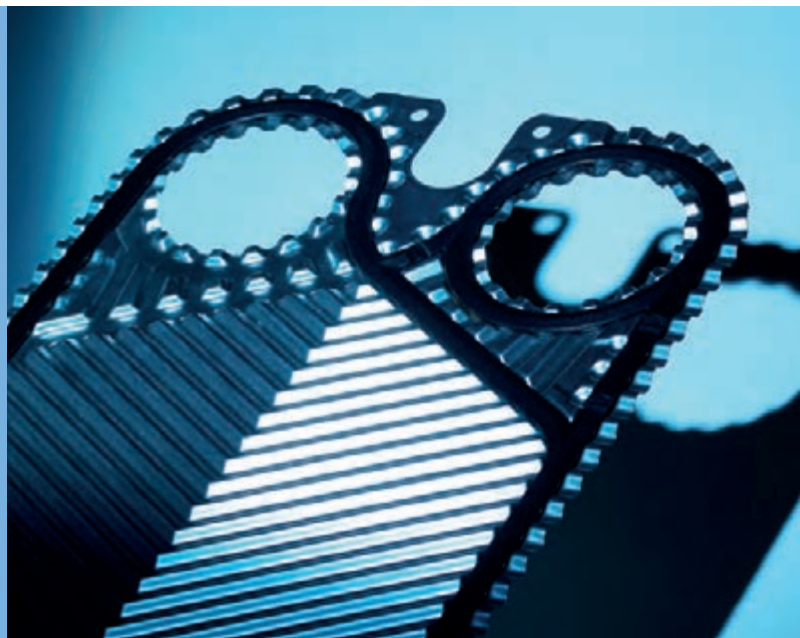
Within its niche areas, HEXPOL Engineered Products operates in the global market with a keen focus on discerning customers and advanced applications. HEXPOL is a leading supplier of rubber gaskets for plate heat exchangers, and of polyurethane wheels for forklifts. Within these areas, HEXPOL is one of a few major companies with global presence.

HEXPOL Wheels has production units in Europe (Laxå, Sweden), the US (Lake Geneva, Wisconsin) and Asia (Horana, Sri Lanka and Qingdao, China), which are all well-suited to the local market conditions. The unit in Sri Lanka, however, is focused on exports to Europe, the US and Asia.

Strong product offerings for demanding customers

HEXPOL Gaskets is a product specialist for the manufacture of rubber gaskets for plate heat exchangers. The technology content is high, and the end product is characterized by high quality requirements. The gaskets consist of rubber and are delivered in a variety of sizes from a few decimetres in length up to several meters depending on the plate heat exchanger's size. The parameters that determine the choice of gasket type and rubber material are temperature, pressure and media. Performance of the gasket is dependent on the composition of the rubber material and the geometric design of the gasket. Both factors are critical to a gasket's service life. From a technology view-point, HEXPOL Gaskets' responsibility is to develop unique material properties combined with efficient manufacturing processes that meet the exacting

HEXPOL Engineered Products has strong product offerings for demanding customers.



An organization with production in Europe, Asia and the US

Business Area HEXPOL Engineered Products is divided into two product areas: HEXPOL Gaskets and HEXPOL Wheels. The LEAN concept is successfully applied in all plants and manufacturing processes are coordinated and standardized. This allows HEXPOL Engineered Products to ensure the same high level of product quality regardless of the production plant. All plants work on-line in the shared ERP system, which has resulted in a significant reduction in internal lead times and administrative work.

HEXPOL Gaskets has production units in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka and Qingdao, China). All plants are modern and incorporate local expertise in production and logistics development.

demands of the market in terms of quality and cost efficiency. Development of new rubber compounds take place at Gislaved Gummi in Gislaved, Sweden, which is a part of HEXPOL Gaskets. Development is being driven by and towards higher temperatures and pressures, more aggressive media and by exacting demands for cost-efficiency in the refinement process. All the constituent rubber compounds needed for manufacturing within the product area are manufactured adjacent to the unit in Sweden. The rubber material is then distributed to the respective manufacturing units, thus ensuring the quality of the end product regardless of its production site. The machinery is highly standardized among the units, providing flexibility and allowing for easy shifts in production among the units, for example during production peaks. Production



HEXPOL Wheels offers a complete range of wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications.

is tool-specific, where every tool creates a unique gasket type. HEXPOL Gaskets manufactures most of the tools that it uses.

HEXPOL Wheels offers a complete range of wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications. HEXPOL Wheels produces five high quality product ranges: polyurethane wheels, thermoplastic wheels, rubber wheels and tires, solid rubber tires, and various special products comprised of the materials previously mentioned. The global forklift market is highly differentiated in terms of product requirements and the selection of materials. In the European market, Vulkollan™, licensed by Covestro, is the market leading polyurethane through its durability and ability to cope with high loads without becoming deformed. HEXPOL Wheels is one of the leading manufacturers of Vulkollan™ wheels in Europe. In other markets, polyurethane is used as a generic term but with an extensive selection of various material types. HEXPOL Wheels is on the cutting edge in terms of developing wheels for new forklift models in Europe, the US, and in Asia. A contributing factor in design success is access to advanced testing equipment to simulate realistic wear and various types of strain.

HEXPOL Wheels size also creates leverage in new raw material development plus access to a highly extensive global product portfolio. Considerable emphasis is placed on the control and handling of raw materials, which are purchased from certified suppliers. The production process is real-time monitored and quality controls are conducted at several phases during the process. The machinery is continuously upgraded and is typically highly automated.

Market

The market for gaskets for plate heat exchangers is global, with an emphasis in Europe, Asia and North America. The market is dominated by a number of large global manufacturers. In China, the market is fragmented and consists of many smaller manufacturers who primarily sell their products in the Chinese market. The Asian market, and especially the Chinese market, has continued to grow faster than the rest of the world and is today of significant size. The international OEMs occupy a strong position in China and take advantage of their significantly high expertise and product quality. HEXPOL Gaskets production units and distribution centres are strategically well placed in Europe, Asia and North America.

The global forklift wheels market has regional differentiation due to varying design requirements, material preferences, and quality standards. The market is dominated by several large global manufacturers; however, there are a number of small local players, mainly in Asia.

HEXPOL Wheels is the only forklift wheel manufacturer with production units in Europe, North America, and Asia.

HEXPOL Gaskets is global market leader in gaskets for plate heat exchangers. The customers are mainly leading global OEM manufacturers of plate heat exchangers in Europe, the US and Asia. Energy prices and an increased focus on reducing negative environmental impacts are driving market growth through increased demand for energy recovery and generation, as well as the production of alternative fuels. Overall GDP growth is generating higher standards of living, urbanization and increased global trade, which is in turn driving demand in areas such as comfort (cooling/heating), as well as food and drink. Plate heat exchangers are utilized in all these

HEXPOL Gaskets is a global market leader in gaskets for plate heat exchangers.



areas and are frequently equipped with gaskets from HEXPOL Gaskets. The global market for gaskets was favourable over the past year. Several major projects were brought to fruition in 2018 and we hope that this trend will continue in 2019. The demand for small and midsize plate heat exchangers has remained good.

The product area HEXPOL Gaskets is consolidating its position as market leader and is well equipped in the face of increased demand. HEXPOL Gaskets has the privilege of supplying gaskets to all major OEM manufacturers of plate heat exchangers.

HEXPOL Wheels operates in the expansive market for wheels and castor wheels for electric and hand pallet forklifts. This market is dominated by few major players

in Europe and North America and several fast-growing operators in China. The aftermarket segment for forklift wheels also increased and is dominated by OEM forklift manufacturers and independent distributors.

In 2018, global sales of electric powered warehouse forklifts showed strong growth. Within this market segment, consolidation has been occurring for the last several years. The development of new warehouse forklift models represents a larger share of joint total global content. With its global market presence, HEXPOL Wheels is well positioned to capture additional market shares through its localized manufacturing and engineering support. The castor wheel market is more diversified with a few major players and many local manufacturers.



From a technology view-point, HEXPOL Gaskets' responsibility is to develop unique material properties combined with efficient manufacturing processes that meet the exacting demands of the market in terms of quality and cost efficiency.

2018 year of operations – strong profitable growth

HEXPOL Engineered Products' sales increased to 1,025 MSEK (904) in 2018, an increase of 13 percent compared with the preceding year. Operating profit during the same period increased to 144 MSEK (113). The operating margin increased to 14.0 percent (12.5).

HEXPOL Gaskets' sales were somewhat higher than in the preceding year. Demands for shorter lead times are always in focus. Shorter lead times have been met through an effort that has sharply reduced internal throughput times, combined with continued development towards more local distribution centres.

The market for forklift wheels and castors continued to grow during 2018, resulting in increased sales within HEXPOL Wheels. HEXPOL Wheels experienced a positive sales trend in all markets.

Strategic priorities

HEXPOL Gaskets' objective is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market for gaskets for plate heat exchangers is growing long-term due to increased demand for energy efficient solutions.

On the logistics side, unique customer solutions will provide additional opportunities for reducing lead times and make it easier for customers to do business with HEXPOL Gaskets.

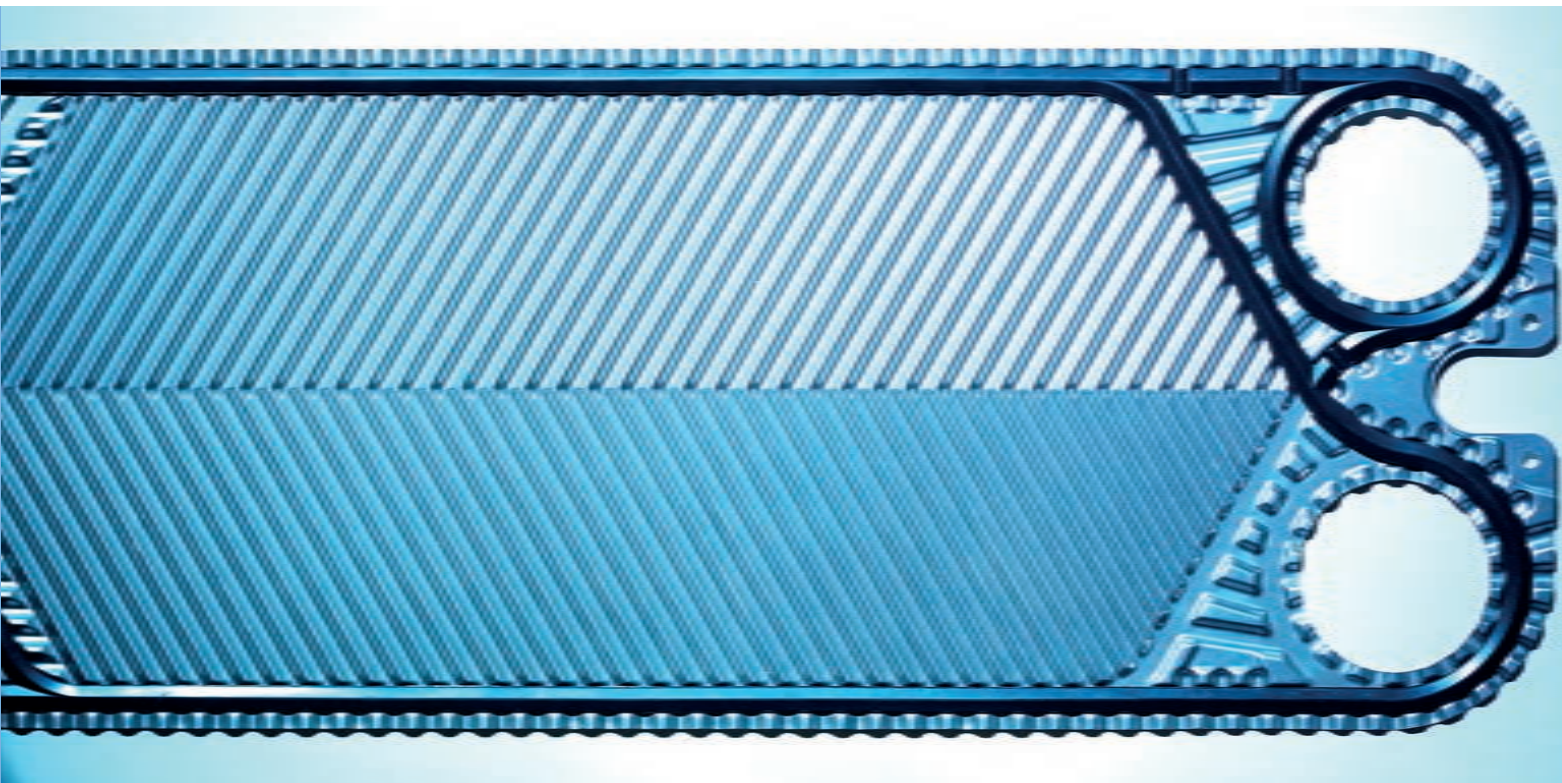
HEXPOL Gaskets' focus on developing new markets in Asia and North America continues. During the year, capacity utilization in China increased further and increase in efficiency was achieved. HEXPOL Gaskets carefully monitors market developments and can quickly expand its capacity when needed.

HEXPOL Wheels continued to optimize its operations during 2018. These efforts are core strategic value for all units globally.

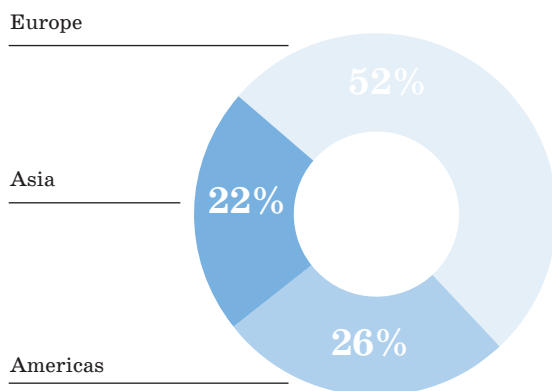
The establishment of a distribution centre in Europe for servicing the aftermarket enables HEXPOL Wheels to reduce the time to market while drawing closer to the end user, in accordance with the concept "Think globally, act locally". The assessment that the currently fragmented wheel market will enter a consolidation phase stands firm.

HEXPOL is well positioned to take an active role in any structural projects. Continued investments in customer service and product development are critical factors for success in 2019.

HEXPOL Engineered Products continues its systematic focus on LEAN and synergies between the operations units. The production development programme for developing and streamlining the business area's production system is implemented in all production units.



Sales by region



Other players

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

The market for polyurethane wheels is dominated by roughly ten manufacturers, of which HEXPOL is among one of the leading companies. The primary competitors in the European market are Räder-Vogel and Wicke; both are family owned. Together with HEXPOL's Stellana US, Thombert and Superior are the largest players in the US market.

Numerous minor wheel manufacturers are active on the local level in both markets. The Chinese market is highly fragmented with a large number of manufacturers of polyurethane, plastic, and rubber wheels.

Brands

HEXPOL Engineered Products conducts operations under the Gislaved Gummi (gaskets), Stellana (wheels) and Elastomeric (wheels) brands. The brand Gislaved Gummi is one of the strongest and most well-known global brands in the market for gaskets for plate heat exchangers. Stellana is also regarded as a well-known global brand in the material handling industry while Elastomeric is a well-known brand in its niche in Europe and Asia.



HEXPOL Engineered Products, key performance indicators

Sales 2018

1,025
MSEK

Operating profit 201

144
MSEK

Number of employees 2018

1,424
individuals

Sales 2017

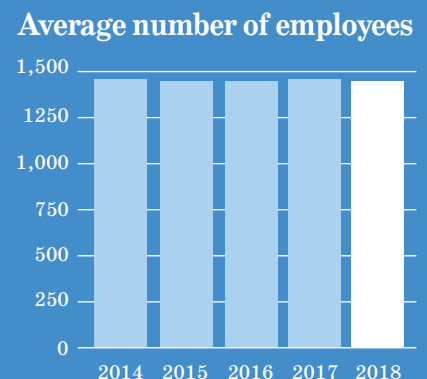
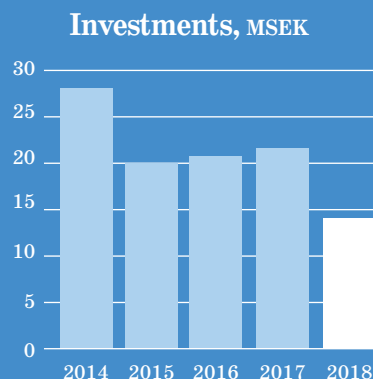
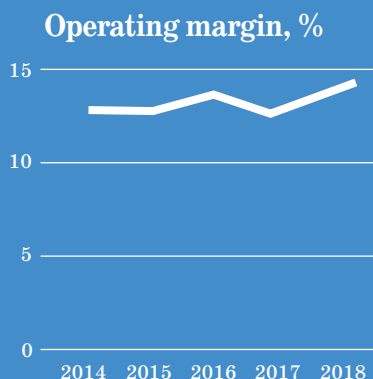
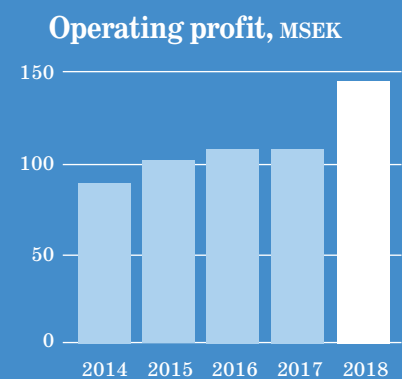
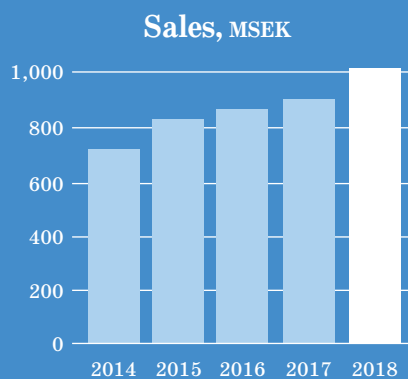
904
MSEK

Operating profit 201

113
MSEK




Number of employees 2017

1,429
individuals



HEXPOL Gaskets

Operating units

			
Gislaved Gummi	Gislaved, Sweden	79	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	430	7,000
Gislaved Gummi Qingdao	Qingdao, China	150	8,000
Gislaved Gummi, Profile	Gislaved, Sweden	20	2,500



Manager responsible



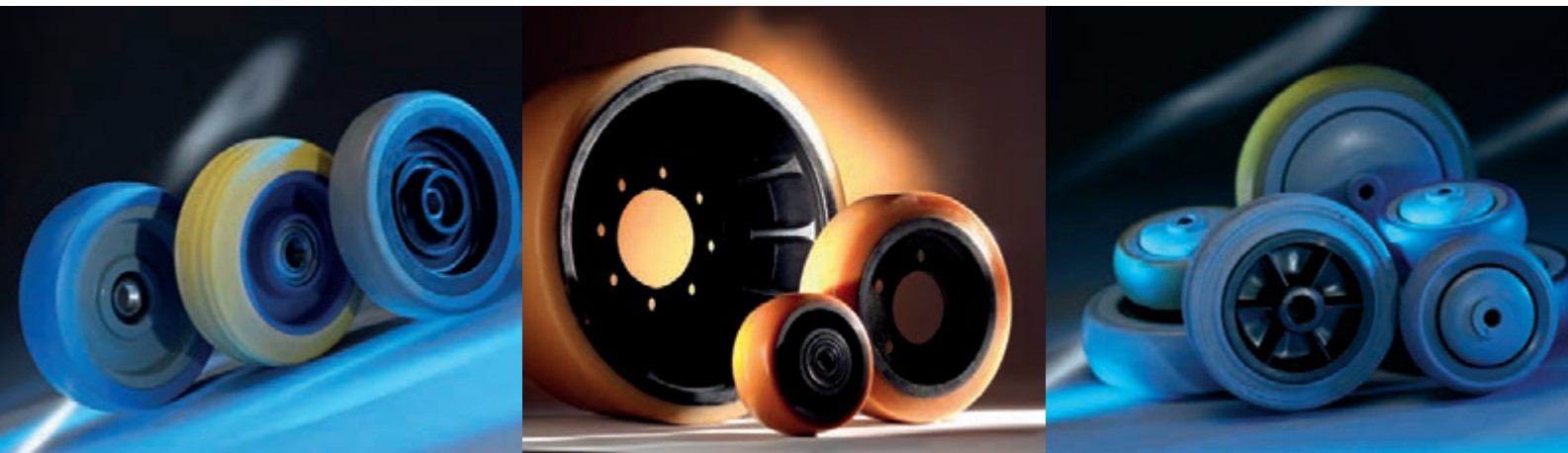
Jan Wikström,
President HEXPOL Wheels
President HEXPOL Gaskets



HEXPOL Wheels

Operating units

			m^2
Stellana Sweden	Laxå, Sweden	94	8,000
Stellana, USA	Lake Geneva, Wisconsin, USA	70	6,600
Stellana China	Qingdao, China	61	1,080
Elastomeric	Horana, Sri Lanka	520	16,590



In early October 2018, the HEXPOL Group acquired 80 percent of the shares in Mesgo Group. Mesgo generates annual sales of approximately 100 MEUR and has some 190 employees at six facilities in Italy, Poland and Turkey. According to the agreement, HEXPOL has an option to acquire the remaining shares, and the Caldara family retains an option to sell its remaining shares to HEXPOL.



Italian Mesgo Group strengthens HEXPOL in high-performance elastomers

In October 2018, HEXPOL acquired 80 percent of the shares in the Mesgo Group from the former principal owner Francesco Caldara and other shareholders. The Mesgo Group is a leading player in high-performance elastomers, such as fluoro-carbon rubber and silicone. Its principal customer segments are industry, consumer products, transportation and automotive.

Examples of applications from Mesgo containing silicone are insulators used in high-voltage electricity distribution, an area in which the material is required to be weather resistant, electrically insulating and to withstand sizable shifts in temperature while being lightweight and easy to transport and install. Gaskets are an example of a fluoro-carbon rubber application. These are mainly used in highly demanding environments, requiring high chemical resistance, as well as a capacity to withstand very high but also low temperatures. Mesgo is also a specialist in conventional rubber compounds and thermoplastics.

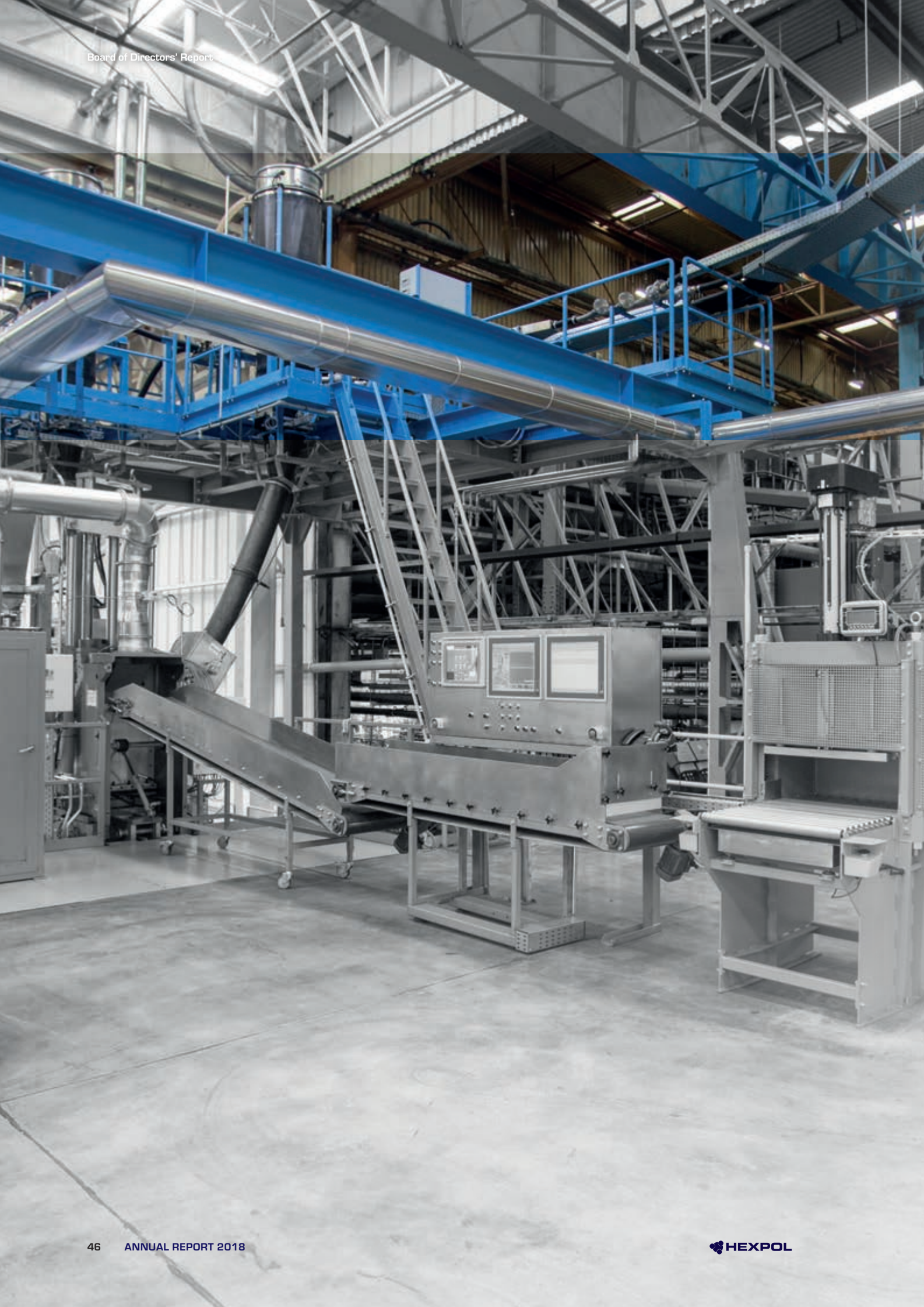
The acquisition reinforces HEXPOL's strategic stride into high-performance elastomers, an area in which Mesgo possesses cutting-edge expertise. Mesgo maintains state-of-the-art facilities in Carobbio and Gorlago in Italy, as well as in Poland and Turkey. Mesgo also has facilities in Garlasco and Grigno in Italy specializing in thermoplastics and masterbatches.

The acquisition also provides HEXPOL with excellent leverage opportunities through cross-selling with other parts of the Group – a process that has already begun. With Mesgo's strong position in Italy and its local manufacture in Poland and Turkey, it also takes the Group into new geographic markets.



“I am enthusiastic about this industrial partnership with HEXPOL. I am convinced that this opportunity will strengthen us, bringing continuity of growth and accelerating our international expansion. With its sizable customer base, HEXPOL is uniquely positioned in the expanding compounding industry, which will help us reach new markets and advanced customers.”

Francesco Caldara, President of Mesgo



Board of Directors' Report

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 2018 financial year. The subsequently 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.), with Corporate Registration Number 556108-9631, is the Parent Company of the HEXPOL Group.

HEXPOL's Class B shares are listed in the Large Cap segment of the Nasdaq Stockholm exchange. HEXPOL AB had 12,212 shareholders on 31 December 2018. The largest shareholder is Melker Schörling AB with 25 percent of the capital and 46 percent of the voting rights. The twenty largest shareholders own 69 percent of the capital and 78 percent of the voting rights.

Operations and structure

HEXPOL is a world-leading polymer 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 (Wheel). Customers are primarily system suppliers to the global automotive and engineering industry, the building and construction, the transportation sector, the energy, oil and gas sectors, the consumer sector, the cable and wire industry, medical equipment manufacturers and manufacturers of plate heat exchangers, forklifts and castor wheels. The Group is organized in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 4,640 employees in 14 countries at year-end.

FINANCIAL YEAR 2018

Sales and operating profit

The HEXPOL Group's sales increased by 13 percent over the year to 13,770 MSEK (12,230). Exchange rate fluctuations, due mainly to a strengthening of both the USD and the EUR, affected sales positively by 426 MSEK.

The volume development was positive and the sales growth (adjusted for currency effects), amounted to 9 percent. Sales growth (adjusted for currency effects and acquisitions) amounted to 4 percent. Sales were affected positively by sales prices having been higher due to price increases on our principal raw materials. Sales in Europe increased by 18 percent, in the Americas by 9 percent and in Asia by 19 percent compared with the preceding year.

Operating profit increased by 8 percent to 2,150 MSEK (1,986) and the operating margin amounted to 15.6 percent (16.2). Exchange rate fluctuations had a positive impact of 54 MSEK on operating profit for the year.

In September, the Kirkhill Rubber operations were acquired, a well-known rubber compounder in the US. Kirkhill has extensive knowledge in advanced elastomers and is a very good complement to HEXPOL Compounding in the US, strengthening our market position in the western US. The state-of-the-art facility acquired by Kirkhill Rubber in Long Beach, California is included in the acquisition and is Kirkhill's sole production unit. Production in Downey, California is being transferred to Long Beach and former production in Athens, Georgia has been transferred to other HEXPOL units in the US. Kirkhill Rubber has annual sales of approximately 50 MUSD.

In early October, 80 percent of the shares in Mesgo Group were acquired, a leading player in high-performance elastomers, such as fluoro-carbon rubber and silicone. Mesgo is also a specialist in conventional rubber compounds and thermoplastics. The Mesgo Group generates annual sales of approximately 100 MEUR and has some 190 employees at six facilities. Mesgo maintains state-of-the-

art facilities in Carobbio and Gorlago in Italy, as well as in Poland and Turkey. Mesgo also has facilities in Garlasco and Grigno in Italy specializing in thermoplastics and masterbatches. The acquisition of the Mesgo Group has brought new capabilities to HEXPOL Compounding Europe, new knowledge of applications and a new customer base, at the same time broadening and strengthening its presence in the European market.

Business Area HEXPOL Compounding's sales increased by 13 percent to 12,745 MSEK (11,326) during the year. Operating profit increased by 7 percent to 2,006 MSEK (1,873). The operating margin amounted to 15.7 percent (16.5).

The HEXPOL Engineered Products business area's sales increased 13 percent over the year to 1,025 MSEK (904). Operating profit increased by 27 percent to 144 MSEK (113) and the operating margin improved to 14.0 percent (12.5).

Financial income and expenses

Consolidated net financial items amounted to 11 MSEK (negative 18), including exchange-rate gains.

Tax expenses

The consolidated tax expense was affected by a lower corporate tax rate in the US and amounted to 515 MSEK (441), corresponding to a tax rate of 23.8 percent (22.4). At the end of 2017, positive non-recurring effects of 104 MSEK, from the tax reform in the US were reported. Adjusted for these non-recurring effects, the tax expense for 2017 amounted to 545 MSEK, corresponding to a tax rate of 27.7 percent. The US tax reform included a reduction in corporate taxation from 35 percent to 21 percent.

Profit for the year

Profit before tax for the year increased to 2,161 MSEK (1,968). Profit after tax increased to 1,646 MSEK (1,527) and earnings per share rose by 8 percent to 4.78 SEK (4.44).

Investments, depreciation and amortization

The Group's investments amounted to 207 MSEK (199) and are mainly attributable to maintenance investments and capacity investments within HEXPOL TPE Compounding. Depreciation, amortization and impairment amounted to 259 MSEK (243).

Profitability

The return on average capital employed amounted to 22.5 percent (25.1). The return on shareholders' equity amounted to 20.4 percent (22.2).

Cash flow

The operating cash flow increased to 2,019 MSEK (2,001). Cash flow from operating activities increased to 1,806 MSEK (1,699).

Financial position

The equity/assets ratio amounted to 59 percent (68). The Group's total assets amounted to 14,456 MSEK (10,350). Net debt increased to 1,143 MSEK (27), mainly due to acquisitions. In May, HEXPOL implemented the dividend approved by the Annual General Meeting of 671 MSEK (1,635) corresponding to a dividend of 1.95 SEK per share.

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

- ▶ A credit agreement with a limit of 125 MUSD that will fall due in February 2020.

- ▶ A credit agreement with a limit of 1,500 MSEK that will fall due in August 2020.
- ▶ A credit agreement with a framework of 1,500 MSEK maturing in September 2021.

The goodwill value is tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. On 31 December 2018, consolidated goodwill and intangible assets amounted to 7,637 MSEK (5,227).

Financial targets

The Group has the following financial targets:

- ▶ The equity/assets ratio is to exceed 30 percent.

Yearly average over a business cycle:

- ▶ Sales growth (adjusted for exchange rate effects) is to exceed 10 percent.
- ▶ The operating margin (adjusted for items affecting comparability) is to exceed 17 percent.

Principles for remuneration of senior executives

The 2018 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives: Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension.

The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be capped in relation to fixed salary. Variable remuneration is not pensionable. Variable remuneration has a fixed cap and comprises a maximum of 130 percent of the fixed salary.

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

The Board shall annually consider whether a share-related or share price-related incentive programme shall be proposed to the Annual General Meeting or not. 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 2019 Annual General Meeting that these guidelines remain basically unchanged.

The Board shall be entitled to depart from the guidelines if there are reasons for doing so in individual cases.

Research and development

During the year, HEXPOL's research and development expenditure amounted to 99 MSEK (91), mainly comprising development expenses in close collaboration with customers. The Group has currently no significant research expenditure that meets the criteria for capitalization.

Events after the reporting period

No significant events have occurred after the balance sheet date.

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	1,737,498
Share premium reserve	597,880
Profit for the year	2,016,795
Total unrestricted funds	4,352,173

The Board of Directors proposes that earnings be allocated as follows: that shareholders be paid a dividend of 2.25 SEK per share.

Total dividend from profit brought forward	774,453
To be carried forward	3,577,720
Total unrestricted funds	4,352,173

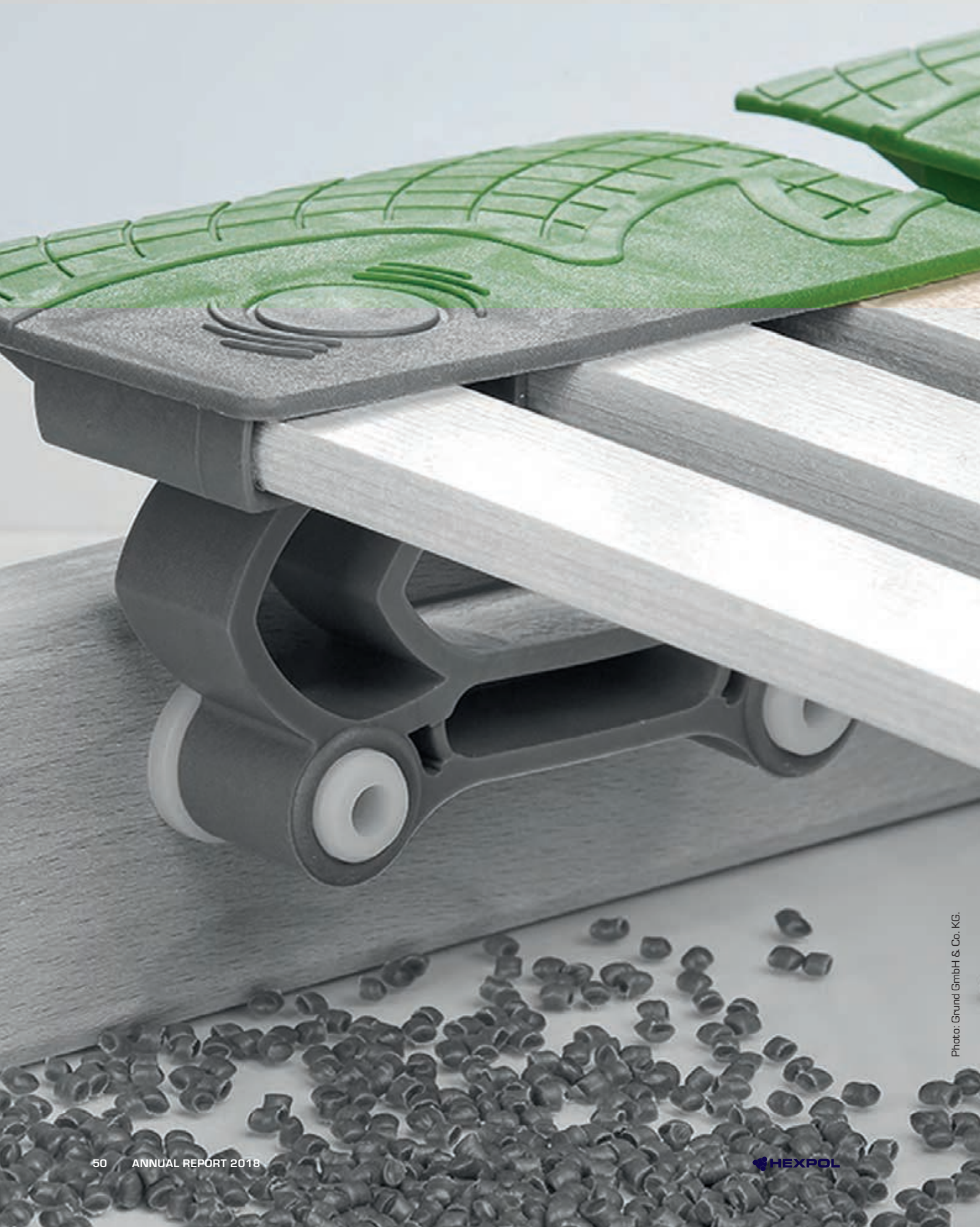


Photo: Grund GmbH & Co. KG.

HEXPOL and sustainable development

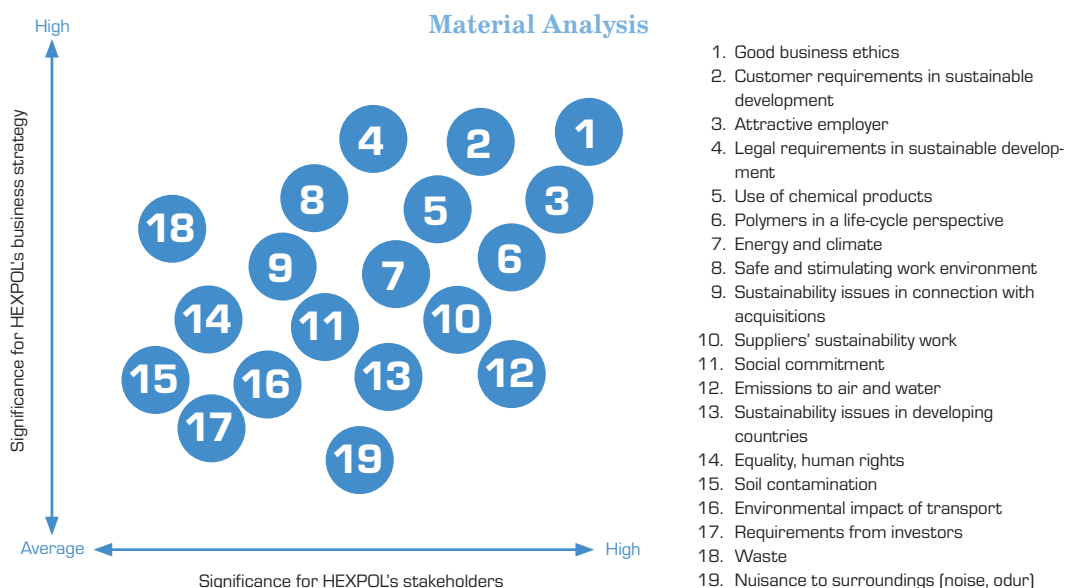
Taking responsibility for people, the environment and society is a feature of our corporate culture and sustainability work creates value for the Group's stakeholders. The environment, occupational health and safety, social responsibility and business ethics are therefore important components in our day-to-day work and long-term strategic planning. The ambition is to contribute to a better environment and to reduce climate impact, satisfy society's requirements and expectations and generate business opportunities.

Key areas and stakeholders

The Materiality Analysis provides insight into which issues are important to our stakeholders and for the Group's business strategy. Our priorities in sustainable development are based on the analysis, with areas considered particularly important being customer requirements in sustainable development, good business ethics, being an attractive employer, and legal requirements. Other priority areas are energy, climate, safe working environment, human rights and hazardous chemical substances. Other issues taken very

seriously are polymer products in a life-cycle perspective, and sustainability in the supply chain. For several of the key areas, we have established long-term targets and key performance indicators.

HEXPOL is influenced by several stakeholder groups (customers, employees, suppliers, shareholders, society) who present requirements and expectations in terms of sustainable development. The perception of which stakeholders are significant, and what they consider important, builds on experience and many years of business relations, but also on current events during the financial



year. The dialogue with stakeholders takes several formats and includes development interviews with employees, customer satisfaction surveys, meetings with analysts and partnerships with customers, suppliers and contractors. How HEXPOL adds value for stakeholders is described on pages 16–17.

Strategy for sustainable development

Assessing raw materials, processes and products from a life-cycle perspective is a prerequisite for responsible business. Accordingly, preventive environmental and work environment efforts are part of the Group companies' management systems. Social responsibility and sound business ethics are other strategic issues that create fundamental prerequisites for the Group's business operations. The long-term strategy builds on stakeholders' requirements and expectations with the intention of:

- ▶ Integrating sustainability issues into strategic planning and budgeting.
- ▶ Reducing risks and costs through preventive measures, risk assessments and investments in effective technical solutions.
- ▶ Generating business opportunities through responsible conduct, and developing resource-efficient production methods and products.
- ▶ Working systematically aided by certified management system for the environment, quality, work environment and energy.
- ▶ Being an attractive employer and an active corporate citizen.
- ▶ Applying sound business ethics and preventing corruption.
- ▶ Communicating openly about sustainable development.

Governance and follow-up

Sustainable development is part of the Group's strategic planning and budget process. The practical work is decentralized with managers within the Group's companies being responsible for policies, targets and results. The activities are followed up by Group management through dialogues

with the companies' management and through internal and external audits. In connection with the Sustainability Report, an in-depth analysis is conducted of compliance with legislation, goal fulfilment and how the companies performed and of key performance indicators during the year of operations. At the Group level, matters related to strategy, risks, follow-up and sustainability reporting, as well as sustainability issues, are addressed in conjunction with corporate acquisitions and in dialogues with investors.

Open communications

HEXPOL communicates its sustainable development work in several ways. The legal requirements and the GRI Standards' (Global Reporting Initiative) requirements regarding content, structure and indicators, are used as the foundation for the Sustainability Report. In the area of climate, a separate report is submitted in accordance with the Carbon Disclosure Project (CDP). According to the requirement in the Global Compact, a report is submitted to the UN each year and, since 2018, sustainability data (ESG: Environment, Social, Governance) is presented at the Nasdaq Listing Center. The sustainability work is reviewed regularly by independent institutions and investors, and expectations regarding transparency and measurable performance have increased considerably in recent years.



The basis for sustainability work

Laws, guidelines, standards, global objectives and voluntary initiatives form the foundation for sustainability work. The Group's fundamental values are applied in the same way in all operations worldwide:

- ▶ *Materializing Our Values* is the Group's Code of Conduct and functions as an ethical compass in matters involving legal responsibility, accounting, conflicts of interest, working conditions, the environment, social responsibility and business ethics. The Code of Conduct also contains policies within the environment, work environment and other areas.
- ▶ *The Business Ethics Guidelines* guide employees in matters concerning what is and what is not permitted in commercial contacts with customers, suppliers, competitors and distributors. More in-depth guide-

Materializing Our Values

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

Our primary objective is to create profitable growth and a prerequisite for doing that is to show responsibility for people and the environment, and to demonstrate sound business ethics. The commitments – *Materializing Our Values* – are deeply rooted in our corporate culture and strategy, meaning that we strive to limit the Group's impact on the climate and to offer a safe and stimulating work environment for our employees worldwide. It is also important that HEXPOL be associated with credibility and healthy values in our contacts with, customers, suppliers and business partners.

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

You can find the document on our website www.hexpol.com. To order printed copies, please contact the Group Headquarters at info@hexpol.com



lines are provided in a detailed Compliance Programme, in which all managers in the Group confirm with their signatures that they are complying with the rules. The managers participate in compulsory training programmes in the area. There is zero tolerance of non-compliance in respect of business ethics.

- ▶ *Whistleblowing* empowers all employees to sound the alarm, bringing irregularities concerning the Code of Conduct to the attention of the Board of Directors and company management.
- ▶ *Global Compact* entails the Group having undertaken to support ten fundamental principles in respect of human rights, labour conditions, environmental consideration and anti-corruption. Global Compact is an initiative by the UN.
- ▶ *The Global Sustainable Development Goals* are applied in formulating the Group's targets.
- ▶ *Management systems* for the environment, quality, work environment and energy have been introduced at the production facilities. The standard for social responsibility (ISO 26000) provides guidance in Group-wide sustainability work.
- ▶ *Supplier Sustainability Guideline* guides the company's suppliers in environmental and work environment matters, human rights, business ethics and the supplier's value chain.

Legal and other requirements

The Group's operations are subject to comprehensive legislation, including a ban on the formation of cartels, export and import ordinances during international business transactions, trade embargoes and economic sanctions. Legislation governing the environment and occupational health and safety areas is substantial and most of the production units are subject to permit obligations in accordance with legislation in the country concerned. In addition, a number of the Group's products are subject to various environmental requirements. The majority of customers impose their own sustainable development demands.

The Global Sustainable Development Goals

Within the framework of Agenda 2030, the UN presented its Global Sustainable Development Goals in 2017. The 17 goals provide a clear and useful framework for meeting global challenges and have achieved considerable impact in society. At the same time, they serve to inspire innovation and business opportunities in the area of sustainability. Private and public organizations have an important role to play and the business sector is expected to contribute responsible business, transparent reporting of its own targets and results, as well as developing products and services that contribute to sustainable development.

The Global Goals help HEXPOL identify areas of importance within sustainable development and we have identified several Global Goals with a clear bearing on the Group's operations. Based on the Goals, we perceive opportunities to both reduce the environmental impact and create business opportunities. We have therefore linked the Group's sustainability work to seven of the Global Goals. We can, in this way, contribute to a more sustainable world while generating profitable growth for HEXPOL.

An important starting point for achieving the goals is to minimize the Group's use of resources. We bring this about by working with innovations, efficiency enhancements, investments in new technology, increased use of renewable energy, and investments in bio-based and recycled polymers. The Global Goals also inspire measures in social responsibility, social engagement and business ethics.



Statutory Sustainability Report

In the Board of Directors' Report below, HEXPOL has chosen to report on the requirement in Chapter 6, Section 1 of the Annual Accounts Act in accordance with the recommendation in BFN U 98:2, regarding environmental information. In accordance with Chapter 6, Section 11 of the Annual Accounts Act, the company has chosen to summarize the statutory Sustainability Report in the Annual Report, and to provide a detailed description in a separate Sustainability Report in accordance with the guidelines in the Global Reporting Initiative (GRI). The Sustainability Report is available at www.hexpol.com a few weeks after the publication of the Annual Report. The table below indicates where in the Annual Report the statutory information can be found. A detailed description of the different areas can be found in the separate Sustainability Report. The accounting principles are described in the Sustainability Report. The newly acquired companies, Kirkhill Rubber and Mesgo Group, are not included in this year's report.



Area	Annual Report, page
Business model	15
Policies, frameworks, stakeholders and material issues	16–17, 51–53
Environmental responsibility	54
Personnel conditions and social responsibility	55–56
Human rights	55
Prevention of corruption	52–53, 56
Risks and risk management	63
Diversity on the Board of Directors and in management	55, 68–69
Aquisitions & Green growth	74–75

Environmental responsibility



Climate change affects the Group and the transition to a society with a lower carbon footprint brings risks and opportunities. By increasing energy efficiency and phasing out fossil fuels, the carbon footprint is reduced. Measures also prepare the company for higher fees and taxes on activities that impact the climate. Increased use of recycled and bio-based raw materials are other measures that are positive from the perspective of climate. Environmentally compatible product development is another priority area in which the Group's expertise and technology can contribute to the customers' climate and environmental work. In the environmental area, we have several long-term targets, which are reported on pages 21 and 57–58.

Environmental aspects

Key environmental aspects that affect HEXPOL's operations include the use of resources in the form of polymer raw materials (rubber, plastics), chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects comprise the environmental impact of suppliers, transportation of raw materials and products, as well as customers' use of the Group's products.



Environmental legislation

The Group is affected by national and international environmental legislation. The majority of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, Spain, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. A few minor operations in the UK and one facility in Germany are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through measurements and inspections, and in excess of 30 units submit specific environmental reports to supervisory authorities. Roughly half of the units are planning to apply for minor updates of applicable permits in the near future.

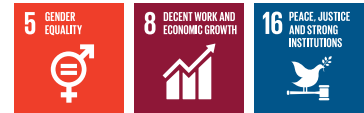
Environmental legislation in the form of EU directives (REACH, RoHS, CLP, WEEE, energy optimization, sustainability report) or other national or international legislation affects most of the Group's operations and products. One third of the units are subject to producer responsibility legislation for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

- ▶ Energy mappings were performed in accordance with the EU directive on energy efficiency.
- ▶ Supervisory authorities conducted inspections at 18 facilities. No significant deviations were identified.
- ▶ At two facilities, limits for pollutants in waste water were exceeded. These events did not result in any legal action. In one case, the infringement resulted in a very marginal penalty fee.

Products providing environmental benefit

Improving the environmental properties of the products is an ongoing process. This could, for example, involve the phasing out of hazardous substances, the use of recycled raw materials and the development of lighter rubber materials. Read more about this on pages 74–75.

Social responsibility



Materializing Our Values applies in the same way throughout the world and the Group aims to be a good neighbour and corporate citizen. The basic idea is that these ambitions will contribute to attracting, developing and retaining committed and competent employees. Among other measures, we are therefore working to develop managers and train employees. Work environment efforts are focused on preventive measures with the vision of zero accidents occurring.

Employees

At the end of the financial year, the number of employees was 4,640 (4,389), of whom 3,211 (2,955) worked in HEXPOL Compounding and 1,424 (1,429) in HEXPOL Engineered Products. The Parent Company had five employees (five). HEXPOL is a global Group and 93 percent (93) of the employees work outside Sweden. Of the employees, 42 percent work in the US/Mexico, 29 percent in Europe and 29 percent in Asia.

Human rights

Materializing Our Values has its background in international agreements and guidelines concerning human rights, social responsibility and sustainable development, including the UN Global Compact and the Standard for Social Responsibility (ISO 26000). The Group's requirements are that workplaces should be safe, facilitate competence development and comply with occupational health and safety and labour legislation. No employee may be discriminated due to gender, religion, age, physical or mental disability, sexual orientation, nationality, political opinions or origin. During the year, no deviations attributable to human rights were registered at the Group's units, or among suppliers.

The Group's values recognize the employee's right to be represented by trade unions or other employee repre-

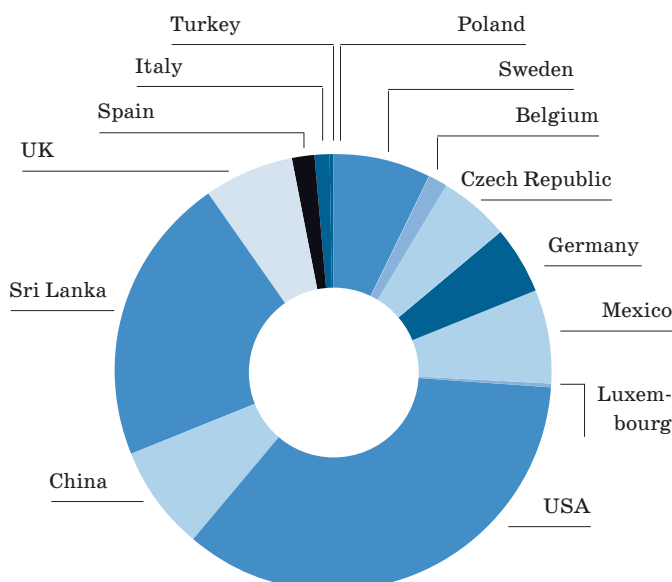
sentatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies depending on local political and cultural conditions in the countries in which the Group is active. At about a third of the units, all employees are covered by collective agreements and this applied to Sweden, Sri Lanka, Germany, Spain and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

Diversity and equality

HEXPOL encourages diversity and distances itself from all forms of discrimination. Questions regarding equal rights have been decentralized and formal equality plans exist at 64 percent (60) of the units. The employees are entitled to form and join trade unions and have the right to collective bargaining. They also have complete insight into and the right of co-determination in accordance with the provisions of national legislation. Work environment efforts focus on preventive measures and include risk analyses, training programmes and technical improvements.

A significant share of the people employed in the global polymer industry are men, something that also applies to HEXPOL. In the Group, 14 percent (14) of the employees are women. The units in China account for the highest share (about 33 percent), with the lowest proportion in Sri Lanka (6 percent). The proportion of females is 57 percent (57) on the Board of Directors and 17 percent (17) in Group management. The proportion of females in the local management teams averaged 18 percent (14). There is a Group-wide equal opportunity policy, and this serves as a clear message from Group management to strive for a higher proportion of females in connection with external and internal recruitment to various positions. During the year, nothing arose that showed that the Group had breached the guidelines concerning equal opportunities or diversity. At one facility in the US, an

Number of employees per country



investigation is underway regarding possible discrimination in connection with a recruitment.

Skills development

By working in networks and project organizations, employees' knowledge and skills increase. Within HEXPOL, such activities entail people from different cultures meeting and sharing their knowledge and experience. In addition to this, formal skills development is conducted at the Group companies and the number of training hours over the year was 118,200 (94,200). This corresponds to 26 hours (21) per employee. About 3,200 people (3,170) participated in development talks or equivalent activities. Work satisfaction, personal development, salary and career opportunities are important factors for many employees. The Group offers remuneration that, at a minimum, meets the minimum requirements in the legislation and is fully adapted to the market in the countries where HEXPOL operates. Variable performance-based compensation occurs in parts of the Group. In 2018, personnel costs totalled 1,785 MSEK (1,569).

During the year, employee surveys were conducted at 17 units (15). Examples of views and wishes expressed by employees concerned personal development, training, internal communications and planning of working hours.

Social commitment

HEXPOL participates in the local community in many ways, including through "open house" days, study visits from schools, collaborations with universities, and financial support for health care, sport and culture.

A detailed description of the efforts can be found in the Sustainability Report.

Good business ethics to be applied

In accordance with Materializing Our Values and the tenth principle of the Global Compact, the business principles must be characterized by integrity and responsibility. For a global company, these issues are complex and the view of what represents normal business principles varies between different countries and cultures. Within the Group, the following methods are used to guide and monitor how business ethics are applied:

- ▶ Materializing Our Values applies to everyone and the management teams within the Group's companies are responsible disseminating the values within their organizations.
- ▶ We continuously monitor costs, expenses and revenues and are particularly aware of ethical issues in our relations with business partners. Although normal business practices in each country are to be observed, if the business principles do not correspond with the Code of Conduct, we shall abstain from the transaction or take other relevant measures.

The information and training initiatives continued during the year. With the help of checklists from the Global Compact, annual assessments are made of how the companies work to counteract bribery. No cases of bribery, corruption or cartelization were registered in 2018. Further information on efforts to combat corruption can be found in the Sustainability Report and in the risk section on page 63.



Targets and key performance indicators for our sustainability work

HEXPOL has introduced long-term targets and key performance indicators related to the environment, work environment and suppliers. The targets are linked to the UN's Agenda 2030 and global goals for sustainable development.

Energy

Target

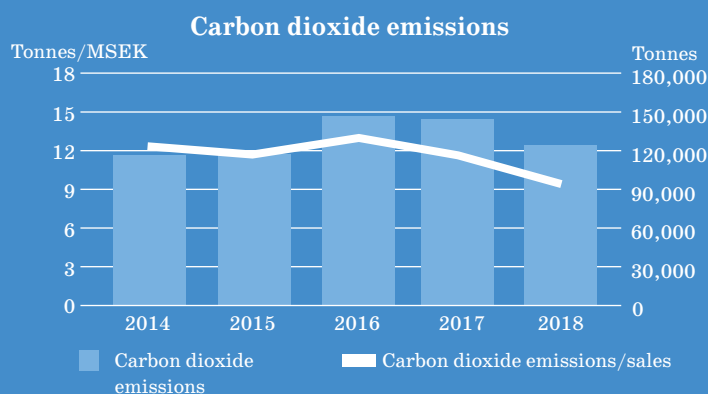
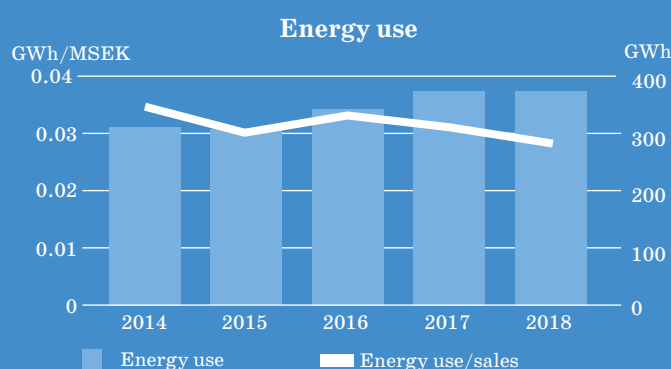
Energy consumption (GWh/net sales) is to be reduced continuously. The production units work within the framework of ISO 14001 and/or ISO 50001 with detailed targets for increased energy efficiency.

Outcome

Work involving energy surveys and measures to increase efficiency continued. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption. In a five-year perspective, energy efficiency has increased and the key performance indicator for energy consumption has decreased by about 25 percent since 2010.

Continued measures

Purchases of energy-efficient equipment, lighting and infrastructure will continue.



Climate

Target

Emissions of carbon dioxide (tonnes/net sales) are to be reduced by 15 percent by the end of 2018 compared with the average for 2010–2011. This target pertains to carbon dioxide emissions resulting from the use of energy. There are various types of local targets and it is common for Group companies to have introduced a joint goal for climate and energy.

Outcome

The use of biofuels, purchases of green electricity and energy optimization reduce emissions of greenhouse gases. Currently, about 24 percent of energy use consists of fossil-free electricity and biofuels. This is being countered by increased operations in countries where purchased electricity is generated from fossil energy and where opportunities to purchase “green electricity” are not offered. Over a five-year perspective, the key performance indicator has developed in the right direction and the target has been achieved with a good margin. A new target will be presented in 2019.

Continued measures

Purchases of fossil-free electricity have increased in recent years and will increase further in 2019. The proportion of units with proprietary electricity production using photovoltaic cells will increase.

Environmental management systems

Target

All facilities are to have certified environmental management systems (ISO 14001). Acquired companies must implement the environmental management system within a period of two years.

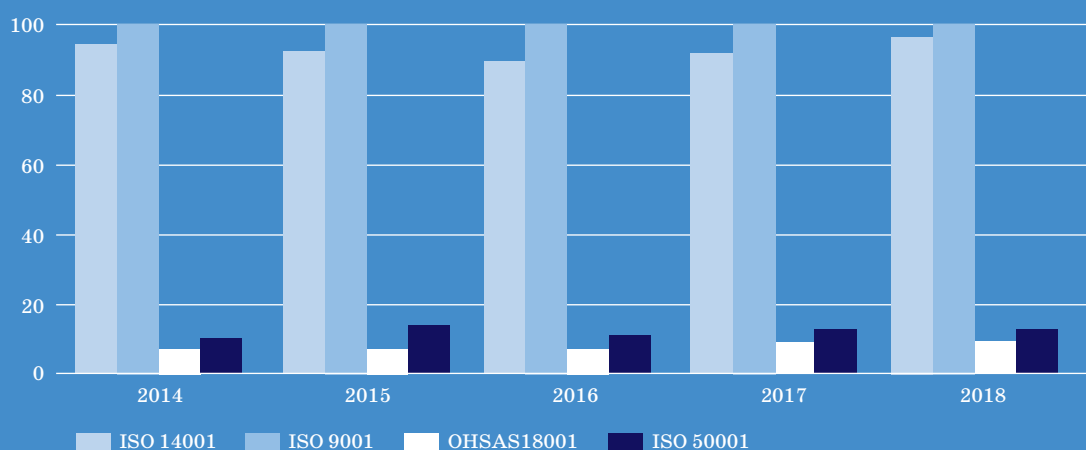
Outcome

Two companies were certified in accordance with ISO 14001 during the year and 97 percent of the plants are now certified in accordance with ISO 14001. The update to ISO 14001:2015 was completed during the year. There are favourable opportunities to achieve the target.

Continued measures

One company plans certification in 2019 and the recently acquired companies, Mesgo Group and Kirkhill Rubber, will commence the process of introducing the environmental management system.

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



Chemical substances

Target

The use of hazardous chemicals must be identified, controlled and, wherever possible, hazardous substances are to be phased out.

HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products.

Outcome

Work to limit the use of particularly hazardous substances is conducted continuously. During the year, approximately 15 substances were replaced, including several phthalates (plasticizers).

The development of environmentally compatible products continued in 2018, and examples of products that generate both environmental and business value are listed on page 75. About 15 percent of the polymer raw materials consisted of recycled plastic and rubber.

Continued measures

Important driving forces are legislative requirements (REACH, for example) and customer demands. This process is impeded by the fact that there are hazardous chemical substances with technical characteristics that are difficult to replace, and by the fact that legislation is not globally harmonized. The replacement of hazardous substances is a long-term process and more than 20 substances, or groups of substances, are currently on the phase-out list. The work will continue for the foreseeable future.

Safe work environment

Target

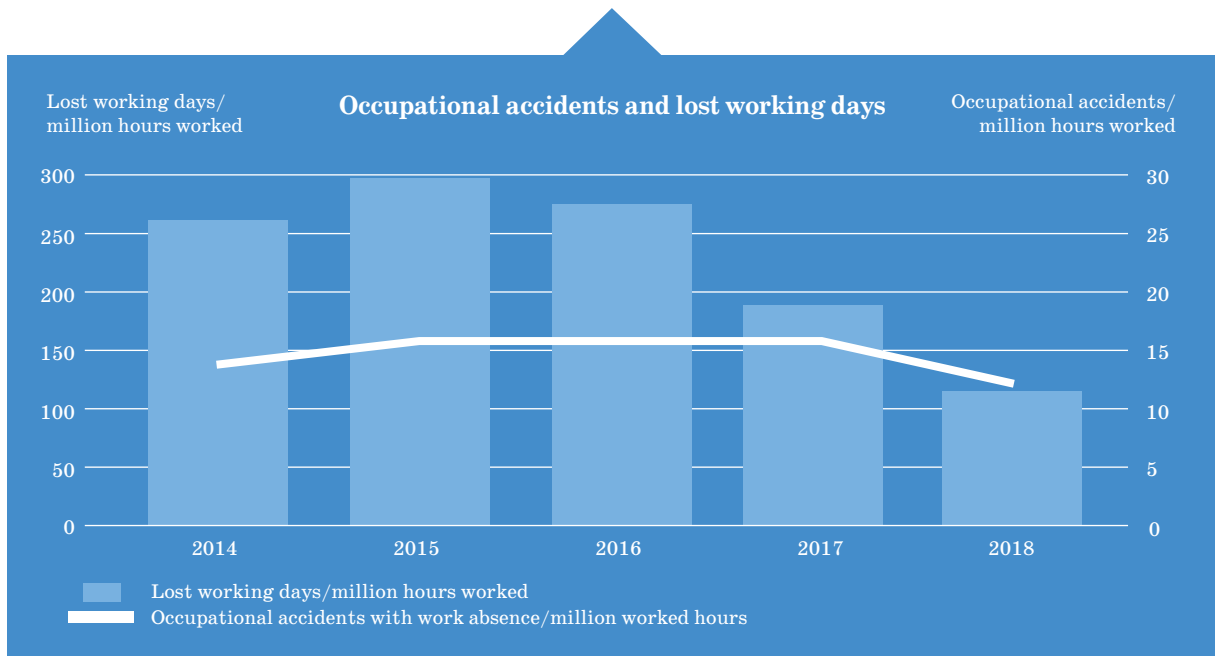
The vision is that no accidents will occur at our workplaces. The target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations.

Outcome

The number of accidents with absence and the number of lost working days decreased compared with the preceding year. The outcome was the lowest in the past five years and the preventive efforts carried out at the operations units in the US, for example, contributed to the positive development. Systems for reporting near misses are in place in most of the units and are being used constructively.

Continued measures

From an industrial perspective, the key performance indicator for occupational accidents is relatively high. Additional action is required (technical measures, training, follow-up) to be able to meet the target.



Suppliers

Target

HEXPOL Supplier Sustainability Guideline is to be applied in the supply chain.

Outcome

The Group's suppliers are expected to apply a code of conduct corresponding to the requirements in Materializing Our Values. Assessments are performed through self-declarations, questionnaires, site visits and formal audits. Over the past three years, more than 1,200 raw material suppliers have been assessed and, during 2018, approximately 470 assessments were performed, of which approximately 35 were audits. The assessments are carried out by both the central purchasing functions and the individual facilities. The focus is on new suppliers and on suppliers of raw materials that are particularly important to HEXPOL.

Continued measures

The Group's guidelines for suppliers were introduced in 2015 and it is now time to review the requirements, the results of the completed evaluations, as well as the efficiency of the process.

Risks and risk management

Market risk management

Risk	Risk management
<p>Sensitivity to economic trends</p> <p>The Group is involved in worldwide operations that are primarily geared toward the market for polymer compounds, gaskets for plate heat exchangers and wheels for the forklift industry. These markets, and thus also HEXPOL, depend on both the general economic trend and the political situation in the world and conditions that are unique for certain countries or regions in which HEXPOL or HEXPOL's customers produce or sell their products.</p> <p>As is the case for nearly all business operations, the general economic climate affects volumes among HEXPOL's existing and potential customers. Accordingly, a weak economic trend throughout or in parts of the world could entail lower-than-expected market growth. Developments in HEXPOL's customer segments constitute one of the principal risks related to the business environment. This results in stringent demands in terms of understanding the current and future demands, requirements and wishes of both direct and end customers.</p>	<p>HEXPOL's operations are widely spread geographically, with a broad global customer base within numerous market segments, providing a favourable risk diversification. Possible negative effects of a downturn in one market can therefore be partially offset by increased sales in another market.</p> <p>HEXPOL has a flexible production that can adapt to changed customer requirements.</p>
<p>Competition and price pressure</p> <p>HEXPOL's operations are conducted in sectors subject to competition and are thus affected by, for example, severe price pressure, which is in turn driving demand for cost-efficient solutions. Through improvements to their technology and production expertise, competing companies may begin to produce at low cost and thus increase competition with HEXPOL's products.</p> <p>HEXPOL's future competitive capacity is dependent on its ability to utilize the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this into attractive products and customized solutions at a competitive price. Increased competition and price pressure in the markets in which HEXPOL is active could have an adverse impact on the Group's operations.</p>	<p>Focus on product development is one of HEXPOL's operation strategies in order to maintain long-term profitability and sustainable competitiveness. The Group possesses in-depth and wide-ranging polymer and applications expertise. Most of the plants are relatively new and well-invested with high technology level. Overall, approximately five percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.</p>
<p>Acquisitions and integration</p> <p>HEXPOL works on the basis of an active acquisition strategy, which has resulted in a series of successful acquisitions. Strategic acquisitions will also be a part of the growth strategy in the future. However, it cannot be guaranteed that HEXPOL will be able to find suitable acquisition targets; nor can it be guaranteed that the necessary financing for future acquisition targets can be obtained on terms that are acceptable for the Group. This could result in reduced or declining growth for HEXPOL.</p> <p>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 materialize.</p>	<p>HEXPOL evaluate a large number of companies to find acquisitions that can strengthen the Group's product portfolio or geographical position, and that supports the Group's strategic plan. An analysis of the entire company, a so-called due diligence is done to assess any potential risks before decision is taken. HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions.</p> <p>Based on extensive experience of acquisitions and integrations of these, combined with clear strategies and objectives, HEXPOL has good potential to successfully continue the active acquisition strategy.</p>

Strategic and operational risk management

Risk	Risk management
<p>Customers</p> <p>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 operations could be adversely impacted.</p>	<p>HEXPOL has a favourable risk diversification in terms of geographical areas and customer groups. No single customer accounts for more than 10 percent of the Group's sales.</p>
<p>Products</p> <p>If HEXPOL's products do not meet customer requirements, complaints and recalls may occur.</p>	<p>HEXPOL uses quality systems to ensure that the product complies with specified requirements.</p>
<p>Suppliers</p> <p>HEXPOL's products consist of many different raw materials 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.</p>	<p>HEXPOL has a favourable risk diversification in terms of suppliers and the Group is not, to any significant extent, dependent on any single supplier.</p>

Risk	Risk management
Key personnel If key persons leaves and successors cannot be recruited or if HEXPOL is unable to attract qualified personnel, this could have a negative impact on the Group's operations.	HEXPOL's future success largely depends on its ability to recruit, retain and develop the Group's employees. HEXPOL strives to be an attractive employer and encourages internal recruitment.
Production disruptions Damage to production facilities caused, for example, by fire, flood, mechanical damage, natural disaster, can lead to interruption of business and affect customer deliveries.	HEXPOL has many units which gives certain flexibility in terms of supporting production. HEXPOL works regularly with risk prevention.
Raw material HEXPOL depends on a significant number of input materials, primarily plastics and rubber raw materials. Trends in the market may result in higher purchasing prices for input materials that are crucial for HEXPOL. In view of the competitive situation, there is a risk that HEXPOL cannot raise prices sufficiently to fully offset the increased costs, leading to reduced margins.	To meet the increased costs for input materials, HEXPOL works, among other things, to improve production efficiency, developing more cost-effective processes and monthly price negotiations.

Legal risk management

Risk	Risk management
Legislation and regulation HEXPOL's principal markets are subject to extensive regulation. 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 restrictions in the countries in which HEXPOL is active could have an adverse impact on the Group's operations.	HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works for quick adaptation to identified future changes in the area. HEXPOL educates employees in business ethics guidelines and senior managers and employees within purchasing and sales participate in education of international law relating to cartels and illegal business collaborations.
Tax risks HEXPOL conducts its operations through subsidiaries in a number of countries. The Group's interpretation of applicable laws, tax treaties, OECD's guidelines and regulations can be challenged by local tax authorities. Rules and guidelines may be subject to future changes which can have an impact on the Group's tax position.	The business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of prevailing tax legislation, tax agreements, OECD's guidelines and regulations. The Group has obtained advice on certain matters from independent tax advisers. Transactions between Group companies are normally conducted at arm's length.
Intellectual property rights HEXPOL sells its products under several well-known brands. It is of major commercial significance for the Group that these brands can be protected against unauthorized use by competitors and that the goodwill associated with the brands can be maintained. According to a licence agreement with Covestro 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 Covestro AG 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 Covestro would have a negative impact, since Vulkollan wheels currently accounts for a major share of the sales of the subsidiary Stellana AB.	HEXPOL has an ongoing dialogue with the license owner.
Health, safety and the environment HEXPOL has operations in many countries with different permit requirements and environmental legislation. 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. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes may have a negative impact on the Group's operations.	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. The Group continuously monitors anticipated and implemented changes in legislation in the countries where the Group operates. 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 ensures, on an ongoing basis, that it holds all of the necessary permits and that it fulfils all of the necessary applicable declaration obligations. HEXPOL has a health insurance system in the US, whereby the employee are offered compensation for health care. The Group's expenses are maximized to a fixed amount per individual and year.

Financial risk management

Risk	Risk management
<p>Currency risk</p> <p>In its operations, HEXPOL is exposed to various financial risks, of which the currency risk is the dominant one. Exchange-rate fluctuations affect HEXPOL's earnings, in part when sales and purchases take place in different currencies (transaction exposure) and, in part when the income statements and balance sheets of foreign subsidiaries are translated to SEK (translation exposure). HEXPOL's global operations give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss. In conjunction with the translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange rate fluctuations could have an impact on the Group's balance sheet.</p>	<p>HEXPOL's business is local, which means that sales and purchases normally are made in local currency and thus limits the Group's transaction exposure. The translation effect is limited to a certain extent through hedging instruments in the Parent Company.</p> <p>A sensitivity analysis shows that the effect of a change of 10 percent against all currencies in relation to the exchange rate for SEK would affect sales by 1,179 MSEK and operating income by 167 MSEK. This effect derives mainly from USD.</p>
<p>Interest risk</p> <p>Changes in the market interest rates affect HEXPOL's net financial items.</p>	<p>Excess liquidity and credit agreements are primarily managed at Group level and in accordance with the financial policy and to variable interest rate.</p> <p>On 31 December 2018, external liabilities amounted to 2,332 MSEK (31 December 2017, 840 MSEK). A change in the interest rate of 1 percentage point in the Group's outgoing debt in 2018 would affect the full-year result by approximately 23 MSEK before tax.</p>
<p>Credit risks</p> <p>The financial risks to which HEXPOL is exposed also include credit risks, meaning that a customer or business partner will be unable to fulfil their payment obligations or to settle receivables that HEXPOL has invoiced or intends to invoice. 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.</p>	<p>HEXPOL conducts regular credit assessments of customers. HEXPOL has widely diversified customers in terms of both geographical areas and customer groups, which limits the risk of significant customer losses.</p> <p>HEXPOL's excess liquidity is primarily used to amortize external loans and further surpluses are placed in well-known banks.</p>
<p>Financing and liquidity risk</p> <p>To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations could ultimately require additional financial resources.</p> <p>HEXPOL's ability to ensure future capital requirements depends to a great extent on successful sales of the Group's products and services. There are no guarantees that HEXPOL will be able to secure the necessary capital. In this regard, general developments in the share capital and credit markets are also of considerable significance. The liquidity risk is defined as the risk that the Group will be unable to entirely fulfil its payment undertakings when they fall due or will only be able to do so on highly unfavourable terms.</p>	<p>HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions.</p> <p>HEXPOL has three major credit agreements with Nordic banks:</p> <ul style="list-style-type: none"> · A credit agreement with a framework of 125 MSEK maturing in February 2020. · A credit agreement with a framework of 1,500 MSEK maturing in August 2020. · A credit agreement with a framework of 1,500 MSEK maturing in September 2021.
<p>Insurable risks</p> <p>HEXPOL's operations, assets and employees are to some extent exposed to various types of risks that may affect HEXPOL's operations.</p>	<p>HEXPOL has a centrally procured coverage for property, liability, disruption, travel and transport insurance, etc., combined with local insurances where necessary.</p>

Sustainable development risk management

Risk	Risk management
Contaminated soil Most of the Group's facilities are built on land that was not previously used by contaminating operations. No emissions or accidents of significance to the land and groundwater were registered in 2018. There is limited soil contamination occurs at three facilities. This is of a historical character and there are no legal requirements for soil remediation that concern the Group.	Regular assessments of the risk for soil contamination and other environmental damage are made in conjunction with acquisitions. Where it is considered necessary, sampling of soil and groundwater is conducted. Through risk analysis and preventive actions the probability and consequences of uncontrolled emissions are minimized.
Hazardous substances in buildings The roofs of certain buildings comprise Eternit tiles containing asbestos. The risks are considered minor and do not require actions to be taken until the roofs are to be replaced. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window seams in a number of buildings and the caulking compound will be removed as the windows are gradually replaced. The risks to humans and the environment are very low.	Regular assessments of the presence of asbestos and PCB are made in conjunction with acquisitions. In accordance with the legislation in different countries inventories has been carried out and relevant precautions have been taken. Further actions is currently not applicable.
Climate-related risks Three of the facilities have identified flooding as a climate-related risk and certain precautions have been taken. Three facilities are located in areas that could be exposed to extreme weather.	The Group keeps itself informed of risk analyses on climate changes that are performed in countries in which it has operations. Climate-related risks are taken into account in conjunction with acquisitions and supplier assessments.
Environmental adaption of products The interest for environmentally adapted products is increasing in many industries and many of the customers sets requirements regarding phase-out of hazardous substances and other properties that have importance to health and environment. If the requirements are not met, there is a risk that the deal will be lost.	The Group is taken an active role within the area and is offering knowledge that contributes to environmental friendly product development. Many of the Group's "green products" show favourable business performance, for example Dryfix Green which contains bio-based raw materials.
Human rights The risk for any violation of the human rights at HEXPOL's production facilities are considered low. The main part of the Group's suppliers of raw material is global chemical companies and the risks around human rights are considered as low. HEXPOL has identified suppliers of natural rubber as a potential risk area. Formal sustainability audits have therefore been performed at natural rubber plantations in Sri Lanka. The situation around human rights was assessed as good.	HEXPOL's Code of Conduct (Materializing Our Values) specifies the view of human rights. The Code of Conduct is supplemented by the commitments under the UN Global Compact. The whistleblowing system gives employees the opportunity to sound the alarm and draw attention to possible irregularities. In the collected data for the annual Sustainability report, all companies must take a stand on questions regarding human rights in their own operation and among the suppliers. No significant deviations have ever been registered.
Anti-corruption The Group has operations in both industrialized and developing countries. No matter where the operations are, there is a risk that sound valuation principles are not applied. In the materiality analysis, good business ethics are therefore afforded a very high priority. The message from the Group management is that zero tolerance is applied for anti-corruption and lack of business ethics.	The Global Compact and the Business Ethics Guidelines guide employees in questions regarding what is and is not allowed in contacts with business partners. In the Compliance Program the managers confirm, through their signature, that the rules are followed. Managers and employees within sales and marketing are part of the mandatory educations within the area. In the collected data for the annual Sustainability report, all companies must take a stand on how they have worked against corruption during the year. The questions originate from the Global Compact. No significant deviations have ever been registered.



Responsible governance builds confidence in continued development

HEXPOL has a history of profitable growth with strong margins. And 2018 was no exception, as we continued to increase both our sales and earnings, achieving the best year in HEXPOL's history.

A strong, growth-oriented business model, involving both innovation-driven organic growth and acquisitions, imposes considerable responsibility to safeguard the value generated through growth. At the same time, we seek to continuously improve our own processes and our customers' offerings by conducting our business in a deliberately ethical and sustainable way. Our corporate governance is therefore central to how we can engender confidence, in our targets, ambitions and approach, among our various stakeholders.

By providing the executive management with overarching targets, strategies and guidelines for its ongoing efforts, but also by setting balanced restrictions on the operations, the Board of Directors ensures that the company is managed in a manner that is as focused, ethical, sustainable and efficient as possible. This is a proactive process that also includes procedures and contingencies for unforeseen events.

This year's two acquisitions, Kirkhill and Mesgo, exemplify how we methodically address our responsibility to safeguard value growth and mitigate risk. We have usually monitored the companies we acquire for some time, enabling us to amass detailed knowledge of those units. In addition to thorough due diligence, involving all key functions, from the outset, we also have a detailed plan for integrating the acquired businesses into our existing organization. Just a few months after acquisition, both Kirkhill and Mesgo are integrated companies, broadening our offering and bringing synergies with the existing organization.

I would also like to underscore our ongoing work on ethical and sustainable business, as a key success factor.

Continued innovation around sustainable solutions and transparency will benefit all of our stakeholders. This all stems from our established corporate culture, expressed with the watchwords "decentralized but extremely coordinated". Our unique position and strength lies in our ability to combine and utilize local entrepreneurship and market knowledge with the coordinated application of the Group's business-critical processes.

HEXPOL has a well-functioning Board of Directors, skilled in all core areas of the business, and I would like to thank my Board colleagues for their committed and knowledgeable contributions over the year. I would also like to direct particular gratitude to our CEO, Mikael Fryklund, and his management team, who have skillfully ensured the Group's continued development and strengthened our positions.

Finally, I would like to thank all of the Group's employees who, despite an intensive year of operations, with major acquisitions, have continued reliably delivering what lies closest to HEXPOL's heart – sustainable products and solutions that generate value for all of the Group's stakeholders.

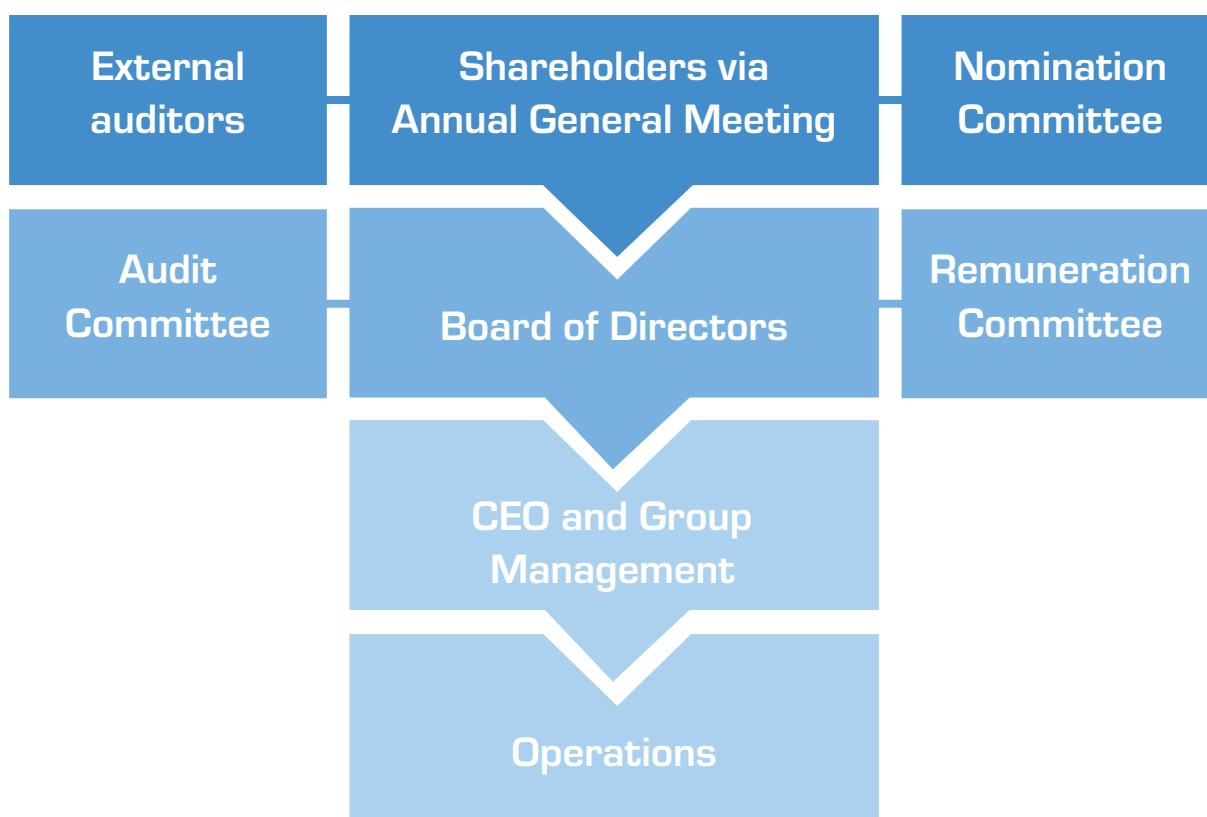
Responsibility and trust, as well as our global positions, culture and unique knowledge of polymer technology is the foundation for our continued development and growth. For which HEXPOL stands well-equipped, financially and organizationally.

Malmö, Sweden, March 2019

Georg Brunstam, Chairman of the Board

Corporate Governance Report

HEXPOL is a public company listed on Nasdaq Stockholm, Large Cap. The governance of the HEXPOL Group is based on Swedish legislation, primarily the Companies Act, HEXPOL's Articles of Association, the Nasdaq Stockholm's rules for issuers and the Swedish Code of Corporate Governance (the Code).



Ownership structure and share

On 31 December 2018, HEXPOL's share capital amounted to 68,840,256 SEK, divided between 344,201,280 shares, of which 14,765,620 were Class A shares, conveying ten votes apiece, and 329,435,660 were Class B shares, conveying one vote apiece. The largest individual shareholder is Melker Schörling AB, whose holding at the end of 2018 comprised a total 14,765,620 Class A shares and 72,612,944 Class B shares, corresponding to 46.2 percent of the votes and 25.4 percent of the capital in the company. No other shareholder has a direct or indirect holding amounting to at least 10 percent of the total number of votes in the company. For more detailed information on ownership structure and the share, see pages 8–11.

Articles of association

HEXPOL's current Articles of Association were adopted on 4 May 2015. The Articles of Association state that the objective of the company's operations is to acquire, own and actively manage shares mainly in industrial, trading and service companies. The company shall also own and manage securities, sell services in the administrative area and pursue other operations compatible therewith.

The Articles of Association formalize issues such as shareholders' rights, the number of Board Members and auditors; that the Annual General Meeting (AGM) is to be held annually within six months of the end of the financial year; how the notice convening the AGM is to be sent; and that the company's Board has its registered office in Malmö, Sweden. The current Articles of Association are available on the company's website.

General shareholders meetings

A General Shareholder Meeting is HEXPOL's highest decision-making body, which all shareholders are entitled to attend. At a General Shareholder meeting, all shareholders have the opportunity to exert an influence over the company by exercising the votes attached to their respective shareholdings. At the Annual General Meeting (AGM), the Board presents the annual report, the consolidated financial statements and the auditors' report.

HEXPOL announces the Annual General Meeting no later than four weeks prior to the Meeting. The Annual General Meeting is usually held in Malmö, Sweden, although, in accordance with the Articles of Association, it may also be held in Stockholm, and it is usually held in April or May. Among other matters, the AGM passes resolutions such as the adoption of the income statement and balance sheet, the dividend to be paid, amendments to the company's Articles of Association, discharge from liability for the Board and President, election of Board members and auditors, and the setting of remuneration for the Board members and auditors.

Annual General Meeting 2018

The 2018 AGM was held on 24 April 2018 in Malmö, Sweden. At the AGM, shareholders in attendance represented approximately 63 percent of the total voting rights. The Chairman of the Board, Georg Brunstam, was elected Chairman of the Meeting. The Meeting approved the income statement and balance sheet, and the consolidated income statement and balance sheet.

The Meeting approved the Board's proposal for a

dividend of SEK 1.95 per share for the 2017 financial year. Georg Brunstam, Alf Göransson, Jan-Anders E. Månson, Malin Persson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson were re-elected as members of the Board.

Georg Brunstam was re-elected as Chairman of the Board. The Meeting approved the Board's proposed guidelines for remuneration to HEXPOL's senior executives.

Annual General Meeting 2019

HEXPOL's Annual General Meeting 2019 will be held on 26 April 2019 in Malmö, Sweden. For information about the AGM, refer to page 99.

Nomination committee

HEXPOL's AGM determines the composition of the company's Nomination Committee. The Nomination Committee's task is to submit proposals regarding the Chairman of the AGM, Chairman and other members of the Board, 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.

In the nomination process in preparation for the Annual General Meeting in 2018, the Nomination Committee applied rule 4.1 of the Code on Diversity Policy in preparing its proposals for the Board. The Nomination Committee concluded that the Board of HEXPOL has an even gender distribution and an appropriate composition in other regards.

The 2018 AGM passed a resolution to the effect that HEXPOL's Nomination Committee should comprise four members representing the largest shareholders in terms of voting rights and that Mikael Ekdahl (Chairman), representing Melker Schörling AB, Åsa Nisell representing Swedbank Robur fonder, Henrik Didner representing Didner & Gerge Fonder and Elisabet Jamal Bergström representing Handelsbanken Fonder should be members of the Nomination Committee ahead of the 2019 AGM.

Elisabet Jamal Bergström (Handelsbanken funds) has subsequently chosen to step down from her assignment on the Nomination Committee due to Handelsbanken funds no longer being one of the largest shareholders in HEXPOL in terms of votes. In accordance with the Instructions for the Nomination Committee, the Nomination Committee has given the next shareholder,

in terms of size, the opportunity to nominate a representative, upon which Alecta Pensionsförsäkring has accepted and nominated Marcus Lüttgen, who has been appointed as a new member of the Nomination Committee.

Accordingly, HEXPOL's Nomination Committee in preparation for AGM 2019 consists of Mikael Ekdahl (Melker Schörling AB), Åsa Nisell (Swedbank Robur funds), Henrik Didner (Didner & Gerge Fonder) and Marcus Lüttgen (Alecta Pensionsförsäkring). Mikael Ekdahl is the Chairman of the Nomination Committee.

Should a shareholder who is represented by one of the members of the Nomination 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 2019, the committee is entitled to appoint another representative from among the major shareholders to replace such a member.

During the year, the Nomination Committee held two meetings at which minutes were recorded. The Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2019 AGM.

The Board of Directors and its work

Composition of the Board and independence

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, with no more than two deputies. HEXPOL's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles. The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on 24 April 2018 resolved to elect a Board consisting of, Georg Brunstam (Chairman), Alf Göransson, Malin Persson, Jan-Anders E. Månson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson. The Board was elected for the period up to the end of the 2019 AGM. HEXPOL's President and CEO and HEXPOL's CFO participates in Board meetings. On request, other HEXPOL employees attend Board meetings to present certain specific issues.

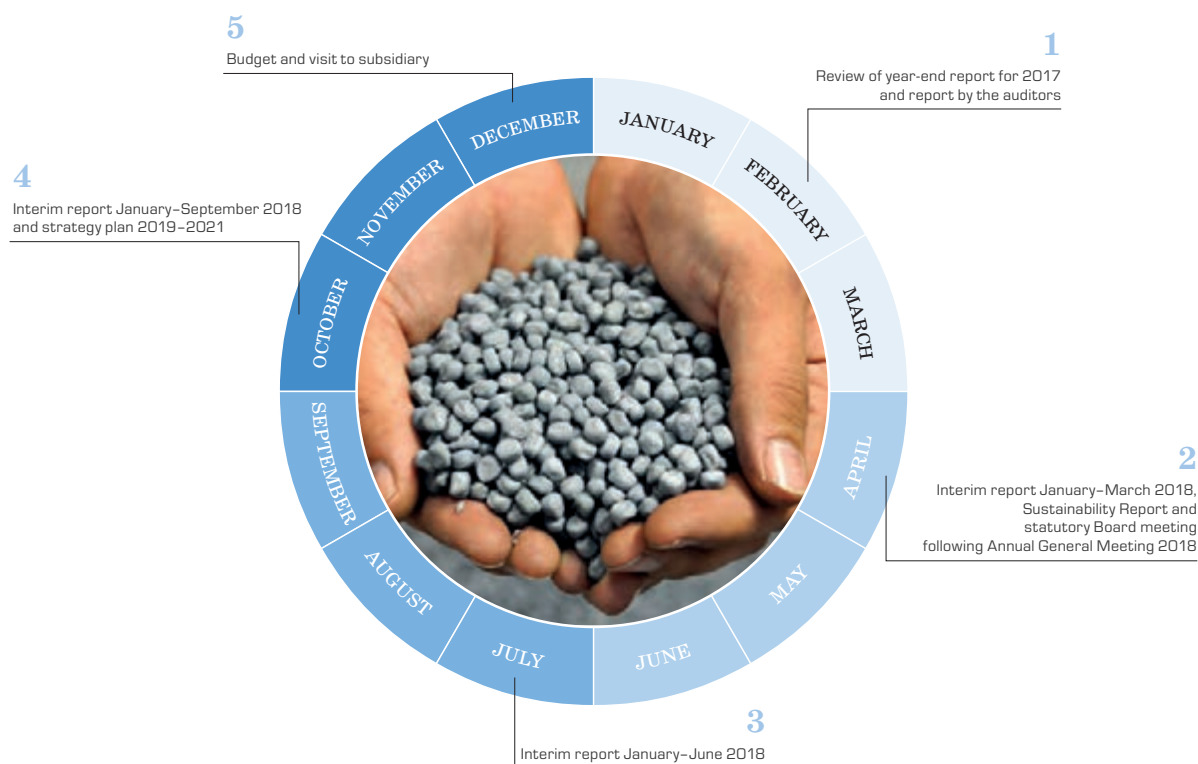
The Board's assessment of its members' independence in relation to the company, its management and major shareholders, which is shared with that of the Nomination Committee, is presented on pages 72–73. According to the requirements presented in the Code, the majority of the Board members elected by 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 on page 72–73, 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 organization and management pursuant to the Swedish Companies Act. The Board also appoints the President and CEO, the Audit Committee and



Work of the Board of Directors



Remuneration Committee, as well as deciding on matters involving the salary and other remuneration of the President and CEO. The activities of the Board and division of responsibility between the Board and executive management are governed by the Board's work procedures. Work procedures include instructions for the President and CEO in respect of financial reporting as well as instructions for the Audit Committee and Remuneration Committee. These are reviewed and set annually.

Evaluation of the Board's work

Evaluation of the Board's work, including its committees, are conducted annually. The evaluation covers the Board's work processes, competence and composition, including Board members' backgrounds, experience and diversity.

The evaluation is coordinated by the Chairman of the Board. In 2018, the Chairman conducted a written questionnaire-based survey of all Board members. The results of the valuation have been reported and discussed by the Board and the Nomination Committee.

Board committees

The Board has established two committees from among its members: the Audit Committee and Remuneration Committee. The Board's Audit Committee, which is a preparatory function in the contact between the Board and auditors, follows a written instruction and should through its operations meet the requirements of the Companies Act and the EU Audit Regulation. The Audit Committee's tasks include, among other things, to assist the Nomination Committee in preparing the proposal of auditors and auditing fees to the General Shareholder Meeting, the Committee shall monitor so that the auditor's mandate does not exceed the applicable rules, procure audit services and submit a recommendation in accordance with the EU Audit Regulation. The Committee shall also

review and monitor the auditor's impartiality and independence, and paying particular attention if the auditor provides the company with services other than auditing. The Committee shall also issue guidelines for services other than auditing provided by auditors and when appropriate to approve such services in accordance with the issued guidelines. The Committee shall participate in the planning of the audit work and related reporting and should regularly consult and discuss with the external auditors to keep informed about the direction and scope of the audit. The Committee shall also review and monitor the Group's financial statements, the work of the external auditors, the company's internal control system, the current risk profile and the company's financial information. The committee's tasks also include making recommendations and suggestions to ensure the reliability of financial reporting as well as other issues the Board assigns the Committee to prepare. The Audit Committee shall meet regularly with HEXPOL's auditors and report back to the Board. The committee has not, except as expressly stated in the Board's adopted written instructions for the Audit Committee, authority to make any decisions on behalf of the Board. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member shall possess accounting or auditing qualifications, and all the Committee members must be familiar with economic and financial issues. During 2018, the Audit Committee consisted of Gun Nilsson (Chairman), Malin Persson and Märta Schörling Andreen. During the period, the Audit Committee held three minuted meetings, each attended by all of the members.

The task of the Board's Remuneration Committee is to deal with matters involving remuneration guidelines, salaries, bonus payments, warrants, pensions and other forms of remuneration for the Group's 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. During 2018, the Remuneration Committee consisted of Georg Brunstam (Chairman) and Märta Schörling Andreen. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

Board activities in 2018

During the year, the Board held a total of six Board meetings, of which one was the statutory meeting. At the meetings, HEXPOL's CEO reported on the market position and financial position as well as significant events that affected the company's operations. The Board has also, among others, addressed questions related to investment, interim reports, annual report and auditors' report on the audit work. During 2018, all AGM-elected Board members attended all Board meetings except at one meeting when one Board member was unable to attend.

Auditors

The auditors are elected at the AGM and, on behalf of the shareholders, are responsible for examining the Annual Report and accounting records, as well as the administration by 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 2018 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 Authorized Public Accountant Johan Thuresson as auditor-in-charge. The auditor can be reached at Ernst & Young AB, Nordenskiöldsgatan 24, SE-203 14 Malmö, Sweden. The auditors for the forthcoming term will be elected at the 2019 AGM.

Auditor



Name	Johan Thuresson
Position	Authorized Public Accountant and member of FAR.
Born	1964
Nationality	Swedish
Other audit assignments	Precise Biometrics AB, Alligator Bioscience AB, AB Tetra Pak, Axis AB.

Internal audit

The Board shall according to the Code annually evaluate the need for a separate audit function (internal audit) to ensure that established principles for financial reporting and internal control are followed and that the company's financial statements are prepared in accordance with the law, applicable accounting standards and other requirements for listed companies. The Board have with regard to HEXPOL's work and procedures for internal control



assessment that there is no need for a special review. The issue of a special audit function will be reviewed again in 2019.

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 the implementation of the Group Management's overall governance down to each business and product area, and, in turn, down to the subsidiary level. The organization is structured to facilitate short and prompt decision-making processes, with clear, decentralized responsibility. On the next two-page spread, HEXPOL's Group management is presented with details of members' period of employment at HEXPOL, their education, year of birth, shareholding, etc.

Information on remuneration

Refer to Note 4 on page 83 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. HEXPOL has a communication policy, whose aims include ensuring that the Group fulfils

the requirements concerning information disclosure to the stock market. HEXPOL's financial and other communication activities must always comply with the EU Market Abuse Regulation, Nasdaq Stockholm Exchange's regulations, generally acceptable behaviour in the stock market and other relevant regulations and legal obligations to which HEXPOL may be subject. Communications shall also be designed such that actions within the company are consistent, and such that the company, its employees and the operations act in the same way on receiving information. The policy establishes the distribution of responsibility for information matters and stipulates who may represent the company as a spokesperson. The policy also includes procedures for interim reports, Annual Reports, Annual General Meetings, press releases, meetings with investors and the company's website. The company's prevailing communication policy is reviewed annually and is revised as needed.

The company's systems for internal control pertaining to financial reporting for the 2018 financial year

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

Control environment

HEXPOL's organization is designed to facilitate rapid decision making. Operational decisions are therefore made at the business area, product area or subsidiary level, while decisions on strategies, acquisitions and divestments, as well as on overarching financial matters are made by the company's Board of Directors and Group Management. The organization is characterized 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 organization, 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 authorization arrangements established by the CEO.

HEXPOL's financial control functions are integrated by means of a Group-wide reporting system. All of HEXPOL's subsidiaries report complete financial statements on a monthly basis. This reporting provides the basis for the Group's consolidated financial reporting. Each legal entity has a controller responsible for the business area's financial control and for ensuring that the financial reports are correct, complete and delivered in time for

consolidated financial reporting. The Group's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board's monitoring of the company's assessment of its internal control includes contacts with the company's auditors.

Risk management

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

Control activities

The risks identified with respect to the financial reporting process are managed via the company's control activities, which are designed to prevent, uncover and rectify errors and deviations. The management is conducted by means of manual controls in the form of, for example, reconciliations and audits and automatic controls using IT systems. Detailed analyses of financial results and followups 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 operations, 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 communication 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 performance indicators. 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 analyzes the company's financial reporting at a detailed level. The Audit Committee follows up the financial reporting at its meetings and receives reports from the auditors describing their observations.

Board of Directors



Name	Georg Brunstam	Alf Göransson	Malin Persson
Position	Chairman	Member	Member
Elected, year	2007	2007	2007
Born	1957	1957	1968
Nationality	Swedish	Swedish	Swedish
Education	M. Sc. (Eng.)	International B.Sc. (Econ.)	M. Sc. (Eng.)
Other assignments	Chairman of the Boards of AAK AB and Inwido AB. Member of the Board of Melker Schörling AB, Nibe Industrier AB and Beckers Industrial Coatings Holding AB.	Chairman of the Board of Loomis AB. Member of the Boards of Attendo AB, Sweco AB, Melker Schörling AB, Axfast AB, Sandberg Development Group and Axel Johnson Inc., USA.	Member of the Boards of Peab AB, Getinge AB and Hexatronic AB, among others.
Independent in relation to the company and management	No	Yes	Yes
Independent in relation to major shareholders	No	No	Yes
Audit Committee	No	No	Yes
Remuneration Committee	Yes	No	No
Own holding and holdings of related parties	1,000,000 Class B shares, 300,000 warrants.	3,000 Class B shares	–

Group Management



Name	Mikael Fryklund	Karin Gunnarsson	Jan Wikström
Position	President and CEO	Chief Financial Officer and Investor Relations Manager	President HEXPOL Wheels and HEXPOL Gaskets
Employed, year	2017	2007	2008
Born	1963	1962	1972
Nationality	Swedish	Swedish	Swedish
Education	M. Sc. (Eng.) and B.A. (Econ.)	B.Sc. (Econ.)	M. Sc. (Eng.)
Other assignments	–	Member of the Board of Beijer Electronics Group AB	–
Own holding and holdings of related parties	30,000 Class B shares, 225,000 warrants	123,250 Class B shares, 75,000 warrants.	800,000 Class B shares, 75,000 warrants.



Jan-Anders E. Månsson	Märta Schörling Andreen	Kerstin Lindell	Gun Nilsson
Member	Member	Member	Member
2008	2014	2016	2017
1952	1984	1967	1955
Swedish	Swedish	Swedish	Swedish
M. Sc. (Eng.) and Doctor of Technology	B.Sc. (Econ.)	Master Business Administration, Ph D Polymer Chemistry and Master Chemical Engineering	B.Sc. (Econ.)
Professor at Purdue University. Director at Composite Manufacturing Simulation Center. Chairman of the Board of AISTS. Member of the Boards of EELCEE Ltd., GEESTAR Co. Ltd. and the Royal Institute of Technology.	Member of the Board of Melker Schörling AB and AAK AB.	CEO of Bona AB. Vice Chairman of The Chamber of Commerce and Industry of Southern Sweden. Member of the Board of Peab AB.	Chairman of the Board of Hexagon AB, President and CEO of Melker Schörling AB and Member of the Boards of AAK AB, Loomis AB, Bonnier Group AB and the Swedish Corporate Governance Board.
Yes	Yes	Yes	Yes
Yes	No	Yes	No
No	Yes	No	Yes
No	Yes	No	No
-	14,765,620 Class A shares and 69,413,430 Class B shares through Melker Schörling AB	5,000 Class B shares	5,000 Class B shares



Tracy Garrison	Ralph Wolkner	Carsten Rüter	Magnus Berglund *
President HEXPOL Compounding Americas and President HEXPOL TP Compounding	President HEXPOL Compounding Europe/Asia and President HEXPOL TPE Compounding	President HEXPOL Compounding Europe/Asia and HEXPOL Compounding Global Purchasing/Technology. President HEXPOL TPE Compounding	Senior Vice President, Strategy, M&A
2002	1997	1997	2008
1967	1971	1971	1971
American	Belgian	German	Swedish
Engineer	B.Sc. (Econ.)	M. Sc. (Eng.)	M.A. (Econ.) and B.Sc. (Eng.)
-	-	-	-
724,500 Class B shares, 100,000 warrants	88,500 Class B shares, 75,000 warrants	100,000 Class B shares, 75,000 warrants	17,000 Class B shares, 30,000 warrants

* Member of Group Management since 1 February 2019.



Photo: Emballator Lifestyle





Innovative solutions generating green growth

Interest in products and services bringing both environmental and business benefits is rising steadily. For many years, HEXPOL's sustainability focus has been an integral part of both our development work and our offering, with a number of innovative solutions for reducing climate impact. We want to make it easy for our customers to generate value through sustainability.

Examples of measures by which we help our customers reduce the environmental footprint of their products include mitigating the risks posed by hazardous chemical substances, reducing fuel consumption in vehicles, enhancing energy efficiency in industrial processes and increasing the use of fossil-free or recycled materials:

- ▶ With our HexLight product group, the density of rubber profiles can be reduced by up to 30 percent. These lightweight products enable the automotive industry to achieve reduced fuel consumption.
- ▶ RheTech in the US uses renewable raw materials in its RheVision product line. The bio-based content can amount to about 15 percent and, if this is combined with recycled polypropylene, the carbon footprint of the material is considerably lower compared with traditional plastic products.
- ▶ By their nature, thermoplastic elastomers (TPE) are recyclable. The applications are many, from medical applications and household products to components in the building and construction, and automotive industries. TPE can also serve as a replacement for PVC materials, for example.
- ▶ With its launch of Dryflex Green, TPE based on renewable raw materials, HEXPOL TPE has placed itself at the forefront of the industry when it comes to sustainable solutions.
- ▶ HEXPOL has developed a type of EPDM rubber with low electrical conductivity, something demanded by the automotive industry. The increasing use of light aluminium and magnesium alloys in cars incurs a risk of electrolytic corrosion. The risk of corrosion is reduced with door strips containing the new type of EPDM.
- ▶ Another environmental innovation involves halogen-free flame-retardant compounds from the Hex-Flame and DryflexFLAM product families, which are a major advantage in construction applications for example.

“Sustainability has long been high on HEXPOL's agenda, both with regard to our own environmental footprint and how we can help our customers with their offerings. With a proactive development process, close customer collaboration and leading expertise in elastomers, we are at the absolute fore in a whole range of materials and applications.”

Thomas Nilsson, President HEXPOL TPE AB

Financial report



Consolidated Income Statement

MSEK	Note	2018	2017
Sales	2	13,770	12,230
Cost of goods sold		-10,846	-9,572
Gross profit		2,924	2,658
Sales costs		-202	-161
Administration costs		-484	-431
Research and development costs		-99	-91
Other operating income		16	16
Other operating expense		-5	-5
Operating profit	2, 3, 4, 5, 6, 9, 10	2,150	1,986
Financial income	7	44	15
Financial expenses	7	-33	-33
Profit before tax		2,161	1,968
Tax	8	-515	-441
Profit after tax		1,646	1,527
of which, attributable to Parent Company's shareholders		1,646	1,527
Earnings per share before and after dilution, SEK		4.78	4.44
Average number of shares before and after dilution, thousands		344,201	344,201

Consolidated statement of comprehensive income

MSEK	2018	2017
Profit after tax	1,646	1,527
Items that will not be re-classified to the income statement		
Re-measurement of defined benefit pension plan	-2	-1
Income tax relating to items that will not be re-classified to the income statement	0	0
	-2	-1
Items that may be re-classified to the income statement		
Cash flow hedges		
Hedge of net investment	122	72
Income tax relating to items that may be re-classified to the income statement	-27	-16
Translation difference	514	-498
	609	-442
Other comprehensive income after tax	607	-443
Total comprehensive income	2,253	1,084
of which, attributable to Parent Company's shareholders	2,253	1,084

Consolidated Balance Sheet

MSEK	Note	2018	2017
ASSETS			
Fixed assets			
Intangible fi ed assets	9	7,637	5,227
Tangible fi ed assets	10	1,999	1,751
Financial fi ed assets	20	25	1
Deferred tax assets	8	37	69
Total fixed assets		9,698	7,048
Current assets			
Inventories	11	1,405	887
Accounts receivable	12, 20	1,925	1,414
Current tax receivables		136	115
Other current receivables		74	31
Prepaid expenses and accrued income		54	42
Cash and cash equivalents	20	1,164	813
Total current assets		4,758	3,302
TOTAL ASSETS		14,456	10,350
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
Other capital contributions		598	598
Reserves		1,455	848
Profit brought forward		4,824	3,968
Profit or the year		1,646	1,527
Total equity attributable to parent company's shareholders	13	8,592	7,010
Attributable to non-controlling interests		0	0
Total shareholders' equity		8,592	7,010
Non-current liabilities			
Interest-bearing liabilities	14, 20	2,308	825
Other liabilities	20	476	-
Deferred tax liabilities	8	539	331
Pension provisions	15	42	21
Total non-current liabilities		3,365	1,177
Current liabilities			
Interest-bearing current liabilities	14, 20	24	15
Accounts payable	20	1,913	1,626
Current tax liabilities		146	121
Other current liabilities	20	70	76
Other provisions	16	8	5
Accrued expenses and deferred income	17, 20	338	320
Total current liabilities		2,499	2,163
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		14,456	10,350

Consolidated changes in shareholders' equity

MSEK	Attributable to Parent Company's shareholders				Total
	Share capital	Other capital contributions	Reserves	Profit brought forward	
December 31, 2016	69	598	1,291	5,601	7 559
2017					
Total comprehensive income					
Profit after tax	-	-	-	1,527	1 527
Other comprehensive income	-	-	-443	-	-443
Total comprehensive income	-	-	-443	1,527	1,084
Transactions with shareholders					
Issue of subscription warrants	-	-	-	2	2
Dividend	-	-	-	-1,635	-1,635
December 31, 2017	69	598	848	5,495	7,010
2018					
Total comprehensive income					
Profit after tax	-	-	-	1,646	1,646
Other comprehensive income	-	-	607	-	607
Total comprehensive income	-	-	607	1,646	2,253
Transactions with shareholders					
Dividend	-	-	-	-671	-671
December 31, 2018	69	598	1,455	6,470	8,592

Reserves mainly comprise translation reserve.

Consolidated Cash Flow statements

MSEK	Note	2018	2017
Cash flow from operating activities	19		
Operating profit		2,150	1,986
Adjustment for non-cash items		259	243
Net financial income		8	-15
Tax paid		-428	-482
Cash flow from operations before changes in working capital		1,989	1,732
Cash flow from changes in working capital			
Changes in operating receivables		-194	-248
Changes in operating liabilities		11	215
Cash flow from operations		1,806	1,699
Investing operations			
Investments in tangible fixed assets		-200	-190
Sales of tangible fixed assets		0	4
Investments in intangible fixed assets		-7	-9
Acquisition of business combinations	21	-2,190	-1,081
Cash flow from investing activities		-2,397	-1,276
Financing activities			
Loans raised		2,871	1,890
Amortisation of liabilities		-1,425	-1,080
Issue of subscription warrants		0	2
Dividend		-671	-1,635
Cash flow from financing activities		775	-823
Cash flow for the year		184	-400
Cash and cash equivalents at January 1		813	1,297
Exchange-rate differences in cash and cash equivalents		167	-84
Cash and cash equivalents at December 31		1,164	813

Operating cash flow, Group

MSEK	2018	2017
Operating profit	2,150	1,986
Depreciation/amortisation/impairment	259	243
Change in working capital	-183	-33
Sales of tangible fixed assets	0	4
Investments	-207	-199
Operating cash flow	2,019	2,001

Note 1 Accounting principles

HEXPOL's consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. The Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, was also applied.

The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 82.

The applied accounting policies correspond to those applied in the preceding year with the exception of the new IFRS applied commencing 1 January 2018. None of the amendments and interpretations of existing standards be applied as of financial years commencing 1 January 2018 had any effect on the consolidated or Parent Company's financial statements.

IFRS 9 – "Financial Instruments", which addresses the classification, measurement and recognition of financial assets and liabilities, replaces IAS 39. IFRS 9 have other measurement categories for financial assets and a new model for impairment testing. The classification and valuation of financial liabilities has not entailed any difference for the valuation and reporting of the Group's financial instruments. The new model for calculating credit loss reserves is based on expected credit losses and has not had any significant effect on the consolidated accounts, since historically, the Group has suffered few credit losses. Due to the immaterial effects of the new standard, previous period have not been recalculated. A modified retrospective was applied on transition to IFRS 9.

IFRS 15 – "Revenue from Contracts with Customers" regulates the manner in which revenue from customer agreements is recognized. The expanded disclosure requirements mean that details must be submitted regarding the revenue category, settlement date, uncertainty associated with revenue recognition and cash flow attributable to the company's customer agreements. According to IFRS 15, revenue must be recognized when the goods or service is transferred to a customer, which may occur over time or at a particular time. The revenue shall consist of the amount that the company expects to receive in compensation for the goods or services delivered. IFRS 15 replaces all previously published standards and interpretations that handle revenues with a single revenue recognition model. The analysis and conclusion on transition to IFRS 15 are summarized and explained below.

The Group's agreements with customers have been analyzed by product area and, in all cases, only one kind of performance commitment has been identified, sales of goods. Each performance commitment is fulfilled at a particular point in time and, compared with previous accounting principles, no differences in amount or timing have been identified. Accordingly, the introduction of IFRS 15 has not affected the Group's revenue recognition. A modified retrospective was applied on transition to IFRS 15.

A number of new or revised IFRS have not yet come into effect and have not been applied prospectively in preparing the consolidated or Parent Company's financial statements. IFRS 16, which comes into force in 2019, is described below. None of the other new standards, amended standards or IFRIC interpretations that have been published are expected to have any impact on the consolidated or Parent Company's financial statements.

IFRS 16 – "Leasing". This standard came into force on 1 January 2019. The greatest change entailed by the new standard is that all leasing contracts (with the exception of short-term leases and lease contracts of lesser value) should be reported as an asset (right of use) and as a liability in the lessee's balance sheet. In the income statement, the cost of the operating lease is replaced by the depreciation of the leased asset and an interest expense attributable to the lease liability. This accounting is based on the view that the lessee is entitled to use an asset for a specific period of time and is, at the same time, obliged to pay for that entitlement. On transition to IFRS 16, HEXPOL has chosen to apply a simplified transition method, in accordance with which:

- the leasing liability is measured at the present value of the remaining payments applying current discount rates. A marginal loan rate has been determined for each currency for all asset categories.
- the right of use/asset has been recalculated retroactively from the start of the agreement, albeit at a discount rate based on a discount rate of interest at the time of transition.
- leases with a remaining maturity of 12 months or less and lease agreements whose new acquisition value is less than SEK 50,000 are not included in the liability or in the right of use in the balance sheet.

The Group's leases are for premises, production and office equipment and vehicles. The depreciation period for rights of use has been determined based on the term of the lease.

The introduction of the new standard will have the following effects on the balance sheet as at 1 January 2019. Fixed assets increase by SEK 351 million, deferred tax assets by SEK 2 million, lease liabilities by SEK 359 million and shareholders' equity is reduced by SEK 6 million. The assessment is that the accounting in accordance with IFRS 16 will have a minor positive effect on operating profit and a minor effect on profit before tax for 2019 compared with the former accounting principle.

CONSOLIDATED FINANCIAL STATEMENTS

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

Subsidiaries are included in the consolidated financial statements as of the day upon which controlling influence is attained and divested companies up to the time when a controlling interest over them ceases. The consolidated

financial statements have been prepared in accordance with the cost method, with the exception of certain financial instruments that have been measured at fair value.

The purchase method is used to recognize the Group's business combinations. The consideration for the acquisition of a subsidiary comprises the fair value of transferred assets and liabilities that the Group assumes from previous owners of the acquired company. The consideration also includes the fair value of all assets and liabilities resulting from an agreement concerning a contingent consideration. Each contingent consideration is recognized at fair value on the acquisition date. Subsequent changes to the fair value of a contingent consideration are recognized in profit or loss. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the date of acquisition. Acquisition-related costs are expensed as they arise. Goodwill is measured as the amount by which the total consideration exceeds the fair value of identifiable acquired assets and assumed liabilities. If the purchase consideration is lower than the fair value of identifiable acquired assets and assumed liabilities, the difference is recognized directly in profit or loss.

In 2018, HEXPOL acquired 80 percent of the shares in the Mesgo Group. According to the agreement, HEXPOL has an option to acquire the remaining shares, and shareholders without a controlling influence retain an option to sell their remaining shares to HEXPOL. The shareholder agreement that the company has signed with shareholders without a controlling influence includes provisions on put/call options under which the holders of the minority interests are entitled to sell their shares to HEXPOL in accordance with a calculation formula, stipulated in the agreement, during specific windows of time until and including 30 June 2023. In the same way, HEXPOL is entitled to acquire the shares in accordance with this calculation formula during specific windows of time until and including 30 June 2023. IFRS 3 Business Combinations does not regulate how such contractual terms are to be addressed in the accounts. According to IAS 32 Financial Instruments: Presentation, the Group must recognize a liability for put issued options in its own equity instruments, that is, the obligation to purchase outstanding shares in the Mesgo Group. The Group has chosen to recognize this liability in the acquisition analysis, that is, as if the Group has already acquired outstanding shares. As per the balance sheet date, the Group reports the corresponding liability at fair value through profit or loss. In the event that the options expire without being exercised, this is reported as a sale of shares in subsidiaries, that is, the liability is booked against equity. Accordingly, the share of capital and earnings of shareholders without a controlling influence is not reported.

Intra-Group transactions, balance-sheet items and unrealized gains and losses on transactions between Group companies are eliminated.

TRANSLATION OF FOREIGN CURRENCIES

Functional currency and reporting currency

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

Transactions and balance-sheet items

Transactions in foreign currency are translated to the functional currency based on the exchange rates prevailing on the transaction date. Foreign currency receivables and liabilities are recognized at the exchange rates prevailing on the balance sheet date. Exchange-rate gains and losses that arise are recognized in profit or loss.

When transactions constitute hedging that meets the requirements for hedge accounting of net investments, exchange-rate differences are recognized directly in other comprehensive income after adjustment for deferred taxes. Exchange-rate differences on operating receivables and operating liabilities are included in operating profit, while exchange-rate differences on financial receivables and liabilities are recognized in net financial items.

SUBSIDIARIES

The earnings and financial position of subsidiaries are prepared in the functional currency of each company. In the consolidated financial statements, the subsidiaries' earnings and financial position are translated into Swedish kronor (SEK) in the following manner:

- Revenues and expenses in income statements are translated at the average exchange rate for the applicable year, while assets and liabilities in the balance sheets are translated at the exchange rate prevailing on the balance-sheet date. Exchange-rate differences arising from translation are recognized as a separate item in other comprehensive income.
- Goodwill and adjustments of fair value arising in connection with an acquisition are treated as assets and liabilities of the acquired operation and are translated at the exchange rate prevailing on the balance-sheet date.

ASSOCIATED COMPANIES

The equity method is applied for one minor associated company.

SEGMENT REPORTING

An operating segment is a part of the Group that conducts operations from which it can generate revenues and incur costs and for which independent financial information is available. For the HEXPOL Group, lines of business (business areas) represent the basis of division into operating segments. The Group is organized in two business areas: HEXPOL Compounding and HEXPOL Engineered Products.

Included in the segments' earnings, assets and liabilities are directly attributable items as well as items that can be allocated to the segments in a reasonable and reliable manner. Segment reporting for the operating segments comprises earnings up to operating revenues, and capital employed. Items in the income statement that are not allocated comprise financial income and financial expenses, and tax expenses. Assets and liabilities that have not been allocated to the segments are tax assets and tax liabilities and financial assets and financial

liabilities. Internal billings between business areas occur at market value. In the presentation of the Group's geographical markets, the operations have been subdivided into the Group's key geographical markets, which are Europe, the Americas and Asia. Sales are recognized according to customer location, while assets are recognized according to the actual physical location of these assets.

OTHER CLASSIFICATIONS

Fixed assets and long-term liabilities consist of amounts expected to be recovered or paid after more than 12 months. Current assets and current liabilities consist only of amounts expected to be recovered or paid within 12 months.

REVENUES

HEXPOL applies the following principles for revenue recognition:

Sales of goods

The Group's agreements with customers include only one kind of performance commitment, sales of goods. Revenue from sales of goods is recognized when the performance commitment is fulfilled, which occurs at a particular point in time. Sales are reported excluding VAT and at the transaction price determined in accordance with the customer agreement. The agreements include information on pricing, volume discounts, payment terms and delivery terms. The transfer of control of the goods to the customer occurs in accordance with the delivery terms in the various agreements. A customer may choose to collect the goods from the company or to have the goods delivered. The proceeds from the sale are recognized at a particular point in time, when the goods have been delivered to the customer or collected by the customer. Variable compensation may be payable to customers under retroactive volume discounts, for which provisions are made based on the anticipated value. Normal payment terms are applied, meaning there are no financing components included in the agreements. The Group has no commitments in the form of returns.

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalized as follows: Capitalization of development expenditures in the Group occurs only in exceptional cases and is only applied to new products where significant development expenditures 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. Capitalized development expenditures are mortised according to plan.

INCOME TAX

Income tax expenses for the year consist of current and deferred tax. Tax is recognized in profit or loss, apart from when the tax pertains to items recognized in other comprehensive income or directly in shareholders' equity. In such cases, the tax is also recognized in other comprehensive income or shareholders' equity.

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

Deferred taxes comprise: 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 recognized 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 recognized because it is not probable that these will be utilized in the foreseeable future. Deferred tax assets are recognized insofar as it is probable that future taxable surpluses will be available to offset them against.

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. Expenditure for operating lease agreements is accrued in accordance with the main rule over the contractual 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. Interest expense on the liability is recognized as a financial expense.

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. Goodwill is tested at least annually to identify any impairment need and is measured at cost less any impairment losses.

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

DEPRECIATION/AMORTIZATION ACCORDING TO PLAN

Depreciation/amortization according to plan is performed on a straight-line basis [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/amortization 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
Land improvements	5–30 years

DEPRECIATION OF COMPONENTS

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is recognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

IMPAIRMENT LOSSES

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

Financial instruments that are recognized in the balance sheet include cash and cash equivalents, accounts receivable, other financial receivables, accounts payable, loans payable, contingent considerations, other financial liabilities and derivatives. A financial asset or financial liability is recognized from the balance sheet when all benefits and risks associated with ownership have been transferred. Financial instruments are initially recognized at fair value and, subsequently, at fair value or accumulated amortized cost, depending on their classification. Financial derivatives are recognized continuously at fair value. Financial assets and liabilities are recognized in, and deducted from, the balance sheet applying settlement-date accounting.

Classification of financial instruments

In accordance with IAS 39

For the 2017 financial year, financial instruments are classified in the following categories: Financial assets and financial liabilities measured at fair value through profit or loss, loan receivables, accounts receivable, and other financial liabilities. The classification is based on the company's business model and the nature of the instrument. Further information can be found in the 2017 Annual Report.

In accordance with IFRS 9

For the 2018 financial year, financial instruments are classified in the following categories: Financial assets and financial liabilities measured at fair value through profit or loss, and financial assets and financial liabilities measured at amortized cost. The classification is based on the company's business model and the nature of the instrument.

Calculation of fair value

The fair value of listed financial instruments is based on the appropriate market quotation on the balance-sheet date. For unlisted financial instruments, the value is determined by applying recognized measurement techniques, whereby the Group makes assumptions that are based on the market conditions prevailing on the balance-sheet date. Market rates form the basis for the calculation of fair value of long-term loans.

Financial assets and liabilities recognized at fair value through profit or loss

Financial derivative instruments are recognized at fair value with changes in value in profit or loss, except when the derivative fulfils all the criteria for cash-flow hedging, in which case the change in value is recognized in other comprehensive income on the date that the hedged item is recognized. When establishing fair value, official market listings on the balance-sheet date are used, and valuations in accordance with Level 2. Contingent considerations and liabilities for put options are recognized as a financial liability measured at fair value with changes in value in profit or loss.

Financial assets and liabilities valued at amortized cost

Financial assets and liabilities are initially measured at fair value plus transaction costs and, subsequently, at amortized cost, less any provisions for impairment. Receivables are recognized at the amount expected to be received after individual assessment. Credit risk is assessed case by case, based on the current customer's ability to pay. Impairment of accounts receivables are reported in operating expenses. Financial liabilities are measured at accrued cost, applying the effective-interest-rate method.

Interest income

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

Cash and cash equivalents

Cash and cash equivalents comprise liquid funds and credit balances at banks and similar institutions.

HEDGE ACCOUNTING

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 recognized in profit or loss together with the change in the value of the liability or asset to which the risk hedging applies. The value of the net assets of foreign subsidiaries, including goodwill and other adjustments of fair value, is partly hedged through foreign-currency loans. The resulting exchange-rate differences are recognized in other comprehensive income. 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 recognized at the exchange rate prevailing on the balance-sheet date, whereby the exchange-rate differences on the loans are recognized in other comprehensive income.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated as cash flow hedges and which meet the conditions in terms of hedge accounting are recognized in other comprehensive income and accumulated amounts in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as other income or expenses. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects earnings.

PENSION AND SIMILAR COMMITMENTS

The Group predominantly has defined-contribution pension obligations. There are also employees with defined-benefit pensions. A defined contribution pension plan is a plan in which the Group pays fixed fees to a separate legal entity and the cost of defined-contribution pension obligations is expensed as incurred.

In a defined benefit pension plan, the amount of the post-service pension benefit an employee will receive is based on factors such as age, period of service and salary. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of obligation less the fair value of plan assets on the balance-sheet date. The calculation is made in accordance with actuarial models.

Actuarial gains and losses are recognized in other comprehensive income. Defined-benefit plans are items 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 recognized as defined contribution plans. At 31 December 2018, Alecta's surplus in the form of the collective consolidation level was 142 percent (154).

PROVISIONS

The Group recognizes 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 recognized when a detailed formal action plan has been established and expectations have been created among those who will be affected by the actions.

RELATED-PARTY TRANSACTIONS

The Group's transactions with related parties primarily pertain to purchasing from associated companies. All transactions are priced in accordance with market terms and prices; refer to Note 3 for further information. In addition, compensation is paid to the Board of Directors and senior executives; refer to Note 4.

IMPORTANT ASSESSMENTS AND ASSUMPTIONS

The Board of Directors makes accounting estimates and assumptions that affect the application of the accounting policies and the recognized figures for assets, liabilities, revenues and expenses. These estimates are based on historical experience and on various assumptions considered reasonable under the prevailing conditions. The actual outcome could deviate from these accounting estimates. The areas including such assessments and assumptions and that could have a material impact on consolidated profit and the Group's financial position include assessments of the present value of forecast cash flows when testing possible impairment of goodwill and shares in subsidiaries and calculations of deferred tax assets and liabilities.

ACCOUNTING POLICIES IN THE PARENT COMPANY

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

- In the Parent Company, in accordance with RFR 2, Group contributions received are recognized as financial income, in accordance with the main rule.
- In the Parent Company, shares in Group companies are recognized at acquisition value before any impairment losses. Impairment testing is carried out when there are indications of impairment, that is, when there are indications that the book value exceeds the recoverable amount. The recoverable amount corresponds to fair value or value in use, whichever is highest.

Note 2 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 receivables, inventories, other receivables, tangible and intangible fixed assets, as well as accrued income and operating liabilities, such as account payables, other liabilities, other provisions and accrued expenses. Unallocated assets and liabilities relates to cash and cash equivalents, taxes and loans and are not reported by business area. No individual customer accounts for more than 10 percent of the Group's sales.

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2018	2017	2018	2017	2018	2017
Sales, external	12,745	11,326	1,025	904	13,770	12,230
Operating profit	2,006	1,873	144	113	2,150	1,986
Operating margin, %	15.7	16.5	14.0	12.5	15.6	16.2
Net financial items					11	-18
Tax					-515	-441
Profit for the year					1,646	1,527
Operating assets	12,617	8,885	477	467	13,094	9,352
Unallocated assets	-	-	-	-	1,362	998
Group Total	12,617	8,885	477	467	14,456	10,350
Operating liabilities	2,203	1,912	126	115	2,329	2,027
Unallocated liabilities	-	-	-	-	3,535	1,313
Group Total	2,203	1,912	126	115	5,864	3,340
Investments	193	177	14	22	207	199
Depreciation/amortisation	234	217	25	26	259	243

Geographic region MSEK	Sales per recipient country		Fixed assets	
	2018	2017	2018	2017
Sweden	427	353	304	310
Europe excluding Sweden	4,347	3,689	4,283	2,259
America	8,254	7,567	4,793	4,148
Asia	742	621	318	331
Total	13,770	12,230	9,698	7,048

Sales per geographic region and business area MSEK	HEXPOL Compounding		HEXPOL Engineered Products	
	2018	2017	2018	2017
Europe	4,242	3,575	532	467
America	7,986	7,327	268	240
Asia	517	424	225	197
Total	12,745	11,326	1,025	904

Note 3 Related-party transactions

Transactions between Group companies occur on market-based conditions.

In 2018, the Group purchased energy for 13 MSEK (12) from the associated company, Megufo AB, in Sweden. On December 31, 2018, the Group had a liability of 2 MSEK (1) to this associated company.

Note 4 Employees and personnel costs

Costs for remuneration of employees

MSEK	2018	2017
Salaries and remuneration, etc.	1,532	1,353
Total	1,532	1,353
Pension costs	23	27
Social-security costs	230	189
Total	253	216

Average number of employees	2018	of whom men	2017	of whom men
Sweden	332	82 %	311	66 %
Belgium	63	83 %	62	81 %
Czech Republic	236	88 %	210	89 %
Germany	217	88 %	208	88 %
Mexico	307	88 %	341	89 %
Luxembourg	4	75 %	4	75 %
USA	1,564	88 %	1,509	88 %
China	347	67 %	336	67 %
Sri Lanka	960	94 %	977	95 %
UK	289	89 %	284	86 %
Spain	85	91 %	85	93 %
Italy	43	79 %	-	-
Turkey	3	67 %	-	-
Poland	4	50 %	-	-
Total	4,454	86%	4,326	86 %

Personnel costs per country

MSEK	2018	2017
Sweden	232	226
Belgium	48	41
Czech Republic	71	54
Germany	108	103
Mexico	58	52
Luxembourg	19	18
USA	950	829
China	56	46
Sri Lanka	48	47
UK	116	108
Spain	49	45
Italy	29	-
Turkey	0	-
Poland	1	-
Total	1,785	1,569

Remuneration of the Board of Directors

KSEK	Board fee		Committee fee		Total	
	2018	2017	2018	2017	2018	2017
Georg Brunstam, chairman	875	800	100	75	975	875
Alf Göransson	370	350	-	-	370	350
Kerstin Lindell	370	350	-	-	370	350
Jan-Anders E. Månson	370	350	-	-	370	350
Malin Persson	370	350	100	100	470	450
Märta Schörling Andreen	370	350	150	150	520	500
Gun Nilsson	370	350	200	200	570	550
Total	3,095	2,900	550	525	3,645	3,425

Remuneration of senior executives

KSEK	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Georg Brunstam, President and CEO	-	6,215	-	4,713	-	2,492	-	229	-	13,649
Mikael Fryklund, President and CEO, assumed the position July 1, 2017	8,083	3,813	8,238	2,438	2,399	1,146	168	63	18,888	7,460
Other members of Group management, 5 (5) persons	24,288	22,289	24,354	10,990	1,901	1,647	655	611	51,198	35,537
Total	32,371	32,317	32,592	18,141	4,300	5,285	823	903	70,086	56,646

Principles for remuneration of the Board of Directors and senior executives

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

The Remuneration Committee submits proposals to the Board of Directors for remuneration of the President and other senior executives.

Remuneration of the President and other senior executives comprises basic salary, variable remuneration, other benefits and pension.

The variable remuneration is based on operating profit, alternatively profit after tax, earnings per share and the return on capital employed.

The variable remuneration for 2018 will be paid during the period 2019-2021.

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

Note 5 Fees and cost remuneration paid to auditors

MSEK	2018	2017
EY		
Audit assignment	8	7
Audit activities in addition to audit	1	1
Tax consultancy	0	0
Other services	0	0
Total	9	8

MSEK	2018	2017
Employee benefits expenses	1,785	1,569
Depreciation/amortisation/impairment	259	243
Input costs and other external expenses	9,587	8,443
Other operating expenses	5	5
Total	11,636	10,260

No development expenditures were capitalised during 2018.

Note 7 Financial income and expenses

MSEK	2018	2017
Interest income	21	7
Exchange rate gains	23	8
Other financial income	0	0
Financial income	44	15
Interest expenses	-18	-13
Exchange rate loss	-11	-17
Other financial expenses	-4	-3
Financial expense	-33	-33
Net financial expense	11	-18

In other financial expenses are expenses for the Group's credit facilities reported.

Note 8 Taxes

MSEK	2018	2017
Current tax expense		
Tax expense on profit or the year	-465	-497
Total	-465	-497
Deferred tax expense		
Deferred tax pertaining to temporary differences	-47	53
Utilised/revaluation of loss carry forwards	-3	3
Total	-50	56
Total recognised tax expense	-515	-441

Reconciliation of effective tax	2018		2017	
MSEK		%		%
Profit before tax	2,161		1,968	
Tax according to applicable tax rate for the Parent Company	-475	-22	-433	-22
Effect of other tax rates for foreign subsidiaries	-22	-1	-126	-6
Non-deductible expenses	-10	0	-2	0
Non-taxable income	30	1	13	1
Deductible goodwill amortisation	5	0	7	0
Revaluation of tax-loss carry forwards/temporary differences	-10	0	105	5
Tax attributable to prior years	-33	-2	-5	0
Total reported tax expense	-515	-24	-441	-22

At December 31, 2018, the Group had loss carry forwards of 17 MSEK (40) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 17 MSEK (31) expires within five years.

Deferred tax assets/ liabilities	Opening balance		Recognised in profit/ loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
MSEK	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Intangible assets	-210	-266	-23	59	-140	-18	-	-	-9	15	-382	-210
Tangible assets	-108	-114	-18	-1	-	-	-	-	-3	7	-129	-108
Current assets	22	20	1	2	-	-	-	-	-4	0	19	22
Operating liabilities	3	7	-9	-4	-	-	-	-	-7	0	-13	3
Loss carry forwards	3	3	-3	0	-	-	-	-	0	0	0	3
Liabilities	28	44	2	0	-	-	-27	-16	0	0	3	28
Total	-262	-306	-50	56	-140	-18	-27	-16	-23	22	-502	-262

Note 9 Intangible fixed assets

MSEK	Goodwill		Other intangible assets		Total	
	2018	2017	2018	2017	2018	2017
Accumulated acquisition value						
Opening balance, January 1	4,978	4,389	409	331	5,387	4,720
Acquisitions	1,583	825	483	90	2,066	915
Investments	-	-	7	9	7	9
Reclassification	-	-	2	0	2	0
Translation difference	348	-236	30	-21	378	-257
Closing balance, December 31	6,909	4,978	931	409	7,840	5,387
Accumulated amortisation						
Opening balance, January 1	-11	-11	-149	-132	-160	-143
Amortisation according to plan for the year	-	-	-33	-24	-33	-24
Reclassification	-	-	0	0	0	0
Translation difference	0	0	-10	7	-10	7
Closing balance, December 31	-11	-11	-192	-149	-203	-160
Carrying amount, December 31	6,898	4,967	739	260	7,637	5,227

Goodwill distributed by operating segment

MSEK	2018	2017
HEXPOL Compounding	6,870	4,940
HEXPOL Engineered Products	28	27
Closing balance, December 31	6,898	4,967

Other intangible assets pertain mainly to acquired customer relations and remaining amortisation period is between 3 and 14 years.

Other intangible assets do not include any significant amounts in respect of capitalized development costs.

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

When calculating the present value of future cash flows, a cost of capital (WACC) of 8.8 percent before tax (9.3) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on the three-year strategic plan, approved by the Board of Directors, followed by assumed annual growth of 2 percent (2). The most important assumptions involves sales growth and development of operating margin, and are based on experience and current information on the market development. According to calculations, there is no impairment requirement.

A sensitivity analysis shows that a 50-percent decrease in sustainable growth, an increase in WACC by 2 percentage points and a decline in sustainable profitability (operating profit before, depreciation, amortisation and impairment) by 2 percentage points would still not result in the need for impairment in any operating segment.

Note 10 Tangible fixed assets and operational leasing

MSEK	Land and buildings		Machinery and equipment		Total	
	2018	2017	2018	2017	2018	2017
Accumulated acquisition value						
Opening balance January,1	1,077	1,063	3,835	3,802	4,912	4,865
Acquisitions	77	41	114	84	191	125
Investments	6	8	194	182	200	190
Divestments disposals	-5	0	-33	-22	-38	-22
Reclassification	10	10	-22	-10	-12	0
Translation difference	57	-45	214	-201	271	-246
Closing balance December,31	1,222	1,077	4,302	3,835	5,524	4,912
Accumulated depreciation value						
Opening balance January,1	-449	-431	-2,699	-2,674	-3,148	-3,105
Depreciation according to plan for the year	-27	-34	-201	-185	-228	-219
Divestments disposals	4	0	31	19	35	19
Reclassification	0	-	0	0	0	0
Translation difference	-23	16	-151	141	-174	157
Closing balance December,31	-495	-449	-3,020	-2,699	-3,515	-3,148
Accumulated impairment						
Opening balance January,1	-4	-4	-9	-11	-13	-15
Impairment	1	-	1	0	2	0
Translation difference	0	-	1	2	1	2
Closing balance December,31	-3	-4	-7	-9	-10	-13
Carrying amount December,31	724	624	1,275	1,127	1,999	1,751

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

MSEK	2018	2017
Costs of goods sold	245	230
Selling costs	1	0
Administration costs	11	11
Product development costs	2	2
Total	259	243

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

Continuing note 10:

Operational leasing		
Non-cancellable leasing payments amount to		
MSEK	2018	2017
Within one year	66	49
Between one and five years	146	68
Longer than five years	93	12
Total	305	129

Leasing expenses		
MSEK	2018	2017
Minimum leasing fees	63	56
Total	63	56

Note 11 Inventories

MSEK	2018	2017
Raw materials	983	550
Goods in production	48	46
Finished goods	374	291
Total	1,405	887

No significant impairments have been made during 2018 and 2017.

Note 12 Accounts receivable

Age distribution of accounts receivable		
MSEK	2018	2017
Not due	1,555	1,175
Past due, 1-30 days	292	211
Past due, 31-60 days	47	27
Past due, more than 60 days	31	1
Accounts receivable	1,925	1,414

Provisions for bad debt losses		
MSEK	2018	2017
Opening balance	-24	-40
Provision for the year	-6	-5
Actual losses	4	3
Reversal	0	16
Translation differences	-2	2
Closing balance	-28	-24

Note 13 Shareholders' equity

Changes in the number of shares	Class A shares		Class B shares		Total	
	2018	2017	2018	2017	2018	2017
Opening balance, January 1	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280
Closing balance, December 31	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280

	2018	2017
Average number of shares	344,201,280	344,201,280

	Class A shares	Class B shares	Total
Number of votes	147,656,200	329,435,660	477,091,860

Each class A share entitles the holder to ten votes and each class B share to one vote. The Annual General Meeting in April 2016, resolved to implement an incentive program (2016/2020) for senior executives and key employees through a directed issue of maximum 2,100,000 subscription warrants. During 2016, 1,408,000 subscription warrants have been subscribed for by 39 senior executives and key employees. The issue rate was 9 SEK per subscription warrant and every warrant give the right to subscribe for 1.01 new class B shares at subscription rate 88.70 SEK, adjusted for special dividend in May 2017 according to the warrant terms. During 2017, 225,000 subscription warrants was subscribed for by 1 senior executive, where the issue rate was 9 SEK per subscription warrant and every warrant gives the right to subscribe for 1.00 new class B share at subscription rate 88.70 SEK.

Note 14 Interest-bearing liabilities

Non-current liabilities			Loans			
MSEK	2018	2017	MSEK	Utilised 2018	Unutilised 2017	Utilised 2017
Liabilities to credit institutions	2,308	825	Bilateral loan, 125 MUSD	310	811	330
Non-current liabilities	2,308	825	Bilateral loan, 1,500 MSEK	990	510	495
			Bilateral loan, 1,500 MSEK	990	510	-
			Other non-current liabilities	18	-	-
			Total non-current liabilities	2,308		825
Current liabilities						
MSEK	2018	2017				
Liabilities to credit institutions	24	15	Other current liabilities	24	0	15
Current liabilities	24	15	Total current liabilities	24		15

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

- A credit agreement with a limit of 125 MUSD that will fall due in February 2020.
- A credit agreement with a limit of 1,500 MSEK that will fall due in August 2020.
- A credit agreement with a limit of 1,500 MSEK that will fall due in September 2021.

The credit agreement that fall due in September 2021 has an option to extend twice, one year at a time.

All loans are amortisation free and carry floating interest at three-month period.

All bilateral credit agreements include financial covenants, all of which were fulfilled at December 31, 2018.

HEXPOL had no interest-bearing or currency derivatives at December 31, 2018, involving external borrowing.

Note 15 Pension provisions

MSEK	2018	2017
Provisions for pension	42	21
Total	42	21

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

Change in provision		
MSEK	2018	2017
Opening balance, January 1	21	21
Acquisitions	19	–
Provisions for the year	2	0
Closing balance, December 31	42	21

Note 16 Other provision

MSEK	2018	2017
Opening balance	5	6
Provision for the year	4	2
Utilised during the year	–2	–3
Translation difference	1	0
Closing balance	8	5

Note 17 Accrued expenses and deferred income

MSEK	2018	2017
Personnel-related expenses	227	221
Accrued expenses for goods and services	87	60
Other	24	39
Total	338	320

Note 18 Pledged assets and contingent liabilities

Pledged assets		
MSEK	2018	2017
Current assets	8	9
Total	8	9
Contingent liabilities		
Guarantee for the benefit of associated companies	0	0
Total	0	0

Note 19 Cash flow statement

Financial items received and paid		
MSEK	2018	2017
Financial income received	44	15
Financial expenses paid	–36	–30
Total	8	–15

Adjustments for non-cash items

MSEK	2018	2017
Depreciation/amortisation/impairment	259	243
Total	259	243

Cash flow statement - Change in liabilities in financing activities

MSEK	2017	Cash flows	Non-cash changes		2018
			Acquisitions	Translation difference	
Interest-bearing liabilities	825	1,466	18	–1	2,308
Interest-bearing current liabilities	15	0	8	1	24
Total	840	1,466	26	0	2,332

Note 20 Financial instruments and risk management

As regards the risks and the risk management, see page 62 in the Board of Directors' Report

Financial instruments per category and measurement level

December 31, 2018				
		Financial assets measured at fair value through profit or loss		
MSEK	Financial assets measured at amortized costs	Carrying value	Measurement level	Total
Assets in the balance sheet				
Derivate instruments	-	0	2	0
Non-current financial assets	25	-		25
Accounts receivable	1,925	-		1,925
Cash and cash equivalents	1,164	-		1,164
Total	3,114	0		3,114
		Financial liabilities measured at fair value through profit or loss		
MSEK	Financial liabilities measured at amortized costs	Carrying value	Measurement level	Total
Liabilities in the balance sheet				
Interest-bearing non-current liabilities	2,308	-		2,308
Liability to minority shareholder	-	476	3	476
Interest-bearing current liabilities	24	-		24
Accounts payable	1,913	-		1,913
Supplementary purchase price	-	27	3	27
Other liabilities	43	-		43
Accrued expenses, prepaid income, provisions	338	-		338
Total	4,626	503		5,129

December 31, 2017				
		Financial assets measured at fair value through profit or loss		
MSEK	Loans and accounts receivable	Carrying value	Measurement level	Total
Assets in the balance sheet				
Non-current financial asset	1	-		1
Accounts receivable	1,414	-		1,414
Cash and cash equivalents	813	-		813
Total	2,228	-		2,228
		Financial liabilities measured at fair value through profit or loss		
MSEK	Other financial liabilities	Carrying value	Measurement level	Total
Liabilities in the balance sheet				
Derivate instruments	-	2	2	2
Interest-bearing non-current liabilities	825	-		825
Interest-bearing current liabilities	15	-		15
Accounts payable	1,626	-		1,626
Supplementary purchase price	-	42	3	42
Other liabilities	34	-		34
Accrued expenses, prepaid income, provisions	318	-		318
Total	2,818	44		2,862

Fair value is consistent in all material respects with the carrying value in the balance sheet.

Derivate instruments outstanding for managing currency risks is related to financial assets and liabilities.

The Parent Company applies hedge accounting including forward exchange contracts to protect exposure of intra-Group loans and receivables in foreign currencies. The revaluation is recognised in the income statement. All forward contracts fall due within one year and are measured at level 2 in the fair value hierarchy.

Forward contracts outstanding, December 31		2018		2017	
MSEK		Nominal value		Nominal value	
Currency forward contracts		148		168	
Currency distribution		Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK		148	0.39	168	0.38

Derivate instruments outstanding for managing currency risks is related to commercial assets and liabilities.

Regarding the Group's transaction exposure, the following forward contracts were outstanding at December 31. All forward contracts fall due within one year and are measured at level 2 in the fair value hierarchy.

Forward contracts outstanding, December 31 MSEK	2018		2017	
	Nominal value		Nominal value	
Currency forward contracts	–		17	
Currency distribution EUR/GBP	Nominal value	Average hedging rate	Nominal value	Average hedging rate
	–	–	17	1.13

Financial liabilities, December 31 MSEK	Total amount		Fall due within 1 year		Fall due within 1-2 years		Fall due within 2-5 years	
	2018	2017	2018	2017	2018	2017	2018	2017
Non-current liabilities								
Liabilities to banks and credit institutions	2,308	825	–	–	1,318	–	990	825
Liability to minority shareholder	476	–	–	–	476	–	–	–
Total non-current liabilities	2,784	825	–	–	1,794	–	990	825
Current liabilities								
Liabilities to banks and credit institutions	24	15	24	15	–	–	–	–
Derivative instruments	0	2	0	2	–	–	–	–
Accounts payable	1,913	1,626	1,913	1,626	–	–	–	–
Supplementary purchase price	27	42	27	42	–	–	–	–
Other current liabilities	43	34	43	34	–	–	–	–
Accrued expenses	338	318	338	318	–	–	–	–
Total current liabilities	2,345	2,037	2,345	2,037	–	–	–	–

All loans are amortisation free and carry floating interest at three-month period.

Note 21 Acquisitions

Acquisitions during 2018

Acquisition within Compounding

In September 2018 the HEXPOL Group acquired 100% of Kirkhill Rubber, a well-known Rubber Compounder in US.

The acquisition price for Kirkhill Rubber amounted to approximately 49 MUSD on a cash and debt free basis. A smaller performance based consideration, approximately 3 MUSD, will be paid later if certain criteria are met. The purchase price allocation is preliminary since some information is outstanding and the business is consolidated as of September 2018. The sales amounted to 14 MUSD and profit after tax to 1 MUSD for the period September to December 2018. For the full year 2018 the sales amounted to 52 MUSD and profit after tax to 4 MUSD.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK	
Purchase consideration	475
Fair value of acquired net assets	182
Goodwill	293

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 29 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

MSEK	
Accounts receivable	89
Current assets	78
Tangible assets	18
Intangible assets	29
Deferred tax liabilities	–7
Accounts payables	–19
Current liabilities	–6
Acquired net assets	182
Goodwill	293
Purchase considerations	475
Contingent considerations	–26
Cash and cash equivalents in acquired operations	0
Change in the Group's cash and cash equivalents	449

Transaction costs for the above acquisition amounted to 2 MSEK and has been reported in the operating profit.

Acquisition within Compounding

In early October 2018 the HEXPOL Group acquired 80% of Mesgo Group, an industry leader in high performance elastomers. The acquisition price for 80% of the shares amounted to approximately 168 MEUR on a cash and debt free basis and has been funded by a combination of existing bank facilities and cash. According to the agreement HEXPOL has an option to acquire the remaining shares (during the period March 2022-June 2023) and the Caldara family has an option to sell the remaining shares to HEXPOL (during the period March 2020-June 2023), the commitment is reported as a liability to minority shareholder. See note 1 Accounting principles. The purchase price allocation is preliminary since some information is outstanding and the business is consolidated as of October 2018. The sales amounted to 23 MEUR and profit after tax to 5 MEUR for the period October to December 2018. For the full year 2018 the sales amounted to 104 MEUR and profit after tax to 10 MEUR.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK	
Purchase consideration	2,144
Fair value of acquired net assets	854
Goodwill	1,290

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 454 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	53
Accounts receivable	345
Current assets	270
Tangible assets	173
Intangible assets	454
Deferred tax liabilities	–133
Pensions	–19
Accounts payables	–163
Current liabilities	–126
Acquired net assets	854
Goodwill	1,290
Purchase considerations	2,144
Liability to minority shareholder	–479
Loan	88
Cash and cash equivalents in acquired operations	53
Change in the Group's cash and cash equivalents	1,700

Transaction costs for the above acquisition amounted to 7 MSEK and has been reported in the operating profit.

Continuing note 21:

Acquisitions during 2017

Acquisition within Compounding

In March 2017 the HEXPOL Group acquired 100% of Trelleborg Material & Mixing Lesina. Trelleborg Material & Mixing Lesina is a well-known Rubber Compounder in Central Europe.

The acquisition price for Trelleborg Material & Mixing Lesina amounted to approximately 68 MEUR on a cash and debt free basis. The business was consolidated as of April 2017. The sales amounted to 35 MEUR and profit after tax to 4 MEUR for the period April to December 2017. For the full year 2017 the sales amounted to 46 MEUR and profit after tax to 5 MEUR.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK

Purchase consideration	708
Fair value of acquired net assets	267
Goodwill	441

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 48 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

MSEK

Cash and cash equivalents	60
Accounts receivable	88
Current assets	37
Tangible assets	109
Intangible assets	48
Accounts payables	-54
Current liabilities	-5
Deferred tax liabilities	-16
Acquired net assets	267
Goodwill	441
Purchase considerations	708
Cash and cash equivalents in acquired operations	60
Change in the Group's cash and cash equivalents	648

Acquisition within Compounding

In early April 2017 the HEXPOL Group acquired 100% of Valley Processing. Valley Processing is a well-known Rubber Compounder in western US.

The acquisition price for Valley Processing amounted to approximately 48 MUSD on a cash and debt free basis. A supplementary purchase price based on product transfers amounted to approximately 5 MUSD. The business was consolidated as of April 2017. The sales amounted to 27 MUSD and profit after tax to 1 MUSD for the period April to December 2017. For the full year 2017 the sales amounted to 35 MUSD and profit after tax to 0 MUSD.

Transaction costs for the above acquisition amounted to 6 MSEK and has been reported in the operating profit.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK

Purchase consideration	475
Fair value of acquired net assets	90
Goodwill	385

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 42 MSEK for the estimated value of acquired intangible assets.

The following assets and liabilities were included in the acquisition:

MSEK

Accounts receivable	49
Current assets	29
Tangible assets	16
Intangible assets	42
Deferred tax liabilities	-2
Accounts payables	-37
Current liabilities	-7
Acquired net assets	90
Goodwill	385
Purchase considerations	475
Contingent considerations	-42
Cash and cash equivalents in acquired operations	0
Change in the Group's cash and cash equivalents	433

The contingent considerations of 42 MUSD has been paid during 2018.

Note 22 Significant subsequent events

No significant events have occurred after the balance sheet date.

Parent company's Income Statement

MSEK	Note	2018	2017
Sales	23	47	42
Administration costs		-60	-57
Operating profit	24, 25	-13	-15
Financial income	26	2,255	1,100
Financial expense	26	-285	-61
Profit after financial items		1,957	1,024
Appropriations	27	61	-29
Profit before tax		2,018	995
Tax	28	-1	-20
Profit after tax		2,017	975

Comprehensive income matches profit after tax

Parent company's Balance Sheet

MSEK	Note	2018	2017
ASSETS			
Fixed assets			
Intangible fixed assets		0	0
Interest-bearing intra-Group receivables		723	666
Financial fixed assets	31	8,233	5,648
Deferred tax assets		0	0
Total fixed assets		8,956	6,314
Current assets			
Intra-Group operating receivables		164	125
Interest-bearing intra-Group receivables		1,050	857
Prepaid expenses and accrued income		39	18
Cash and cash equivalents		598	506
Total current assets		1,851	1,506
TOTAL ASSETS		10,807	7,820
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		1,737	1,433
Profit of the year		2,017	975
Total non-restricted shareholders' equity		4,352	3,006
Total shareholders' equity		4,421	3,075
Untaxed reserves	27	-	61
Non-current liabilities			
Interest-bearing liabilities to credit institutions	30	2,290	825
Total non-current liabilities		2,290	825
Current liabilities			
Accounts payable		3	1
Current tax liabilities		20	19
Interest-bearing intra-Group liabilities		4,044	3,798
Accrued expenses and prepaid revenues	29	29	41
Total current liabilities		4,096	3,859
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		10,807	7,820

Changes in the parent company's shareholders' equity

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total shareholders' equity
December 31, 2016	69	598	3,068	3,735
2017				
Total comprehensive income				
Profit after tax	-	-	975	975
Transaction with shareholders				
Issue of subscription warrants	-	-	-	0
Dividend	-	-	-1,635	-1,635
December 31, 2017	69	598	2,408	3,075
2018				
Total comprehensive income				
Profit after tax	-	-	2,017	2,017
Transaction with shareholders				
Dividend	-	-	-671	-671
December 31, 2018	69	598	3,754	4,421

Parent company's cash flow statements

MSEK	2018	2017
Cash flow from operations		
Operating profit	-13	-15
Adjustment for non-cash items, depreciations	0	0
Financial income received	78	63
Financial expenses paid	-286	-59
Tax paid	-24	-27
Cash flow from operations before changes in working capital	-245	-38
Cash flow from changes in working capital		
Changes in current receivables	2	-3
Changes in current liabilities	-9	-5
Cash flow from operations	-252	-46
Investing operations		
Changes in interest-bearing receivables	-288	525
Dividends from subsidiaries	1,100	912
Group contributions received	160	124
Acquisitions	-1,668	-709
Cash flow from investing activities	-696	852
Financing operations		
Issue of subscription warrants	-	0
New/ utilized loans	47,616	50,753
Amortized loans	-45,905	-50,537
Dividend	-671	-1,635
Cash flow from financing operations	1,040	-1,419
Cash flow for the year	92	-613
Cash and cash equivalents, January 1	506	1,119
Cash and cash equivalents, December 31	598	506

Note 23

Of the Parent Company's net sales, 100 percent pertains to sales of services to other Group companies and of the Parent Company's purchases, a small part pertains to purchases from other Group companies.

Note 24 Employees and personnel expenses

Average number of employees	2018	2017
Women	3	3
Men	2	2
Total	5	5

Salaries, other remunerations and social-security costs	2018	2017
MSEK		
Board of directors	4	3
CEO	16	16
Other employees	10	5
Social security costs, pension costs and payroll tax	16	14
Total	46	38

Note 25 Fees and expense reimbursement to auditors

KSEK	2018	2017
EY		
Audit assignment	827	885
Tax consultancy	-	-
Other services	311	15
Total	1,138	900

Note 26 Financial income and expenses

MSEK	2018	2017
Dividend	1,100	912
Reduction of shareholders equity from subsidiaries	917	-
Group contributions	160	124
Interest income	20	7
Interest income from Group receivables	58	57
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	2,255	1,100
Interest expense	-16	-8
Interest expense from Group liabilities	-74	-43
Exchange-rate loss	-192	-4
Other financial expense	-3	-6
Financial expenses	-285	-61

Note 27 Appropriations and untaxed reserves

MSEK	2018	2017
Transfer to Tax allocation reserve	-	-29
Reversal of Tax allocation reserve	61	-
Total	61	-29

MSEK	2018	2017
Opening balance, January 1	61	32
Transfer to Tax allocation reserve	-	29
Reversal of Tax allocation reserve	-61	-
Closing balance, December 31	-	61

Note 28 Taxes

MSEK	2018	2017
Current tax expense		
Tax expense for the year	-1	-20
Deferred tax expense		
Deferred tax pertaining to temporary differences	0	0
Total reported tax expense	-1	-20

Reconciliation effective tax	2018	2017
MSEK	%	%
Profit before tax	2,018	995
Tax according to current tax rate for the parent company	-444 22%	-219 -22%
Non-deductible costs	0 0%	-1 0%
Non-taxable revenues	443 22%	200 20%
Total reported tax cost	-1 -0%	-20 -2%

Note 29 Accrued expenses and deferred income

MSEK	2018	2017
Personnel-related expenses	27	36
Other	2	5
Total	29	41

Note 30 Interest-bearing liabilities to credit institutions

MSEK	2018	2017
Non-current liabilities		
Liabilities to credit institutions	2,290	825
Non-current liabilities	2,290	825
Long-term liabilities		
Bilateral loan 1,500 MSEK	990	495
Bilateral loan 1,500 MSEK	990	-
Bilateral loan 125 MUSD	310	330
Total non-current liabilities	2,290	825

Note 31 The parent company's holdings of shares and participations in group companies

Subsidiaries	Corp. Reg. No	Registered office	2018		2017	
			Proportion of equity %	Carrying amount, MSEK	Proportion of equity %	Carrying amount, MSEK
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101	100	101
Megufu AB	556421-2453	Gislaved, Sweden	50		50	
HEXPOL Holding AB	559078-6405	Malmö, Sweden	100	0	100	0
Stellana AB	556084-8870	Laxå, Sweden	100	29	100	29
Elastomeric Engineering Co., Ltd. ¹⁾		Sri Lanka	99,6	58	99,6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. ²⁾		Sri Lanka	100		100	
HEXPOL Compounding HQ Sprl		Belgium	100	702	100	702
HEXPOL Compounding Sprl		Belgium	100		100	
Socofin Sp -lu		Belgium	100		100	
Corvus bvba		Belgium	100		100	
HEXPOL Compounding s.r.o		Czech republic	100	435	100	435
HEXPOL Compounding Lesina s.r.o		Czech republic	100	709	100	709
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V. ³⁾		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V. ³⁾		Mexico	100		100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7	100	7
HEXPOL Compounding GmbH		Germany	100	70	100	70
HEXPOL TPE GmbH		Germany	100		100	
HEXPOL Compounding Viersen CoKG		Germany	100		100	
HEXPOL Compounding Viersen Verwaltungs GbmH		Germany	100		100	
Stellana Deutschland GmbH		Germany	100		100	
HEXPOL TPE AB	556191-5777	Åmål, Sweden	100	250	100	250
HEXPOL TPE Ltd		Great Britain	100	34	100	34
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	33	100	33
Berwin Group Limited		Great Britain	100	365	100	365
Flexi-Cell (UK) Ltd		Great Britain	100		100	
Berwin Rubber Company Limited		Great Britain	100		100	
Berwin of Lydney Limited		Great Britain	100		100	
Berwin Industrial Polymers Limited		Great Britain	100		100	
MESGO SpA		Italy	80	1,668	-	-
MESGO Irinde Colors Srl		Italy	100		-	
3A MCOM Srl		Italy	100		-	
MESGO Polska		Poland	100		-	
MESGO Asia		Turkey	100		-	
HEXPOL Holding Inc.		USA	100	3,683	100	231
RheTech LLC		USA	100		100	
RheTech Engineered Plastics		USA	100		100	
Thermocolor LLC		USA	100		100	
Robbins Holding Inc.		USA	100		100	
Robbins LLC		USA	100		100	
Synpol LLC		USA	100		100	
HEXPOL Compounding CA Inc		USA	100		100	
Kirkhill Rubber Inc.		USA	100		-	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC		USA	100		100	
HEXPOL Compounding (UK) Ltd		Great Britain	100		100	
Chase Elastomer (UK) Ltd.		Great Britain	100		100	
HEXPOL UK Ltd		Great Britain	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. ⁴⁾		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. ⁵⁾		Mexico	100		100	
HEXPOL H.K Co., Ltd.		China	100		100	
HEXPOL Asia LLC		USA	100		100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100		100	
HEXPOL Finance UK Ltd		Great Britain	100	-	100	2,535
Total carrying amount in the Parent Company				8,233		5,648

Holdings of shares in Group Companies

MSEK	2018	2017
Opening balance	5,648	4,939
Shareholder contributions	3,452	-
Reduction of shareholder's equity in subsidiaries	-2,535	-
Acquisitions	1,668	709
Carrying amount	8,233	5,648

- 1) Gislaved Gummi AB owns 200 shares included in this holding. The remaining 0.4% of the shares is owned by the external parties.
- 2) Gislaved Gummi Lanka (Pvt) Ltd. Owns 69.6% and Elastomeric Engineering Company Ltd 30.4% of the shares.
- 3) HEXPOL AB owns 99% and HEXPOL Compounding HQ Sprl owns 1% of the shares.
- 4) HEXPOL Compounding LLC owns 99% and HEXPOL Compounding Querétaro S.A. de C.V. owns 1 % of the shares.
- 5) HEXPOL Compounding LLC owns 99% and HEXPOL Compounding Services Querétaro S.A. de C.V. owns 1 % of the shares.

Note 32 Assets pledged

MSEK	2018	2017
Sureties for subsidiaries	59	55
Total	59	55

Note 33 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	1,737,498
Share premium reserve	597,880
Profit of the year	2,016,795
Total unrestricted funds	4,352,173

The Board proposes the unappropriated funds to be disposed as follows:

That the shareholders are paid a dividend of 2.25 SEK per share.

Total dividend from profit brought forward	774,453
To be carried forward	3,577,720
Total	4,352,173

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 21 March 2019

Georg Brunstam
Chairman of the Board

Alf Göransson
Board Member

Malin Persson
Board Member

Märta Schörling Andreen
Board Member

Kerstin Lindell
Board Member

Gun Nilsson
Board Member

Jan-Anders E. Månson
Board Member

Mikael Fryklund
President and CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 21 March, 2019. 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 26 April, 2019 for adoption.

Our audit report was submitted on 21 March 2019

ERNST & YOUNG AB

Johan Thuresson
Authorized Public Accountant, Auditor-in-charge

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of HEXPOL AB (publ) except for the corporate governance statement on pages 64–73 and the statutory sustainability report on pages 50–59 and 74–75 for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 46–95 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 64–73 and the statutory sustainability report on pages 50–59 and 74–75. The statutory administration

report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matter

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Goodwill and participations in group companies

Description

The carrying value of goodwill as of 31 December 2018 amounts to 6.898 MSEK in the consolidated balance sheet, which represents 48% of total assets. Participations in group companies amounts to 8.233 MSEK in the parent company's balance sheet, which represents 76% of total assets. The company performs an impairment test annually, and when there is an indication of impairment, to ensure the carrying value does not exceed the estimated recoverable value. The recoverable amount is determined for each cash generating unit by calculating the present value of future cash flows. Future cash flows are based on management's business plans and forecasts, and includes a number of assumptions, including earnings performance, growth, investment requirements and the discount rate. For participations in group companies the recoverable amount is the higher of fair value and value in use.

Changes in assumptions have a major impact on the calculation of the recoverable amount and the assumptions that the company applied will be of significant importance for the assessment whether an impairment requirement exists. We have therefore assessed the accounting for goodwill and participations in group companies as a key audit matter.

A description of the impairment test is shown in Note 9 "Intangible fixed assets" and in Note 1 Accounting Policies section "Important assessments and assumptions".

How our audit addressed this key audit matter

In our audit, we evaluated and reviewed the company's process for preparing impairment test, including evaluating past accuracy of forecasts and assumptions. We also evaluated the reasonableness of future cash flows and growth assumptions and with the help of our valuation specialists examined the selected discount rate and assumptions about long-term growth. We have also reviewed the company's model and method for preparing the impairment test and assessed the company's sensitivity analyses. We have reviewed the disclosures in the annual report.

Acquisition of Mesgo Group

Description

The Group has during 2018 acquired Mesgo Group, where the acquisition price for all shares has been calculated to 2.144 MSEK. Acquired intangible fixed assets have been calculated to 1.744 MSEK, of which goodwill is 1.290 MSEK. The acquisition price includes a value attributable to put and call options that regulate the acquisition of the minority's shares, which is estimated at 479 MSEK. The company's disclosures about acquisitions are stated in Note 21 "Acquisitions" and in Note 1 Accounting Policies section "Consolidated financial statements" and section "Important assessments and assumptions".

Accounting for the acquisition of Mesgo Group has required estimates from the company. The most significant estimate refers to the assessment of fair values of separately identifiable assets and liabilities when allocating the purchase price. In addition, there are assessments related to calculation of the acquisition price for acquisition of the minority's share in Mesgo Group. When preparing the preliminary purchase price analysis, the company has made several assumptions including future cash flows, growth, discount rate and choice of model for valuation. We have therefore assessed the reporting of this acquisition as a key audit matter.

How our audit addressed this key audit matter

In our audit, we evaluated and reviewed the company's process for preparing the preliminary purchase price analysis, including evaluating the reasonableness of future cash flows and growth assumptions. Together with our valuation specialists, we examined the company's models and methods for preparing the purchase price analysis and the reasonableness of the choice of valuation model, assumptions including discount rate and future cash flows to determine the fair values of acquired assets and liabilities and useful lives for the assets. We have also examined the company's assumptions and model for calculating the acquisition price for the minority's share. We have reviewed the disclosures in the annual report.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–45, 50–59, 74–75 and 99–109. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of HEXPOL AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 64-73 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 50-59 and 74-75, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of HEXPOL AB (publ) by the general meeting of the shareholders on the 24th April 2018 and has been the company's auditor since 4th June 2002. HEXPOL AB (publ) has been a public interest entity since 9th June 2008.

Malmö 21 March 2019
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Shareholder information

Annual general meeting

The Annual General Meeting will be held on 26 April 2019, at 3:00 p.m. CET in Malmö Sweden (Börshuset, Skeppsbron 2).

Shareholders who wish to participate in the AGM must:

- be registered in the shareholders' register maintained by Euroclear Sweden AB no later than 18 April 2019.
- notify the company of their intention to attend the AGM by filling out a form on HEXPOL's website, www.hexpol.com or by post to HEXPOL AB, "Annual General Meeting", c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden or by phone +46 8 402 90 49. Notification of participation should be submitted no later than 18 April 2019.

Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than 18 April 2019 to be entitled to participate in the AGM. The trustee should therefore be notified in due time before said date.

Notification should state the shareholder's name, personal identity number, telephone number and number of shares. Shareholders wishing to be represented by proxy should send a power-of-attorney to Euroclear Sweden AB before the AGM.

Proposal for dividend

The Board proposes to the Annual General Meeting on 26 April that a dividend of 2.25 SEK per share be paid.

Annual Report

The Annual Report of HEXPOL is distributed digitally and can be downloaded from the website www.hexpol.com. Shareholders wishing to receive a printed copy, please send name and address to ir@hexpol.com or order the report directly from HEXPOL AB's website www.hexpol.com.

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

For more information, contact:

Karin Gunnarsson

Chief Financial Officer, Investor Relations

Tel: +46 70 555 47 32

Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

Activity	Date
Interim report January–March 2019	26 April 2019
Annual General Meeting	26 April 2019
Interim report January–June 2019	18 July 2019
Interim report January–September 2019	24 October 2019
Year-end report 2019	Jan/Feb 2020

Ten-year summary

MSEK	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
INCOME STATEMENTS, condensed										
Sales	13,770	12,230	10,879	11,229	8,919	8,036	8,007	7,197	3,798	2,608
Operating expenses	-11,620	-10,244	-8,958	-9,265	-7,463	-6,781	-6,938	-6,302	-3,402	-2,445
Operating profit	2,150	1,986	1,921	1,964	1,456	1,255	1,069	895	396	163
Net financial i ems	11	-18	-8	-21	-20	-19	-22	-23	-26	-23
Profit before tax	2,161	1,968	1,913	1,943	1,436	1,236	1,047	872	370	140
Tax	-515	-441	-516	-550	-388	-306	-294	-253	-97	-38
Profit after tax	1,646	1,527	1,397	1,393	1,048	930	753	619	273	102
BALANCE SHEETS, condensed										
Assets										
Fixed assets	9,698	7,048	6,423	5,868	4,832	3,946	3,971	3,365	3,438	1,977
Current assets	3,594	2,489	2,128	1,877	1,626	1,335	1,372	1,286	1,155	494
Cash and cash equivalents	1,164	813	1,297	978	826	597	564	557	318	317
Total assets	14,456	10,350	9,848	8,723	7,284	5,878	5,907	5,208	4,911	2,788
Shareholders' equity and liabilities										
Shareholders' equity	8,592	7,010	7,559	6,233	5,049	3,617	2,909	2,473	1,327	1,217
Interest-bearing liabilities	2,332	840	29	524	567	962	1,809	1,698	2,592	1,128
Other liabilities and provisions	3,532	2,500	2,260	1,966	1,668	1,299	1,189	1,037	992	443
Total shareholders' equity and liabilities	14,456	10,350	9,848	8,723	7,284	5,878	5,907	5,208	4,911	2,788
CASH FLOW STATEMENTS, condensed										
Cash fl w from operations	1,806	1,699	1,710	1,760	1,432	1,223	1,115	726	387	359
Net investments in tangible and intangible fi ed assets	-207	-195	-150	-118	-118	-136	-177	-103	-32	-23
Acquisitions of operations	-2,190	-1,081	-295	-1,043	-413	-3	-926	1	-1,827	0
Cash fl w from financi g operations	775	-823	-1,075	-479	-777	-1,060	33	-390	1,498	-358
Cash flow for the year	184	-400	190	120	124	24	45	234	26	-22
Cash and cash equivalents, 1 January	813	1,297	978	826	597	564	557	318	317	342
Exchange-rate diffe ences in cash and cash equivalents	167	-84	129	32	105	9	-38	5	-25	-3
Cash and cash equivalents, 31 December	1,164	813	1,297	978	826	597	564	557	318	317

MSEK	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Key performance indicators										
Average shareholders' equity, MSEK	8,077	6,871	6,826	5,887	4,333	3,263	2,691	2,038	1,268	1,187
Average capital employed, MSEK	9,678	7,898	7,186	6,861	5,116	4,664	4,458	4,057	2,780	2,530
Return on shareholders' equity %	20.4	22.2	20.5	23.7	24.2	28.5	28.0	30.4	21.5	8.6
Return on capital employed, %	22.5	25.1	26.8	28.6	28.5	27.0	24.0	22.3	13.9	6.4
Sales growth excl currency effects, %	9	12	-4	11	6	6	-2	-9	-11	-8
Operating margin, %	15.6	16.2	17.7	17.5	16.3	15.6	13.4	12.4	10.4	6.3
Profit margin before tax, %	15.7	16.1	17.6	17.3	16.1	15.4	13.1	12.1	9.7	5.4
Earnings per share, before dilution SEK*, **	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87	0.93	0.35
Earnings per share, after dilution SEK*, **	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87	0.93	0.35
Net cash, MSEK	-1,143	-27	1,268	454	259	-312	-1,215	-1,096	-2,239	-760
Net debt/equity ratio, multiple	-0.1	0.0	0.0	0.0	0.0	0.1	0.4	0.4	1.7	0.6
Equity/assets ratio, %	59	68	77	72	69	62	49	47	27	44
Shareholders' equity per share, SEK*, **	24.96	20.37	21.96	18.11	14.67	10.51	8.45	7.19	4.49	4.14
Paid dividend, MSEK	671	1,635	585	413	310	207	172	103	27	-
Paid dividend per share, SEK*, **	1.95	4.75	1.70	1.20	0.90	0.60	0.50	0.30	0.10	-
Operating cash flow, MSEK	2,019	2,001	2,057	2,185	1,676	1,418	1,209	911	506	462
Cash flow from operating activities, MSEK	1,806	1,699	1,710	1,760	1,432	1,223	1,115	726	387	359
Cash flow from operating activities per share, SEK*, **	5.25	4.94	4.97	5.11	4.16	3.55	3.24	2.19	1.32	1.22
Average number of employees	4,454	4,326	4,028	3,858	3,493	3,411	3,112	3,041	2,133	1,809
Number of employees at year-end	4,640	4,389	4,140	3,867	3,666	3,433	3,332	3,020	3,037	1,827
Sales per employee, MSEK	3.09	2.83	2.70	2.91	2.55	2.36	2.57	2.37	1.78	1.44
Key performance indicators adjusted for larger non-recurring items such as restructuring										
Operating profit, MSEK	2,150	1,986	1,921	1,964	1,456	1,255	1,069	895	460	261
Operating margin, %	15.6	16.2	17.7	17.5	16.3	15.6	13.4	12.4	12.1	10.0
Profit before tax, MSEK	2,161	1,968	1,913	1,943	1,436	1,236	1,047	872	434	238
Profit after tax, MSEK	1,646	1,527	1,397	1,393	1,048	930	753	619	318	172
Earnings per share, before dilution SEK*, **	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87	1.08	0.59
Earnings per share, after dilution SEK*, **	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87	1.08	0.59
Return on shareholders' equity %	20.4	22.2	20.5	23.7	24.2	28.5	28.0	30.4	25.1	14.5
Return on capital employed, %	22.5	25.1	26.8	28.6	28.5	27.0	24.0	22.3	16.2	10.3

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

** Data per share is adjusted for share split 10:1 May 2015

Financial definitions

ALTERNATIVE PERFORMANCE MEASURES In addition to the financial key ratios covered by IFRS regulations, this report also includes other key ratios. HEXPOL presents alternative performance measures as these provide valuable additional information to investors and the company's management, enabling evaluation of the company's performance. For reconciliation of these alternative performance measures refer to the Year-end report.

AVERAGE CAPITAL EMPLOYED Average of the last four quarters' capital employed.

AVERAGE SHAREHOLDERS' EQUITY Average of the last four quarters' shareholders' equity. For 2014 and earlier years, the calculation was based on two measuring points.

CAPITAL EMPLOYED Total assets less non-interest-bearing liabilities.

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

CASH FLOW PER SHARE Cash flow from operating activities after changes in working capital divided by the average number of shares outstanding.

EARNINGS PER SHARE Profit after tax, attributable to Parent Company shareholders, divided by average number of shares outstanding.

EARNINGS PER SHARE AFTER DILUTION Profit after tax attributable to Parent Company shareholders divided by average number of shares outstanding adjusted for the dilution effect of warrants.

EARNINGS PER SHARE EXCL. NON-RECURRING EFFECTS Profit after tax excluding non-recurring effects, attributable to Parent Company shareholders divided by average number of shares outstanding.

EBITDA Operating profit before depreciation, amortization and impairment.

EQUITY/ASSETS RATIO Shareholders' equity as a percentage of total assets.

EQUITY PER SHARE Shareholders' equity attributable to Parent Company shareholders divided by the number of shares outstanding 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.

NET DEBT/EQUITY RATIO Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets divided by shareholders' equity.

NET DEBT, NET CASH Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets.

OPERATING CASH FLOW Operating profit excluding items affecting comparability less depreciation/amortization and investments, and after change in working capital.

OPERATING MARGIN Operating profit as a percentage of sales.

PROFIT MARGIN BEFORE TAX Profit before tax as a percentage of the sales.

RETURN ON CAPITAL EMPLOYED Profit before tax plus interest expenses as a percentage of average capital employed.

RETURN ON EQUITY Profit after tax, attributable to Parent Company shareholders, as a percentage of average shareholders' equity, excluding minority interests.

SALES GROWTH EXCLUDING CURRENCY EFFECTS Sales growth excluding currency effects compared to the sales for the corresponding year-earlier period.

SALES GROWTH EXCLUDING CURRENCY EFFECTS AND ACQUISITIONS Sales growth excluding currency effects and acquisitions compared to the sales for the corresponding year-earlier period.

Operational definitions

CARBON DIOXIDE (CO₂) Carbon dioxide is formed in all processes involving the combustion of carbon containing material, such as from the combustion of fossil fuels. Carbon dioxide emissions increase global warming (the greenhouse effect).

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.

CLP Classification, Labelling and Packaging, an EU legislation addressing the danger of chemical substances and mixtures, and the manner in which users should be informed about them.

CODE OF CONDUCT Guidelines for HEXPOL's employees and suppliers concerning business ethics, environment, health, safety and social responsibility. The Group's code of conduct is called Materializing Our Values.

COMPRESSION MOULDING Moulding and vulcanization of the polymer product by means of injection whereby the polymer 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).

ENERGY CONSUMPTION HEXPOL reports both its direct energy consumption (use of fuels in its own energy facilities) and its indirect consumption (purchased electricity and district heating).

ENVIRONMENTAL ASPECTS Those features of an organization's activities, products or services that interact with the environment.

ENVIRONMENT-RELATED COSTS Costs that can be attributed to actions taken to prevent, reduce or rectify the environmental impact of an organization's operations. The equivalent applies to costs in the health and safety area. The costs include administration, purchases of external services, fees paid to public authorities, maintenance of environmental management systems, the cost of waste and costs for external inspections and audits.

ENVIRONMENT-RELATED INVESTMENTS Investments for preventing and reducing the environmental impact of an organization's operations. The equivalent applies to investments in improved working environment.

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).

FKM is a family of fluoroelastomer (fluoro rubber) materials that provides excellent heat and chemical resistance.

GLOBAL COMPACT A UN initiative concerning corporate responsibility. The participating organizations undertake to support ten fundamental principles in respect of human rights, labour conditions, environmental considerations and anti-corruption. HEXPOL joined the Global Compact in 2015.

GLOBAL GOALS At the UN summit in 2015, the world's heads of state and government adopted 17 Global Goals and Agenda 2030 for sustainable development. The Global Goals and Agenda 2030 aim to eradicate poverty and hunger, achieve human rights for all, achieve equality and empowerment for all women and girls, and to ensure lasting protection for the planet and its natural resources. The Global Goals are integrated and indivisible and balance the three dimensions of sustainable development - the economic, the social and the environmental.

GRI Global Reporting Initiative has established voluntary global guidelines for how companies and other organizations to report on their activities in sustainable development.

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.

ISO 9001 A management system standard for quality processes in a company or organization. A management system that describes how the company continually improves and adjusts its operations to meet customer needs.

ISO 14001 International standard concerning environmental management systems, which was introduced in 1996. In excess of 360,000 organizations worldwide are currently ISO 14001 certified. An updated version of the standard was published in 2015 (ISO 14001:2015).

ISO 26000 International standard that provides guidance concerning how organizations are to address social responsibility matters. The standard was introduced in 2010 and encompasses all aspects of sustainability.

ISO 45001 International standard for health and safety, replacing OHSAS 18001.

ISO 50001 International standard governing energy management systems.

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.

OHSAS 18001 Standard concerning health and safety at the workplace. It will be replaced by the ISO 45001 standard.

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

PA Polyamide, a commonly used thermoplastic.

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

PE Polyethylene is a thermoplastic resin with high elasticity.

PHE Plate Heat Exchanger.

POLYMERS Chemical compounds consisting of very long chains comprising smaller repeating units (monomers). Plastic and rubber are examples of polymer materials.

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

REACH Chemicals legislation within the EU intended to ensure safer handling of chemicals. Chemical substances must be registered for a certain use and particularly hazardous substances may be subject to restrictions.

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

SH Shore scale for measuring the hardness of different materials.

SUSTAINABLE DEVELOPMENT The concept pertains to a development that "satisfies the needs of today without compromising the ability of future generations to meet their own needs". Sustainable development encompasses ecological, social and financial sustainability.

SUSTAINABILITY REPORT In accordance with an EU directive, the Swedish government has determined that sustainability reporting is to be mandatory for large companies as of 2017. The Sustainability Report shall include the non-financial data necessary to comprehend the company's development, position, performance, and the impact of its operations, including disclosures on issues involving the environment, personnel, and social conditions, respect for human rights and combating corruption.

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.

TP Thermoplastic compounds is a plastic material that becomes pliable or moldable above a specific temperature and solidifies upon cooling.

TPE Thermoplastic elastomer compounds are rubber-like materials that combine the properties of vulcanized rubber with the process benefits of thermoplastics.

TPO Polyolefin blends.

TPS Styrenic block copolymers.

TPU Thermoplastic polyurethanes.

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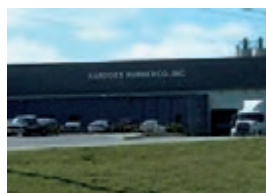
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This report contains forward-looking information based on HEXPOL management's current expectations. Although management believes that the expectations stated in such forward-looking information are reasonable, no guarantee can be given that these expectations will prove to be correct. Consequently, future outcomes can vary significantly compared to what is stated in the forward-looking information due, among other things, to changed conditions in terms of the economy, market and competition, changes in legal requirements and other policy measures, exchange rate fluctuations and other factors.

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