HEXPOL AB (publ)
Annual Report 2010

HEXPOL
A Material Difference

HEXPOL in brief 3
2010 in brief 5
CEO's comments on the year 6
About the HEXPOL Group 8
The share and shareholders 12
Business area HEXPOL Compounding 16
Business area HEXPOL Engineered Products 30
Corporate responsible 46
Board of Directors' report 52
Financial year 2010 53
Five-year overview 55
Risk factors 56
Sustainability efforts 61
Corporate Governance Report 66
Financial statements 72
Consolidated income statements 73
Consolidated balance sheets 74
Changes in the Group's shareholders' equity 75
Consolidated cash flow statements 75
Accounting policies 76
Notes of the Group 80
Parent Company income statements 90
Parent Company balance sheets 90
Changes in the Parent Company's shareholders' equity 91
Parent Company's cash flow statements 91
Notes of the Parent Company 92
Proposed distribution of unappropriated earnings 94
Auditors' Report 95
Board of Directors, Auditors and Group Management 96
Shareholder information 99
Five-year overview 100
Definitions 102
Addresses to Group companies 104

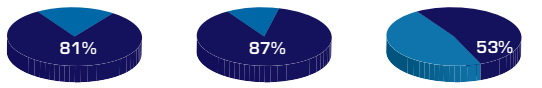
The information in this annual report is a translation of the text in the Swedish-language annual report and, accordingly, corresponds in all material respects with the original Swedish document. In the event of any contradictions between the texts contained in this document and the text in the Swedish-language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

HEXPOL in brief

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

Business area HEXPOL Compounding

The business area's share of the HEXPOL Group (2010):



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

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

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

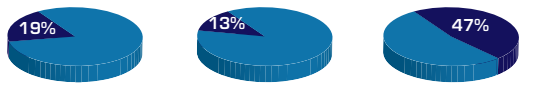
Sales 3 080 MSEK (2 020)

Operating profit
398 MSEK (231) excluding items affecting comparability
334 MSEK (155) including items affecting comparability

Number of employees, 31 december 1 616 (662)

Business area HEXPOL Engineered Products

The business area's share of the HEXPOL Group (2010)



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

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

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

Sales 718 MSEK (588)

Operating profit:
62 MSEK (30) excluding items affecting comparability
62 MSEK (8) including items affecting comparability

Number of employees, 31 december 1 416 (1 160)

THE GROUP IN BRIEF

HEXPOL is a globally leading group in polymer materials with strong global market positions in polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets), wheels made of polyurethane, plastic and rubber materials for forklifts and castor wheel applications (Wheels) and rubber profiles for the construction and engineering industry (Profiles).

The Group conduct production operations in nine countries and is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. Customers outside Sweden account for about 95 percent of invoiced sales, and nine of the Group's 26 production units are situated in expansive regions of Asia, Mexico and Eastern Europe.

OPERATIONS AND MARKET

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

Customers of the HEXPOL Compounding business area are mainly system suppliers to the global automotive industry and are also found in the engineering industry. The customers frequently comprise international companies that subject suppliers to stringent demands in terms of quality and delivery reliability.

OEM manufacturers of plate heat exchangers comprise the largest customer group for the HEXPOL Engineered Products business area. Supported by growing interest in energy efficiency, the market for plate heat exchangers is characterised by high growth and, in turn, strong demand for the products offered by the HEXPOL Gaskets product area. The largest customers of the HEXPOL Wheels product area consist of companies in the segment comprising manufacturers of materials-handling equipment. As a result of the increased volume of materials handling worldwide, these customers are reporting robust growth. HEXPOL Profiles is one of the leading manufacturers of extruded profiles in the Nordic market. A feature that the business areas have in common is the importance of cutting-edge expertise relating to polymer materials, applications know-how in the Group's business areas and cost-effective production operations.

FINANCIAL OBJECTIVES

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

DIVIDEND POLICY

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

BUSINESS CONCEPT

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

VISION

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

STRATEGY

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

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

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

SUCCESS FACTORS

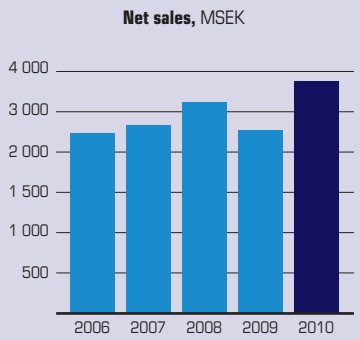
Since 2000, Group operations have expanded from annual sales of 482 MSEK to pro forma sales of 6 323 MSEK in 2010, with strong operating margins. This favourable trend is the result of deep and comprehensive product development skills, cost-effective production plants and successful company acquisitions. The Group is also well positioned in segments characterised by healthy growth. The corporate culture is strong, with skilled and experienced employees led by experienced management teams with short and prompt decision-making routes. In 2010, sales increased a full 46 percent and two significant acquisitions were completed – Excel Polymers Group and ELASTO Group.

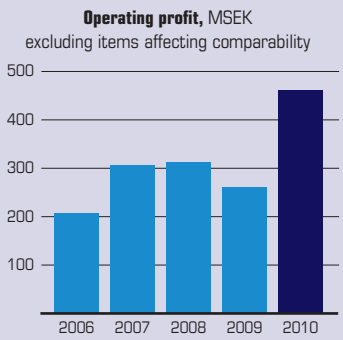
2010 in brief

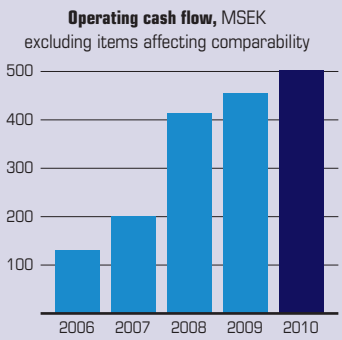
- Net sales totalled 3 798 MSEK (2 608), up 46 percent.
- Operating profit, excluding items affecting comparability, amounted to 460 MSEK (261), an increase of 76 percent. Including these items, operating profit amounted to 396 MSEK (163).
- Profit after tax, excluding items affecting comparability, amounted to 318 MSEK (172). Including these items, profit after tax amounted to 273 MSEK (102).
- Earnings per share, excluding items affecting comparability, amounted to 11.98 SEK (6.48). Including these items, earnings per share amounted to 10.28 SEK (3.84).
- Operating cash flow totalled 506 MSEK (462), excluding items affecting comparability.
- Restructuring costs, recognised during the fourth quarter, amounted to 64 SEK.
- Acquisitions of ELASTO Group and Excel Polymers Group.
- The Board of Directors proposes a dividend of 3.00 SEK (1.00) per share.

Key figures	2010	2009
Net sales, MSEK	3 798	2 608
Operating profit, EBIT, MSEK	396	163
Operating margin, %	10.4	6.3
Profit before tax, MSEK	370	140
Profit after tax, MSEK	273	102
Earnings per share, SEK	10.28	3.84
Equity/assets ratio, %	27.0	43.7
Return on capital employed, %	13.9	6.4

Operating key figures, excluding items affecting comparability		
Operating profit, EBIT, MSEK	460	261
Operating margin, %	12.1	10.0
Profit before tax, MSEK	434	238
Profit after tax, MSEK	318	172
Earnings per share, SEK	11.98	6.48
Return on capital employed, %	16.2	10.3
Operating cash flow, MSEK	506	462







CEO comments on the year
Sharp growth with strong margins

Georg Brunstam

President and CEO, HEXPOL AB

Dear shareholders,
2010 was a very good year for the HEXPOL Group. Our sales increased in all our main markets and all our market segments. Overall, sales rose by a healthy 46 percent to 3 798 MSEK (2 608), despite negative currency effects amounting to 282 MSEK. We increased our earnings per share, excluding items affecting comparability, by 85 percent to 11.98 SEK (6.48). It feels important for me to point out that although 2009 was a year of crisis in the automotive industry and financial sector, the HEXPOL Group's profit margin during the crisis year of 2009, excluding items affecting comparability, was favourable at 10.0 percent. Given this comparison, we are pleased that our operating profit rose sharply in 2010, up 76 percent to 460 MSEK (261). Our operating cash flow, excluding items affecting comparability, remained strong as previous years, amounting to healthy 506 MSEK (462).

2010 was a year with generally improved demand from all our customers, particularly automotive-related

customers. Our strong volume increases were attributable to improved demand and successful development and sales efforts. We successfully managed the crisis year 2009, working actively throughout the entire time on development projects in cooperation with our customers in parallel with efforts to adjust our costs. Accordingly, when demand started to grow again in 2010, we were prepared to manage the volume and project increases in a flexible manner.

STRONG GROWTH AND IMPORTANT ACQUISITIONS

During 2010, we made two major strategic acquisitions: ELASTO Group and Excel Polymers Group. Both acquisitions are in one of our core business areas, Compounding, and the companies were integrated in HEXPOL Compounding during the year. Excel Polymers Group, which was one of our largest global competitors in rubber compounds, has been integrated on a geographical basis in the organisation of HEXPOL Compounding. The acquisition of Excel Polymers Group, with eight strategically situated plants in the US, Mexico, China and the UK, strengthens our potential to provide service to global customers. As a result of the acquisition, we are now also unchallenged as the leading global player in rubber compounds. With its strong positions in the engineering and general industries, the Excel acquisition also provides a good complement to our strong positions in the automotive industry. The acquisition of ELASTO Group, with its production plants in the UK and Sweden, has broadened our customer offering with thermoplastic elastomer compounds (TPE) and given us many highly interesting medical applications offering strong growth.

We are and have always been acquisition-oriented, and the companies we acquired in 2010 provide annual sales of approximately 3,000 MSEK to a Group that reported sales of 2,608 MSEK in 2009!

ADVANCED EXPERTISE AND MOTIVATED EMPLOYEES

We managed the 2009 crisis effectively, both operationally and financially, but we were forced, unfortunately, to reduce our workforce. We were cautious, however, and retained personnel with key skills, mainly in development and sales. Our strategy is based on comprehensive and in-depth polymer and applications expertise. These skills have been strengthened further by the acquisitions of ELASTO Group and Excel Polymers Group. During 2010, we also started the HEXPOL LEADERSHIP DEVELOPMENT PROGRAM, a comprehensive Group-wide programme designed to develop the skills of our employees. I am very impressed by the flexibility and dedication my employees showed in their efforts to capitalise on the opportunities that arose in 2010. Thank you – impressive.

STRONG MARKET POSITIONS AND LONG-TERM GROWTH IN OUR CUSTOMER SEGMENTS

About 95 percent of our sales are invoiced outside Sweden and we have strong global market positions in all our market areas. We are well-invested and represented in all major markets, including the emerging markets of China, Mexico and Eastern Europe. We have strong positions and, for example, we are the unchallenged global market leader in rubber compounds and gaskets for plate heat exchangers. Our product area comprising HEXPOL Wheels is also one of very few global players in its market.

We are also active in customer segments characterised by growth. The automotive industry is growing globally, and we are now also noting general growth in global industrial production. We also believe in strong demand for products with applications in the energy and materials handling sectors, which will enhance demand for our wheels and gaskets. With its large number of highly interesting medical applications, we also project strong growth in our TPE product area.

PRIORITIES FOR 2011

As usual, I want to comment first on the priorities I presented in last year's annual report. We promised to increase our growth rate, with special emphasis on emerging markets. We did that. Overall sales rose by 46 percent, and the increase was much higher in the emerging markets of China, Mexico and Eastern Europe.

I also promised that we would increase our market shares and play an active role in the consolidation process that would inevitably take place in the rubber compounding industry. This was achieved in particular through our acquisition of Excel Polymers Group, one of our largest global competitors. I also promised to focus on margins and profit improvements in HEXPOL Engineered Products, which we also achieved. We have completed six quarters of continuous improvements in profit in HEXPOL Engineered Products and we also improved the Group's operating margin, excluding items affecting comparability, to 12.1 percent (10.0).

During 2011, we will continue to be acquisition oriented and to focus on operating margins. The largest and most important objectives in 2011 include continued growth and efforts to generate new customer projects, in addition to wise and determined efforts to integrate the Excel Polymers Group into our organisation. We will also continue to conduct proactive environmental work and to assume our social responsibility and contribute to the sustainable development of our society. Priority areas include environmental responsibility, social responsibility and applications of our business ethics guidelines. During the past year, excellent progress was made in efforts to introduce certified environmental management systems. We also conducted a number of activities to increase the energy efficiency of our production plants. Growing public interest has been noted in HEXPOL's performance in the area of sustainable development and our customers, in particular, are imposing greater demands. Our goal is to remain receptive and open. An example of this is that we are reporting at B level in accordance with the Global Reporting Initiative (GRI).

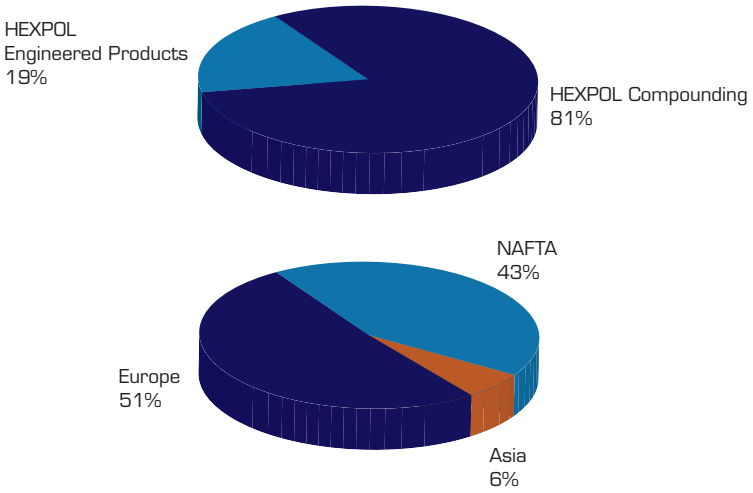
In conclusion, I would like once again to thank all our employees for their fantastic work in 2010, and I also thank our customers, suppliers and shareholders for your trust and good cooperation during the year. We are determined to develop the HEXPOL Group in a positive direction and our prospects to succeed in this endeavour are good.

Malmö, March 2011

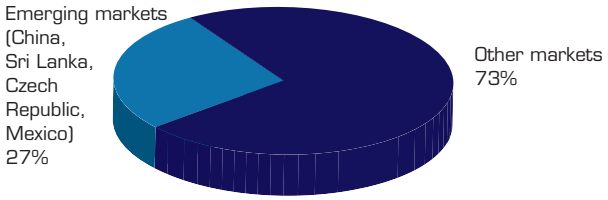
Georg Brunstam
President and CEO

About the HEXPOL Group

Sales for 2010 distributed by business area and geographically:



Geographic distribution of production in 2010:



The Group's brands

HEXPOL COMPOUNDING

Gislaved Gummi
A HEXPOL COMPANY

Elastomeric
A HEXPOL COMPANY

Stellana
A HEXPOL COMPANY

GOLDKEY PROCESSING, INC.
A HEXPOL COMPANY

EXCEL POLYMERS
A HEXPOL COMPANY

ELASTO
A HEXPOL COMPANY

The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products with three product areas: HEXPOL Gaskets, HEXPOL Wheels and HEXPOL Profiles. The organisation is streamlined in an effort to provide short and prompt decision-making processes, with clear, decentralised responsibility. The operating structure is presented in the diagram below.

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

The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and has production units in nine countries.

Prior to the acquisition of Excel Polymers Group, customers outside Sweden accounted for more than 90 percent of invoiced sales, and after the acquisition the share has risen to about 95 percent. In addition, nine of the Group's 26 production units are situated in expansive regions of Asia, Mexico and Eastern Europe. The workforce totals more than 3,000 employees, mainly in Asia, the US and Sweden.

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

BUSINESS CONCEPT

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

VISION

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

OPERATIONAL STRATEGY

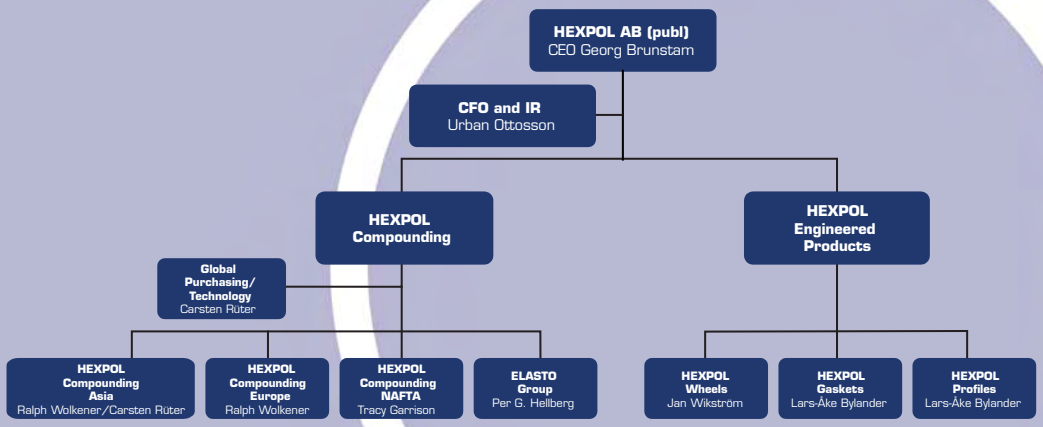
To maintain its long-term profitability and sustainable competitiveness, HEXPOL attaches great importance to the competitiveness of each individual business line. In order to attain the company's vision, the following five operational strategies are applied:

1. Focus on product development

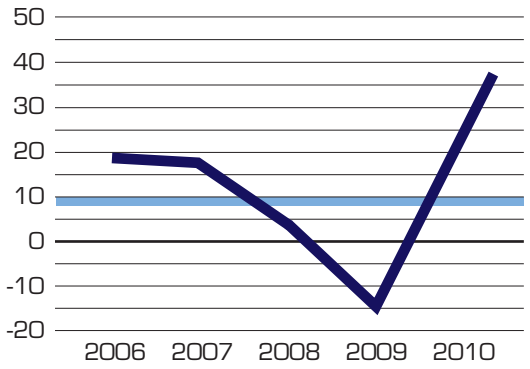
The Group possesses in-depth and wide-ranging polymer and applications expertise. In the HEXPOL Compounding business area, for example, 80 percent of the products marketed in Europe are based on unique proprietary formulas and the Group offers its customers technological cooperation for future development. Product development is conducted at each production unit and the HEXPOL Compounding business area has a corporate technology department in Belgium. Overall, more than 5 percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.

2. Most cost-effective company in the industry

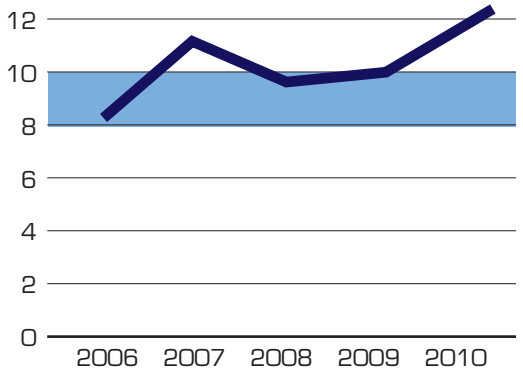
Well-invested plants characterised by a high level of technology and broad-based expertise in a flat and cost-effective organisation that facilitates success and progress.



Organic sales growth % (Target 7–10%)



Operating margin* % (Target 8–10%)



*Excluding items affecting comparability

3. Efficient supply management
The Group continuously focuses on finding cost-effective supply solutions that enable the exploitation of benefits resulting from high volume and advanced technologies. Close cooperation with customers through a local presence also provides opportunities for effective solutions.

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

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

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

GROWTH STRATEGY

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

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

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

BRANDS

HEXPOL markets its products via a number of well-established brands. For example, the Gislaved Gummi brand is well-known and highly reputed far beyond the confines of Sweden. In addition are HEXPOL Compounding, GoldKey, Stellana, Excel Polymers, ELASTO and its product brands, as well as Elastomeric recognised brands in their particular product areas and geographical markets.

FINANCIAL OBJECTIVES

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

TARGET FULFILMENT

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

HEXPOL has met its targets in terms of operating margin over the past five years. The operating margin in 2010 was 12.1 percent, excluding items affecting comparability, compared with the Group's target of 8-10 percent. Although the target for organic sales growth was not achieved in 2009, it was comfortably exceeded in 2010, when it amounted to 38 percent, adjusted for the effects of acquisitions and exchange rates. Sharply increased demand from HEXPOL's customer segments was the main reason for the upswing. The financial objectives are designed to reflect development over a business cycle and the average for the past five years has exceeded the target, both in terms of organic growth and operating margin.

HISTORY

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

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

During 2010, two major acquisitions were completed; ELASTO Group, in order to broaden the material base, and Excel Polymers Group, which made HEXPOL the number one supplier of rubber compounds in global terms.

Carl Gislow and his brother Wilhelm.

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

1893 The Gislow brothers form a rubber factory in Gislaved, Sweden

1966 A new factory for the product known as Technical Rubber is built

1990 The Technical Rubber division becomes Gislaved Gummi AB

1991 Production of gaskets for plate heat exchangers is acquired

1994 Hexagon AB acquires the Company

1995 Stellana AB in Laxå, Sweden is acquired

1998 Elastomeric Engineering Co Ltd in Sri Lanka is acquired

2002 GFD Technology GmbH in Germany is acquired

2004 Thona group of Belgium, with operations in Belgium, Czech Republic, Canada and the US, is acquired

2005 Trostel SEG in the US is acquired

2007 Establishment of three new plants for rubber compounds, wheels and gaskets in China and a new plant for rubber compounding in Mexico

2007 GoldKey Processing Ltd in the US is acquired

2008 Change of name from Hexagon Polymers to HEXPOL

2008 Distribution of HEXPOL to Hexagon's shareholders and listing of the share on the NASDAQ OMX Nordic

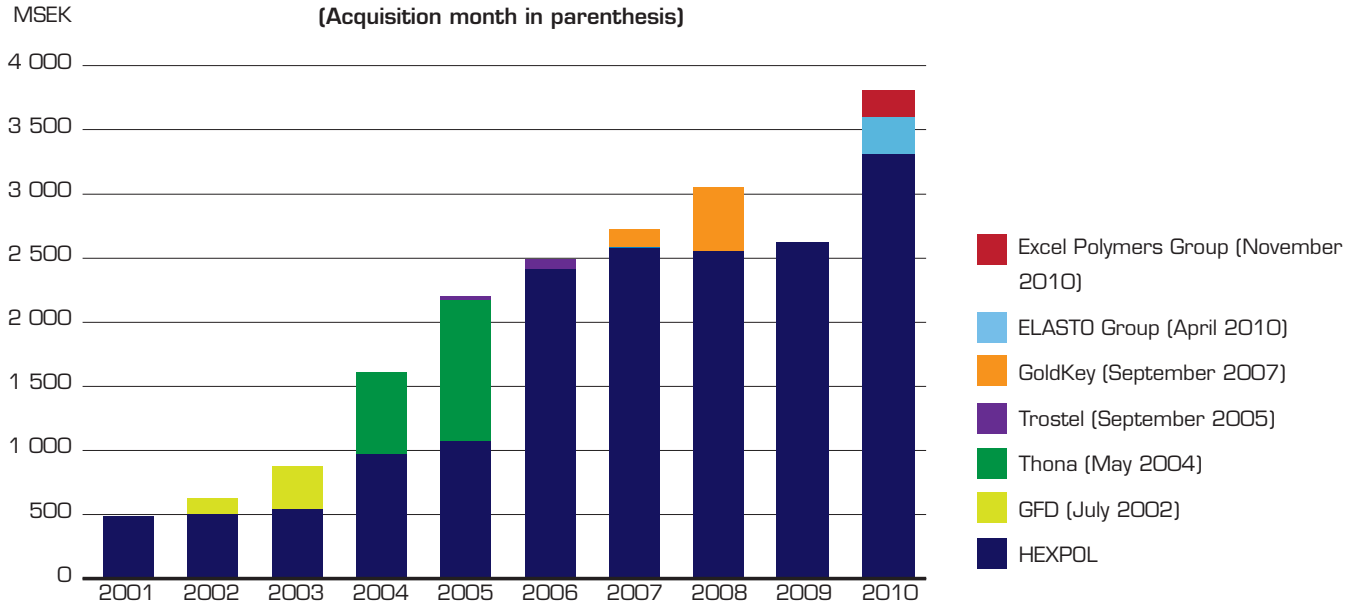
2009 Restructuring programme and closure of the compounding operation in Magog, Canada

2010 ELASTO Group with operations in Sweden and the UK is acquired

2010 The global rubber compounding group, Excel Polymers, with operations in the US, China, the UK and Mexico, is acquired

Contribution to sales made by acquisitions in the past ten years

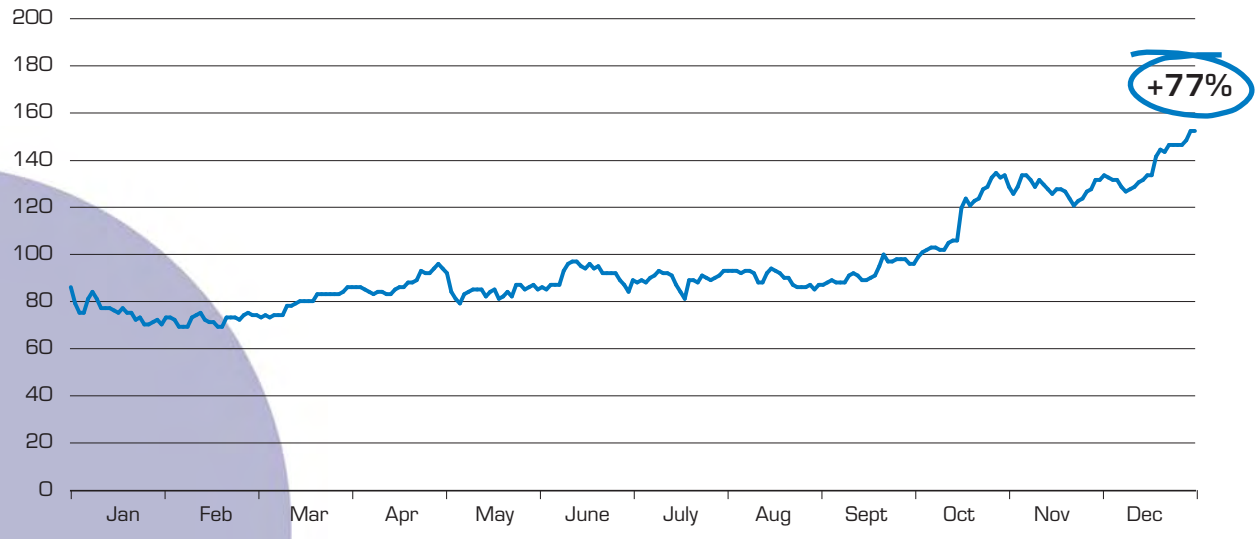
(Acquisition month in parenthesis)



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

The share and shareholders

Share price trend in 2010 (SEK)



Source: NASDAQ OMX.

THE HEXPOL SHARE

HEXPOL AB was listed on NASDAQ OMX Nordic on 9 June 2008 and the Class B share is quoted on the Mid Cap list in the industrial sector. The share capital in HEXPOL AB amounts to 53 103 954 SEK, represented by 26 551 977 shares. Of these, 1 181 250 are Class A shares and 25 370 727 Class B shares. Each Class A share carries ten voting rights and a Class B share one voting right. All shares carry equal rights to the company's assets and earnings.

SHARE PRICE TREND AND TRADING VOLUME

The price of the HEXPOL Class B share rose during the year by 77 percent and the closing price at the end of 2010 was 153.50 SEK, which was the highest closing price during the year. The lowest closing price during 2010 was SEK 69.50 (8 February and 18 February). During 2010, 12.2 million (17.8) HEXPOL shares were traded on the Stockholm Exchange. Average trading per day in the share was 48 379 shares (70 777). The number of shares traded represented 46 percent (67) of the total number of shares.

OWNERSHIP STRUCTURE

As of 31 December 2010, HEXPOL AB had 8 313 shareholders (8 281). The proportion of shares held by Swedish institutions and funds at 31 December 2010 corresponded to 43 percent (40) of the capital. The number of shares held by non-Swedish shareholders totalled 9 percent (9) of the capital. The ten largest shareholder groups accounted for 67 percent (59) of the capital and 76 percent (71) of the voting rights.

DIVIDEND POLICY

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

WARRANTS PROGRAMME

In August 2008, an extraordinary meeting of shareholders authorised HEXPOL AB to introduce a warrants programme for Group Management and other senior executives and key people in the Group by means of a limited share issue of 1 325 000 warrants. In total, 1 108 250 warrants have been granted to senior executives and key people, as identified by the Board, for payment of 8 SEK per warrant. Each warrant entitles the holder to subscribe for one Class B share in HEXPOL AB during the period from 1 March 2011 through 1 September 2011. The share price for new share subscriptions through the exercise of the warrants corresponds to that arising from a market-based valuation based on the set warrant payment in accordance with the Black & Scholes method. The warrants issue entails a total maximum dilution effect of approximately 4.75 percent in relation to the number of shares in the company.

SHAREHOLDER VALUE AND ANALYSTS

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

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

- Ålandsbanken, Christian Wallberg
  christian.wallberg@alandsbanken.se
- SEB Enskilda, Daniel Schmidt
  daniel.schmidt@enskilda.se
- Swedbank, Ola Södermark
  ola.sodermark@swedbank.se
- Erik Penser Bankaktiebolag, Johan Dahl
  johan.dahl@penser.se
- Carnegie Investment Bank, Andreas Koski
  andreas.koski@carnegie.se

MAJOR SHAREHOLDERS, 31 DECEMBER 2010

Owner	Number of Class A shares	Number of Class B shares	Holding (%)	Voting rights (%)
Melker Schörling AB	1 181 250	6 041 731	27.20	48.02
Didner & Gerge Fonder Aktiebolag	0	2 635 596	9.93	7.09
Swedbank Robur fonder	0	1 886 979	7.11	5.07
Lannebo fonder	0	1 585 557	5.97	4.26
Afa Försäkring	0	1 550 903	5.84	4.17
Handelsbanken fonder	0	753 471	2.84	2.03
Nordea Investment Funds	0	693 103	2.61	1.86
Verdipapirfond Odin Sverige	0	580 289	2.19	1.56
Carlson fonder AB	0	403 426	1.52	1.08
Skandia fonder	0	391 076	1.47	1.05
Bonnier, Simon	0	322 743	1.22	0.87
Fjärde AP fonden	0	293 527	1.11	0.79
Försäkringsaktiebolaget, Avanza Pension	0	276 392	1.04	0.74
JPM Chase NA	0	208 996	0.79	0.56
Länsförsäkringar fondförvaltning AB	0	202 405	0.76	0.54
Svenska Lärarfonder	0	184 928	0.70	0.50
Spiltan Fonder AB	0	177 393	0.67	0.48
JPM Chase NA	0	170 065	0.64	0.46
Aksjefondet Odin Sverige II	0	156 790	0.59	0.42
F SIX SIS AG, W8IMY	0	135 947	0.51	0.37
Total for the 20 largest shareholders	**1 181 250**	**18 651 317**	**74.69**	**81.93**
Total for other shareholders	**0**	**6 719 410**	**25.31**	**18.07**
Total	**1 181 250**	**25 370 727**	**100.00**	**100.00**

OWNER BY COUNTRY, 31 DECEMBER 2010

Country	Share of total (%)
Sweden	89.20
UK	2.80
US	2.00
Portugal	1.20
Switzerland	1.20
Other	3.60
Total	**100.00**

Source: Euroclear Sweden.

DISTRIBUTION OF OWNERSHIP, 31 DECEMBER 2010

Shareholder	Number of Class A shares	Number of Class B shares	Holding (%)	Voting rights (%)
Individuals	7 408	89.11	12.53	8.95
Of whom, domiciled in Sweden	*7 325*	*88.11*	*11.16*	*7.97*
Legal entities	905	10.89	87.47	91.05
Of whom, domiciled in Sweden	*583*	*7.01*	*78.09*	*84.35*
Total	**8 313**	**100.00**	**100.00**	**100.00**
Of whom, domiciled in Sweden	***7 908***	***95.13***	***89.25***	***92.32***

Domiciled in Sweden	7 908	95.13	89.25	92.32
Other Nordic countries	79	0.95	0.48	0.34
Rest of Europe (excl. Sweden/Nordic region)	226	2.72	7.41	5.29
US	58	0.70	2.04	1.46
Rest of the world	42	0.51	0.82	0.59
Total	**8 313**	**100.00**	**100.00**	**100.00**

NUMBER OF SHARES PER SHAREHOLDER, 31 DECEMBER 2010

	Number of shareholder	Number of Class A shares	Number of Class B shares
1 - 500	6 791	0	818 286
501 - 1000	714	0	567 499
1001 - 5000	590	0	1 202 497
5001 - 10000	64	0	482 999
10001 - 15000	29	0	366 461
15001 - 20000	13	0	228 572
20001 -	112	1 181 250	21 704 413
Total	**8 313**	**1 181 250**	**25 370 727**

SHAREHOLDER CATEGORIES, 31 DECEMBER 2010

Shareholder	Number of Class A shares	Number of Class B shares	Holding (%)	Voting rights (%)
Financial companies	0	11 325 513	42.65	30.45
Of whom, banks and funds	*0*	*9 168 256*	*34.53*	*24.65*
Of whom, insurance companies and pension institutions	*0*	*2 157 257*	*8.12*	*5.80*
Other finance companies	0	61 152	0.23	0.16
Social insurance funds	0	382 359	1.44	1.03
State	0	16 100	0.06	0.04
Municipal sector	0	1 525	0.01	0.00
Interest organisations	0	293 561	1.11	0.79
Other Swedish legal entities	1 181 250	6 585 847	29.25	49.48
Uncategorised legal entities	0	885 944	3.34	2.38
Foreign-domiciled individuals	0	2 854 288	10.75	7.68
Swedish individuals	0	2 964 438	11.16	7.97
Total	**1 181 250**	**25 370 727**	**100.00**	**100.00**

Source: Euroclear Sweden.

Business area HEXPOL Compounding
Sharp growth and strong margins

Tracy Garrison, President HEXPOL Compounding NAFTA

Ralph Wolkener, President HEXPOL Compounding Europe/Asia

Carsten Rüter, President HEXPOL Compounding Global Purchasing/Technology

HEXPOL Compounding in brief

Operations
HEXPOL Compounding is one of the world's leading suppliers in the development and production of advanced, high-quality polymer compounds for demanding applications.

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

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

Sales 3 080 MSEK (2 020)

Operating profit
398 MSEK (231) excluding items affecting comparability
334 MSEK (155) including items affecting comparability

Number of employees at 31 december 1 616 (662)

Operating units

- HEXPOL Compounding Belgium, Eupen, Belgium
- HEXPOL Compounding Sweden, Gislaved, Sweden
- HEXPOL Compounding Germany, Hückelhoven, Germany
- HEXPOL Compounding China, Qingdao, China
- HEXPOL Compounding Czech Republic, Unicov, Czech Republic
- HEXPOL Compounding Mexico, Aguascalientes, Mexico
- HEXPOL Compounding Statesville, North Carolina, USA
- GoldKey Processing Middlefield, Ohio, USA
- ELASTO Sweden, Åmål, Sweden
- ELASTO UK, Manchester, UK
- Excel Polymers Burton, Ohio, USA
- Excel Polymers Dyersburg, Tennessee, USA
- Excel Polymers Jonesborough, Tennessee, USA
- Excel Polymers Kennedale, Texas, USA
- Excel Polymers Santa Fe Springs, California, USA
- Excel Polymers Queretaro, Mexico
- Excel Polymers Dukinfield, Manchester, UK
- Excel Polymers Foshan, China
- Elastomeric Group, Bokundara, Sri Lanka

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

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

MARKET

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

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

The market for TPE compounds is experiencing strong growth with interesting and growing customer applications in the medical technology, industrial and automotive areas. Through the acquisition of ELASTO Group, HEXPOL Compounding expanded its product range, which resulted in new opportunities for HEXPOL in this market segment.

Santa Fe Springs, USA

Kennedale, USA

Aguascalientes, Mexico

Queretaro, Mexico

Dyersburg, USA

Jonesborough, USA

Burton, USA

Middlefield, USA

Statesville, USA

Dukinfield, UK

Manchester, UK

Eupen, Belgium

Hückelhoven, Germany

Åmål, Sweden

Gislaved, Sweden

Unicov, Czech Republic

Bokundara, Sri Lanka

Foshan, China

Qingdao, China

HEXPOL Compounding's operating units

Unit	Location	Number of employees 2010-12-31	Area m²	Production capacity, tonnes
Excel Polymers, LLC	Santa Fe Springs, USA	26	2 900	13 500
Excel Polymers, LLC	Kennedale, USA	65	7 200	18 000
HEXPOL Compounding Mexico	Aguascalientes, Mexico	82	6 500	16 000
EXLP Global Mexico	Queretaro, Mexico	121	8 300	20 000
Excel Polymers, LLC	Dyersburg, USA	197	38 200	150 000
Excel Polymers, LLC	Jonesborough, USA	98	9 800	50 000
Excel Polymers, LLC	Burton, USA	176	19 900	55 000
GoldKey Processing	Middlefield, USA	180	14 900	40 000
HEXPOL Compounding North Carolina	Statesville, USA	97	3 400	20 000
EXLP Global UK, Ltd.	Dukinfield, UK	56	2 500	5 500
ELASTO UK	Manchester, UK	39	4 500	13 000
HEXPOL Compounding Belgium	Eupen, Belgium	69	3 400	16 000
HEXPOL Compounding Germany	Hückelhoven, Germany	71	5 400	35 000
ELASTO Sweden	Åmål, Sweden	54	4 000	20 000
HEXPOL Compounding Sweden	Gislaved, Sweden	42	9 200	16 000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	105	8 600	35 000
Elastomeric Group	Bokundara, Sri Lanka	(60[1])	2 000	6 000
EXLP Global (Foshan) Co. Ltd.	Foshan, China	34	7 100	20 000
HEXPOL Compounding China	Qingdao, China	60	4 500	12 000
Total		**1 616[2]**	**162 300**	**561 000**

[1] An organisational part of HEXPOL Engineered Products.
[2] Including Excel Polymer's head office in Solon, Ohio, USA.

Andrew Wallance, General Manager, Excel Santa Fe Springs, US

Steve Chase, General Manager, Excel Kennedale, US

Fransisco Viliesid General Manager, Excel Mexico

Saul Reyes, Managing Director, HEXPOL Compounding Mexico

Tim Dunagon, General Manager, Excel Dyerburg, US

Larry Lowe, General Manager, Excel Jonesborough, US

John Gorrell, General Manager, Excel Burton, US

Randy Simpson, Managing Director, GoldKey Processing and COO HEXPOL Compunding NAFTA

Shannon Smith, Managing Director, HEXPOL Compounding N.C., US

Ed Dowdall General Manager, Excel UK

Dominic Philpot, General Manager, ELASTO UK

Nico Weber, Managing Director, HEXPOL Compounding Belgium and Germany

Per G Hellberg, Managing Director ELASTO Group

Kjell Fagerström, General Manager, ELASTO Sweden

Lars-Åke Bylander, Managing Director HEXPOL Compounding Sweden

Milos Pitela, Managing Director, HEXPOL Compounding Czech Republic

Marc Pignataro, General Manager, Excel China

Han Lee, Managing Director, HEXPOL Compounding China

Expertise in medical technology

In-depth technical knowledge and regulatory expertise is needed when working with the design, development and manufacturing of medical-technical devices. Accordingly, ELASTO Sweden AB has created a team dedicated to the medical device market that is highly trained with a comprehensive understanding of medical device regulations and requirements: traceability, reproducibility and formulation stability, for example.

ELASTO's Mediprene® range of TPE compounds for medical-technical device applications, has been a great success. The company quickly recognised the potential for thermoplastic elastomers in medical applications when it began working with a number of international OEMs more than 15 years ago. All Mediprene® grades are sterilisable with gamma-radiation, EtO and steam, and representative grades have passed ISO 10993-5 cytotoxicity tests and USP Class VI biocompatibility tests. Mediprene® TPEs have also proven to be strong alternatives as replacements for PVC since they are completely synthetic and latex free, thus minimising allergy risks. ELASTO was the first TPE compound manufacturer in Europe to achieve ISO 13485 certification.

The medical device industry maintains the highest quality and manufacturing standards worldwide, due to the critical uses of its products. Sourcing materials from reliable producers that offer the right physical properties and meet the regulatory requirements is key. ELASTO has a strict raw material selection strategy, only allowing raw materials that are highly qualified in terms of biocompatibility. The raw materials are used to form highly homogenous TPEs under clean conditions.

ELASTO continuously strives to expand its product offering. The company also supports medical customers by proving the performance of their products using relevant tests according to medical-technical standards and pharmacopoeias.

The thermoplastic elastomers used in ELASTO's Mediprene® products have been classified as non-sensitisers. Sensitisation testing is recommended for all medical device categories under the ISO 10993-1 guideline, since exposure or contact to even miniscule amounts of potential leachables can result in allergic or sensitisation reactions.

When the LAB Research, Hungary, carried out an independent skin sensitisation study on a representative Mediprene® compound (under EN ISO 10993 - 10 Tests for Sensitisation and Irritation), the Mediprene compound was shown to have no sensitisation properties and was thus classified as a non-sensitiser, according to current EU regulations.

ELASTO has been supplying TPE for skin contact applications for many years and has never experienced sensitisation reactions among customers or end-users. The fact that the tested Mediprene® compound passed the ISO 10993-10 requirements further confirms the suitability of Mediprene® thermoplastic elastomers in skin contact applications. In addition to the sensitisation test, representative Mediprene®grades have already passed ISO 10993-5 cytotoxicity tests and USP Class VI biocompatibility tests.

Applications for Mediprene® TPEs include medical tubing, IV systems, catheters, intubation and respiratory equipment, resealable membranes, drip chambers and wound care products.

Developing technology-based solutions during 2010 within Excel Polymers rubber compounding operations

Excel Polymers was approached by a major supplier to the electrical utility industry with a unique problem. The existing compound that they were buying from another compounding supplier was causing production challenges. This compound was fouling up their molds, causing long production cycle times and resulting in high scrap rates.

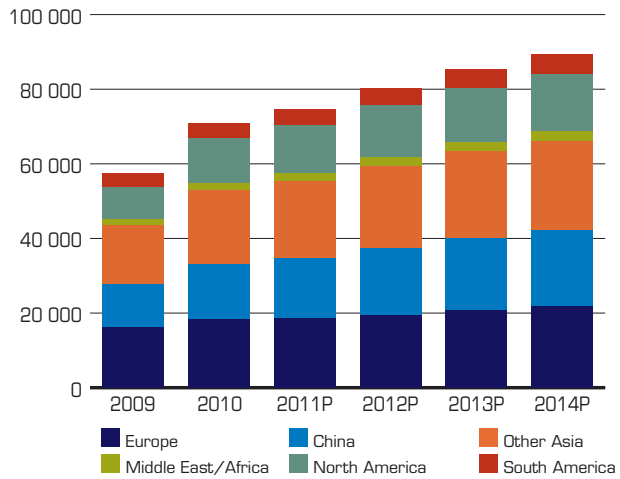
Excel Polymers' chemists worked with the customer to identify a solution. By using clean ingredients, we were able to develop a new compound which addressed the customer's problems. We significantly reduced mould fouling, which eliminated much of their machine downtime (usually 2-3 hours). Scrap rates were reduced by more than 75 percent. With our compound, the parts were easier to unload from the mould which reduced strain on machine operators. The new parts also exhibited improved colour fastness. The success of this project lies in the integrated approach used to solve customer challenges.

Excel Polymers works hard to identify, analyse, measure, and understand each aspect of the challenge. We then work closely with the multiple customer functions to formulate solutions that are adaptable throughout their specific environment.

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

In the wake of the powerful economic downturn in the second half of 2008 and 2009, the production of passenger cars declined sharply, by a total of 11.9 percent in 2009 on a global basis. In 2010, the market rebounded and global production rose 22.6 percent year-on-year. According to the market institute IHS Global Insight, a total of 67.8 million (55.3) light vehicles were produced in 2010[1]. The number of light vehicles manufactured is expected to rise 6 percent annually in the coming years until 2014, primarily as a result of increased demand in emerging markets such as China and India. Accordingly, many automotive producers are increasing manufacturing in these new, expansive markets. For system suppliers, in addition to requirements for proximity and export and import tariffs, this trend leads customers to demand that we follow suite and offer manufacturing in these new markets.

Production of passenger cars and light utility vehicles



Source: IHS Global Insight.

ORGANISATION

HEXPOL Compounding's operations are divided into four areas: the geographic regions of Asia, Europe and NAFTA, as well as the ELASTO Group product area and includes 18 production plants. Sales in Europe and Asia are managed from Belgium, while sales in NAFTA are managed from the US. A global unit in Belgium also provides service to the production units and assumes global responsibility for:

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

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

All production units are structured as separate companies with complete organisational functions for sales, product development and production. However, they also cooperate closely with each other in all areas. Services to major customers are also coordinated globally with Key Account Managers.

OPERATING UNITS

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

All of the business area's units performed well in 2010, with particularly strong growth in China, Mexico and the Czech Republic. The global automotive industry's system suppliers are also major customers in these markets. Growth was also strong in the TPE area and particularly among medical-technical applications from the ELASTO Group.

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

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

COMPETITORS

Only a few large manufacturers of rubber compounds have international operations. These include AirBoss, a publicly listed Canadian company with operations in North America, and the family-owned German company Kraiburg, with operations mainly in Europe and China.

There are also many smaller manufacturers that operate locally. The competition also consists partly of customers with proprietary rubber compounding operations. However, due to cost and process-technology considerations, there is a general trend whereby small and midsize rubber companies are facing growing difficulties in maintaining proprietary production of rubber compounds. Such companies opt instead to outsource an ever-larger percentage of their production operations to HEXPOL Compounding's plants.

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

TECHNOLOGY AND PRODUCTS

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

HEXPOL Compounding's production plants have sophisticated quality-assurance systems. The entire production process is completely computerised to ensure efficiency and quality. Mixing in a closed mixer is what is termed a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe, or formula. All different weighing stages are monitored by an IT system to ensure maximum weighing precision and enable tracing of the entire batch.

Since the formula and the mixing process are both critically important to product quality, HEXPOL Compounding's research and development personnel are responsible for composing the formulas and for the mixing process in accordance with the intended application, ingredients and quality requirements.

HEXPOL Compounding does its utmost to promote the technological development of the filtration methods that are built into the process flow so that extremely pure rubber compounds are produced. With advanced technologies, the plants can easily adapt their processes to meet specific customer requirements. Capitalising on its advanced technological skills and expertise, HEXPOL Compounding is able to offer a number of different rubber compounds with various product forms, such as strip and rubber granulate.

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

BUSINESS MODEL

Production is primarily order-based and focused on a considerable number of selected raw materials. The raw materials are largely oil-based and subject to price fluctuations. Accordingly, pricing is renegotiated several times a year, in some cases even monthly. The important rubber compound formulas are often developed in close cooperation with customers and unique expertise is required to achieve optimal production results. For example, about 80 percent of the compounds sold in the European market are based on HEXPOL's own recipes. In most cases, the recipes are HEXPOL's property. Sales are invoiced mainly through HEXPOL's own sales force. The concept "Think global, act local" accurately describes how HEXPOL Compounding functions.

STRATEGY

Focus on innovation and cost efficiency

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

Further growth in existing and new markets

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

High-quality products for demanding applications

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

Continued equipment investment within Excel Polymers 2010 pays off for customers

Excel Polymers continued investing in production capabilities and upgrading existing equipment. In our facility in Dyersburg, Tennessee, USA, we invested in pelletising equipment. This addition provides our customers with an opportunity to get material in a unique form with numerous benefits.

According to Tim Dunagan, Dyersburg plant manager, the new equipment is a gear pump with pelletiser. The equipment provides uniform pellets a quarter of an inch in diameter. The cooling systems installed with the equipment allow for "cold feed dry pelletising". The benefit for customers is that this method will minimise the heat generated by the pelletising operation and protect the integrity of the compounded material.

Customers that extrude material can benefit from pellets instead of strip material by feeding pellets into equipment above the extruder. Benefits include the elimination of potential issues caused by strip compound such as breaks in strips and the need for an extra operator. In addition, some customers are experimenting by utilising a neutral colour compound and adding colour during the extrusion process. This eliminates the need to stock various coloured compounds. Instead, the customer simply keeps pre-dispersed colour concentrates on hand to customize the final product. The benefit is expected to be appealing to customers in the wire and cable and other industries.

Several customers have already tested the new equipment with great success. Dunagan is pleased with the results so far and thrilled by the commitment this significant investment shows to the Dyersburg facility. According to Dunagan, the system was designed with flexibility for future customisation and enhancements based on customer needs.

Close relations with strong customers

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

Continuous improvements

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

BRANDS

HEXPOL Compounding serves customers under a number of brands: HEXPOL Compounding, which is used globally in many markets, GoldKey, which is a well-established brand in the North American market and ELASTO and its TPE product brands, and Excel Polymers.

OPERATIONS IN 2010

2010 was a very strong year of growth for HEXPOL Compounding. Volumes rose in all markets and in all units. Sales were particularly strong to the global automotive industry's system suppliers, while other markets segments also grew robustly.

The Czech, Chinese and Mexican units reported the strongest sales increases.

Sales rose by a full 52 percent to 3 080 MSEK (2 020) and operating profit (excluding items affecting comparability) increased sharply to 398 MSEK (231), entailing that the operating margin increased to 12.9 percent (11.4).

ELASTO Group and Excel Polymers Group were acquired during the year. ELASTO Group is a leading European manufacturer of TPE compounds for purposes such as qualified medical-technology and industrial applications. Production plants are located in the UK and Sweden. ELASTO Group performed well, exceeding expectations during the year.

In late 2010, the global rubber compound Group Excel Polymers Group was purchased. This company generated sales of 377 MUSD in 2010 and has eight strategically located production plants in the US, China, Mexico and the UK. A comprehensive effort has been initiated to integrate Excel Polymers Group into HEXPOL Compounding's geographic organisation.

FUTURE OUTLOOK AND PRIORITIES

HEXPOL Compounding aims to offer customers local service in all markets and to be a development partner on a global and local basis. With 19 production units in nine countries, our structure if unique for the industry and provides our global customers with local service.

Just as in 2010, managing volatile commodity prices will surely remain a challenge in 2011.

HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

2011 will be an exciting year with the integration of Excel Polymers Group, as well as an intensive effort to increase market shares through technological and process advancements. We also prioritise continued initiatives in medicaltechnical applications, as well as continued efforts in emerging markets such as China, Mexico and Eastern Europe. We will also continue to introduce the ISO 14001 environmental management system in all units.

Brands within the business area

HEXPOL COMPOUNDING

GOLDKEY PROCESSING, INC. A HEXPOL COMPANY

ELASTO A HEXPOL COMPANY

EXCEL POLYMERS A HEXPOL COMPANY

From local to global supplier

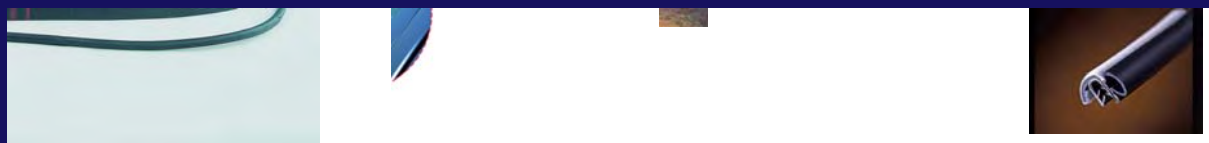
HordaGruppen AB is a polymer specialist with two plants in Sweden, a plastics facility in Bor and a rubber plant in Horda, as well as a joint venture in Poland. Today, HordaGruppen is a key supplier to many internationally active Swedish companies such as Volvo Trucks, Volvo Cars, Saab, Ikea, Tetra Pak and Electrolux. Since 2004, Gislaved Gummi AB and HordaGruppen have maintained a close partnership in terms of the development and manufacturing of rubber compounds.

HordaGruppen is a privately held company based in Horda, a small city in Southern Sweden. The company specialises in the manufacturing of polymer-based products for the automotive, marine, furniture, engineering and white goods industries.

In 2010, HordaGruppen decided to relocate a considerable portion of its rubber-products production to Poland. Since Gislaved Gummi entered into partnership with HordaGruppen commenced in April 2004 there have been a number of developments. It has turned out to be a highly beneficial partnership that continued across the Baltic Sea from Sweden to Poland, where HordaGruppen is currently expanding its operations.

For Gislaved Gummi, is it always equally important to adapt to new customer requirements and preferences. As a strategic supplier of rubber compounds to HordaGruppen, Gislaved Gummi now supplies the company's plants in Sweden and Poland.

Lars Lejon, CEO HordaGruppen AB.
Photo: HordaGruppen.



Continued successful partnerships in China

China's automotive industry is one of the fastest growing sectors in the world, which also applies to the level of competition. Every month, the automotive industry in China produces more than one million vehicles and nearly all global OEM manufactures in the automotive industry are on site with proprietary local facilities.

In addition to the rapidly changing automotive market in general, China contributes additional dynamic challenges for all companies participating in the automotive value chain. These challenges include the country's size and the major growth opportunities. In recent years, the Korean company DRB China and HEXPOL Compounding China have successfully created mutually beneficial solutions in this exhilarating climate. The aim has been to increase market shares among various OEM manufacturers in China. The partnership began with HEXPOL delivering rubber compounds to DRB China, which holds a strong position among OEM manufacturers in China, and the two companies decided to continue the collaboration in a bid to jointly cover various OEM manufacturers in China. The partnership between DRB, which has a high-quality automotive profile, and HEXPOL, which contributes competitive rubber solutions, has created considerable synergies. This has resulted in the companies, which have a joint offering, becoming the main supplier to automobile manufacturers in the area. DRB and HEXPOL recently positioned themselves as an approved supplier of profiles and rubber compounds with Hyundai Motors in Russia. The two companies have a close partnership that creates creative solutions for OEM manufacturers and is appreciated by the various customers. Employees collaborate on a daily basis and the companies share mutual growth strategies to remain competitive, to continue to offer added value to the automotive industry and to become stronger, together.

DRB and HEXPOL will continue to work on a global partnership, not only in China, but throughout DRB's plants worldwide. DRB operates rubber plants for the automotive industry in countries such as South Korea, China, Slovakia and Vietnam.

Excel Polymers – a successful development project

Excel Polymers enjoyed a successful year in 2010. Each of the individual business units reported increased sales and profits than during the difficult 2009. There were a number of developments which proved to be especially beneficial to the business.

In cooperation with a new customer, our Performance Additives business commercialised a programme that had been in development for more than two years.

Expanding our abilities, broadening our horizons

Stopping some of the world's largest mining and excavation machines is a tall order for any friction parts, and requires years of development and validation to ensure safety and performance in the field. Redefining the supply chain for such parts is no easier.

When the leading heavy equipment manufacturer needed to secure the long-term supply of complex engineered, elastomeric friction disks, there was no supply chain partner capable of delivering the precision-machined, multilayered parts reliably and with the quality and responsiveness required to satisfy this market. Accordingly, a new supply chain had to be developed. Enlisting their leading tier 1 supplier, a search began for a company with the creativity and process excellence to deliver an elastomeric friction material that did not fit any conventional market segments, and a flexible partner willing to develop expertise in any areas necessary to supply these critical materials. That partner was Excel Polymers' Performance Additives.

In 2008, a three-way project development agreement was forged which allowed Excel's Performance Additives and the manufacturing team in Kennedale, Texas, to work closely with both the tier 1 part manufacturer, Wellman Products Group, a company within the Brake & Friction division of Carlisle Companies Incorporated, and their OEM customer to develop, qualify and rapidly ramp up a product that most compound and intermediate producers would never consider. As the teams from all three organisations worked to optimise the process and account for a range of challenges in the multistep process (from mixing and calendaring, to part stamping, pre-curing, adhering and curing onto steel cores, and machining), the teams uncovered a variety of opportunities for process improvements and optimisations. To better manage material flow and age of work in process, the Kennedale plant installed new ovens, clicker presses and die cut stations, and re-engineered part flow throughout the plant. Constant and thorough communication channels among the three companies were established to minimise lead times and maximise part flows, all while finishing the part trials and the approval process.

ELASTO builds on success in the caps & closures market

Dryflex® TPEs from ELASTO add soft touch appeal to aerosol actuators, sealing on beverage containers and precise valve function.

HEXPOL's strategy is based on in-depth, broad-based polymer and application expertise, maintaining development and process capability to drive innovation in new applications and products. In 2010, our thermoplastic elastomers business, ELASTO, tapped into the potential of an exciting new application area for their products – the caps and closures market.

HEXPOL's strategy is based on in-depth, broad-based polymer and application expertise, maintaining development and process capability to drive innovation in new applications and products. In 2010, our thermoplastic elastomers business, ELASTO, tapped into the potential of an exciting new application area for their products – the caps and closures market.

Caps and closures manufacturers are continuously pushing the limits of design possibilities to achieve greater value and derive higher performance from their products. Creative design concepts are dependent on materials that enable the delivery of physical properties that meet the functional, aesthetic and environmental demands of consumers, while ensuring efficient, simplified production. ELASTO's Dryflex® thermoplastic elastomers (TPEs) are one group of materials that have proven capable of the performance stretch necessary to meet this challenge.

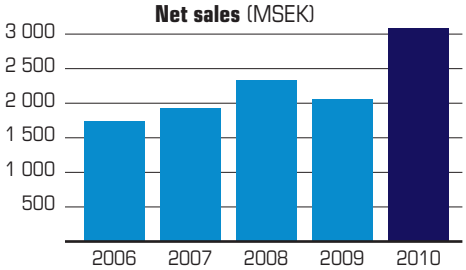
ELASTO developed its Dryflex® range of TPEs to offer optimum processing and property characteristics for the caps and closure market. The shape, softness, texture and temperature of an object all combine to give consumers the complete haptic experience. The soft-touch and tactile feel of Dryflex® TPE adds to the appeal for the consumer, helping to enhance the perceived value and quality of the product.

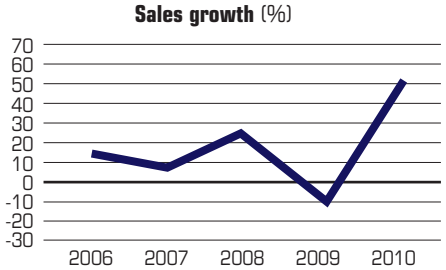
A range of surface finishes are available to improve product ergonomics and grip, whether bumpy, silky smooth or non slip, even when wet. Dryflex® TPEs also provide excellent sealing properties; they have been used successfully in resealable membranes and can be used in headstand valves to control the flow of contents. Dryflex® TPEs are PVC and phthalate free, have low odour and taste and are suitable for food contact.

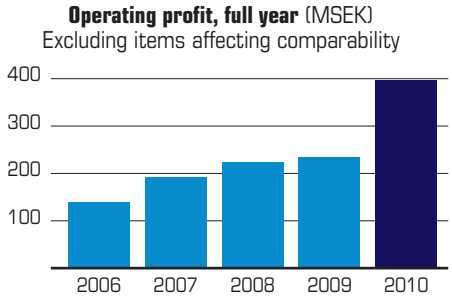
ELASTO has developed customised TPE compounds for leading global producers of personal hygiene packaging and closures, which enhance consumer appeal and add value to their products. ELASTO's support does not begin and end with the material. The company works with the designers, moulders and end-users of the product to provide technical, processing and development support from initial concept through to production. They work with customers to understand the technical requirements of the compound at all stages of its lifecycle. This means taking into consideration storage, processing and the conditions under which the end product will be used.

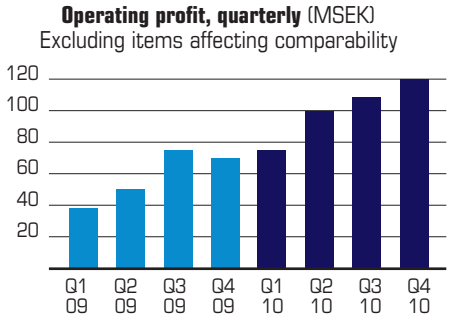
Dryflex® TPEs are 100% recyclable and can help to reduce energy costs by reducing cycle time and improving production efficiencies. ELASTO serves the cosmetic and personal care, food and drink, and medical markets. Dryflex® TPE can provide soft touch areas on aerosol actuators, reliable sealing of beverage containers and precise valve function.

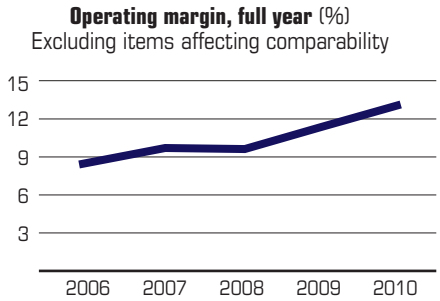
HEXPOL Compounding over five years

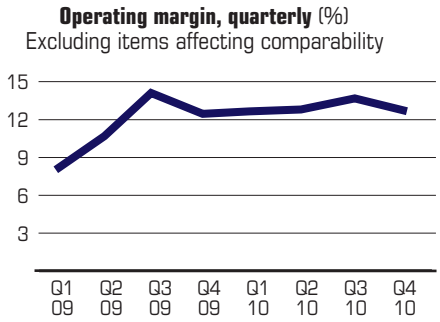


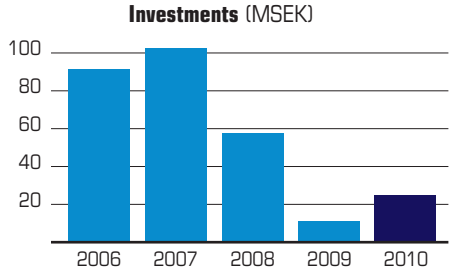


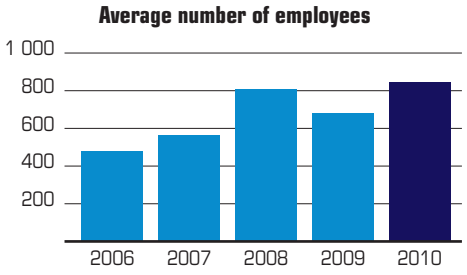


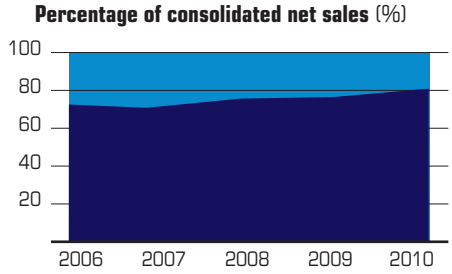


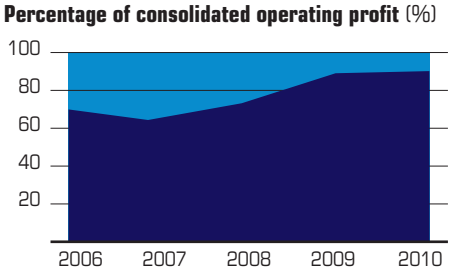












Business area HEXPOL Engineered Products
Growth with improved margins

Lars-Åke Bylander,
President HEXPOL Gaskets
President HEXPOL Profiles

Jan Wikström,
President HEXPOL Wheels

HEXPOL Engineered Products in brief

Operations
HEXPOL Engineered Products is the world leader in the development and manufacturing of rubber gaskets for plate heat exchangers and rubber and plastic wheels for forklifts. HEXPOL also holds a strong position in the extrusion of rubber profiles, primarily in the Nordic market.

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

Customers
For gaskets, manufacturers of plate heat exchangers; for wheels, manufacturers of forklift trucks and castor wheels; and for profiles, construction and engineering industries.

Sales 718 MSEK (588)

Operating profit
62 MSEK (30) excl. items affecting comparability
62 MSEK (8) incl. items affecting comparability

Number of employees at 31 december 1 416 (1 160)

Operating units

- Gislaved Gummi Gaskets, Gislaved, Sweden
  Managing Director: Lars-Åke Bylander
- Elastomeric Gaskets, Bokundara, Sri Lanka
  Managing Director: Roger Jonsson
- Gislaved Gummi China, Qingdao, China
  Managing Director: Jeff Liu
- Stellana Sweden, Laxå, Sweden
  Managing Director: Jan Wikström
- Stellana US, Lake Geneva, USA
  Managing Director: Eric Weber
- Elastomeric Wheels, Horana, Sri Lanka
  Managing Director: Roger Jonsson
- Stellana China, Qingdao, China
  Managing Director: Kalle Liu
- Gislaved Gummi Profiles, Gislaved, Sweden
  Managing Director: Lars-Åke Bylander

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

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

MARKET

The market for gaskets for plate heat exchangers is a global niche. The market has historically been dominated by Europe and, in part, by North America. The Asian market is important, and is expected to continue to grow rapidly and increase in significance in the coming years. In South America, the market is also growing quickly, albeit from low levels. HEXPOL has strategically well-positioned production units in Europe and Asia.

The market for forklift truck wheels is also global, although it is strongly differentiated regionally due to varying material preferences and quality standards. HEXPOL Wheels is the only forklift truck wheel manufacturer with production units in Europe, North America and Asia.

The market for profiles is primarily concentrated to the Nordic market, although global deliveries are made to a number of major Nordic companies with manufacturing in Europe and North America.

HEXPOL Gaskets is active in the global gasket market, where customers are OEM manufacturers of plate heat exchangers. The market's long-term growth is driven by the interest in energy conservation and environmental issues, whereby increased costs for oil and gas are generating higher demand. Other factors fuelling demand are higher living standards and increased global commodity trading.

The gasket market slowed in 2009 and subsequently recovered in 2010. The market is currently driven by increased maintenance of existing facilities, but also by a rapid recovery in the demand for small and medium sized plate-heat exchangers. For the range of larger products, demand remains weak. Large plate heat exchangers are often associated with significant investment projects. Rising global market prices for oil and gas are leading to a general increase in activity to achieve a more efficient use of current energy sources, but also greater interest in investments in alternative energy sources such as biofuel and nuclear power. During the year, short lead times and relatively small order volumes characterised the market.

HEXPOL Gaskets is currently a supplier to all major OEM manufacturers of plate heat exchangers. Overall, the global market is dominated by about ten major manufacturers. The aftermarket is believed to account for about one fourth of today's total market.

HEXPOL Gaskets captured market shares during the recession and is well poised to follow the market upward.

HEXPOL Wheels operates in the expansive market for wheels for electric and hand pallet trucks, as well as castor wheels. The market is dominated by a handful of major players in Europe and North America. Global annual sales of new forklifts recovered in 2010. The aftermarket for forklift truck wheels recovered somewhat more than the OEM market and is dominated by OEM manufacturers and independent distributors.

In the warehouse truck market, a strong consolidation has taken place in recent years and it is now dominated by a handful of Western European and North American manufacturers, often with Japanese owners. The castor wheel market is more diversified with a few major players and a large number of local manufacturers.

HEXPOL Wheels captured market shares during the recession and has a major competitive edge in the shape of HEXPOL's financial strength and global presence.

Brands within the business area

Gislaved Gummi
A HEXPOL COMPANY

Stellana
A HEXPOL COMPANY

Elastomeric
A HEXPOL COMPANY

Lake Geneva, USA
HEXPOL Wheels

Laxå, Sweden
HEXPOL Wheels

Gislaved, Sweden
HEXPOL Gaskets

Gislaved, Sweden
HEXPOL Profiles

Bokundara, Sri Lanka
HEXPOL Gaskets

Horana, Sri Lanka
HEXPOL Wheels

Qingdao, China
HEXPOL Wheels

Qingdao, China
HEXPOL Gaskets

HEXPOL Engineered Products operating units

Unit	Location	Number of employees 31 Dec. 2010	Area m²
HEXPOL GASKETS			
Gislaved Gummi Gaskets	Gislaved, Sweden	142	6 000
Elastomeric Gaskets	Bokundara, Sri Lanka	535	7 000
Gislaved Gummi China	Qingdao, China	50	8 000
Total		**727**	**23 000**
HEXPOL WHEELS			
Stellana Sweden	Laxå, Sweden	87	8 000
Stellana US	Lake Geneva, USA	50	6 660
Elastomeric Wheels	Horana, Sri Lanka	512	16 590
Stellana China	Qingdao, China	14	1 080
Total		**663**	**32 330**
HEXPOL PROFILES			
Gislaved Gummi Profiles	Gislaved, Sweden	26	2 500
Total		**26**	**2 500**
Total HEXPOL Engineered Products		**1 416**	**57 830**

HEXPOL Profiles is a strong player in the Nordic market for rubber profiles. Most of the profiles delivered by HEXPOL are originally assembled at our customers' plants. The products are primarily used in the construction industry as sealings for windows, doors, ports, façades, patios and ventilation facilities, but also in engineering-related industries in the Nordic region. The market was characterised by solid growth during the year, and a number of new, interesting customers selected HEXPOL as a supplier.

ORGANISATION

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

STRATEGY

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

BRANDS

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

OPERATING UNITS

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

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

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

COMPETITORS

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

The market for polyurethane wheels is dominated by about ten manufacturers, of which HEXPOL Wheels is among the largest. The primary competitors in the European market are Räder-Vogel and Wicke, both of which are family owned. In the US market, Thombert, Superior, Falcon together with Stellana US are the four largest companies. At the local level, there are a number of minor wheel manufacturers. The relatively fragmented market offers opportunities for continued growth through acquisitions.

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

OPERATIONS IN 2010

In 2010, HEXPOL Engineered Products' sales rose 22 percent to 718 MSEK (588). Operating profit improved strongly to 62 MSEK (30), excluding items affecting comparability, up 107 percent year-on-year. The operating margin, excluding items affecting comparability, rose to 8.6 percent (5.1).

The strong improvement in profit was partly attributable to higher volumes, but mainly to a number of structural actions taken during the year.

In gasket operations, the first half year was marked by low volumes. During the second half of the year, the market improved rapidly, primarily for small and medium-sized gaskets, while stockpiling effects disappeared. Short lead times and rapid deliveries constitute a competi-

tive advantage. Continued strong price pressure prevails in the market.

The market for forklift-truck and castor wheels recovered during the second half of 2010. HEXPOL Wheels also captured market shares, whereby the overall volume increase was favourable. Capacity utilisation increased to acceptable levels during the latter part of the year. Sharp price increases for natural rubber and major exchange-rate fluctuations created problems for export sales from Sri Lanka.

The profile market recovered strongly during the year, primarily fuelled by the construction sector, although also by strong performances from a number of engineering-related customers. HEXPOL Profiles also advanced its positions and captured markets shares during the year.

Recruitment rose in pace with increased sales. However, rationalisation measures have entailed a decline in personnel intensity.

OUTLOOK AND PRIORITIES

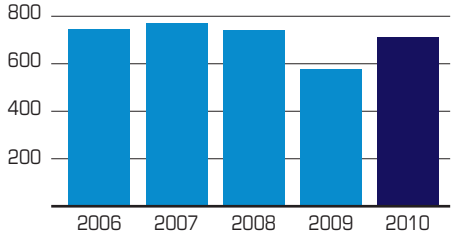
HEXPOL's sales of gasket to plate heat exchangers are primarily made to OEM manufacturers and occur late in the business cycle. There is an underlying favourable momentum in the market as the demand for energy efficient solutions is rising consistently. During 2011 we are focusing on using the improved markets positions to increase sales. The strategy of focusing on European key customers while simultaneously entering new markets in Asia and North America continues.

Sales of wheels to the materials-handling segment also occur late in the business cycle. HEXPOL Wheels has successfully managed sharp volume declines in recent years, implementing rapid and efficient capacity adaptations. With the market rebounding, HEXPOL is well-equipped for expansion and opportunities for capturing additional market shares are considerable. The wheels market, which is currently highly fragmented, is also expected to enter a consolidation phase in which HEXPOL will be actively involved. We foresee a continued focus on product development and new sales channels generating considerable potential in 2011.

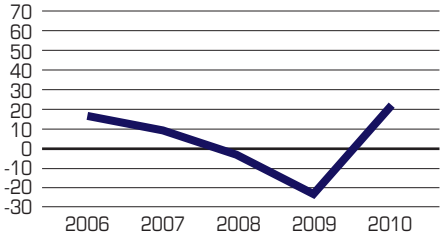
HEXPOL profiles manufacturing was relocated to more appropriate premises during 2010, offering synergies primarily deriving from staffing, lower energy costs and rents. In conjunction with the relocation, investments will also be made in more advanced production technology, as well as the cleaning of fume emissions from vulcanisation. During the year, partnerships were developed with a large number of major key customers, which generates favourable conditions for continued rapid growth.

HEXPOL Engineered Products over five years

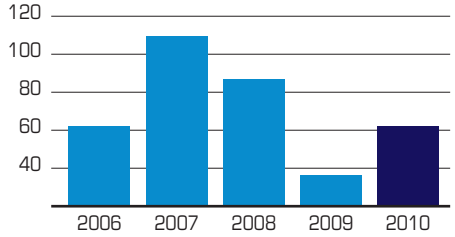
Net sales (MSEK)



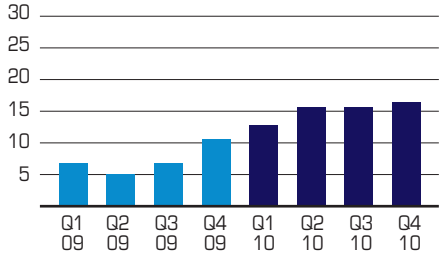
Sales growth (%)



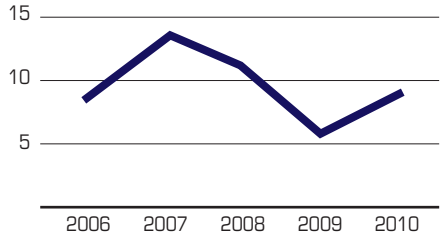
Operating profit, full year (MSEK)
Excluding items affecting comparability



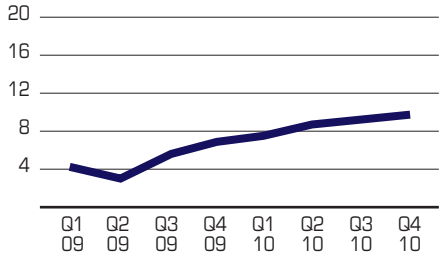
Operating profit, quarterly (MSEK)
Excluding items affecting comparability



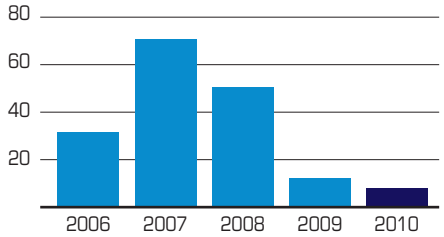
Operating margin, full year (%)
Excluding items affecting comparability



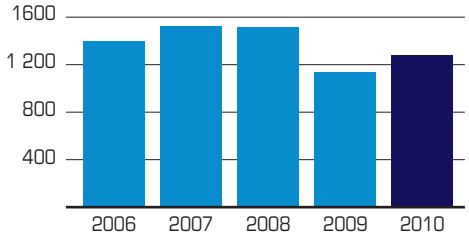
Operating margin, quarterly (%)
Excluding items affecting comparability



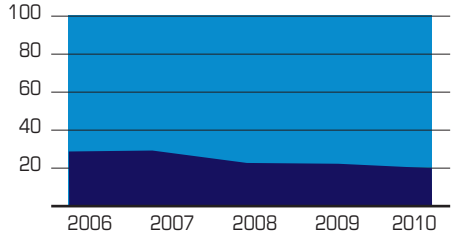
Investments (MSEK)



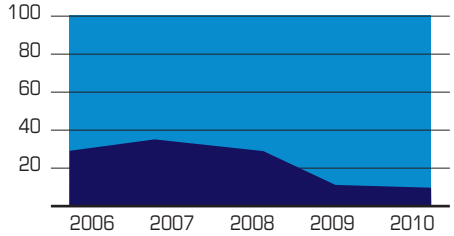
Average number of employees



Percentage of consolidated net sales (%)



Percentage of consolidated operating profit (%)



HEXPOL Gaskets

TECHNOLOGY AND PRODUCTS

HEXPOL Gaskets has developed a unique process for the development and manufacturing of moulded gaskets for plate heat exchangers. Customers impose high technical requirements and HEXPOL has often assumed the role of development partner to its customers. A prerequisite for being able to drive technical advancement is HEXPOL's fundamental polymer expertise, which combined with a modern machinery fleet and efficient processes form the cornerstones of HEXPOL's customer offering. For example, developing a new rubber material for gaskets can occasionally entail several years of extensive materials development and testing. As part of our strategy, advanced development projects are continuously under way to further strengthen our market position.

Manufacturing is strictly standardised and the products are identical in terms of quality and performance, regardless of the production location. To further strengthen control of product properties, HEXPOL offers proprietary production of injection moulded tools. Control of all production enables HEXPOL to offer the market short lead times, from order to delivery. All manufacturing units are ISO 9001 and ISO 14001 certified.

BUSINESS MODEL AND STRATEGY

HEXPOL Gaskets is a global product specialist that develops and markets high-quality gaskets for plate heat exchangers. The strength of the business model lies in a combination of advanced rubber expertise, efficient scalable production and short lead times. All rubber compounds for HEXPOL's gasket plants are made in Gislaved, Sweden. Directly adjacent to the compounding operation is the Swedish manufacturing unit, which focuses on special gaskets and short production series. Volume products are mainly manufactured in Sri Lanka. The Chinese manufacturing operation is currently in the start-up phase and will primarily be deployed for the Asian market.

Logistics and customer contacts are largely handled centrally from Gislaved, Sweden, thus enabling highly rapid and efficient management of customer orders, which ultimately results in shorter lead times and an increased focus on customers. An ISO-certified quality system also ensures that processes, and thus product quality and performance, are identical regardless of the production location. HEXPOL provides a variety of online tools to facilitate customer contacts such as VMI, EDI and product databases. This aim is that conducting business with HEXPOL will be easy.

ORGANISATION

The HEXPOL Gaskets product area is organised as an independent unit in HEXPOL Engineered Products. Management for the product area is located in Gislaved, Sweden, directly adjacent to the Swedish manufacturing unit. The management functions for sales, development, production technology, logistics and accounting are also based in Gislaved.

OPERATING UNITS

HEXPOL Gaskets currently has gasket production plants in Gislaved, Sweden, in Bokundara, Sri Lanka, and outside Qingdao, China. The plants are strictly standardised, while simultaneously also adapted for different focuses in terms of product portfolio and flexibility. HEXPOL makes regular investments in production equipment to remain at the forefront of process efficiency and quality.

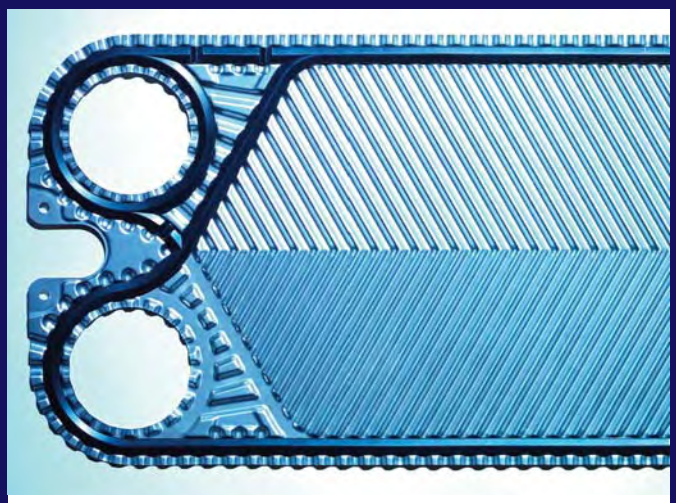
Chinese nuclear power plants equipped with quality gaskets from Gislaved Gummi

China requires ever more energy and is thus investing in the build-out of nuclear power. Electricity consumption is increasing at a soaring rate and the existing nuclear power plants can only supply a small portion of China's overall electricity consumption. Most electricity currently derives from power plants that use fossil fuels, thus generating global carbon dioxide emissions. China plans to build about 40 new nuclear power plants by 2020.

Plate heat exchangers perform a key function at a nuclear power plant in controlling the temperature. The nuclear reactor is equipped with a cooling system to control the temperature in the reactor. Ocean water is used to remove the heat from the nuclear reactor's cooling system. By using plate heat exchangers, ocean water can be separated from the cooling medium and the lower temperature of the ocean water is used to cool the cooling system in the reactor.

The useful life of a plate heat exchanger at a nuclear power plant may not be less than 40 years and that of the gasket not less than ten years. Lanzhou LS Heat Exchange Equipment Co Ltd (LSPHE), the leader in the Chinese plate heat exchange industry, has secured orders for more than 100 plate heat exchangers for nuclear power plants in China, which will be provided with gaskets from Gislaved Gummi. These plate heat exchangers will be taken into operation in coming years.

Photo: Lanzhou LS Heat Exchange Equipment Co Ltd.



Distance is no barrier to close cooperation

Gislaved Gummi AB has more than 40 years' experience of the development and manufacturing of gaskets for plate heat exchangers. In the early 1980s, a partnership was initiated with the Japanese company Hisaka Works Ltd, which manufactures plate heat exchangers for the global market. The business relationship quickly flourished, creating trust between the companies, which led to the rapid development of joint transactions in the 1990s, whereby Gislaved Gummi precipitously increased its market shares.

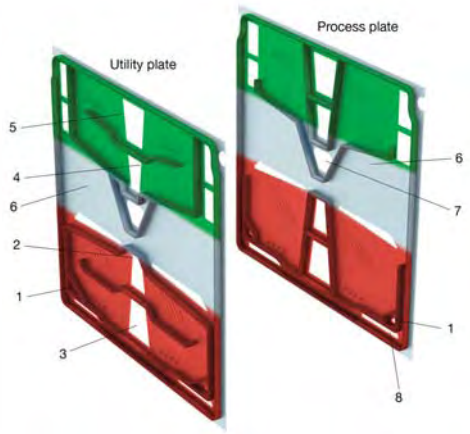
In the 2000s, Hisaka has enjoyed major successes in the Middle East, driven by rapid developments in the oil and gas industry, but also by increased refinement of oil, whereby a significant number of process industries were established for purposes such as the manufacturing of plastic raw materials. In the processing industry, plate heat exchangers are primarily used to control and regulate temperatures. Gaskets are the weakest link in the plate heat exchangers, and quality is decisive to how often a gasket must be replaced, which is in turn associated with higher costs in the form of processing shutdowns.

In the partnership between the companies, considerable focus has been placed on collaborating in the interest of continuously improving gasket function through new and further developments and advancements in material properties, which has in turn resulted in shared competitive advantages.

In the early 2000s, Hisaka developed the world's largest plate heat exchanger, a project in which Gislaved Gummi was highly involved and appointed the strategic supplier of gaskets. In addition to selecting the right materials, the challenge was to produce a three and a half metre-long gasket entirely devoid of screws.

The world's largest plate heat exchanger became a major success and is currently installed in a number of locations worldwide.

Photo: Alfa Laval AB



1 Seawater feed
2 Heating medium in
3 Heating medium out
4 Seawater cooling in
5 Seawater cooling out
6 Evaporated steam
7 Fresh water out
8 Brine out

Green Condensation
Grey Separation
Red Evaporation

Alfa Laval onboard

Alfa Laval products are installed today on most ships throughout the world and in the processes that take place onboard. One of many processes is freshwater production, an area in which Alfa Laval has led development since 1955. As a result of many years of experience, Alfa Laval has made major advances based on well-known technologies. An excellent example is AQUA, a freshwater generator that takes the vacuum-desalination process to new levels of efficiency and economy. AQUA's all-in-one plate heat exchanger technology reduces the need for sea-water by 50 percent. And last but not least, it is extremely easy to use and maintain.

The freshwater generator's supply of salt water is taken from the cooling water flow. Feed water enters the lower section of the plate pack (evaporator), where the plates are heated by a heat-conducting medium. The water is heated to approximately 40-60°C in a vacuum of 85-90 percent that is created by a salt-water/air ejector.

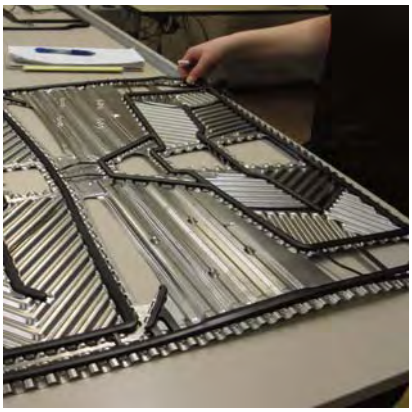
The steam that is produced rises between the plates in the mid-section of the plate pack (separator), where any impurities are removed. By the force of gravity, these small drops fall back down into the salt sump at the bottom of the freshwater generator. Steam from the fresh water is the only element that reaches the top section of the plate pack (condenser), which is cooled by seawater. The steam is condensed to create fresh water.

AQUA is easy to install onboard ships and rigs, and in remote locations on land. The installation can be made extremely compact since there is no need for service space.

The heating medium is the motor's closed cooling water system or a closed coil that is heated by steam. The entire system is designed to last throughout the lifetime of the ship.

Gislaved Gummi is Alfa-Laval's selected supplier of the sophisticated rubber gaskets that are used to seal the space between the titanium plates and between the plates and the frame.

Jennie Andersson trims the injection-moulded AQUA gasket. Photo: Gislaved Gummi AB.



Final inspection of titanium plate seal.
Photo: Gislaved Gummi AB.

Much of the volume growth for gaskets for plate heat exchangers is occurring in Asia, driven by China. Domestic Chinese manufacturers of plate heat exchangers have largely used locally produced, low-performance gaskets, while Western companies established in China primarily deploy high-performance gaskets from companies such as HEXPOL. However, developments have been rapid in terms of new applications and rising quality requirements. HEXPOL is well poised to capture shares of this new, fast growing market. Geographically, the new plant in China is strategically located in proximity to the major manufacturers of plate heat exchangers. To continue to gear the market toward a higher level of quality, HEXPOL has invested in a comprehensive testing laboratory capable of very clearly demonstrating the advantages of using high-quality gaskets. During the year, considerable emphasis was placed on establishing the Gislaved Gummi brand in China, which has resulted in a number of new customers and development projects.

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

Roger Jonsson,
Managing Director
Elastomeric Gaskets

Jeff Liu,
Managing Director
Gislaved Gummi China

HEXPOL Wheels

TECHNOLOGY AND PRODUCTS

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

Five types of products are produced by HEXPOL Wheels:

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

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

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

BUSINESS MODEL AND STRATEGY

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

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

Improved quality and efficiency

During 2010, Stellana made several upgrades to the production process in the plant in Laxå, Sweden. The objective was to achieve improved process control and reduce production variation.

The Vulkollan process demands the right temperature to generate the proper reaction for the prepolymer. A fully automated heat exchanger/degasser was added to the existing polyol heat tanks/degassing chambers to increase the capacity and accuracy of the process parameters. Using the new system, Stellana only heats the material that is needed, which means no progressive ageing of the polyol and meticulous control of the material temperature.

Another improvement was the upgrade of the control system for the Vulkollan casting line. Using the upgraded control system, we can control the process-critical temperatures and weights with a far greater degree of accuracy than before. The process adjusts itself within the specified limits and generates a very stable process. The stability in the process leads to consistent product quality.

The new control system can also use RFID in production to identify each tool. This provides improved flexibility and efficiency in the casting process, allowing each tool to be managed individually in terms of certain casting process parameters.

The Polyurethane casting line was also upgraded in 2010 to increase capacity and improve process control.

Elastomeric enters the Japanese market

Japan has 130 million residents and is the world's third largest national market (following the US and China) in terms of purchasing power. The market is largely dominated by domestic companies and there are few examples of truly successful foreign companies. Although Japanese companies have a long tradition of international business contacts, cultural consideration and respect for Japanese business traditions are highly important. The failure of foreign companies is often due to poor preparation, inadequate market analyses and impatience in business relationships.

Elastomeric has drawn on these experiences and planned its establishment in the Japanese market over the course of several years. The company conducted a highly extensive evaluation of the Japanese market in general and castor wheels in particular. Several key differences emerged compared with Elastomeric's other markets and a new revised sales strategy was used in the initiative at hand. Before Japanese customers enter into a business relationship, product quality, service level and reliability are thoroughly evaluated. The advantage of this approach is that the parties commence the relationship with a higher degree of trust than would normally be the case in the West. Elastomeric is prepared to allow the initial phase to take time in the interest of building a strong relationship based on mutual trust.

The major Japanese castor wheel market is dominated by some ten manufacturers and distributors. The key shopping cart segment is currently undergoing an extensive improvement process, since traditional steel shopping carts are rapidly being replaced by plastic carts. The plastic carts are lighter, quieter and allow greater opportunities for adapting colour and design to individual preferences. Elastomeric's market analysis shows that this improvement process will directly impact the volumes of Japanese castor wheel manufacturers.

Elastomeric's long-term and carefully prepared strategy resulted in a partnership agreement with the largest domestic castor wheel manufacturer, Hammer Caster. The company is family owned, generates sales of an estimated 80 MUSD and has manufacturing in Osaka, Japan, and Shanghai, China. Elastomeric and Hammer Caster are well positioned to capture a significant portion of the growing castor wheel market in the years ahead.

ORGANISATION

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

OPERATING UNITS

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

The Swedish unit cooperates closely with the European OEM manufacturers of forklifts and is often involved at an early stage in the development of new models. An extensive test databank and an advanced wheel lab enable the wheel's properties to be simulated and optimised at an early stage of the development process.

The Swedish unit manufactures wheels in cast polyurethane (including Vulkollan) and in polyamide, as well as smaller quantities of rubber and thermoset wheels.

The US unit in Lake Geneva is one of the largest suppliers of polyurethane tyres and cast wheels in the North American market. Several popular new products have been launched in recent years. The greatest commercial success was achieved with the Smoothy line, whereby a new manufacturing process gives the wheels significantly better performance and durability than with the industry average.

The plant in Horana, Sri Lanka, manufactures castor wheels in rubber, injection moulded thermoplastic wheels and solid tyres. The unit has an extensive machinery fleet and rubber compounding equipment. It also has development resources with access to advanced testing equipment. Contrary to the product area's other units, most sales are conducted on an export basis.

The Chinese unit in Qingdao is geared toward injection moulded thermoplastic polyamide wheels. Part of the Western forklift truck manufacturing has been relocated, or is in the process of being relocated, to China. HEXPOL holds a strong position with local knowledge and the infrastructure necessary to be involved in this structural transformation. Local Chinese forklift truck manufacturers are gradually raising their level of quality and will be attractive partners for HEXPOL in the near future.

Jan Wikström,
President HEXPOL Wheels,
Managing Director Stellana
Sweden

Roger Jonsson,
Managing Director
Elastomeric Wheels

Kalle Liu,
Managing Director
Stellana China

Eric Weber,
Managing Director
Stellana US

HEXPOL Profiles

TECHNOLOGY AND PRODUCTS

HEXPOL Profiles specialises in the manufacturing of thin-walled solid profiles made from rubber and silicone, as well as sealing rings mainly for the Nordic market. Most of the range comprises customer-centric products that were developed by HEXPOL Profiles in collaboration with the customer. Manufacturing is conducted in a continuous vulcanisation process whereby the profiles' measurements are reviewed through an in-line vision system to constantly ensure that the profiles are the correct size. The profile is also marked and subjected to various forms of surface treatment as an integrated part of the process. Most HEXPOL Profiles customers hold strong market positions and have highly automated assembly, which imposes strict requirements on measurement accuracy and repeatability in each delivery.

In 2010, HEXPOL Profiles was integrated into Gislaved Gummi's main plant, generating positive quality assurance, logistics and cost-efficiency synergies. Sufficient investments have been made in the product area to manage continued strong growth.

The rubber material comes essentially only from HEXPOL's proprietary compounding operations in Gislaved, Sweden.

BUSINESS MODEL AND STRATEGY

HEXPOL Profiles offers high-quality, customer-adapted, solid, thin-walled rubber and silicone profiles. Competitive advantages are created through customer value in the form of secure deliveries, the right quality, competitive prices and a high level of involvement among employees in the product area.

The focus is on large-scale production series. Growth is created through close collaboration with a number of major growth customers, but also by way of a proactive cultivation of new, potential customers. HEXPOL's unique material and process expertise provides customers with cost and performance advantages. Customers are also offered efficient logistics solutions with customer-order guided production and various VMI solutions.

ORGANISATION

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

OPERATING UNITS

Operations are located in Gislaved, Sweden.

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

Gislaved Gummi and VELUX expand cooperation

Gislaved Gummi AB is a strategic supplier to VELUX A/S, a global market leader in roof windows and skylights. More than 30 years of experience have led to a better quality of life for many people that is attributable to products that let in daylight and fresh air, a feature that is widely appreciated in millions of home all over the world. Many challenges lie ahead during the next few years, including a completely new product range (V22) equipped with sealing profiles from Gislaved Gummi.

VELUX strives to serve as a roles model and its relations with suppliers are based on dialogues and cooperation structured to achieve its established goals. The company's activities are based on the ability to offer customers the best products in terms of quality, functionality and price.

VELUX focuses on quality and invests substantial resources to develop and test the products before they reach the market, to ensure that they fulfil all quality requirements and demands.

The company exposes its products to extreme weather conditions in order to test their reliability for everyday use over the course of many years. Sealing profiles have a key role in sealing the window.

As part of efforts to serve as a model company, VELUX maintains close cooperation with a number of strategic suppliers, including Gislaved Gummi. Gislaved Gummi and VELUX have worked closely with each other for more than 30 years, and it was only natural to initiate a joint quality improvement project in conjunction with development of the new VELUX product range, V22.

In the V22 project, VELUX is imposing strong demands on tightness and insulation properties of the windows. A highly automated production process also places greater capability demands on supplier components in the form of lower measurement deviations and improved repeatability.

A work group comprising personnel from both companies was established about 18 months ago with the primary objective of focusing on product and process optimisation. First on the group's agenda was the analysis of complaints and reasons why the claims were filed. Since the greatest fundamental reason was related to the geometry of the profiles, the work group started to focus on this area, because the geometry is linked directly to the sealing profile's capability and its function in VELUX products.

Severe wind and rain test in the VELUX wind tunnel.

The group has worked to

- implement a Critical Process Review (CPR) of the extrusion lines
- create a reporting system for compilations of the sealing profile's measurements and
- focus on statistical methods.

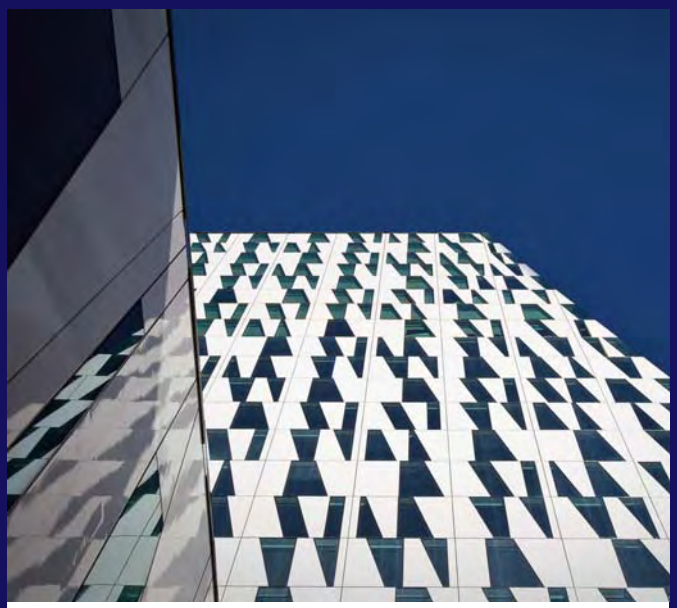
Measurement reports and the utilisation of statistical methods proved to be resource-demanding for both companies, but it was also obvious that this area offered the greatest potential for improvement.

In April 2010, the reporting system was implemented for all VELUX sealing profiles and an analysis of the comprehensive measurement data that had been registered through October showed very significant improvements in all profiles delivered to VELUX by Gislaved Gummi.

The analysis was also used to improve the extrusion tools and measurement method/equipment and to train operators. The operators deserve a great deal of praise for their commitment and contributions that helped to improve the process.

The close cooperation has resulted in many advantages for both parties. Gislaved Gummi has gained more in-depth insight into its process, which has resulted in further improvements in product quality. In parallel, VELUX has gained a supplier that can challenge and meet the new demands that will be placed on the next generation of windows.

Photo: VELUX A/S.



Scandinavia's largest design hotel equipped with rubber profiles from Gislaved Gummi

Skandinaviska Glassystem AB is one of Gislaved Gummi AB's most exciting customers. The company is one of the world's leading innovators in sophisticated glass and complete facade systems, including steel and aluminium designs. During recent years, Skandinaviska Glassystem has achieved significant success, winning awards for its prestigious projects in all parts of Scandinavia and Northern Europe.

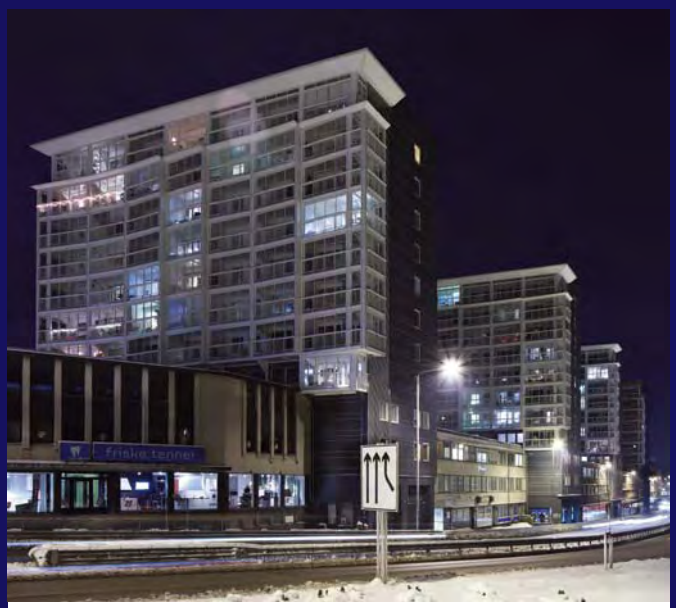
Skandinaviska Glassystem is also involved in many spectacular projects worldwide. One of the company's latest highly prestigious projects is Bella Sky Comwell Hotel, a four-star, 24-storey hotel situated at Bella Center just outside Copenhagen. The hotel consists of a main building and two leaning towers that are 76.5 metres high and lean 15° in opposite directions. Each tower has more than 400 hotel rooms.
The hotel was designed by 3XN Arkitekter in Copenhagen.

The harlequin-patterned facade consists of more than 2,000 prefabricated modules, a total facade surface of 24,000 square metres. Gislaved Gummi has delivered 40,000 metres of rubber profiles for the facade. The modules, complete with sealing profiles, were assembled at Skandinaviska Glassystem's plant in Lysekil, Sweden.

Since the hotel's spectacular design makes it virtually impossible to use conventional scaffolding, climbers have been contracted for the external installation work.

Bella Sky Comwell Hotel will open in May 2011.

Photo: Skandinaviska Glassystem AB.



Gislaved Gummi serves as strategic supplier of rubber profiles

Balco AB, established in 1987, is a leading supplier of open and glazed balcony systems in Europe. The company's head office is situated in Växjö, Sweden, where all production is also concentrated. Balco has subsidiaries in Norway, Denmark, Germany and the UK.

Balco's open and glazed balcony systems for new construction projects and renovations of building facades are currently in demand throughout Europe. The innovative solutions and elegant design have enhanced the quality of life for many people. Every project is custom-designed uniquely for each building's specific conditions – there are no standard solutions.

Because Balco's products offer a wide range of selection options and unique patented functions in terms of drainage, openings, glass, colours and materials, strong demands are placed on Balco itself as the manufacturer and also on its suppliers. The development of sealing profiles is progressing toward more advanced solutions, with specific profile properties designed to facilitate assembly, improve the sealing effect and extend the active lifetime of the seals. Balco has chosen Gislaved Gummi as strategic supplier of customer-adapted sealing profiles for its balconies and glazed systems.

The building in this photo is situated in Bergen, Norway.
Photo: Balco AB.

Corporate responsibility
Long-term value generation for our stakeholders

Corporate responsibility is an important part of HEXPOL's corporate culture and is a prerequisite for the long-term generation of value and profitability for stakeholders.

For us, corporate responsibility entails HEXPOL complying with the laws and game rules applying for listed companies and that HEXPOL is viewed as a role model in our sector. Corporate responsibility also entails responsibility, respect and openness in relation to the Group's stakeholders, e.g. an active stakeholder dialogue. Corporate responsibility also requires us taking environmental and social responsibility, thus contributing to sustainable development.

LEGISLATION AND GUIDELINES

LEGAL REQUIREMENTS

With operations on three continents and in nine countries, HEXPOL faces a number of legal and other requirements in many areas. A fundamental undertaking is that companies and the individual employees comply with the ordinances, rules and laws that impact operations. A specific example is respecting export and import ordinances during international business transactions, as well as trade embargos and economic sanctions in the countries concerned. Detailed information concerning compliance with environmental and health and safety legislation is presented in the section regarding the Group's sustainability effort on pages 61-65.

ETHICAL GUIDELINES AND ENVIRONMENTAL POLICY

The game rules for corporate responsibility are based on the Group's ethical guidelines and policies. The business-ethical guidelines form the basis for the principles that steer relationships with employees, business partners and other stakeholders. The guidelines are based on obligations stipulated in international conventions and agreements. The ethical guidelines provide management and employees with guidance in terms of legal matters, accounting, conflicts of interest, workplace environment issues, equality, discrimination, relationships with suppliers, as well as business-ethical matters.

The environmental policy includes obligations concerning the conservation of natural resources, the phase-out of chemical substances that could constitute a risk to people's health and the surrounding environment, the reduction of emissions to the environment and quantities of waste, as well as the strive for continual improvements.

The ethical guidelines and environmental policy applies for all employees and the Group's Board of Directors. Suppliers, consultants and other business partners are also encouraged to comply with the guidelines and the environmental policy. There is a continuous effort to spread information concerning HEXPOL's game rules. In 2010, matters concerning ethics and the environment were brought to the attention of the most senior managers and addressed at meetings with various Group companies. More information concerning the Group's ethical guidelines and policies is available at our website www.hexpol.com.

STAKEHOLDERS

HEXPOL's stakeholders encompass owners, investors, employees, customers, suppliers and society as a whole. Our relationships with the various stakeholder groups shall be characterised by responsibility, respect and transparency. It is essential that we listen attentively to stakeholders' view and, to the extent possible, fulfil the requirements that are imposed.

OWNERS AND INVESTORS

Our aim is to supply the capital market, shareholders and other stakeholders with relevant information that offers a basis for an accurate valuation of the Group. The objective is to apply a candid and factual approach and provide a high level of service in financial reporting. This is aimed at strengthening confidence in the company and encouraging interest in HEXPOL among existing and potential shareholders.

HEXPOL complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinance and listing agreements. The Group applies a policy of transparency in its reporting and – in line with the Group's communication policy – provides the market with well-founded, comprehensive information. HEXPOL's corporate governance is described in the Corporate Governance Report on page 66 and is also available on our website. The website also includes all published financial information such as presentations, press releases, financial reports and annual reports.

EMPLOYEES

Representing a variety of countries

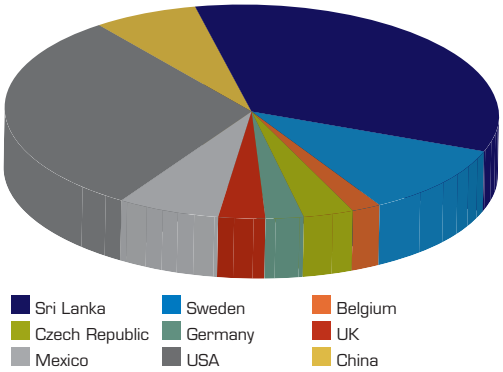
HEXPOL employs people from many different countries and cultures. The management teams for the business and product areas include people from more than ten countries. Our fundamental view is that regional and local expertise is a prerequisite for success in the various geographic markets, but also in the global perspective. For us, diversity involves mutual respect and professionalism.

Ensuring that our employees have the skills, experience and motivation required is a prerequisite for the Group to operate a business that creates long-term value. The corporate culture, shared values and strong leadership are key factors in this context. Fundamentally, it is a matter of having the right disposition and attitude. Accordingly, it is the task of management to create a working climate in a

true entrepreneurial spirit that promotes creativity and innovation among our employees. We encourage involvement and endeavour to engage all employees in the improvement effort. A great deal of emphasis has been placed on creating a culture of rapid decision-making paths without any unnecessary bureaucracy.

In 2010, the average number of employees in HEXPOL was 2 133 (1 809). The number of Group employees at year-end was 3 037 (1 827). At year-end, HEXPOL Compounding had 1 616 (662) and HEXPOL Engineered Products had 1 416 (1 160) employees. Employees outside Sweden comprised 88 percent (85) of the workforce. The Parent Company had 5 employees (5).

Number of employees per country



Recruitment and skills development

The company's advanced technological level requires qualified and well-educated employees. This also applies to many other tasks in the Group. Maintaining a local presence in the various geographic markets is important and we thus strive to recruit the expertise necessary in each region or country.

Professional skills development is linked to the employee's situation. For example, senior executives and junior managers participate in individual management development programmes.

To advance the Group's collective expertise, a number of networks have been established between companies and across business area borders. Employees from operations worldwide are thus regularly convened to discuss Group-wide development and procurement projects. The annual conferences at which the Group's most senior executives gather to share experiences of operations, development projects and geographic markets are another example.

Work environment, equality and diveristy

The work environment of Group companies must be safe, stimulating and promote individual development. Naturally, it must also meet relevant legislative requirements in the work environment field. No employee should be treated differently on the basis of gender, religion, age, functional disability, sexual orientation, nationality, political opinions or origin. Prevention activities to ensure employee health and safety are conducted in accordance with the requirements of each country's work environment legislation, the Group's own ambitions, and technical and financial conditions. Activities to improve health and safety at the workplaces are conducted on a cooperative basis between employers, employees and trade unions.

HEXPOL supports and respects internationally recognised human rights and, in our ethical guidelines, we encourage diversity. The company opposes all forms of discrimination. During the year, no factors emerged that indicate that we breached these principles. Our employees are entitled to form and join trade unions and to full insight and co-determination rights as stipulated in national legislation.

Issues concerning equality are addressed in a decentralised manner in each company. The proportion of women remains unchanged and amounted to 13 percent (13) in 2010. The largest proportion of women is in Sweden (41 percent) and the lowest in Sri Lanka (2 percent). The proportion of women on the Board of Directors is 14 percent (14), in Group management 0 percent (0) and in management in the subsidiaries 10 percent (10).

”Materializing the Difference”

In 2010, participants of the “Materialising the Difference” program met for the first time. The team comprises 15 younger employees from across the globe.

The aim of the programme is to prepare the participants for a future senior position at HEXPOL. The programme is related to the participant’s current work and to various challenges in the Group’s activities. The purpose is to provide the participants with greater insight into leadership, to learn to work with cultural differences, to indentify development needs and to create a strong understanding of our business model. The Programme Supervisor is Stein Kleppestø, Senior Lecturer at the School of Economics and Management at Lund University, with more than 20 years’ experience in management consulting.

The first meeting was held in Falsterbo in Sweden with a “Me in Teams” theme. Over the course of three intensive days, group activities were alternated with interactive lessons and individual coaching.

Remuneration

Since having the right person in the right place is naturally of great importance to the success of a business segment or in a geographic market, it is vital that remuneration at HEXPOL is market-based and competitive. The wages and salaries set within HEXPOL comply with legislation, at least match the minimum wage in the countries concerned and are fully competitive. Variable remuneration linked to the earnings trend that a person can influence is paid in certain parts of the Group. Personnel expenses totalled 496 MSEK (430) in 2010.

CUSTOMERS

To satisfy market requirements and demands, we work continuously to develop and improve our products. Development work is often performed in collaboration with customers. Quality assurance through certified management systems is a key component of the development effort and in the manufacturing processes. All facilities except for one are certified under the ISO 9001 quality standard (the recently acquired Excel Polymers Group is not included in the statistics).

Under our game rules, customer relationships are to be marked by professionalism and a high level of service. Business decisions are taken in accordance with the Group’s interests and not on the basis of personal considerations or relationships. We are to maintain a high level of business ethics and compete honestly in our business operations. This also applies to marketing and advertisements. The Group naturally complies with local competition rules in the geographic markets in which we are active. Concerning sustainable development, some 80 percent of the facilities report that customers impose various types of environmental requirements, a percentage that has risen in recent years. This pertains to such areas as management system requirements and prohibiting the use of certain substances in products that are harmful to the environment and people’s health.

SUPPLIERS

The selection of suppliers requires the fulfilment of many technological, delivery and financial criteria. In addition, it is important for us to collaborate with suppliers and other customers whose business ethics and handling of environmental matters and social responsibility correspond to the Group’s policies and ethical guidelines. Our supplier evaluations and contacts with suppliers often include requirements concerning sustainable development. Within the framework of the application of ISO 14001, supplier evaluations concerning environmental and social responsibility were further developed in 2010.

SOCIAL COMMITMENT

The Group participates in various social activities in the countries in which we are active. About half of the plants were visited by students from schools and universities during the year. At several plants, projects are being conducted in cooperation with universities and university colleges. An example of this is the research project that is under way in partnership with a German university concerning the development of more energy-efficient compounding processes in the rubber industry (see page 64).

This commitment can also be expressed in sponsorship with a focus on public benefit. In Sri Lanka, for example, HEXPOL provides financial support for school books for its employees’ children (see page 65).

SUSTAINABLE DEVELOPMENT

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

A proactive approach to matters concerning the environmental, social and financial aspects of the Group's activities generates added value for society, owners and customers. The objective is for the company's environmental impact to be as low as possible and for the work to be characterised by the strive for continual improvements.

In terms of social responsibility, our companies are key local employers and create employment for a number of subcontractors. The objective is for the Group to be a responsible partner for customers, suppliers, business partners, other players in society, and a solid employer to our employees.

GOVERNANCE AND REPORTING OF THE ENVIRONMENTAL PROGRAMME

Preventive environmental work is one of the foundation pillars of the Group's sustainable development efforts. The main focus lies on reducing the environmental impact from production plants, as well as gradually making environmental adaptations to the products. Responsibility for environmental work has been delegated to the business areas, where managers of the various companies and production plants bear responsibility for the local environmental issues.

A key tool in the environmental work is the ISO 14001 environmental management system. Work on implementing ISO 14001 has progressed and all but three of the plants are now certified. The recently acquired Excel Polymers Group is not included in the statistics and its plants have not been certified to date, although they will be in the coming years.

A key prerequisite for the environmental work is to apply the best technology available to the furthest possible extent. Accordingly, many production plants are equipped with efficient systems for energy recycling and air purification, closed cooling water systems and efficient waste management. However, since the requirements for minimising environmental impact are growing incrementally, the evaluation of requirements, identification of environmental aspects and having a goal-oriented approach to continuous improvements are thus key tasks for an environmental management system.

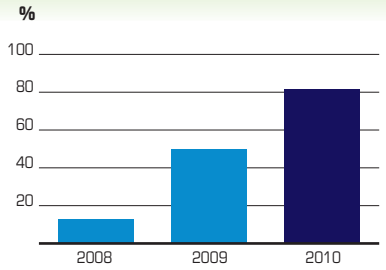
We have undertaken to openly report HEXPOL's sustainable development performance. Accordingly, this reporting is conducted in accordance with the international guidelines for sustainable reporting (Global Reporting Initiative; GRI). The Group reports at the B level under GRI and most of the information is presented on pages 61-65. A condensed sustainability report is available for download on the website.

ISO 14001 – a key tool for continual improvement

In 2008, a broad initiative commenced to implement the ISO 14001 environmental management system at the Group. Environmental reviews were conducted and a number of key employees were trained. The work has since progressed and an increasing number of plants are now certified. The fundamental concept behind ISO 14001 is to employ a systematic and goal-oriented approach to environmental issues.

We have now noted a number of strong results from the environmental effort, including increased employee involvement and a sharper focus on key environmental and work environment matters.

Certified environmental management systems
Percentage of the plants that have been certified in accordance with ISO 14001



Global Reporting Initiatives

The Global Reporting Initiative (GRI) comprises the normative international guidelines for sustainability reporting and are used by more than 1,800 organisations worldwide.

The objective of the GRI is to create uniformity and comparability for sustainability reporting, thus making it easier to assess and compare companies from a social, environmental and financial perspective.

HEXPOL Compounding implements broad-based environmental management system

Following a training programme and an initial environmental review in 2008, work commenced on the implementation of ISO 14001 at HEXPOL Compounding's production facility in Eupen, Belgium. In 2009, the environmental work was structured and documented in accordance with the standard's requirements. Other activities included training sessions and internal environmental audits. In December of the same year, it was time for the key certification audit, the results of which were excellent.

Based on the experiences of the environmental management system in Eupen, activities commenced on the implementation of ISO 14001 at the other HEXPOL Compounding units. In 2010, no fewer than five plants followed in Eupen's footsteps, namely: Statesville in the US, Qingdao in China, Unicov in the Czech Republic, Aquascalientes in Mexico and Hückelhoven in Germany. The next step will be to further improve the environmental performance of the other plants and create the groundwork for benchmarking between them.

Energy-efficient lighting generated major savings

In 2010, the plants in Middlefield and Statesville in the US completed the installation of energy-efficient lighting. The project was conducted in partnership with an energy provider and included the replacement of lighting in the production and warehouse premises with modern electric fittings featuring low energy consumption, the installation of motion detectors and other actions in the lighting area. The results are expected to generate combined annual savings of more than 1,300 MWh at the two plants, corresponding to about 6 percent of electricity consumption at the plants in Middlefield and Statesville. The project will finance itself in a year and the environmental benefits include a reduction of HEXPOL's carbon footprint by more than 1,000 tonnes annually.

Statesville employees receive an environmental award from a local energy provider.

Board of Directors' report

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

The Board of Directors and President of HEXPOL AB (publ) registered in Malmö, Sweden, hereby present the annual report and consolidated financial statements for the 2010 financial year. The income statements and balance sheets, specification of shareholders' equity, cash flow statements, comprehensive income and the presentation of the applied accounting policies and notes comprise HEXPOL's formal financial reporting.

OWNERS AND LEGAL STRUCTURE

HEXPOL AB (publ), corporate registration number 556108-9631, is the Parent Company of the HEXPOL Group. HEXPOL's class B shares are listed on the Stockholm Mid Cap industrial segment of NASDAQ OMX Nordic. HEXPOL had 8 313 shareholders on 31 December 2010. The largest shareholder is Melker Schörling AB with 27 percent of the capital and 48 percent of the voting rights. The 20 largest shareholders own 75 percent of the capital and 82 percent of the voting rights.

OPERATIONS AND STRUCTURE

HEXPOL is a leading global polymers group with solid market positions in advanced polymer compounds (HEXPOL Compounding), gaskets for plate heat exchangers (HEXPOL Gaskets) and wheels made of plastic and rubber materials for forklift and castor wheel applications (HEXPOL Wheels). Customers are mainly OEM manufacturers of plate heat exchangers and forklifts and systems suppliers to players in the global automotive industry, as well as manufacturers of polymer components for general industry. The Group is organised on the basis of two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had some 3 000 employees in nine countries at year-end 2010.

During the year, the Group completed two acquisitions in the HEXPOL Compounding business area. HEXPOL acquired the shares in the ELASTO Group on 1 April and in the Excel Polymers Group on 30 November. The two acquisitions had a material impact on the Group's financial position. In conjunction with the acquisition of the Excel Polymers Group, HEXPOL also announced the implementation of a rights issue during the first quarter of 2011. The formal notice to the Extraordinary General Meeting was published on 12 January 2011.

Financial year 2010

SALES AND OPERATING PROFIT

Group sales rose a full 46 percent during the year and amounted to 3 798 MSEK (2 608). Exchange-rate fluctuations had an adverse impact of 282 MSEK on sales, primarily due to the appreciation of the Swedish krona (SEK) in relation to the EUR and the USD. In conjunction with the acquisition of the Excel Polymers Group, HEXPOL implemented a restructuring programme in the acquired group and recognised costs affecting comparability in the amount of 64 MSEK in the fourth quarter. Operating profit, excluding items affecting comparability, increased and amounted to 460 MSEK (261), corresponding to an operating margin of 12.1 percent (10.0). Exchange-rates had an adverse impact of 59 MSEK on operating profit.

The HEXPOL Compounding business area increased its sales sharply by 52 percent to 3 080 MSEK (2 020). Operating profit, excluding items affecting comparability, rose sharply to 398 MSEK (231), corresponding to an operating margin of 12.9 percent (11.4). The business area's sales rose in all quarters year-on-year and the acquisition of ELASTO Group made a contribution as of 1 April. Sales and profit from the acquisition exceeded expectations during the year. In Europe, demand and sales successively rose during all quarters, primarily to the automotive industry in Eastern Europe. In NAFTA, the volume trend was favourable already early in the year and subsequently gradually improved. In conjunction with assuming control of the acquired Excel Polymers Group, its operations, including the head office in Solon, Ohio, were restructured. HEXPOL's existing organisation assumed managerial responsibility, meaning that duplicate functions were removed. Excel Polymers Group's sales and profit made a positive contribution as of the date of access on 30 November. In Asia, HEXPOL Compounding's unit in Qingdao, China, successively increased volumes during the year, primarily in its compounding operations and to customers in the automotive segment.

The HEXPOL Engineered Products business area increased its sales by 22 percent to 718 MSEK (588). Operating profit, excluding items affecting comparability, amounted to 62 MSEK (30), corresponding to an operating margin of 8.6 percent (5.1). Sales of gaskets for plate heat exchangers rose during the year. During 2010, the market for HEXPOL Gaskets product area was subject to pricing pressure and received few project orders, although demand improved. In the HEXPOL Wheels product area, volumes rose throughout the financial year, with a strong upswing late in the year. The HEXPOL Wheels product area was also subject to high pricing pressure, although the product area improved its profitability during the year.

FINANCIAL INCOME AND EXPENSES

The Group's net financial items during the year amounted to an expense of 26 MSEK (expense: 23). Market interest rates for the Group's financing declined during the year. Net debt was amortised with the help of strong cash flow, but rose overall due to the acquisition of ELASTO Group and Excel Polymers Group.

TAX EXPENSE

The Group's tax expenses during the year amounted to 97 MSEK (38). Adjusted for the effects of restructuring costs, tax expenses amounted to 116 MSEK (66), corresponding to a tax rate of 26.7 percent (27.7). Tax costs were impacted by a substantial share of operating profit being generated in subsidiaries in countries in which the tax rate differs from that in Sweden.

NET PROFIT FOR THE YEAR

Consolidated profit after tax totalled 273 MSEK (102), corresponding to earnings per share of 10.28 SEK (3.84). Adjusted for items affecting comparability, profit after tax amounted to 318 MSEK (172), corresponding to earnings per share of 11.98 SEK (6.48).

INVESTMENTS, DEPRECIATIONS AND AMORTISATIONS

HEXPOL's net investments during the year totalled 32 MSEK (23) and mainly comprised investments in maintenance. Depreciations and amortisations during the year was 88 MSEK (84).

PROFITABILITY

Return on average capital employed amounted to 13.9 percent (6.4). The main reason for the improvement was that operating profit was significantly higher than in the preceding year. Return on average shareholders' equity was 21.5 percent (8.6).

CASH FLOW

Operating cash flow, excluding items affecting comparability, amounted to 506 MSEK (462) during the year. Operating cash flow includes the positive effects of the improved profit before depreciation/amortisation and the low rate of investment. Cash flow from operating activities totalled 387 MSEK (359).

FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio was 27.0 percent (43.7). The Group's total assets amounted to 4 911 MSEK (2 788). Net debt amounted to 2 239 MSEK (760), whereby the net debt/equity ratio amounted to a multiple of 1.7 (0.6). The increase in net debt/equity was primarily due to the acquisition of the Excel Polymers Group. Interest cover ratio was a multiple of 22.8 (7.1). In May 2008, the Group signed a five-year credit agreement totalling 1.7 billion SEK with a number of Nordic banks. At year-end, the unutilised portion of the credit agreement amounted to 240 MSEK (699). In October 2010, in conjunction with the acquisition of the Excel Polymers Group, the HEXPOL Group entered into an additional five-year credit agreement totalling 180 MUSD, of which 80 MUSD (550 MSEK) will be repaid in conjunction with the Group's rights issue in the first quarter of 2011.

Since goodwill may no longer be amortised according to plan, the value of goodwill and similar fixed assets is impairment tested at least once annually. Such an analysis was performed at year-end and did not reveal any need for impairment. At year-end, consolidated goodwill amounted to 2 297 MSEK (1 237). The principles for the analysis are presented on page 76 under the section accounting policies.

PRINCIPLES UNDERLYING REMUNERATION OF SENIOR EXECUTIVES

The 2010 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives. Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension. The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be maximised in relation to fixed salary. Pension benefits shall comprise either defined-benefit or defined -contribution solutions, or a combination of both, based on an individually set retirement age, although never less than 60 years.

The Board's Remuneration Committee deals with matters related to remuneration of Group Management as well as that 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 2011 Annual General Meeting that these guidelines remain unchanged. Variable remuneration has a fixed cap and comprises a maximum of 40-120 percent of the fixed salary.

PERSONNEL

The average number of employees during the year increased to 2 133 (1 809), which was primarily attributable to the acquisitions of ELASTO Group and Excel Polymers Group. During the year, the number of full-time employees rose in most Group subsidiaries, primarily in Sweden, the US and Sri Lanka.

During the year, the Group had employees in Sweden, Germany, the UK, Belgium, the Czech Republic, the US, Mexico, Sri Lanka and China. Of the total workforce, 88 percent is outside Sweden. At year-end, the HEXPOL Group had 3 037 (1 827) employees, of whom HEXPOL Compounding accounted for 1 616 (662), and HEXPOL Engineered Products for 1 416 (1 160) and 5 (5) employees in the Parent Company. For further information, refer to Note 4.

RESEARCH AND DEVELOPMENT

Expenditure for research is expensed as incurred, while expenditure for development is capitalised is accordance with the prevailing accounting policies. In 2010, HEXPOL's research and development expenditure amounted to 36 MSEK (31).

EVENTS AFTER THE BALANCE-SHEET DATE

On 7 February, an Extraordinary General Meeting resolved on the implementation of a rights issue. The subscription period is between 28 February and 16 March and is expected to generate about 551 MSEK. The final outcome of the rights issue will be published around 21 March.

PROPOSED DISTRIBUTION OF UNAPPROPRIATED EARNINGS

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

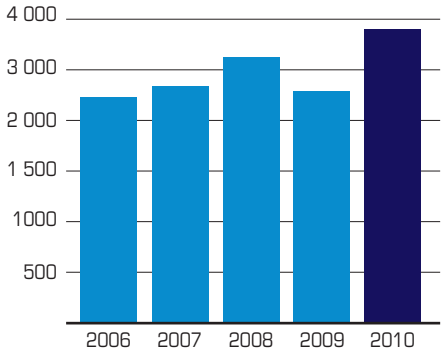
Profit brought forward from the preceding year	338 792
Net profit for the year	684 375
Total unrestricted funds	**1 023 167**

The Board proposes that the unappropriated funds be disposed of as follows. That the shareholders be paid a dividend of 3.00 SEK per share (including shares from the rights issue).

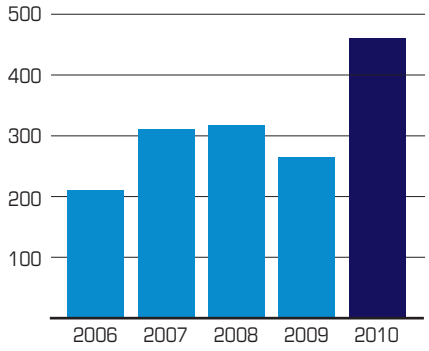
Total dividend from earnings brought forward	103 260
To be carried forward	919 907
Total	**1 023 167**

Five year summary

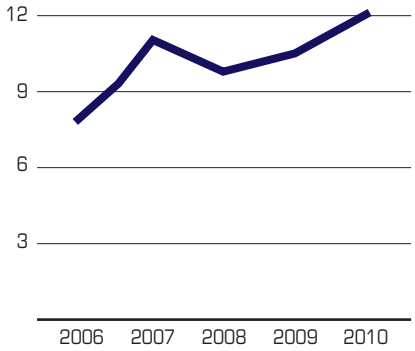
Net sales (MSEK)



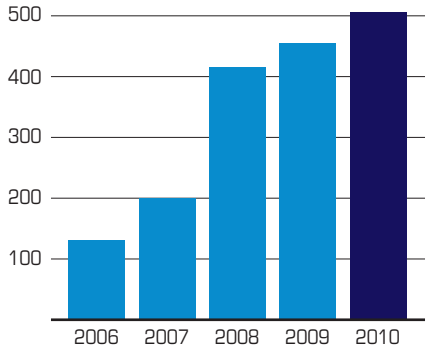
Operating profit (MSEK)
(excluding items affecting comparability)



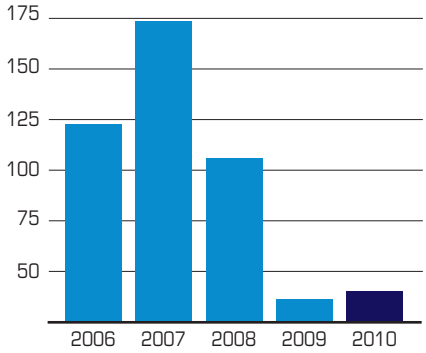
Operating margin (%)
(excluding items affecting comparability)



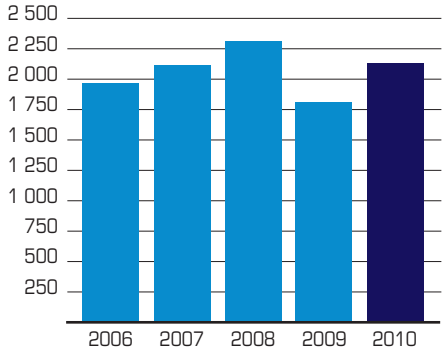
Operating cash flow (MSEK)
(excluding items affecting comparability)



Investments (MSEK)



Average number of employees



Risk factors

INDUSTRY AND MARKET RISKS

Impact of the economy

The Group engages in worldwide operations that focus primarily on the market for polymer compounding, gaskets for plate heat exchangers and wheels for the truck industry. These markets, and accordingly also HEXPOL, are affected by the general economic and political situation and the specific circumstances that are unique for individual countries or regions where HEXPOL or HEXPOL's customers produce or sell their products.

As is the case for almost all business operations, prevailing economic conditions affect volumes for HEXPOL's existing and potential customers. A weak economic trend in all or parts of the world could therefore result in lower market growth that falls below expectations.

The development in HEXPOL's customer segments is one of the principal business-related risks. This places high demands on understanding the current and future needs, demands and preferences of both direct and end customers. Although HEXPOL's operations have a wide geographic spread and an otherwise broad customer base, there is a risk that weak economic growth may have an adverse impact on HEXPOL's operations, financial position and earnings.

Competition and price pressure

HEXPOL's operations are conducted in competitive industries, where price pressure is intense and drives demand for cost-efficient solutions. By improving their technology and product knowledge, competitors could start producing at lower costs and increase competition with HEXPOL's products. HEXPOL's future competitive opportunities are dependent on its ability to utilise the Group's cutting edge expertise in polymer compounding and rubber and plastic products, and convert this into attractive products and customised solutions sold at a competitive price. To secure competitiveness, investments will be required to maintain the Group's leading position in the product development area. Although HEXPOL continuously tries to adapt to the changing competitive situation, HEXPOL could also be forced to perform costly restructurings of the business to retain the Group's market position and profitability. Increased competition and price pressure in HEXPOL's markets may have an adverse impact on the Group's operations, financial position and earnings.

STRATEGIC AND OPERATIONAL RISKS

Technology and market trends

As parts of HEXPOL's operations are conducted in industries that are subject to price pressure and rapid changes in technology and materials, maintaining HEXPOL's current operations and its future growth depend, to a certain extent, on the Group's capacity to develop new and successful products, applications and manufacturing processes while reducing costs for new and existing products. Research and development efforts are costly, and there is no guarantee that developed products, applications or manufacturing processes will be commercially successful.

Raw materials and energy costs

HEXPOL is dependent upon a large number of raw materials, primarily plastic and rubber materials. The trend in many raw material markets over recent years has led to a higher purchase price for the raw materials of importance to HEXPOL. To counter continued increases in raw material prices and higher energy costs, HEXPOL devotes considerable efforts to increasing production efficiency and developing more cost-efficient processes. However, in light of the competitive situation, there is a risk that HEXPOL cannot raise prices sufficiently to fully offset the increased costs, thus resulting in reduced margins. Higher purchase prices for raw materials and energy may have an adverse impact on the Group's operations, financial position and earnings.

Production disruptions

Damage at production facilities, caused by incidents such as fire, and stoppages or disruptions in some part of the production process, caused by factors such as breakdowns, weather conditions, geographic conditions, labour disputes, acts of terrorism and natural disasters could have negative consequences in the form of direct damage to property, or stoppages that inhibit efforts to comply with obligations to customers. This in turn could also entail that customers choose other suppliers. Such stoppages or disruptions may therefore have an adverse impact on the Group's operations, financial position and earnings.

Suppliers

HEXPOL's products consist of raw materials and other materials from various suppliers. In order to manufacture, sell and deliver products, HEXPOL is dependent upon external suppliers meeting agreed requirements in terms of quantity, quality and delivery time. Incorrect or delayed deliveries or non-deliveries from the Group's suppliers could in turn entail that HEXPOL's deliveries are delayed, incomplete or incorrect, which could result in reduced sales and, accordingly, have an adverse impact on the Group's operations, financial position and earnings.

While HEXPOL is of the opinion that the Group is not dependent upon any single supplier to any significant degree, costs for switching suppliers and, to some extent, loss of efficiency could arise for the operations if HEXPOL is forced to change one or more of its suppliers.

Customers

HEXPOL conducts its operations in a large number of geographic markets and offers products to a large number of customer categories. One large customer group is system suppliers to the automotive industry. A decline or weak trend in the automotive industry could have a negative effect on HEXPOL's operations. This customer group could therefore entail certain risks for HEXPOL. If HEXPOL's customers do not comply with their obligations or drastically reduce or close down their operations, this may have an adverse impact on the Group's operations, financial position and earnings.

Complaints and recalls could become relevant in the event that HEXPOL's products do not function as intended. In these cases, the Group is obligated to rectify or replace the defective products. There is also a risk that HEXPOL's customers will demand that suppliers bear the costs in addition to replacing the product, which could include costs for dismantling, assembly and other associated costs. If a product causes injury to a person or damage to property, the Group could become liable for indemnity costs. HEXPOL is insured against product liability.

Key personnel

HEXPOL's future success is largely dependent upon its capacity to recruit, retain and develop qualified management personnel and other key personnel. Being an attractive employer is a key factor for HEXPOL's success. If key personnel leave and suitable replacements cannot be recruited, or if HEXPOL cannot attract qualified personnel, this may have an adverse impact on the Group's operations, financial position and earnings

Future acquisitions and financing of acquisitions

HEXPOL has pursued an active acquisition strategy, which has resulted in a number of successful acquisitions. Strategic acquisitions will be a part of the growth strategy in the future as well. However, there is no guarantee that HEXPOL will be able to find suitable acquisition targets, or that the necessary financing for future acquisitions can be obtained on terms that are acceptable for the Group. This could result in slow or declining growth for HEXPOL. The implementation of acquisitions also entails risks. In addition to company-specific risks, the acquired company's relations with customers, suppliers and key personnel could be adversely affected. There is also a risk that integration processes could become more costly or take longer time than expected, and that synergies are not, or only partly, realised.

Acquisition and integration of Excel Polymers Group

At the end of November 2010, HEXPOL acquired the US-based global group Excel Polymers. The acquired operation is currently integrated with other operations within HEXPOL Compounding on a geographic basis. Delays and difficulties that arise in connection with the integration process of the acquired group could have an adverse impact on HEXPOL's operations. The acquired group's relations with customers, suppliers and key personnel could also be affected by the integration. In addition, there are no guarantees for when and if the expected and communicated synergies can be realised. One way to achieve synergies in conjunction with the acquisition of Excel Polymers is to reduce overlapping resources, including personnel, which could entail a certain financial risk. A delayed or more costly integration of the acquired group may have an adverse impact on HEXPOL's operations, financial position and earnings.

LEGAL RISKS

Legislation and regulation

HEXPOL's primary markets are subject to extensive regulation. HEXPOL monitors the applicable laws, rules and regulations in each market carefully, so that the Group can adapt quickly to any identified future changes in the area. Changes in regulatory frameworks, customs regulations and other trade barriers, competition regulations, price and currency controls and other statutory guidelines, regulations and restrictions in countries where HEXPOL conducts its operations may have an adverse impact on the Group's operations, financial position and earnings.

Health, safety and the environment

HEXPOL is of the opinion that, in all significant respects, its operations are conducted in compliance with applicable laws and regulations regarding health,

safety and the environment. A number of companies in the Group conduct operations that are subject to permits or reporting obligations in accordance with applicable local environmental legislation. These operations are thus regulated by the appropriate authorities. HEXPOL ensures, on an ongoing basis, that all essential permits are obtained and that all essential applicable reporting requirements are fulfilled. Changes in legislation and regulations that entail stricter requirements and changed conditions regarding health, safety and the environment or a development toward stricter implementation of laws and regulations could require further investments, and lead to increased costs and other obligations for those companies within the Group that are subject to such regulations. Changes in legislation and regulations could also impede or limit HEXPOL's operations.

HEXPOL conducts extensive production operations in a number of countries. There is no guarantee that liability resulting from personal injury or property damage, or damage to air, water, soil and biological processes will not have an adverse impact on the Group's operations, financial position or earnings. Further information on environmental risks on page 63–64.

Tax risks

HEXPOL conducts its operations through subsidiaries in a number of countries. Its business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of current tax law, tax treaties, regulations and tax authority requirements in the countries concerned. The Group has obtained advice on these matters from independent tax advisors. However, it cannot be generally ruled out that the Group's interpretation of applicable laws, tax treaties and regulations, or that the concerned authorities' interpretation of these or of administrative practises could be incorrect, or that such rules could change, possibly with retroactive effect. Due to decisions by the authorities concerned, HEXPOL's tax situation may change and have an adverse impact on the Group's financial position and earnings.

Disputes

HEXPOL is occasionally involved in disputes as part of its normal business operations. Major and complicated disputes could be costly and demanding in terms of time and resources and may disrupt normal business operations. There is no guarantee that the result of these disputes will not have an adverse impact on HEXPOL's earnings and financial position.

Intellectual property rights, etc.

According to a licence agreement with Bayer AG, HEXPOL is entitled to use the Vulkollan brand and logotype in conjunction with the manufacturing and marketing of wheels within HEXPOL Wheels. The licence agreement with Bayer applies for twelve-month periods and can be terminated at three month's notice. A termination of the licence agreement by Bayer would have a negative impact, since the Vulkollan wheels account for a significant part of the sales of the subsidiary Stellana AB.

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

HEXPOL must continually develop new technological solutions and applications in order to meet market requirements. To warrant a return on the resources that HEXPOL invests in research and development, it is vital that new technology can be protected against unauthorised use by competitors. There is no guarantee that applications for patents, brands and other intellectual property rights will be granted, or, if they are granted, that they will provide satisfactory protection that cannot be circumvented by competitors. Neither is there any guarantee that HEXPOL will not be considered to infringe the intellectual property rights of other

companies, or that HEXPOL's rights will not be challenged or contested by others. In addition, HEXPOL's competitors could develop or acquire intellectual property rights that could prove essential for parts of HEXPOL's operations.

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

If HEXPOL's operations would be considered to infringe on another party's valid intellectual property rights or would entail unauthorised use of another party's trade secrets, it cannot be ruled out that any resulting claims may have a negative effect on HEXPOL's operations, earnings and financial position.

FINANCIAL RISKS

Currency risk

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

HEXPOL's global operations give rise to substantial cash flows in foreign currencies. The most important currencies in the Group's payment flows are SEK, USD and EUR. The effects of exchange-rate changes impact the Group's earnings when the income statements of foreign subsidiaries are translated to SEK. Since a large part of the Group's earnings is generated outside Sweden, the effects of exchange rate fluctuations on the Group's income statement could be significant. In conjunction with translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that changes in the exchange rate impact the Group's balance sheet. Currency fluctuations may have a negative impact on HEXPOL's sales, financial position and earnings. A sensitivity analysis shows that a change in the SEK exchange rate in relation to all other currencies would result in pretax profit declining by 49 MSEK (+10%) or increasing by 56 MSEK (-10%).

Interest rate and credit risks

HEXPOL is also impacted by interest rate fluctuations. Changes in interest rates could affect the Group's net interest expense and cash flow. Based on the average interest fixing period in the Group's total loan portfolio as of 31 December 2010, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect of approximately 23 MSEK on full-year earnings before tax.

The financial risks to which HEXPOL is exposed also include credit risks, meaning that a customer or other business partner cannot fulfil its payment obligations, or settle claims that HEXPOL has invoiced or intends to invoice. There is no significant concentration of credit risks, neither geographically nor to a certain customer segment. Financial credit risks are risks for loss if counterparties, with whom the Group has invested cash and cash equivalents, short-term deposits or entered into financial instruments, do not fulfil their obligations.

If the actions that HEXPOL takes to minimise interest rate and credit risks are not sufficient, HEXPOL's financial position and earnings may be adversely impacted.

Financing and liquidity risk

To enable acquisitions or to otherwise achieve strategic goals, HEXPOL's operations could require additional financial resources in the future. HEXPOL's ability to satisfy future capital requirements is largely dependent upon successful sales of the Group's products and services. There is no guarantee that HEXPOL will be able to acquire the necessary capital. In this respect, the general development of the capital and credit markets is also highly significant. Liquidity risk is the risk that the

Group, due to a lack of cash and cash equivalents, cannot fully honour its payment obligations when they are due, or can do so only under very unfavourable conditions.

HEXPOL could also require additional financing to refinance loans that fall due. The financing of the acquisition of Excel Polymers at 212.5 MUSD consists of three parts: utilisation of capacity in the existing syndicated loans facility that expires in May 2013, a newly raised revolving credit facility of up to 100 MUSD that expires in October 2015, and a bridge loan from the same newly entered into loan agreement amounting to 550 MSEK. This bridge loan will be replaced by the cash from the rights issue and the loan will expire when the rights issue is finally settled. These three financing components constitute the basis for the Group's long-term financing requirements. All three financing components include customary financial covenants. There is no guarantee that HEXPOL will not breach such covenants in the future due to factors such as the general economic trend or disruptions in the capital and credit markets. Such events may, if they occur, have an adverse impact on HEXPOL's financial position and earnings.

Goodwill

Goodwill accounts for a significant part of HEXPOL's intangible fixed assets. For example, in connection with the acquisition of Excel Polymers parts of the purchase price has been classified as goodwill. Goodwill is tested annually in conjunction with year-end financial statement in order to identify any impairment requirements, and to ensure that these items do not exceed their respectively assessed value in use. No impairment losses for goodwill arose in the financial statements for 2010. If future tests show a decline in the value of goodwill and thus result in impairment losses, this may have a negative impact on HEXPOL's financial position and earnings.

EQUITY MARKET RISKS

Share price performance

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

Future dividends

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

Sustainability work

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL ASPECTS

The Group's sustainability report covers sixteen production facilities in nine countries. Since the acquisition of Excel Polymers Group was completed at year-end 2010, the report does not include its units. More information on the overall sustainability programme is available in the sectioned entitled "Corporate responsibility" on pages 46–51.

Significant environmental issues involving our production facilities comprise the use of raw materials, energy and water. In addition, the polymer industry is subject to risks associated with environmental and hazardous chemicals as well as the emission of contaminants to air and water. As in all industrial operations, the emergence of waste is a significant environmental issue. Indirect environmental impacts arise in connection with supplier activities, the transport services we buy and the application of the Group's products, for example.

ENVIRONMENTAL LEGISLATION

HEXPOL's facilities and products are encompassed by a several laws and provisions that involve the environment, health and safety. Environmental legislation requires official approval for production plants, as well as for specific areas such as packaging waste and chemical products. Examples of the latter include the EU's REACH legislation, which covers chemical products, and RoHS, which is aimed at restricting the use of certain substances.

All facilities in Sweden are subject to official approval pursuant to the Swedish Environmental Code and compliance is monitored through measurements, inspections and environmental reports that are submitted to supervising authorities. The following events involving Swedish environmental legislation occurred during the year:

- At the Gislaved Gummi plant, an application is in progress concerning the renewal of an operational licence. We have undertaken to reduce the emission of vulcanisation fumes to the surroundings and have installed treatment equipment that is showing promising results.
- At ELASTO in Åmål, activities are in progress to update the plant in line with ordinance governing hazardous explosive environments.
- At Stellana in Laxå, the conditions relating to the emission of isocyanates to the atmosphere were not fully met during the year.

The plants in the Czech Republic, Belgium, the US, Mexico, Sri Lanka and China have environmental licences that encompasses either the entire operations or apply to specific environmental aspects. None of the plants believe that current or future applications for environmental licences will require any special measures. The units in the United Kingdom and Germany are not subject to any specific environmental approval. During the year, the supervisory authorities conducted inspections at about one-third of the facilities. No significant divergences were noted.

ENERGY

Compounding several thousand tonnes of rubber is energy intensive. The same applies to the processing of thousands of tonnes of various rubber and plastic materials. In addition to direct production processes, energy is utilised for heating, cooling, ventilation, movement of materials and a great deal more. Most of the energy used, 69 percent (70), consists of indirect energy, that is, electricity, district heating and steam. The remainder is direct energy in the form of fuel oil and natural gas. Total energy consumption during 2010 was 147 GWh (109). This represents an increase from previous years, which was due to higher capacity utilisation and the rising number of production facilities. The Group's total energy costs in 2010 were about 80 MSEK (60).

Many of the plants are working on various energy efficiency-enhancement projects, of which a few examples are presented on pages 51 and 64.

RAW MATERIALS AND CHEMICAL PRODUCTS

Synthetic rubber, process oils and various chemicals and additives are the key raw materials for HEXPOL's production. Additional materials include isocyanates for the production of polyurethane products, thermoplastic elastomers (TPEs), metals, solvents and dyes. Natural rubber accounts for less than 7 percent of polymer applications. Recycled plastic and rubber raw materials are used in certain products.

From a historical perspective, the use of environmentally and health hazardous substances has been considerable in the rubber industry. However, systematic efforts have permitted the replacement of hazardous substances with less hazardous materials. These activities have been in progress continuously, with the following examples from HEXPOL's operations:

- Process oils containing more than 3 percent of hazardous polyaromatic hydrocarbons (PAHs) have now essentially been removed from (<0.5 percent) from our rubber compounds.
- During 2010, efforts to replace certain process chemicals continued. For example, the phthalate DINP and the accelerators ETU and DETU have been phased out at a number of plants.
- Within the framework of the chemical legislation known as REACH, a number of environmentally and health hazardous chemicals were identified. The aim is to steadily eliminate such substances from production and products.
- In Sri Lanka, solvent-free mould lubricants have been introduced.

Although the reduction of risks in proprietary operations is naturally a key driving force, ever-stricter legislation and customer environmental demands are other strong factors driving chemical operations.

EMISSIONS TO THE ATMOSPHERE

Emissions of climate-changing gases

The emission of carbon dioxide – a climate-changing gas – occurs through the use of fuel oil, natural gas, district

heating and electricity. Aggregate emissions of carbon dioxide during 2010 totalled about 48 000 tonnes (37 000). The indirect emission of carbon dioxide, via purchases of electricity, dominated and accounted for 77 percent (78).

Over a three-year period, emissions of the greenhouse gas carbon dioxide have increased slightly in absolute terms. Expressed as a Group key indicator, such emissions have been reduced as a result of the interplay of a number of positive factors, of which completion of energy-efficiency measures is one.

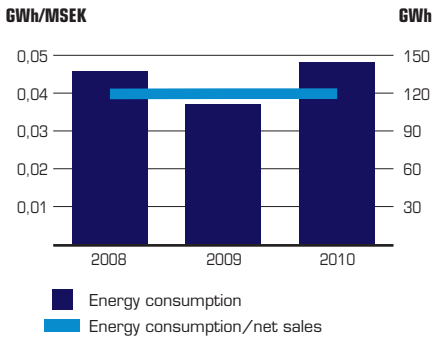
Transportation of raw materials, products and people also contributes to emissions of carbon dioxide, but at this moment in time no detailed data is available regarding these emissions. However, a number of activities are in progress to reduce the environmental impact from transport and business travel, such as:

- Gislaved Gummi in China is selecting smart logistics solutions to minimise the transport distance to each customer.
- Gislaved Gummi in Sweden has completed measures to reduce the number of unnecessary container transport operations.
- Stellana in the US has raised the load level of trucks by coordinating the transport of raw materials.
- At the Belgian facility, an ever-increasing number of conferences and meetings are conducted using video-conferencing.

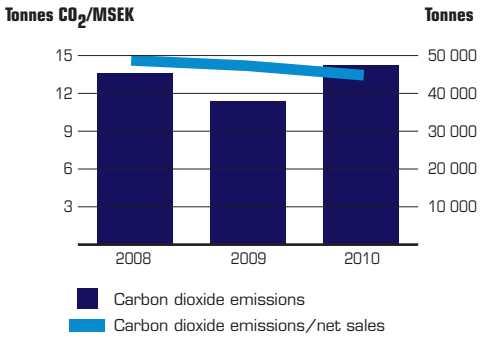
Other emissions to the atmosphere

HEXPOL's operations cause emissions to the atmosphere of about 64 tonnes (43) of sulphur dioxide and nitrogen oxides. These emissions are primarily attributable to the use of heavy fuel oil at the Sri Lankan units. Emissions of volatile organic compounds (VOC) from dyes and solvents totalled approximately 7 tonnes (9). During the year, some leakage occurred in cooling plants, resulting in the emission of some 65 kg of ozone-depleting cooling media (HCFCs), corresponding to about 8 percent of the installed amount of cooling media.

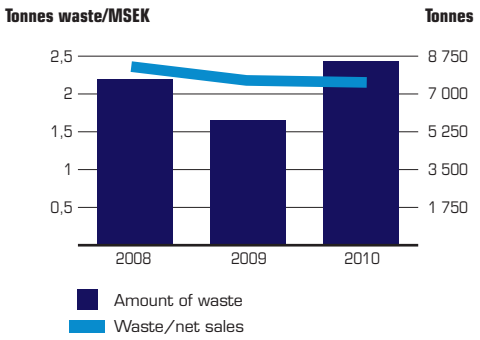
Energy consumption
Energy consumption/net sales



Carbon dioxide emissions
Carbon dioxide emissions/net sales



Amount of waste
Waste/net sales



Old tyres and plastic waste get a new lease of life

Thanks to the Dryflex® Post Consumer Waste product, ELASTO converts rubber and plastic waste to new products for the automotive industry.

The "End of Life of Vehicles" (ELVs) EU directive is aimed at recycling as much material as possible from inoperative vehicles. The automotive industry has conducted several measures to meet the requirements and has, for example, developed certain types of thermoplastic elastomers (TPEs) in response to the increased demand for recyclable raw materials. The automotive industry is also increasingly seeking to use recycled raw materials in new vehicles.

ELASTO in the UK has developed a new material (Dryflex®) with 65-to-80 percent weight in the form of recycled materials derived from plastic and rubber waste. The material consists of recycled plastic (polypropylene) and rubber granulates from worn-out tyres. Recycling is positive, of course, but in addition to this the material offers a number of advantages over new materials, including superior properties in terms of UV and weather resistance, as well as soundproofing. The material has also been tested and approved by Land Rover's Materials Engineering Laboratories. Applications include mudguards, side running-boards, stone chipping guards and front spoiler bumpers – components that not only last throughout vehicle service life but can also be recovered when the car is scrapped.

During the year, there were no complaints from neighbouring parties or other stakeholders regarding the emission of particles or odorous substances to the atmosphere. A key contributory factor is the effective particle filters used in conjunction with compounding equipment.

WATER CONSUMPTION

Water is used for cooling, cleaning and sanitary purposes. During 2010, HEXPOL consumed some 92 000 m^3 (75 000) of municipally supplied water. In addition, some 10 000 m^3 (9 500)of water was pumped from a well near a plant in Sri Lanka. The overall cost of water for the year totalled 1.2 MSEK (1.1). To reduce water consumption, most of the plant-cooling systems are closed systems that use recirculated water. One exception is Gislaved Gummi where about 290 000 m^3 of water from the river Nissan is used as cooling water. Of course, cooling water never comes into contact with raw materials or chemical substances.

Emissions to wastewater facilities consist mainly of organic materials and nutrients from sanitary facilities and from the cleaning of premises. Emissions of cooling water and rainwater from roofs and land areas also occur. Production plants are connected to municipal wastewater treatment plants or equivalent. Measurements of the composition of the wastewater taken at a few of the facilities showed that emissions remained within permitted levels.

WASTE

In 2010, waste at the production plants totalled 8 500 ton (5 800), of which 279 tonnes (93) was hazardous waste. About one-third of the waste was deposited in landfill sites, a treatment approach used primarily in the US. About 50 percent of the waste was used at external facilities as energy or material, which is the treatment used primarily for waste arising at our plants in Europe. Within the framework of ISO 14001, most of the plants have established targets for waste reduction amounts and are raising the recycling level. The cost of external waste management totalled 5.5 MSEK (4.6).

ENVIRONMENTAL REQUIREMENTS FOR SUPPLIERS

Many of the Group's suppliers of raw materials and chemicals are global chemical companies with high ambitions in terms of environmental issues. In addition to these business partners, there are, of course, a large number of local suppliers of products and services. Irrespective of the size of suppliers or their global or local status, we expect them to meet the requirements we impose on ourselves. Consequently, within the frameworks of our environmental management systems, we are increasing the requirements we impose on suppliers. As a key cog in the supplier chain, we shift some of the environmental requirements imposed by our customers to our suppliers.

ENVIRONMENTAL ADAPTATION OF PRODUCTS

A number of HEXPOL's products offer environmental benefits when they arrive at the end user, for example:

- Polymer gaskets used in plate-heat exchangers contribute to energy savings and reduced environmental impact, see page 37. The gaskets also contribute to secure handling of chemicals and food products.
- Porous rubber materials manufactured for the automotive industry contribute to lower vehicle weight and lower fuel consumption.
- The phase-out of health-hazardous substances in our products contributes to reduced chemical-related risks in society.
- Thermoplastic elastomers (TPEs) are recoverable, which is an excellent characteristic in many applications, such as the automotive industry; see page 62. TPEs can also be used in certain applications to replace plastic PVC; see page 28.

ENVIRONMENT-RELATED RISKS

New environmental legislation and changes in environmental policy often represent challenges and costs for business and industry. Other environment-related risks involve climate change, the environmental impact of

suppliers and social conditions, as well as the risk that the products do not offer the environmental performance that customers demand. We conduct regular risk assessments in a number of environment-related risk areas.

Environmental legislation and other official requirements
HEXPOL's production plants have the licences required for operations. The plant at Gislaved has submitted an application for official approval. This programme also includes an assessment of appropriate treatment equipment and the planned investment is valued at a few million kronor. As regards other environmental legislation, it is primarily the REACH chemicals legislation that applies. The risk that any critical chemical has not been registered for HEXPOL's areas of application is deemed to be very minor. Also, our chemical engineers carefully monitor the status of phase-out candidates, meaning certain chemicals that may be forbidden or be subject to restrictions.

Polluted soil
Most of HEXPOL's facilities are relatively newly built on land that was not previously used by contaminating operations. Underground tanks are not used and no emissions, leakage, accidents with oils, solvents or chemicals of significance to the environment were registered in 2010. In Gislaved, Sweden, premises that are being rented are showing signs of soil contamination from petroleum hydrocarbons and other substances. There are no legal requirements for remediation of this land that affect the Group. In connection with corporate acquisitions, assessments of the risk of soil pollutants and other environmental damage are regularly performed.

Hazardous substances in buildings and installations
Ceilings containing asbestos are present in some buildings. This does not require any special measures at this point in time. Polychlorinated biphenyls (PCBs) are present in window joints in buildings at the Gislaved plant. In accordance with legislative requirements, the sealing compounds will be remediated not later than 2013.

Accidents and uncontrolled emissions to the environment
Within the scope of the environmental management systems and the legislative requirements, procedures are in place to reduce the risk of fire, leakage and other accidents. During 2010, minor fire incidents occurred, but without any environmental impact.

Climate-related risks
Ongoing climate change is forecast to cause landslides, flooding, extreme weather situations or other climate-related problems. The Group is keenly monitoring the risk and vulnerability analyses conducted by authorities in various countries. Climate-related risks are taken into account in connection with corporate acquisitions. Currently, one plant has identified flooding as a climate-related risk. This is the plant in Åmål, Sweden, which is near Lake Vänern. Certain precautions have been taken.

Environmental adaptation of products
Monitoring developments in cooperation with customers and researchers reduces the risk that the product range includes products offering inferior environmental performance.

ENVIRONMENT AND FINANCIAL RESULTS

During 2010, HEXPOL invested 6.0 MSEK (0.5) in measures that benefit the environment and work environment. Substantial investments were made in air-treatment equipment, improved work environment and energy-saving measures. Costs during the year totalled 9.3 MSEK (7.5). The greatest costs derived from waste management, and expenses incurred for management and administration of environmental and work-environment projects. Reductions in waste and energy costs provided savings of some 5.9 MSEK (4).

Collaborative energy project with Paderborn university in Germany

The plant in Hückelhoven in Germany is participating with Paderborn university and other companies in a project to reduce energy consumption in the manufacture of rubber compounds in a Banbury mixer. The project encompasses a number of elements, such as:

- Analysis of current energy consumption.
- Study of energy savings – no rubber raw material is pulverised ahead of the compounding process.
- Energy optimisation of various process parameters.
- Energy efficiency-enhancement of various components in the Banbury mixer.

The project, which commenced during 2010, will continue for three years and will be financed in part using state funds. The objective is to attain a more energy-effective process, shorten the length of the cycle and raise the yield from the compounding process. The anticipated successful results will subsequently be applied at HEXPOL Compounding worldwide.

SOCIAL RESPONSIBILITY

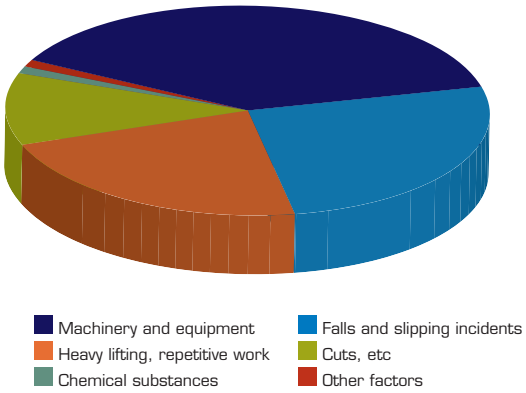
WORK ENVIRONMENT

Work-environment risks arising at production facilities include exposure to dust, hazardous chemicals, noise, heavy lifting, repetitive work and accidents. Preventive programmes are important and comprise a combination of risk analyses, technical measures, training and safety inspections, for example. Formal work safety committees are active at 14 of the 16 production plants. During 2010, risk analyses were conducted at about 50 percent of the facilities. Noise, chemical exposure and other work-environment factors were measured at a number of plants. Special health checks are conducted on the workforce at units that handle isocyanates.

Occupational accidents and illness

During 2010, 67 (45) occupational accidents were registered that resulted in more than one day's absence from work. Total absence attributable to occupational accidents amounted to 771 days (240) days. A common cause underlying injuries was machinery and equipment. One accident involving a contractor occurred during 2010 and 3 (3) work-related illnesses were also confirmed.

Factors underlying occupational accidents



TRAINING

During the year, approximately 18 000 hours were devoted to training of various categories of employees. This corresponded to an average of 6.2 hours (8.4) but, of course, the training input varied depending on what was designated the highest priority at the various units. Environmental, work-environment and safety training was carried out at many facilities and averaged 3.1 hours per employee.

COLLECTIVE AGREEMENTS

The ethical guidelines recognise the employee's right to be represented by trade unions or other employee representatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies from 0 to 100 percent, depending on local conditions in the countries in which we are active. All employees are covered by collective agreements at 35 percent of the plants. This applies to the Group's units in Sweden and China.

Read more about our social responsibility programmes in the section entitled "Corporate responsibility" on pages 46-51.

Annual distribution of school books in Sri Lanka

Elastomeric Engineering Ltd. In Sri Lanka, has a tradition of donating schoolbooks and accessories to its employees' children on 1 January each year. The primary purpose of the event is to strengthen the bonds between the company, employees and their families.

All employees assemble with their families in the plant's premises on the first day of the new year to celebrate the annual event. This year more than 600 children received their schoolbooks and other accessories in the plants in Horana and Bokundara.

In addition, two children in Grade 5 who produced the best results received Elastomeric's scholarships for their future education.

The plant in Horana.

Elastomeric's MD, Roger Jonsson, presents the schoolbooks and scholarships to the employees' children.

Corporate Governance Report

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

GROUP GOVERNANCE AND APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

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

SHAREHOLDERS

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

ARTICLES OF ASSOCIATION

HEXPOL's current Articles of Association were adopted on 5 May 2009. The Articles of Association state that the objective of the company's operations is to acquire, own and actively manage shares in industrial, trading and service companies. The company shall also own and manage securities, sell services in the administrative area and pursue other operations compatible therewith. The Articles of Association formalise issues such as shareholders' rights, the number of Board Members and auditors; that the Annual General Meeting (AGM) is to be held within six months of the end of the financial year; how the notice convening the AGM is to be sent; and that the company's Board has its registered office in Malmö, Sweden. The current Articles of Association are available on the company's website.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) or, whenever applicable, an Extraordinary General Meeting, is HEXPOL's highest decision-making body, which all shareholders are entitled to attend. Shareholders unable to attend personally may participate by proxy. At the Annual General Meeting, the Board presents the annual report, the consolidated financial statements and the auditors' report. HEXPOL issues the notice convening the AGM no later than four weeks prior to the meeting. The Meeting is usually held in Malmö, but may also be held in Stockholm in line with the Articles of Association, usually in May. Among other matters, the AGM passes resolutions such as the adoption of the income statement and balance sheet, the dividend to be paid, amendments to the company's Articles of Association, discharge from liability for the Board and President, election of the Board and auditors and the setting of remuneration for the Board and auditors. The company's auditor attends the AGM. HEXPOL's most recent AGM was held on 7 May 2010.

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 Board members, as well as in respect of the fees and other remuneration for Board assignments to each of the Board members. The Nomination Committee is also to submit proposals regarding the election and fees to be paid to auditors.

The 2010 AGM passed a resolution to the effect that HEXPOL's Nomination Committee should comprise four members representing the largest shareholders in terms of voting rights and that Mikael Ekdahl, representing MSAB (Chairman), Åsa Nisell representing Swedbank Robur funds, Henrik Didner representing Didner & Gerge Fonder and Anders Algotsson representing AFA Försäkring should

Deviation from the Swedish Code for Corporate Governance

Rule	Rule in the Code	Comment
10.1	The Board shall establish an Audit Committee that consists of at least three members	To create a proactive and effective Board, HEXPOL has elected to choose a limited number of Board members. As a result, the Audit Committee has a fewer number of members.

Board of Directors HEXPOL AB

	Year of Birth	Nationality	Elected	Audit Committee	Remuneration Committee	Independent in relation to the company and management	Independent in relation to major shareholders	Holding [1] Number of A shares	Number of B shares	Warrants
Melker Schörling Chairman	1947	Swedish	2007	No	Yes	Yes	No	1 181 250	6 041 731	–
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	–	225 000
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–	–

[1] "Holding" in this context refers to personal shareholdings and those of closely related parties as of 31 December 2010.

be members of the Nomination Committee ahead of the 2011 AGM. Should a shareholder who is represented by one of the members of the Remuneration Committee cease being one of the largest shareholders in HEXPOL, or should a member of the committee no longer be employed by such a shareholder or for any other reason leave the committee prior to the AGM, the committee is entitled to appoint another representative from among the major shareholders to replace such a member.

During the year, the Nomination Committee held one minuted meeting during which the Chairman presented an account of its evaluation work. The Nomination Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2011 AGM.

BOARD OF DIRECTORS

Board composition and independence

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, and no more than two deputies. The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on 7 May 2010 resolved to re-elect a Board consisting of six persons, including the President and CEO. Refer to the table above for the composition of the Board. The Board was re-elected for the period up to the 2011 AGM. The HEXPOL CFO participates in the board meetings and on request, other HEXPOL employees attend Board meetings to present certain specific issues.

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

Responsibilities of the Board of Directors

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

Board Committees

The Board has established two committees from among its members: the Audit Committee and Remuneration Committee.

The Board's Audit Committee, which, on behalf of the Board, has the task of preparing matters involving the procurement of auditing services and auditing fees, monitoring the work of the auditors and the company's internal control system, as well as the current risk profile, following up external auditing and the company's financial information and other issues that the Board assigns the committee to prepare. The Audit Committee is to meet regularly with HEXPOL's auditors and report back to the Board. The committee has no authority to make decisions but instead presents its findings and proposals to the Board for decisions. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member of the Committee must possess accounting and auditing qualifications. According to the Code, the Board must

establish an Audit Committee consisting of at least three Board members. Currently, the committee consists of just two members. As part of efforts to create a vigorous and effective Board, HEXPOL has elected to have a limited number of Board members. As a result, the Audit Committee consists of fewer than three members. The Audit Committee for 2010 comprised Ulrik Svensson (Chairman) and Malin Persson. In 2010, 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, options, pensions and other forms of remuneration for Group executive management. The Remuneration Committee may also address issues related to other management levels, should the Board decide in this respect, as well as other similar issues that the Board assigns the committee to prepare. The committee has no authority to make decisions, but instead presents its findings and proposals to the Board for a decision. The Board appoints the members of HEXPOL's Remuneration Committee annually.

For 2010, the committee consisted of Melker Schörling (Chairman) and Ulrik Svensson. The Remuneration Committee held one minuted meeting during 2010, which was attended by all of the members.

Board activities in 2010

In 2010, the Board held six minuted meetings, in addition to the statutory Board meeting. At all meetings, the CEO provided the Board members with information concerning the Group's financial position and significant events concerning the company's operations.

During 2010, the Board dealt with significant issues such as:

6 February	Year-end report for 2009 and debriefing with the auditors
7 May	Q1 2010 interim report and statutory Board meeting after the 2010 AGM
21 July	Q2 2010 six-month interim report
24 September	Decision to acquire Excel Polymers Group
21 October	Q3 2010 interim report and strategic plan for 2011-2013
15 December	Budget for 2011 budget and visits to subsidiaries

During 2010, the Board members elected by the AGM attended Board meetings as follows:

	Feb	May	July	Sept	Oct	Dec
Melker Schörling	X	X	X	X	X	X
Georg Brunstam	X	X	X	X	X	X
Alf Göransson	X	X	X	X	X	X
Malin Persson	X	X	X	X	X	X
Ulrik Svensson	X	X		X	X	X
Jan-Anders E. Månson		X	X	X	X	X

AUDITORS

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

AGM to present the auditors' report, which describes the audit conducted and the observations made.

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

PRESIDENT/CEO AND GROUP MANAGEMENT

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

The President/CEO has appointed a Group Management consisting of the Chief Financial Officer (CFO) and the company's business and product area managers. Group Management has overriding responsibility for the Group's operations and the allocation of financial resources among business operations and for the financing and capital structure. Regular Group Management and Steering Committee meetings serve as the forum for the implementation of the Group Management's overall governance down to each business and product area, and, in turn, down to the subsidiary level. The organisation is designed to provide short and prompt decision-making processes, with a distinct, decentralised responsibility. Group Management is presented on page 96, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

INFORMATION ON REMUNERATION

Refer to Note 4 on page 81 for information on remuneration, pensions and other benefits for the Board, President and other senior executives.

FINANCIAL REPORTING

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

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

The company's systems for internal control pertaining to financial reporting for the 2010 financial year

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

CONTROL ENVIRONMENT

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

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

RISK MANAGEMENT

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

CONTROL ACTIVITIES

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

IINFORMATION AND COMMUNICATION

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

FOLLOW-UP

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

Financial reports

Consolidated income statements

MSEK	Note	2010	2009
Net sales	1	3 798	2 608
Cost of goods sold		–3 091	–2 185
Gross profit		**707**	**423**
Sales costs		–65	–61
Administration costs		–213	–168
Research and development costs		–36	–31
Other income and expenses		3	0
Operating profit	1,3,4,5,9	**396**	**163**
Financial income	6	3	8
Financial expenses	6	–29	–31
Profit before tax		**370**	**140**
Tax	7	–97	–38
Profit after tax		**273**	**102**
of which, attributable to Parent Company shareholders		273	102
of which, attributable to minority interests		0	–

Earnings per share, SEK	**2010**	**2009**
- Before dilution	10.28	3.84
- After dilution	10.14	3.84

Earnings per share excluding item affecting comparability, SEK	**2010**	**2009**
- Before dilution	11.98	6.48
- After dilution	11.81	6.48

Average number of shares, thousands	**2010**	**2009**
- Before dilution	26 552	26 552
- After dilution	26 919	26 552

Consolidated statement of comprehensive income

MSEK	2010	2009
Profit after tax	273	102
Cash-flow hedges	1	28
Cash-flow hedges, tax	0	–7
Translation difference	–146	–64
Comprehensive income	**128**	**59**
of which, attributable to the Parent Company's shareholders	128	59
of which, attributable to minority interests	0	–

Consolidated balance sheets

MSEK	Note	2010	2009
ASSETS			
Fixed assets			
Intangible fixed assets	8	2 297	1 237
Tangible fixed assets	9	1 116	712
Financial fixed assets		1	1
Deferred tax assets	7	24	27
Total fixed assets		**3 438**	**1 977**
Current assets			
Inventories	10	487	204
Accounts receivable	11	616	246
Current tax receivables		9	16
Other current receivables		23	15
Prepaid expenses and accrued income		20	13
Cash and cash equivalents		318	317
Total current assets		**1 473**	**811**
TOTAL ASSETS		**4 911**	**2 788**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		53	53
Reserves		27	172
Profit brought forward		965	890
Profit for the year		273	102
Total	12	**1 318**	**1 217**
Minority interests		9	–
Total shareholders' equity		**1 327**	**1 217**
Non-current liabilities			
Interest-bearing liabilities	13	1 909	1 001
Deferred tax liabilities	7	79	30
Pension provisions	14	11	11
Total non-current liabilities		**1 999**	**1 042**
Current liabilities			
Interest-bearing current liabilities	13	683	127
Accounts payable		656	287
Current tax liabilities		18	8
Other current liabilities		16	10
Other provisions	15	52	15
Accrued expenses and deferred income	16	160	82
Total current liabilities		**1 585**	**529**
TOTAL EQUITY AND LIABILITIES		**4 911**	**2 788**
Pledged assets	17	27	4
Contingent liabilities	17	4	4

Consolidated changes in shareholders' equity

	Attributable to the Parent Company's shareholders									
	Share capital		Reserves		Profit brought forward		Minority interests		Total equity	
MSEK	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Opening balance, 1 January	53	53	172	215	992	889	–	–	1 217	1 157
Profit after tax	–	–	–	–	273	102	0	–	273	102
Other comprehensive income	–	–	–145	–43	–	–	–	–	–145	–43
Total comprehensive income	–	–	–145	–43	273	102	–	–	128	59
Acquisitions	–	–	–	–	–	–	9	–	9	–
Dividend	–	–	–	–	–27	–	–	–	–27	–
Premium for options programme	–	–	–	–	–	1	–	–	–	1
Expenses in connection with introduction to the stock exchange	–	–	–	–	–	0	–	–	–	0
Closing balance, 31 December	**53**	**53**	**27**	**172**	**1 238**	**992**	**9**	**–**	**1 327**	**1 217**

Consolidated cash flow statements

MSEK	**Note**	**2010**	**2009**
Cash flow from operations	18		
Operating profit		396	163
Adjustment for non-cash items		152	182
Net financial items		–43	–39
Tax paid		–84	–50
Cash flow from operations before changes in working capital		**421**	**256**
Cash flow from changes in working capital			
Changes in working receivables		–115	175
Changes in working liabilities		105	–35
Non-recurring items		–24	–37
Cash flow from operations		**387**	**359**
Investing operations			
Investments in tangible fixed assets		–30	–21
Sales of tangible fixed assets		0	0
Investments in intangible fixed assets		–2	–2
Acquisition of operations	21	–1 827	0
Cash flow from investing activities		**–1 859**	**–23**
Financing activities			
Loans raised		1 916	0
Amortisation of liabilities		–391	–359
Dividend		–27	0
Expenses in connection with the introduction to the stock exchange		–	0
Premium for options		–	1
Cash flow from financing activities		**1 498**	**–358**
Cash flow for the year		**26**	**–22**
Cash and cash equivalents at January 1		317	342
Exchange-rate differences in cash and cash equivalents		–25	–3
Cash and cash equivalents at December 31		**318**	**317**

Operating cash flow, Group

MSEK	**2010**	**2009**
Operating profit, excluding items affecting comparability	460	261
Depreciation/amortisation	88	84
Change in working capital	–10	140
Investments	–32	–23
Operating cash flow	**506**	**462**

Accounting policies

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

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

The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 79.

The applied accounting policies correspond to those applied in the preceding year, subject to the exceptions described below. During the year, the Group introduced the following new and amended standards from IASB and interpretative statements from IFRIC, which impacted on the financial statements as of 1 January 2010:

- IFRS 3R Business Combinations
- IAS 27R Consolidated Financial Statements and separate financial statements

The application of IFRS 3R and IAS 27R impacted on the 2010 financial statements due to the two acquisitions that were implemented during the year. These amendments to the standards primarily resulted in the Group having to expense transaction costs.

Other new standards from IASB and interpretative statements from IFRIC that became effective for implementation in 2010 have no relevance for HEXPOL. New standards and interpretative statements to be applied for 2011 calendar year are not assessed to have any impact on the consolidated financial statements. No standards or interpretative statements are applied in advance.

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements have been prepared in accordance with the purchase method, which means that the Parent Company's acquisition value of shares in subsidiaries is eliminated against subsidiaries' shareholders' equity at the time of acquisition. The shareholders' equity of acquired subsidiaries is determined on the basis of a market valuation of assets and liabilities at the time of acquisition including those not reported earlier by the acquired company. In those cases where the acquisition value of shares in subsidiaries exceeds the acquired shareholders' equity as stated above, the discrepancy is accounted as goodwill in the balance sheet. If the acquisition value is less than the fair value of the acquired net assets, the difference is recognised directly in profit and loss. Purchases of non-controlling interests are recognised either at their fair value, which gives rise to full goodwill, or at their proportionate share of acquired net assets.

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

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

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

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

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

ASSOCIATED COMPANIES

The equity method is applied for associated companies. Associated companies are those companies over which the Parent Company, directly or indirectly, has a material influence. Any differences between the acquisition value and equity value at the time of acquisition are termed goodwill, and are included in the acquisition value.

In the consolidated balance sheet, holdings in associated companies are recognised at acquisition value adjusted for dividends, shares in earnings/losses during the holding period and any impairment losses on goodwill. The consolidated income statement includes shares in associated companies' earnings after elimination of any inter-company gains. Associated company taxes are included in the Group's tax expenses. At the close of every reporting period, the carrying amounts for associated companies, including implicit goodwill values, are impairment tested.

SEGMENT REPORTING

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

REVENUES

HEXPOL applies the following principles for revenue recognition:

Sale of goods

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

Interest income

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

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalised as follows: Capitalisation of development expenses in the Group are only applied to new products where significant development costs are involved, where the products have a probable earnings potential that the Group may benefit from, and the costs are clearly distinguishable from ongoing product development expenditure.

LEASING

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

OTHER OPERATING REVENUES/EXPENSES

Other operating revenues/expenses primarily consist of capital gains/losses from sales of fixed assets and non-recurring items.

FINANCIAL INSTRUMENTS

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

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

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

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

Balances and transactions are hedged, and hedge accounting is applied if the hedging actions taken have the stated objective of constituting a hedge, have a direct correlation to the hedged item and effectively hedge the item. An effective hedge generates financial effects that offset those that arise through the hedged position. When hedging fair value, the change in the fair

value of the hedging instrument is recognised in the income statement together with the change in the value of the liability or asset to which the risk hedging applies.

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

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

PENSION AND SIMILAR COMMITMENTS

HEXPOL's pension commitments are predominantly defined-contribution amounts. In addition, a few employees have defined-benefit pensions. Expenditure for defined contribution plans are expensed as incurred. Expected expenditure under defined benefit plans are recognised as a liability calculated in accordance with actuarial models. Differences between expected and actual development of this liability are not expensed as long as the deviations remain within the so-called corridor. Pension expense for the year consists of pensions vested, interest expense during the period and – if applicable – accrued actuarial gains and losses. A deduction is made for the yield on plan assets intended to cover the obligation. The net cost is recognised in the income statement. Obligations related to defined benefit plans are recognised net in the balance sheet, meaning after a deduction of the value of any plan assets.

Defined benefit plans for which the insurer (Alecta in Sweden) cannot specify the Group's share of the total plan assets and, pending this information becoming available, pension obligations are recognised as defined contribution plans.

PROVISIONS

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

INCOME TAXES

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

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

Deferred tax represents tax on temporary differences arising between the value of assets and liabilities for tax purposes and their carrying amount in the consolidated financial statements, deductible loss carry-forwards and other tax deductions. Deferred tax is calculated applying tax rates that have been decided or announced on the balance-sheet date. Temporary differences on shares in subsidiaries are not recognised because it is not probable that these will be utilised in the foreseeable future. Deferred tax assets are recognised insofar as it is probable that future taxable surpluses will be available to offset them against.

RECEIVABLES AND LIABILITIES

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

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

INVENTORIES

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

GOODWILL

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

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

DEPRECIATION/AMORTISATION ACCORDING TO PLAN

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

Development work	3-10 years
Patents and trademarks	20 years
Other intangible assets	3-15 years
IT equipment	3-8 years

Machinery and equipment	3-15 years
Office buildings	20-50 years
Industrial buildings	20-50 years
Land improvements	5-30 years

IMPAIRMENT LOSSES

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

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

The basic assumptions used to determine whether or not there is an impairment requirement are as follows: When calculating the present value of future cash flows, a cost of capital of 11.5 percent (11.0) before tax has been applied. This rate was determined in relation to an independent assessment of a reasonable cost of capital. The calculation is based on an internal assessment of the next five years. The definition of cash-generating units complies with the Group's organisation and comprises the Group's two business areas. According to the calculations, there is no impairment requirement.

ACCOUNTING POLICIES IN THE PARENT COMPANY

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

The Parent Company does not apply IAS 39.
The Parent Company normally recognises Group contributions issued and received, and the corresponding tax effect, directly in unrestricted shareholders' equity. However, in those cases where Group contributions received can be considered as dividends, the Group contribution is recognised as financial income, and the tax effect is recognised in income tax for the year through profit and loss.

In the Parent Company, shares in Group companies are recognised at acquisition value before any impairment losses.

The Parent Company applies hedge accounting for loans in foreign currencies intended to effectively hedge assets in subsidiaries denominated in corresponding currencies. Accordingly, changes in exchange rates are not recognised for such loans.

Notes of the Group

Note 1 Segment reporting

Information about operating segments

The Group's operations are reported in two business areas, HEXPOL Compounding and HEXPOL Engineered Products.
HEXPOL Compounding manufactures advanced polymer compounds.
HEXPOL Engineered Products manufactures gaskets for plate heat exchangers and wheels for forklift and caster wheel applications.
Assets and liabilities included in each business area pertain to operating assets, such as accounts receivables, inventories, other receivables and tangible and intangible fixed assets, as well as operating liabilities, such as accounts payable, other liabilities, other provisions and accrued expenses. Cash and cash equivalents, taxes and loans are not reported by business areas.

	HEXPOL Compounding		HEXPOL Engineered Products		Group	
MSEK	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Net sales, external	3 080	2 020	718	588	3 798	2 608
Operating profit	334	155	62	8	396	163
Operating profit, excluding items affecting comparability	398	231	62	30	460	261
Operating margin, %	10.8	7.7	8.6	1.4	10.4	6.3
Operating margin, excluding items affecting comparability, %	12.9	11.4	8.6	5.1	12.1	10.0
Net financial items					–26	–23
Tax					–97	–38
Profit for the year					**273**	**102**
Operating assets	4 098	1 981	441	433	4 539	2 414
Operating liabilities	806	305	78	90	884	395
Operating capital	**3 292**	**1 676**	**363**	**343**	**3 655**	**2 019**
Investments	24	10	8	13	32	23
Depreciation/amortisation	58	51	30	33	88	84

Geographic markets	Net sales per recipient country		Operating capital	
MSEK	**2010**	**2009**	**2010**	**2009**
Europe	1 928	1 296	1 172	780
NAFTA	1 639	1 167	2 110	955
Asia	231	145	373	284
Total	**3 798**	**2 608**	**3 655**	**2 019**

Note 2 Transactions with related parties

Transactions between Group companies occur on market-based conditions. The Group purchased energy for 20 MSEK (15) from the associated company Megufo AB in Sweden. On 31 December 2010, the Group had a liability of 2 MSEK (2) to this associated company.

Note 3 Items affecting comparability

MSEK	**2010**	**2009**
Impairment of fixed assets	0	–34
Non-recurring items	–64	–64
Total	**–64**	**–98**
Distribution by function		
Cost of goods sold	–22	–70
Selling costs	–2	–7
Administrative costs	–38	–18
Research and development costs	–2	–3
Total	**–64**	**–98**
Distribution by business area		
HEXPOL Compounding	–64	–76
HEXPOL Engineered Products	–	–22
Total	**–64**	**–98**

Note 4 Employees and personnel costs

Costs for remuneration to employees

MSEK	2010	2009
Salaries and remuneration, etc	398	345
Total	**398**	**345**
To the Board and Presidents,	47	36
of which bonus and similar items	8	8
Pension costs	16	11
Social security costs	82	74
Total	**98**	**85**

Average number of employees

	2010	Of whom, men	2009	Of whom, men
Sweden	335	59%	259	57%
Belgium	64	86%	65	88%
Czech Republic	104	91%	96	95%
Germany	74	93%	78	94%
Mexico	98	89%	76	76%
Canada	–	–	54	81%
USA	364	88%	286	86%
China	106	66%	72	72%
Sri Lanka	945	98%	823	98%
UK	43	86%	–	–
Total	**2 133**	**87%**	**1 809**	**87%**

Personnel costs per country

MSEK	2010	2009
Sweden	175	153
Belgium	41	42
Czech Republic	19	16
Germany	33	34
Mexico	12	10
Canada	0	17
USA	169	130
China	10	7
Sri Lanka	26	21
UK	11	0
Total	**496**	**430**

Gender distribution on the Board of Directors

	10-12-31	09-12-31
Distribution between men and women		
Women	1	1
Men	5	5
Total	**6**	**6**
Gender distribution in Group management		
Distribution between men and women		
Women	0	0
Men	7	7
Total	**7**	**7**

Remuneration of the Board of Directors

	Board fee		Committee fee		Total	
KSEK	2010	2009	2010	2009	2010	2009
Melker Schörling, Chairman	400	400			400	400
Alf Göransson	200	200			200	200
Jan-Anders E. Månson	200	200			200	200
Malin Persson	200	200	75		275	200
Ulrik Svensson	200	200	150	150	350	350
Total	**1 200**	**1 200**	**225**	**150**	**1 425**	**1 350**

Board fees are not payable to employees of the Group.

Remuneration to senior executives

	Basic salary		Variable salary*		Pension costs		Other		Total	
KSEK	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Georg Brunstam, President and CEO	4 410	4 200	2 908	2 520	1 800	1 722	248	233	9 366	8 675
Other members of Group management, 6 persons (6)	11 761	12 664	5 414	4 666	1 990	1 963	768	787	19 933	20 080
Total	**16 171**	**16 864**	**8 322**	**7 186**	**3 790**	**3 685**	**1 016**	**1 020**	**29 299**	**28 755**

* Variable remuneration for 2009 was disbursed in 2010 and variable remuneration for 2010 is payable in 2011.
Two members of Group management resigned in 2009 and were replaced, which affected the amounts in the table above.

Principles for remuneration of the Board and senior executives

Remuneration is paid to the Board of Directors in accordance with resolutions from the Annual General Meeting. The Remuneration Committee submits proposals to the Board of Directors for remuneration of the President and other senior executives. Remuneration of the President and other senior executives comprises basic salary, variable remuneration, other benefits and pension. The variable remuneration is based on earnings and the return on capital employed. Between the company and President, the President is entitled to employment termination notice of six months. If employment termination is initiated by the company, the period of notice is 24 months. For other senior executives, the period of notice is six months and from the company the norm is 12 months. There are no agreements concerning severance pay and there are no outstanding pension obligations.

Note 4, Continued

Warrants

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

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

Note 5 Fees and cost remuneration to auditors

MSEK	2010	2009
Ernst & Young		
Audit assignment	4	4
Audit activities in addition to audit assignment	–	–
Tax consultancy	1	0
Other services	0	0
Other auditors		
Audit assignment	0	0
Other services	1	1
Total	**6**	**5**

Audit assignment refers to the review of the Annual Report and the accounting records as well as the management by the Board of Directors and President, other assignments that fall upon the Group's auditors to perform and advice or other assistance resulting from observations at such review or implementation of such other assignments.

Note 6 Financial income and expenses

MSEK	2010	2009
Interest income	0	1
Other financial income	3	7
Financial income	**3**	**8**
Interest expense	–17	–23
Other financial expense	–12	–8
Financial expense	**–29**	**–31**
Net financial expense	**–26**	**–23**

Note 7 Tax

MSEK	2010	2009
Current tax expense		
Tax expense on profit for the year	–93	–38
Total	**–93**	**–38**
Deferred tax expense		
Deferred tax pertaining to temporary differences	–23	–2
Utilised/revaluation of loss carryforwards	19	2
Total	**–4**	**0**
Total recognised tax expense	**–97**	**–38**

At 31 December 2010, the Group had loss carryforwards of 64 MSEK that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 21 MSEK expires within five years.

Note 7, Continued

Reconciliation of effective tax

MSEK	2010	%	2009	%
Profit before tax	370		140	
Tax according to applicable tax rate for the Parent Company	–97	–26	–37	–26
Effect of other tax rates for foreign subsidiaries	–8	–2	–7	–5
Non-deductible expenses	–1	0	–1	–1
Non-taxable income	0	0	0	0
Deductible goodwill amortisation	6	2	7	5
Revaluation of loss carryforwards/temporary differences	3	1	0	0
Tax attributable to prior years	0	0	0	0
Total reported tax expense	**–97**	**–26**	**–38**	**–27**

Deferred tax asset/tax liabilities

	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
MSEK	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Intangible assets	0	–	0	0	–26	–	–	–	–	–	–26	–
Tangible assets	–34	–24	–9	–9	–14	–	–	–	3	–1	–54	–34
Current assets	5	0	–3	5	–	–	–	–	0	0	2	5
Operating liabilities	3	0	1	3	–	–	–	–	0	0	4	3
Loss carryforwards	3	1	19	2	–	–	–	–	–1	0	21	3
Liabilities	20	39	–12	0	–	–	–10	–19	0	0	–2	20
Other	0	1	0	–1	–	–	–	–	0	0	0	0
Total	**–3**	**17**	**–4**	**0**	**–40**	**–**	**–10**	**–19**	**2**	**–1**	**–55**	**–3**

Note 8 Intangible fixed assets

Accumulated acquisition value

	Goodwill		Other intangible assets		Total	
MSEK	2010	2009	2010	2009	2010	2009
Opening balance on 1 January	1 238	1 276	26	32	1 264	1 308
Acquisitions	1 083	–	142	–	1 225	–
Investments	–	1	2	1	2	2
Disposal/Impairment losses	–	–	–	–5	–	–5
Reclassification	–	–	–	0	–	0
Translation difference	–112	–39	–6	–2	–118	–41
Closing balance on 31 December	**2 209**	**1 238**	**164**	**26**	**2 373**	**1 264**

Accumulated amortisation

	Goodwill		Other intangible assets		Total	
MSEK	2010	2009	2010	2009	2010	2009
Opening balance on 1 January	–10	-10	–17	–19	–27	–29
Acquisitions	–1	–	–45	–	–46	–
Amortisation according to plan for the year	–	–	–4	-4	-4	-4
Disposal/Impairment losses	–	–	–	4	–	4
Translation difference	0	0	1	2	1	2
Closing balance on 31 December	**–11**	**–10**	**–65**	**–17**	**–76**	**–27**
Carrying amount on 31 December	**2 198**	**1 228**	**99**	**9**	**2 297**	**1 237**

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

Note 8, Continued

Goodwill distributed by operating segment

	Goodwill	
MSEK	**2010**	**2009**
HEXPOL Compounding	2 173	1 202
HEXPOL Enginereed Products	25	26
Closing balance on 31 December	**2 198**	**1 228**

Goodwill and other assets are impairment tested annually or more frequently if there is an indication of a value decline. Such testing is based on the Group's cash-generating units, which are the Group's two business areas.
The recoverable value is the higher of an asset's net realisable value and its value in use, meaning the discounted present value of future cash flows.
When calculating the present value of future cash flows, a cost of capital of 11.5 percent before tax (11.0) has been used. Reconciliation has been conducted against an external estimation of a fair capital cost. The calculation is based on an internal estimation of the five years ahead, followed by assumed annual growth of 2 percent (2). The calculations did not indicate any need for impairing assets. A sensitivity analysis shows that a 50-percent decrease in sustainable growth, an increase in WACC by 2 percentage points and a decline in sustainable profitability (EBITDA) by 2 percentage points would still not result in the need for impairment in any business area.

Note 9 Tangible fixed assets and Operational leasing

Operational leasing

Non-cancellable leasing payments amount to

MSEK	**2010**	**2009**
Within one year	20	9
Between one and five years	40	8
Longer than five years	4	0
Total	**64**	**17**

Leasing expenses

MSEK	**2010**	**2009**
Minimum leasing fees	13	10
Total	**13**	**10**

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

Tangible fixed assets

Accumulated acquisition value	**Land and buildings**		**Machinery and equipment**		**Total**	
MSEK	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Opening balance on 1 January	382	386	1 129	1 337	1 511	1 723
Investments	3	5	27	16	30	21
Acquisitions	158	–	777	–	935	–
Divestments, disposals and impairment losses	0	–21	–44	–143	–44	–164
Reclassification	0	31	0	–31	0	0
Translation difference	–28	–19	–75	–50	–103	–69
Closing balance on 31 December	**515**	**382**	**1 814**	**1 129**	**2 329**	**1 511**

Note 9, Continued

Accumulated depreciation	Land and buildings		Machinery and equipment		Total	
MSEK	2010	2009	2010	2009	2010	2009
Opening balance on 1 January	–118	–124	–681	–756	–799	–880
Acquisitions	–32	–	–401	–	–433	–
Depreciation according to plan for the year	–13	–12	–71	–68	–84	–80
Divestments, disposals and impairment losses	0	13	44	118	44	131
Translation difference	11	5	48	25	59	30
Closing balance on 31 December	**–152**	**–118**	**–1 061**	**–681**	**–1 213**	**–799**
Carrying amount on 31 December	**363**	**264**	**753**	**448**	**1 116**	**712**

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

MSEK	2010	2009
Cost of goods sold	79	74
Selling costs	0	0
Administration costs	7	8
Product development costs	1	1
Others	1	1
Total	**88**	**84**

Note 10 Inventories

MSEK	2010	2009
Raw materials	342	121
Goods in production	36	16
Finished goods	109	67
Total	**487**	**204**

No significant impairments have been made during the year.

Note 11 Accounts receivables

Age distribution of accounts receivables

MSEK	2010	2009
Not due	559	208
Past due, 1-60 days	57	38
Past due, more than 60 days	0	0
Accounts receivable	**616**	**246**

Provisions for bad debt losses

MSEK	2010	2009
Opening balance	–34	–23
Provision for the year	7	–11
Acquisitions	–13	–
Actual losses	0	0
Closing balance	**–40**	**–34**

Note 12 Shareholders' equity

Changes in the number of shares

	Class A shares		Class B shares		Total	
	2010	2009	2010	2009	2010	2009
Opening balance on 1 January	1 181 250	1 181 250	25 370 727	25 370 727	26 551 977	26 551 977
Closing balance on 31 December	**1 181 250**	**1 181 250**	**25 370 727**	**25 370 727**	**26 551 977**	**26 551 977**

Average number of shares before and after dilution, thousands	2010	2009
Average number of shares before dilution	26 552	26 552
Estimated average number of potential shares pertaining to the options programme	367	–
Average number of shares after dilution	**26 919**	**26 552**

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

	Class A shares	Class B shares	Total
Number of votes	11 812 500	25 370 727	37 183 227

Note 13 Interest-bearing liabilities

Non-current liabilities

MSEK	2010	2009
Liabilities to credit institutions	1 909	1 001
Non-current liabilities	**1 909**	**1 001**

Current liabilities

MSEK	2010	2009
Liabilities to credit institutions	667	127
Other liabilities	16	0
Current liabilities	**683**	**127**

Loans	2010		2009	
MSEK	Utilised	Unutilised	Utilised	Unutilised
Syndicated loan, 1 700 MSEK	1 460	240	1 001	699
Bilateral loan, 100 MUSD	449	232	–	–
Total non-current liabilities	**1 909**		**1 001**	
Bank loan, Mexico, 20 MUSD	112	24	127	17
Bridge loan, 550 MSEK	550	–	–	–
Other	21	–	0	–
Total current liabilities	**683**		**127**	

The syndicated loan was raised in USD, EUR and SEK and carries floating interest. The syndicated loan is free from amortisation and falls due in May 2013. The bilateral loan was raised in USD and SEK and carries floating interest. The bilateral loan is free from amortisation and falls due in October 2015. Both the syndicated loan and the bilateral loan are subject to certain financial covenants, which were fulfilled at 31 December 2010. The bank loan in Mexico falls due in December 2011 and carries floating interest. The intention is that the bridge loan of 550 MSEK will be refinanced using the proceeds from the rights issue and the loan will be terminated when the rights issue has been settled in full. HEXPOL had no interest-bearing or currency derivatives at 31 December 2010 involving external borrowing.

Note 14 Pension provisions

MSEK	2010	2009
Provisions for pensions	11	11
Provisions	**11**	**11**

Changes in provisions

MSEK	2010	2009
Opening balance on 1 January	11	11
Provisions for the year	0	0
Closing balance on 31 December	**11**	**11**

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

Note 15 Other provisions, provision for the restructuring programme

MSEK	2010	2009
Opening balance	15	–
Provisions during the year	53	52
Utilised during the year	–13	–37
Translation difference	–3	0
Closing balance	**52**	**15**

The provision mainly pertains to salaries during periods of notice, most of which will be disbursed during 2011.

Note 16 Prepaid expenses and accrued income

MSEK	2010	2009
Personnel-related expenses	91	58
Prepaid expenses	5	2
Bonus to customers	0	2
Others	60	19
Interest	4	0
Derivative instruments	0	1
Total	**160**	**82**

Note 17 Pledged assets and contingent liabilities

Pledged assets

MSEK	2010	2009
Fixed assets	0	0
Current assets	27	4
Total	**27**	**4**

Contingent liabilities

MSEK	2010	2009
Guarantee for the benefit of associated companies	4	4
Total	**4**	**4**

Note 18 Cash flow statement

Financial items received and paid

MSEK	2010	2009
Financial income received	3	11
Financial expenses paid	–46	–50

Adjustments for non-cash items

MSEK	2010	2009
Depreciation	88	84
Non-recurring items	64	98
Total	**152**	**182**

Note 19 Financial instruments and risk management

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

Outstanding sell forward contracts at 31 December

	2010		2009	
MSEK	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Currency forward contracts	47	44	72	70
Currency distribution	**Nominal value**	**Average hedging rate**	**Nominal value**	**Average hedging rate**
EUR/SEK	47	9.58	72	10.83

Note 19, continued
In order to manage the Parent Company's exposure to intra-Group loans and receivables in foreign currency, these are hedged using forward contracts. The revaluation is recognised in profit and loss. All forward contracts mature within one year.

Forward contracts outstanding at 31 December

	2010		2009	
MSEK	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Currency forward contracts	245	245	346	345
Currency distribution	**Nominal value**	**Average hedging rate**	**Nominal value**	**Average hedging rate**
EUR/SEK	137	9.01	72	10.36
CZK/SEK	84	0.36	249	0.3936
USD/SEK	24	6.80	25	7.16

Sell forward contracts outstanding at 31 December

	2010		2009	
MSEK	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Currency forward contracts	103	104	–	–
Currency distribution	**Nominal value**	**Average hedging rate**	**Nominal value**	**Average hedging rate**
GBP/SEK	103	10.48	–	–

Note 20 Quarterly data

	2010				2009			
MSEK	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net sales	1 132	950	966	750	703	651	607	647
Operating profit	73	120	116	87	80	81	54	–52
Operating profit, excluding items affecting comparability	137	120	116	87	80	81	54	46
Profit after tax	53	82	80	58	68	57	32	–55

Note 21 Acquisitions

Acquisition of ELASTO Group
On 1 April 2010, HEXPOL acquired 100 percent of the operations of ELASTO UK Ltd and the company ELASTO AB from the UK companies Vita Thermoplastic Compounds Ltd and Vita International Ltd, respectively, with operations in Manchester, UK, and Åmål, Sweden. ELASTO Group is a leading European manufacturer of thermoplastic elastomer compounds.
The operations had sales of 356 MSEK and profit after tax of 19 MSEK in 2010. On the acquisition date, the number of employees was approximately 85.

The acquired net assets and goodwill are presented below:

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

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

The following assets and liabilities were included in the acquisition:

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

Acquisition of Excel Polymers Group

On 30 November 2010, the HEXPOL Group acquired 100 percent of the operations of Excel Polymers Group. The company is a leading supplier of elastomer solutions and offers a broad portfolio of polymer material compounds, chemical additives and technical know-how primarily to manufacturers of rubber components. Excel Polymers Group has an impressive breadth in terms of expertise and capacity for polymer compounds and a global presence through eight manufacturing units strategically located in the US, China, Mexico and the UK. During 2010, the operations had total sales of 377 MUSD and EBITDA of 34 MUSD.

On the acquisition date, the number of employees was approximately 800. The purchase consideration was 212.5 MUSD, adjusted for net liabilities, corresponding to 1 486 MSEK.

The acquired net assets and goodwill are presented below:

MSEK	
Purchase consideration:	1 545
Fair value of acquired net assets	–764
Goodwill	**781**

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's current product offering. The acquisition generates synergism in both the short and the medium terms in the areas of purchasing, product development, sales and administration. The fair value of acquired net assets includes 79 MSEK for the estimated value of acquired customer relations. The acquisition analysis that has been prepared is preliminary and may be amended during 2011.

The following assets and liabilities were included in the acquisition:

MSEK	Fair value
Cash and cash equivalents	59
Current assets	625
Tangible assets	455
Deferred tax assets	4
Intangible assets	96
Interest-bearing liabilities	–20
Current liabilities	–419
Deferred tax liabilities	–27
Minority interests	–9
Acquired net assets	**764**
Goodwill	**781**
Total purchase consideration	**1 545**
Interest-bearing receivable in acquired operation	–59
Cash and cash equivalents in acquired operations	**1 486**

Income statements for the Parent Company

MSEK	Note	2010	2009
Net sales	22	**23**	**31**
Administrative costs		–35	–33
Operating profit/loss	23,24	**–12**	**–2**
Financial income	25	747	10
Financial expense	25	–70	–29
Profit/loss before tax		**665**	**–21**
Tax	26	19	6
Profit/loss after tax		**684**	**–15**

Comprehensive income matches profit/loss after tax.

Balance sheets for the Parent Company

MSEK	Note	2010	2009
ASSETS			
Fixed assets			
Tangible fixed assets	27	0	1
Other intangible fixed assets		0	0
Interest-bearing intra-Group receivables		1 352	0
Financial fixed assets	29	2 432	1 493
Deferred tax assets		3	3
Total fixed assets		**3 787**	**1 497**
Current assets			
Intra-Group operating receivables		7	8
Interest-bearing intra-Group receivables		440	383
Prepaid expenses and accrued income		17	5
Cash and cash equivalents		72	169
Total current assets		**536**	**565**
TOTAL ASSETS		**4 323**	**2 062**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		53	53
Accumulated earnings		339	327
Net profit/loss for the year		684	–15
Total shareholders' equity		**1 076**	**365**
Non-current liabilities			
Interest-bearing liabilities to credit institutions	13	1 916	924
Total non-current liabilities		**1 916**	**924**
Current liabilities			
Accounts payable		0	1
Interest-bearing intra-Group liabilities		763	758
Interest-bearing liabilities to credit institutions	13	550	–
Other current liabilities		0	1
Accrued expenses and prepaid revenues	28	18	13
Total current liabilities		**1 331**	**773**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**4 323**	**2 062**
Pledged assets	30	111	111
Contingent liabilities		–	–

Change in shareholders' equity for Parent Company

MSEK	Share capital 2010	Share capital 2009	Non-restricted equity 2010	Non-restricted equity 2009	Total shareholders' equity 2010	Total shareholders' equity 2009
Opening balance, 1 January	53	53	312	310	365	363
Net profit/loss for the year			684	–15	684	–15
Dividend			–27	–	–27	–
Expenses in connection with introduction to the stock exchange			–	0	–	0
Group contribution after tax			54	17	54	17
Closing balance, 31 December	**53**	**53**	**1 023**	**312**	**1 076**	**365**

Cash flow statements for the Parent Company

MSEK	2010	2009
Cash flow from operations		
Operating profit	–12	–2
Adjustment for non-cash items		
deprecation	1	0
Financial income received	13	10
Financial expenses paid	–23	–29
Paid tax	0	0
Cash flow from operations before changes in working capital	**–21**	**–21**
Cash flow from changes in working capital		
Changes in current receivables	–11	–1
Changes in current liabilities	3	–15
Cash flow from operations	**–29**	**–37**
Investing activities		
Gross investments in tangible fixed assets	0	0
Sales of tangible fixed assets	–	–
Gross investments in financial fixed assets	0	0
Dividends from subsidiaries	964	–
Acquisition of subsidiaries	–914	–
Cash flow from investing activities	**50**	**0**
Financing activities		
Expenses in connection with introduction to the stock exchange	–	0
Change in interest-bearing receivables	–1 409	134
Change in interest-bearing liabilities	1 500	–80
Group contributions received	72	23
Dividend	–27	–
Shareholder contribution	–254	–17
Cash flow from financing activities	**–118**	**60**
Cash flow for the year	**–97**	**23**
Cash and cash equivalents on 1 January	169	146
Cash and cash equivalents on 31 December	**72**	**169**

Note 22

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

Note 23 Employees and personnel expenses

Average number of employees	2010	2009
Women	2	2
Men	3	4
Total	**5**	**6**

Wages, salaries, other remuneration and social security costs

MSEK	2010	2009
Board of Directors	1	1
CEO	7	7
Other employees	4	5
Social security costs, pension costs and payroll tax	9	7
Total	**21**	**20**

Total sickness absence in the Parent Company amounted to 0 percent (0).

Note 24 Fees and expense reimbursement to auditors

KSEK	2010	2009
Ernst & Young		
Audit	397	367
Other assignments	185	188
Total	**582**	**555**

Note 25 Financial income and expenses

MSEK	2010	2009
Dividend	964	0
Impairment losses on shares in subsidiaries	–230	0
Interest income	0	0
Interest income from Group receivables	13	10
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	**747**	**10**
Interest expense	–15	–19
Interest expense for Group liabilities	–4	–8
Exchange-rate loss	–47	0
Other financial expense	–4	–2
Financial expenses	**–70**	**–29**

Note 26 Taxes

MSEK	2010	2009
Current tax expense		
Tax expense for the period	19	6
Tax adjustment attributable to prior years	–	0
Total	**19**	**6**
Deferred tax expense		
Deferred tax pertaining to temporary differences	0	0
Utilisation/revaluation of losses carried forward	0	0
Total	**0**	**0**
Total recognised tax expense	**19**	**6**

Note 27 Tangible fixed assets

Accumulated acquisition value MSEK	2010 Equipment	2009 Equipment
Opening balance, 1 January	2	2
Investments	0	0
Divestments and disposals	0	0
Closing balance, 31 December	**2**	**2**

Accumulated depreciation MSEK	2010 Equipment	2009 Equipment
Opening balance, 1 January	–1	–1
Depreciation for the year	–1	0
Divestments and disposals	0	0
Closing balance, 31 December	**–2**	**–1**
Carrying amount, 31 December	**0**	**1**

Note 28 Accrued expenses and prepaid revenues

MSEK	2010	2009
Personnel-related expenses	11	11
Unrealised exchange-rate differences	1	1
Other	6	1
Total	**18**	**13**

Note 29 Group companies

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

MSEK Subsidiaries	Corp. Reg. No.	Registered office	Proportion of equity	2010	2009
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100.0%	101	101
Megufo AB	556421-2453	Gislaved, Sweden	50.0%		
Stellana AB	556084-8870	Laxå, Sweden	100.0%	29	29
Elastomeric Engineering Co., Ltd.		Sri Lanka	99.6% 1)	58	58
Elastomeric Technologies (Pvt) Ltd.		Sri Lanka	100.0%		
Elastomeric Tools & Dies (Pvt) Ltd.		Sri Lanka	100.0% 2)		
HEXPOL Compounding HQ Sprl		Belgium	100.0%	469	469
HEXPOL Compounding Sprl		Belgium	100.0%		
HEXPOL Compounding s.r.o		Czech Republic	100.0%	435	
HEXPOL Compounding NC Inc.		USA	100.0%	75	75
Stellana U.S. Inc.		USA	100.0%	4	4
HEXPOL Compounding (Qingdao) Co.. Ltd.		China	100.0%	56	56
HEXPOL Compounding S.A de C.V		Mexico	100.0%		
Gold Key Processing Inc.		USA	100.0%	361	361
Gislaved Gummi (Qingdao) Co., Ltd.		China	100.0%	33	33
Stellana (Qingdao) Co.. Ltd.		China	100.0%	7	7
Thona Canada BV		Netherlands	100.0%	166	166
HEXPOL Compounding ULC		Canada	100.0%		
HEXPOL Compounding GmbH		Germany	100.0%	134	134
ELASTO Sweden AB	556191-5777	Åmål, Sweden	100.0%	250	
ELASTO UK Ltd.		UK	100.0%	23	
HEXPOL Holding Inc.		USA	100.0%	231	
Excel Polymers Holdings LLC		USA	100.0%		
Excel Polymers LLC		USA	100.0%		
EXLP Global (Mexico) Services S.A. de C.V		Mexico	100.0%		
EXLP Global (Mexico) S.A. de C.V		Mexico	100.0%		
EXLP H.K Co., Ltd.		USA	100.0%		
EXLP Global (UK) Ltd.		UK	100.0%		
Chase Elastomer (UK) Ltd.		UK	100.0%		
Excel Asia LLC		China	100.0%		
EXLP Global (Foshan) Co., Ltd.		China	61.0% 3)		
Total carrying amount in the Parent Company				**2 432**	**1 493**

1) Gislaved Gummi AB owns 200 shares included in this holding. The remaining 0.4 percent of the shares is owned by external parties.
2) Elastomeric Technologies Ltd owns 69.6 percent and Elastomeric Engineering Company Ltd 30.4 percent of the shares.
3) Mitsui & Co., Ltd owns 39% of the shares in EXLP Global (Foshan) Co., Ltd.

Note 30 Assets pledged

MSEK	2010	2009
Sureties for subsidiaries	111	111
Total	**111**	**111**

Proposed distribution of unappropriated earnings

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

Profit brought forward from the preceding year	338 792
Net profit for the year	684 375
Total non-restricted funds	**1 023 167**

The Board proposes that the unappropriated funds be disposed of as follows: A dividend to the shareholders of 3.00 SEK per share (including newly issued shares).

Total dividend from earnings brought forward	103 260
To be carried forward	919 907
Total	**1 023 167**

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 Board of Director's 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 significant risks and uncertainties facing the companies included in the Group.

Malmö, 11 March 2011

Melker Schörling
Chairman of the Board

Alf Göransson
Board Member

Malin Persson
Board Member

Ulrik Svensson
Board Member

Jan-Anders E. Månson
Board Member

Georg Brunstam
President and CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 11 March 2011. 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 6 May 2011 for adoption.

Our audit report was submitted on 11 March 2011

ERNST & YOUNG AB

Ingvar Ganestam
Authorised Public Accountant, auditor in charge

Stefan Engdahl
Authorised Public Accountant

Auditors' Report

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

We have audited the Annual Report and the consolidated finan cial statements, with the exception of the Corporate Governance Report on pages 66-71, the accounts and the administration of the Board of Directors and the President of HEXPOL AB (publ) for the 2010 financial year. The Company's Annual Report and the consolidated finan cial statements are included on pages 52-94 of the printed version of this document. The Board of Directors and the President are responsible for these accounts and the administration of the Company, and for ensuring that the Annual Accounts Act is applied when the Annual Report is compiled, and that the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act are applied for compiling the consolidated accounts. Our responsibility is to express an opinion on the Annual Report, consolidated financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that we plan and perform the audit to obtain reason able assurance that the Annual Report and the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, evaluating the material estimations made by the Board of Direc tors and President when compiling the Annual Report and the consolidated financial statements, and evaluating the overall presentation of information in the Annual Report and consolidated financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The Annual Report has been prepared in accordance with the Annual Accounts Act and provides a true and fair picture of the Company's and the Group's earnings and financial position in accordance with Generally Accepted Accounting Standards in Sweden. The consolidated accounts have been compiled in compliance with the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act and provide an accurate impression of the Group's earnings and financial position. Our opinion does not cover the Corporate Governance Report on pages 66-71. The Administration Report is compatible with the other parts of the Annual Report and consolidated financial statements.

We recommend that the Annual General Meeting adopt the income statements and balance sheets of the Parent Company and the Group, that the profit in the Parent Company be dealt with in accordance with the proposal in the Administration Report and that the members of the Board and the President be discharged from liability for the financial year.

Auditors' report on the Corporate Governance Report

It is the Board of Directors and the President who are responsible for the Corporate Governance Report on pages 66-71 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the other parts of the annual accounts and the consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the company.

In our opinion, a Corporate Governance Report has been prepared and its statutory content is consistent with the other parts of the annual accounts.

Malmö, 11 March 2011

ERNST & YOUNG AB

Ingvar Ganestam
Authorised Public Accountant

Stefan Engdahl
Authorised Public Accountant

Board of Directors, auditors and Group management

Board of Directors of HEXPOL AB

	Year of birth	Nationality	Elected	Audit Committee	Remuneration Committee	Independent in relation to the company and management	Independent in relation to the Company's major shareholders	Innehav[1] Number of Class A shares	Number of Class B shares	Number of warrants
Melker Schörling Chairman of the Board	1947	Swedish	2007	No	Yes	Yes	No	1 181 250	6 041 731	–
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	–	225 000
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–	–

[1] The term "Holdings" refers both to shares held by the person indicated and shares held by related parties at 31 December 2010.

Melker Schörling

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

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

HEXPOL shareholding:
1 181 250 Class A shares and 6 041 731 Class B shares, through Melker Schörling AB.

Georg Brunstam

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

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

HEXPOL shareholding: –

HEXPOL warrants:
225 000 Class B shares.

Alf Göransson

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

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

HEXPOL shareholding: –

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

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

HEXPOL shareholding: –

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

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

HEXPOL shareholding: –

Jan-Anders E. Månson
Born in 1952, M.Sc. (Eng.) and Doctor of Technology.
Member of the Board since 2008.

Other assignments: Professor at Ecole Polytechnique Fedérale de Lausanne. Chairman of the Board of AISTS. Member of the Board of EELCEE SA, Niscayah SA and VINNOVA.

HEXPOL shareholding: –

Auditors
At the Extraordinary General Meetings held on 2 April 2008 and 21 April 2008, the registered accounting firm Ernst & Young AB, with Authorised Public Accountant Ingvar Ganestam as auditor-in-charge and Authorised Public Accountant Stefan Engdahl, with Authorised Public Accountant Johan Thuresson as deputy auditor, active at Ernst & Young AB and members of FAR SRS, were elected for the current year up to the end of 2012. All auditors can be reached at Ernst & Young AB, Box 7850, SE-103 99 Stockholm.

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

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

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

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

Senior executives

Georg Brunstam

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

Other assignments: Member of the Board of Nibe Industrier AB, AB Wilh Becker, DIAB Group AB and Båstad-tennis & Hotell AB.

HEXPOL shareholding: –

Warrants in HEXPOL:
225 000 Class B shares

Urban Ottosson

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

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

HEXPOL shareholding:
10 000 Class B shares.

Warrants in HEXPOL:
100 000 Class B shares

Lars-Åke Bylander

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

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

HEXPOL shareholding:
155 Class B shares.

Warrants in HEXPOL:
75 000 Class B shares

Tracy Garrison

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

Other assignments: –

HEXPOL shareholding: –

Warrants in HEXPOL:
95 000 Class B shares

Jan Wikström

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

Other assignments: –

HEXPOL shareholding: –

Warrants in HEXPOL:
75 000 Class B shares.

Carsten Rüter

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

Other assignments: –

HEXPOL shareholding: –

Warrants in HEXPOL:
60 000 Class B shares.

Ralph Wolkener

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

Other assignments: –

HEXPOL shareholding: –

Warrants in HEXPOL:
35 000 Class B shares.

Shareholder information

Annual General Meeting

The AGM will be held on 6 May 2011 at 3:00 p.m. in Malmö, Sweden (Börshuset, Skeppsbron 2). The 2010 Annual Report will be distributed to shareholders not later than during week 16 and will then also be available on HEXPOL's website and at the head office. Shareholders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden no later than 30 April 2011 and notify their intention to participate to HEXPOL's head office no later than 2 May at 12:00 noon. Shareholders whose shares are registered with a trustee must no later than 30 April temporarily re-register the shares in their own name to be entitled to participate in the AGM.

Dividend proposal

The Board of Directors will propose to the Annual General Meeting on 6 May that a dividend of 3.00 SEK (1.00) be paid.

Calendar for financial information:

HEXPOL AB will submit financial information on the following dates:

Activity	Date
2010 Annual Report, published	April 2011
Interim report first quarter 2011	6 May 2011
Annual General Meeting	6 May 2011
Six-month report 2011	21 July 2011
Interim report, third quarter 2011	21 Oct. 2011
Year-end report 2011	February 2012

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

For more information, please contact:

- Georg Brunstam,
  President and CEO
  Tel: +46 708 55 12 51
- Urban Ottosson,
  Chief Financial Officer and
  Investor Relations Manager
  Tel: +46 767 85 51 44

Five-year summary

MSEK	2010	2009	2008	2007	2006
Condensed INCOME STATEMENTS					
Net sales	**3 798**	**2 608**	**3 190**	**2 730**	**2 488**
Operating expenses	–3 402	–2 445	–2 880	–2 425	–2 283
Operating profit	**396**	**163**	**310**	**305**	**205**
Net financial items	–26	–23	–52	–50	–39
Profit before tax	**370**	**140**	**258**	**255**	**166**
Tax	–97	–38	–75	–69	–48
Profit after tax	**273**	**102**	**183**	**186**	**118**
Condensed BALANCE SHEETS					
Assets					
Fixed assets	3 438	1 977	2 167	1 871	1 340
Current assets	1 155	494	692	696	571
Cash and cash equivalents	318	317	342	228	116
Total assets	**4 911**	**2 788**	**3 201**	**2 795**	**2 027**
Shareholders' equity and liabilities					
Shareholders' equity	1 327	1 217	1 157	1 025	883
Interest-bearing liabilities	2 592	1 128	1 535	1 386	828
Other liabilities and provisions	992	443	509	384	316
Total shareholders' equity and liabilities	**4 911**	**2 788**	**3 201**	**2 795**	**2 027**
Condensed CASH FLOW STATEMENT					
Cash flow from operating activities	387	359	393	265	179
Net investments in tangible and intangible fixed assets	–32	–23	–105	–173	–124
Acquisitions of operations	–1 827	–	–	–350	–
Cash flow from financing activities	1 498	–358	–194	370	–18
Cash flow for the year	**26**	**–22**	**94**	**112**	**37**
Cash and cash equivalents, January 1	317	342	228	116	79
Exchange rate difference in cash flow	–25	–3	20		
Cash and cash equivalents, December 31	**318**	**317**	**342**	**228**	**116**

	2010	2009	2008	2007	2006
Key figures					
Average shareholders' equity, MSEK	1 268	1 187	1 091	953	882
Average capital employed, MSEK	2 780	2 530	2 562	2 136	1 757
Profit margin before tax, %	9.7	5.4	8.1	9.3	6.7
Return on shareholders' equity, %	21.5	8.6	16.8	19.5	13.4
Return on capital employed, %	13.9	6.4	13.2	15.1	12.1
Net sales growth, %	45.6	–18.2	16.8	9.7	12.8
Operating margin, %	10.4	6.3	9.7	11.2	8.2
Earnings per share, SEK	10.28	3.84	6.89	7.01	4.44
Net debt/equity ratio, times	1.7	0.6	1.0	1.1	0.8
Equity/assets ratio, %	27.0	43.7	36.1	36.7	43.6
Equity per share, SEK	49.64	45.83	43.57	38.60	33.26
Dividend, MSEK	27	–	–	–	–
Dividend per share, SEK	1.00	–	–	–	–
Cash flow from operating activities, MSEK	387	359	393	265	179
Cash flow from operating activities per share, SEK	14.58	13.52	14.80	9.98	6.74
Average number of employees	2 133	1 809	2 315	2 120	1 933
Number of employees at year end	3 037	1 827	2 230	2 327	2 016
Sales per employees, MSEK	1.78	1.44	1.38	1.29	1.29
Key figures adjusted for items affecting comparability					
Operating profit, MSEK	460	261	310	305	205
Operating margin, %	12.1	10.0	9.7	11.2	8.2
Profit before tax, MSEK	434	238	258	255	166
Profit margin before tax, %	11.4	9.1	8.1	9.3	6.7
Profit after tax, MSEK	318	172	183	186	118
Earnings per share, SEK	11.98	6.48	6.89	7.01	4.44
Return on shareholders' equity, %	25.1	14.5	16.8	19.5	13.4
Return on capital employed, %	16.2	10.3	13.2	15.1	12.1

Financial definitions

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

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

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

EBIT Operating profit after depreciation/amortisation and impairment losses.

EBITDA Operating profit before depreciation/amortisation and impairment losses.

Earnings per share Net profit after tax, attributable to the Parent Company's shareholders, divided by average number of shares.

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

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

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

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

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

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

Operationg cash flow Operating profit less depreciation/amortisation and investments, plus change in working capital.

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

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

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 interest.

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

Business definitions

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

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

CSM CSM Worldwide is the company that provides forecasts and market information to suppliers to the automotive industry.

EDI Electronic Data Interchange.

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

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

HCFCs Substances that deplete the ozone layer.

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

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

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

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

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

PHE Plate Heat Exchanger.

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

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

RFID (Radio Frequency IDentification) is a technique used for reading information on the distance of the transponders and the memories that are called tags.

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

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

TIR Total Indicated Runout, an absolute measurement of the roundness of a wheel.

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

VMI Vendor Managed Inventory is an alternative way of managing inventories that in certain cases leads to a more efficient logistics process.

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

Group companies, addresses

Head office:
HEXPOL AB
Skeppsbron 3
SE-211 20 Malmö
Sweden
Tel: +46 (0)40-25 46 60
Fax: +46 (0)40-25 46 89
info@hexpol.com
www.hexpol.com

HEXPOL Compounding HQ Sprl
Gewerbestrasse 8
BE-4700 Eupen
Belgium
Tel: +32 87 59 61 50
Fax: + 32 87 59 61 69
info@hpc-hq.com
www.hexpolcompounding.com

HEXPOL Compounding GmbH
Ottostrasse 34
DE-41836 Hückelhoven
Germany
Tel: +49 24 33 9755 0
Fax: +49 24 33 97 55 99
info@hpc-de.com
www.hexpolcompounding.com

HEXPOL Compounding Sprl
Industriestrasse 36
BE-4700 Eupen
Belgium
Tel: +32 87 59 54 30
Fax: +32 87 74 44 73
info@hpc-be.com
www.hexpolcompounding.com

HEXPOL Compounding s.r.o
Sumperska 1344
CZ-78391 Unicov
Czech Republic
Tel: +420 585 004 011
Fax: +420 585 053 568
info@hpc-cz.com
www.hexpolcompounding.com

HEXPOL Compounding NC Inc.
280 Crawford Road
Statesville, NC 28625
USA
Tel: +1 704 872 1585
Fax: +1 704 872 7243
info@hpc-us.com
www.hexpolcompounding.com

HEXPOL Compounding
(Qingdao) Co., Ltd
899 Qingdao Middle Road
CN-266431 Jiaonan
Qingdao, China
Tel: +86 532 81731118
Fax: +86 532 81731119
info@hpc-cn.com
www.hexpolcompounding.com

HEXPOL Compounding SA de CV
AV. Japon # 302
Parque Industrial San Fransisco
San Francisco de Los Romo
Ags. CP 20304, Mexico
Tel: +52 449 139 3270
Fax: +52 449 139 3289
info@hpc-mx.com
www.hexpolcompounding.com

GoldKey Processing, Inc
14910 Madison Rd.
Middlefield, Ohio 44062
USA
Tel: +1 440 632 0901
Fax: +1 440 632 0929
info@goldkey-us.com
www.goldkey-us.com

ELASTO UK Ltd.
Don Street, Middleton
Manchester, M24 2GG
UK
Tel: +44 161 654 6616
Fax: +44 161 654 2333
info@elastotpe.co.uk
www.elastotpe.com

ELASTO AB
Box 51, Gamla Örnäsgatan 15
662 22 ÅMÅL
Sweden
Tel: +46 532 607 500
Fax: +46 532 607 599
info@elastotpe.com
www.elastotpe.com

Excel Polymers, LLC
6521 Davis Industrial Parkway
Solon, Ohio 44139
USA
Tel: +1 440 715-7000
Fax: +1 440 715-7070
customerservice@excel-polymers.com
www.excel-polymers.com

Excel Polymers, LLC
14330 Kinsman Rd.
Burton, OH 44021
USA
Tel: +1 440 834-4644
Fax: +1 440 834-5524
customerservice@excel-polymers.com
www.excel-polymers.com

Excel Polymers, LLC
150 S. Connell Ave.
Dyersburg, TN 38024
USA
Tel: +1 731 285-4353
Fax: +1 731 287-3079
customerservice@excel-polymers.com
www.excel-polymers.com

Excel Polymers, LLC
P.O. Box 377
260 Old State Route 34
Jonesborough, TN 37659
USA
Tel: +1 423 753-2196
Fax: +1 423 753-3379
customerservice@excel-polymers.com
www.excel-polymers.com

Excel Polymers, LLC
635 Tower Dr.
Kennedale, TX 76060
USA
Tel: +1 817 483-9797
Fax: +1 817 483-1978
customerservice@excel-polymers.com
www.excel-polymers.com

EXPL Global Mexico
LaNoria 115, Parque Industrial
Queretaro
C.P. 76220, Santa Rosa Jauregui
Queretaro, Mexico
Tel: +52 442-211-3500
Fax: +52-442-211-3501
customerservice@excel-polymers.com
www.excel-polymers.com

Excel Polymers, LLC
8227 Sorensen Ave.
Santa Fe Springs, USA
Tel: +1 562 945-1241
Fax: +1 562 698-7818
customerservice@excel-polymers.com
www.excel-polymers.com

EXLP Global UK, Ltd
Fifth Avenue, Tameside Park
Dukinfield Cheshire
SK16 4PP, UK
Tel: +44-161-343-4433
Fax: +44-161-343-4422
customerservice@excel-polymers.com
www.excel-polymers.com

EXLP Global (Foshan) Co. Ltd
No.3 Xinhui Road
Wusha, Daliang, Shunde District
Foshan, Guangdong 528333, China
Tel: +86-0757-2291-5100
Fax: +86-757-2291-5149
customerservice@excel-polymers.com
www.excel-polymers.com

Stellana AB
Box 54, SE-695 22 Laxå
Sweden
Tel: +46 584 44 48 00
Fax: +46 584 44 48 90
info@stellana.se
www.stellana.se

Stellana U.S. Inc.
999 Wells Street
Lake Geneva, WI
53147, USA
Tel: +1 262 348 5575
Fax: +1 262 348 5570
info@stellana.us
www.stellana.us

Stellana (Qingdao) Co., Ltd
899 Qingdao Middle Road
CN-266431 Jiaonan
Qingdao, China
Tel: +86 532 81731167
Fax: +86 532 81731128
info@stellana-cn.com
www.stellana-cn.com

Elastomeric Engineering
Co Ltd
51-54, IDB Industrial Estate
Horana, Sri Lanka
Tel: +94 34 226 1050
Fax: +94 34 226 2045
eeng@elastomeric.lk
www.elastomericgroup.com

Gislaved Gummi AB
Box 522
SE-332 28 Gislaved
Sweden
Tel: +46 371 848 00
Fax: +46 371 848 88
info@ggab.se
www.ggab.se

Gislaved Gummi (Qingdao) Co., Ltd
899 Qingdao Middle Road
CN-266431 Jiaonan
Qingdao, China
Tel: +86 532 81731166
Fax: +86 532 81731006
info@hpg-cn.com
www.hpg-cn.com

Elastomeric Technologies
(Private) Ltd
371 Colombo Road
Piliyandala, Sri Lanka
Tel: +94 11 421 2722
Fax: +94 11 421 2758
eeng@elastomeric.lk
www.elastomericgroup.com

Saleoffice:

UK:
David Mottershead
Tel: +44 7540 698877
david.mottershead@hpc-de.com

Italy:
Enrico Panatano
Tel: +39 333 791 6944
enrico.pantano@hpc-de.com

Photography: HEXPOL:s subsidiaries, Future Image Bank,
Anders Ohrgren and Larz G Johansson, G-byrån, among others.

Texts: HEXPOL AB

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

Project Leader: Larz G Johansson/Anders Ohrgren, G-byrån AB

Art Director: Anders Ohrgren, G-byrån AB

Translation: The Bugli Company

Print: Rolf, 2011

MILJÖMÄRKT
341 TRYCKSAK 126

HEXPOL
A Material Difference

HEXPOL AB (publ), Skeppsbron 3, S-211 20 Malmö, Sweden
Tel. +46 40-25 46 60 · Fax +46 40-25 46 89
www.hexpol.com