

HEXPOL AB (publ)

2014

Sustainability Report



A Material Difference

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2014 in brief

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

Significant events per quarter

Q1

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

Q3

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

Q2

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

Q4

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

Key figures

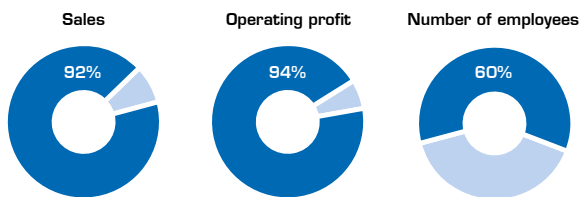
	2014	2013	
Sales, MSEK	8,919	8,036	
Operating profit (EBIT), MSEK	1,456	1,255	+ 16%
Operating margin, %	16.3	15.6	
Profit before tax, MSEK	1,436	1,236	
Profit after tax, MSEK	1,048	930	
Earnings per share, SEK	30.45	27.02	+ 13%
Equity/assets ratio, %	69.3	61.5	
Return on capital employed, %	28.5	27.0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

HEXPOL in brief

- Innovative solutions in advanced polymer compounds, gaskets for plate heat exchangers and wheels for forklifts and castor wheel applications
- Strong global market positions – world leading in market for rubber compounds
- Leading European producer of thermoplastic elastomer compounds (TPE)
- Organised in two business areas with in-depth and extensive polymer and applications expertise
- Acquisition-oriented
- Growth with strong and improved margins
- Well invested with strong cash flow
- Strong financial position

Business area HEXPOL Compounding

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



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

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

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

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

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

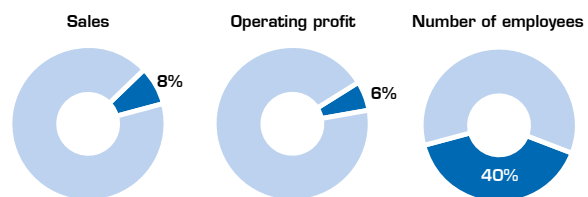
Sales 8,198 MSEK (7,345)

Operating profit 1,364 MSEK (1,177)

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

Business area HEXPOL Engineered Products

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



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

Market Within its niche areas, HEXPOL Engineered Products is active in the global market where a considerable focus is on discerning customers and advanced applications. The market for gaskets and wheels is global, with HEXPOL's production units located in Europe and Asia and for wheels also in North America.

The market for profiles is primarily Nordic.

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

Sales 721 MSEK (691)

Operating profit 92 MSEK (78)

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

CEO comments on the year



Georg Brunstam
President and CEO

ANOTHER GOOD YEAR FOR HEXPOL

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

Our strategy of growth primarily in the Polymer Compounding area is unchanged and, in 2014, we acquired four Rubber Compounding operations and signed agreement concerning the acquisition of an additional four

Thermoplastic Compounding operations. Our strategy also includes growing organically, meaning by increasing our volumes and sales in all of our markets, and by finding new growth markets and growth areas. That's why I am delighted to say that during 2014 we had positive growth in all main markets, including Europe, and in emerging markets such as China and Mexico.

Transparent reporting

HEXPOL's fifth Sustainability Report will provide you with a comprehensive overview of risks, opportunities, objectives and achievements. You will also find interesting cases from all over the world and for the very interested reader we include a lot of details of our sustainability work. It is our aim to present information in a transparent and informative way and therefore report according to best practices based on the GRI G4 Guideline (Global Reporting Initiative).

Straightforward sustainability strategy

I would like to highlight some of key elements in HEXPOL's strategy for sustainable development:

- We are accountable for what we are doing in relation to the environment, our employees, suppliers, customers, owners and society.
- Prevention is better than cure – to identify risks, focus on material aspects, and apply the precautionary principle, is crucial to us.
- Sound business ethics must be applied by all of us – at all times all around the world.
- We work in a systematic way. One example is the implementation of certified management systems

such as ISO 9001, ISO 14001, ISO 50001 and OHSAS 18001 at the units.

- We strive for continual improvement and have introduced Group-wide sustainability objectives that are supported by local targets and activities at our manufacturing units.
- We are open in our communication concerning sustainable development – not only the success stories, but also concerning issues where we need to improve.

Improvements and priorities

During the year we continued to work with the updated Group-wide sustainability objectives and – as can be seen in this report – there are many good examples of achievements. For example, energy saving measures, introduction of renewable energy, phasing out of hazardous chemicals, development of polymer compounds with new or improved environmental features, enhancement of the whistleblowing system, many positive contacts with local societies, and the implementation of a new sustainability guideline for our suppliers.

My view is that HEXPOL is moving in a positive direction and that the sustainability objectives are achievable. I am also very impressed of the involvement of our managers and employees in the sustainability work. Looking into the future, there are still challenges for us to manage, for example:

- To increase the efficiency in the use of resources such as materials and energy.
- To reduce risks at the workplaces.
- To implement the new Supplier Sustainability Guideline.
- To continually be recognised as a good citizen and an attractive employer. Focus on competence development and engagement in society is therefore crucial for success.
- To further develop environment-friendly polymer compounds and other products.

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

Malmö, Sweden, April 2015

Georg Brunstam
President and CEO

Corporate responsibility

Prerequisite for long-term value creation

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

The Sustainability Report 14 includes data from 32 units all over the world. The report does not include the Vigar units that were acquired in Germany and Spain in the autumn (see p. 32).

FOCUS ON MATERIAL ASPECTS

In accordance with the GRI G4 Guidelines we have identified the material sustainability aspects of HEXPOL's activities, products and services. The figure shows aspects that are ranked according to the significance for the Group's interested parties and for the HEXPOL's business strategy. Compared to 2013 the figure was slightly modified, and this

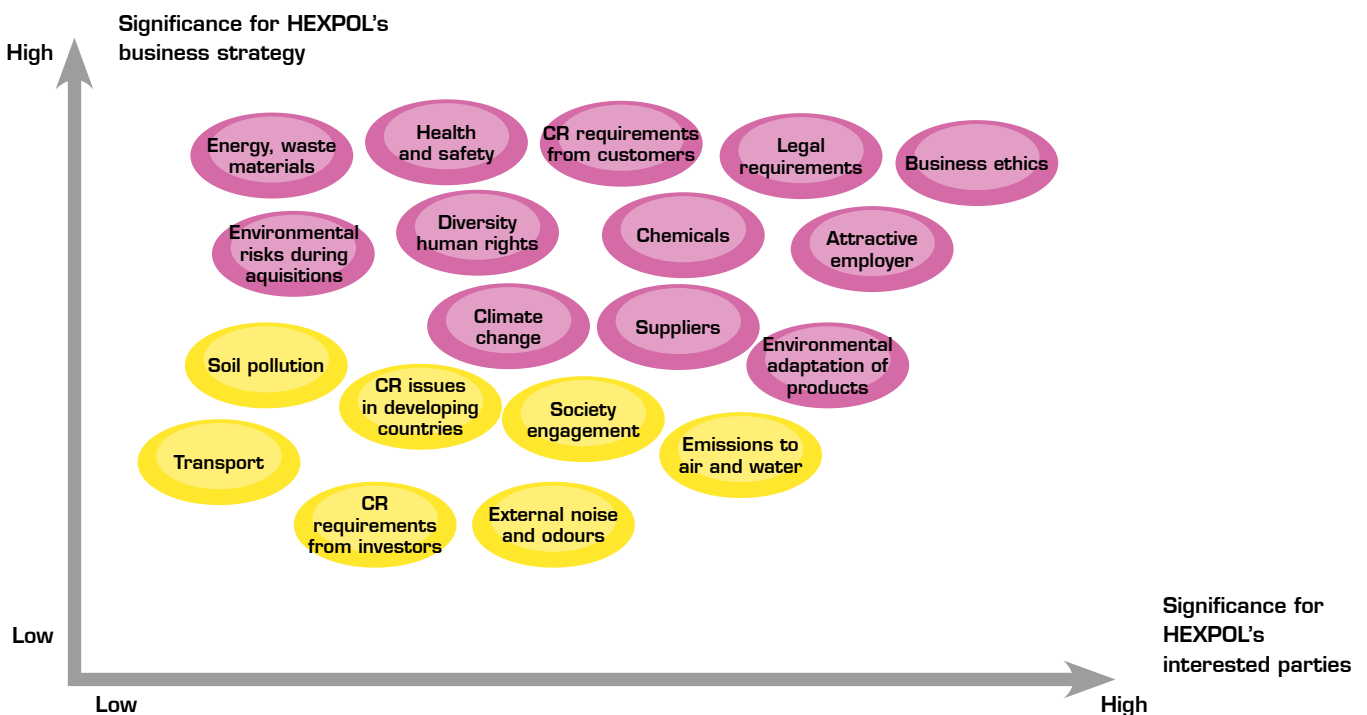
was the result of extended internal consultations with managers all over the world.

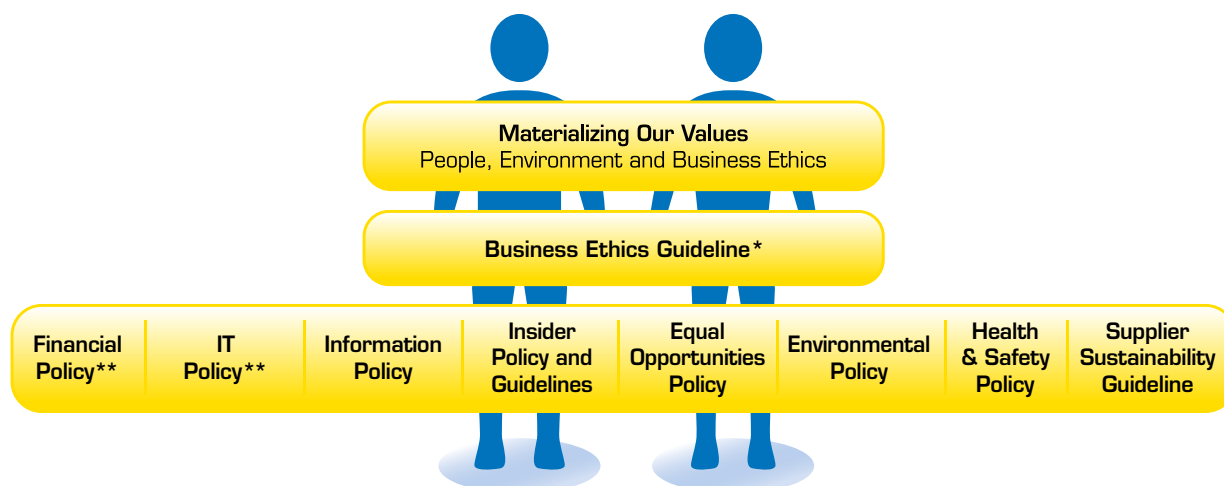
All aspects that are shown in the figure are presented, discussed and evaluated in the Sustainability Report. The aspects marked with red are given the highest priority, for example, included in the Group-wide objectives and/or as commitments in "Materializing Our Values".

MATERIALIZING OUR VALUES

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

The Board of Directors, the CEO and the Executive Management Group have overall responsibility for ensuring that "Materializing Our Values" becomes a natural feature of the way we work. In the daily operations, the responsibility rests with managing directors and all managers at HEXPOL. The role





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

of the individual employees in the practical application of the values is naturally very important. The Annual Report and the Sustainability Report outline how work related to these values is developing.

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

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

Legal and other regulatory requirements

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

Business Ethics Guideline

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

Zero tolerance to corruption

Under “Materializing Our Values”, and the tenth principle of the UN Global Compact, integrity and responsibility shall characterise our business practices. We take a zero-tolerance approach to bribery, corruption and cartel formation. For a global company, these matters are complex and the perception of “normal business practice” varies between countries and cultures. We use the following methods for governance and monitoring of corruption-related issues

- We spread shared values in the form of “Materializing Our Values”. Group company management teams are responsible for further conveying the values in their organisation.
- We monitor costs, expenditure and revenues on an on-going basis.
- We pay particular attention to ethical issues in our relationships with partners. Standard business practice must be observed in each individual country, but if business practice does not comply with “Materializing Our Values”, we must refrain from doing business or take alternative relevant actions.

No breaches concerning corruption were identified during the year.

SUSTAINABLE STRATEGY

Corporate responsibility creates value for the Group's stakeholders and, by integrating sustainable development into the HEXPOL business model, conditions are created for a strategy that is sustainable long-term for both the Group and society. As apparent from the figure below, the Group has taken steadily increasing actions to further develop its sustainability work.

Priority areas include increased energy efficiency, reduction in chemical risks, lower atmospheric emissions and reduced amounts and greater recycling of waste. Offering customers knowledge of and solutions concerning environmentally compatible product development is another important area. Group-wide long-term targets have been established in several key areas (see table below).

INTERACTION WITH STAKEHOLDERS

Since the views of stakeholders are crucial, we endeavour wherever possible to engage in dialogues and

exchanges of information with them. The intention is to understand and fulfil the expectations and requirements to which HEXPOL and its employees are exposed. Interaction with stakeholders includes:

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

The following table shows areas that are identified as material for various stakeholder groups and how requirements and expectations were approached during 2014.

Stakeholder group	Material areas	Activities in 2014
Customers	Product declarations, risks with hazardous chemicals, environmental adaption of products, HEXPOL's code of conduct is in line with the customer's values.	Dialogue during contacts with customers and during customer audits and assessments (p.9-10).
Consumers	The majority of HEXPOL's products are aimed at industrial customers. It is therefore likely that the end consumers are not aware of HEXPOL as a part the supply chain.	Indirect activities through requirements and dialogue with our industrial customers.
Employees	Health, safety, compensation, benefits, personal development, wellbeing, social situation and business ethics. It is important for us to keep and develop our employees and attract new ones.	Training, information and dialogue. Employee satisfaction assessments. Work in safety committees and task forces. Social activities and health projects (p. 22-26).
Suppliers	Responsible management of environmental, workplace and social issues. Implementation of a Code of conduct that is in line with Materializing Our Values. Efficient use of natural resources.	A Group-wide Supplier Sustainability Guideline was launched in 2014. The guideline will be implemented in 2015 and followed-up during the coming years (p. 10-11).
Owners and investors	Business ethics, risk management and resource efficiency. Integration of sustainability issues into the business model. Communication and image.	Meetings with investors and responses to sustainability assessments. CDP and sustainability reports to provide transparent information to "green investors". Frequent reporting of status to the Corporate Board (p. 9).
Society	Involvement in society in the countries where HEXPOL operates.	Being a good neighbour. Local community involvement. Participation in industry initiatives. Contacts and projects with schools and universities (p. 26).
Authorities	Compliance with legislation. Engagement in national and global targets for sustainable development	Dialogue during visits and inspections by environmental, health and safety authorities (p. 13).
NGOs	Carbon footprint, hazardous chemicals, use of energy and water, social responsibility.	HEXPOL has not been approached by NGOs or actively taken any contacts with NGOs.

2009

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

2010

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

2011

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



RELEVANT INFORMATION TO OWNERS AND INVESTORS

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

The Group complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. HEXPOL applies a policy of transparency in its reporting and, in line with the Group's communication policy, provides well-founded, comprehensive information to the market. Corporate governance is described in the Corporate Governance Report in the Annual Report 2014 on pages 82–87 and is available at www.hexpol.com. All published financial information is also available on the website, as are presentations, press releases, financial statements and annual reports.

In the area of sustainable development we provide information through the Annual Report and the

Sustainability Report. In addition to that HEXPOL reports the impact on climate through the Carbon Disclosure Project (CDP) and our reporting performance score was significantly increased in 2013 compared to previous years.

During 2014 the Group's sustainability performance was assessed by a number of Swedish and international investors and the outcome was generally good. Suggested areas for improvement were, for example, more detailed information about:

- Requirements and follow-up of supplier's sustainability performance.
- Activities to develop "greener" products.
- Measures taken to enhance and follow-up the whistleblower system.
- Activities to promote diversity and equal opportunities.

We have initiated improvement actions and this report contains detailed information concerning how HEXPOL manages the above issues.

PROFESSIONAL CUSTOMER RELATIONS

HEXPOL's relationship to its customers is characterised by professionalism, high service level and quality awareness. In accordance with "Materiali-

2012

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

2013

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

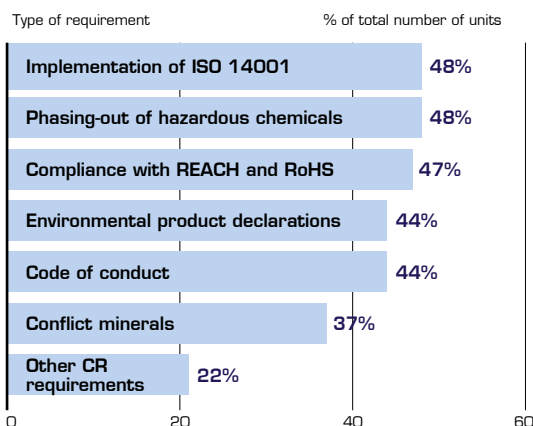
2014

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

zing Our Values”, the Group focuses on impeccable business ethics and thus competes fairly in business activities, including marketing and advertising. HEXPOL complies with prevailing competition regulations in the geographical markets in which the company is active. Business decisions are taken in accordance with the Group’s interests and are not based on personal considerations or relations.

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

Operating units reporting sustainability requirements from customers



CONTINUAL IMPROVEMENT

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

STRICTER DEMANDS ON SUPPLIERS

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

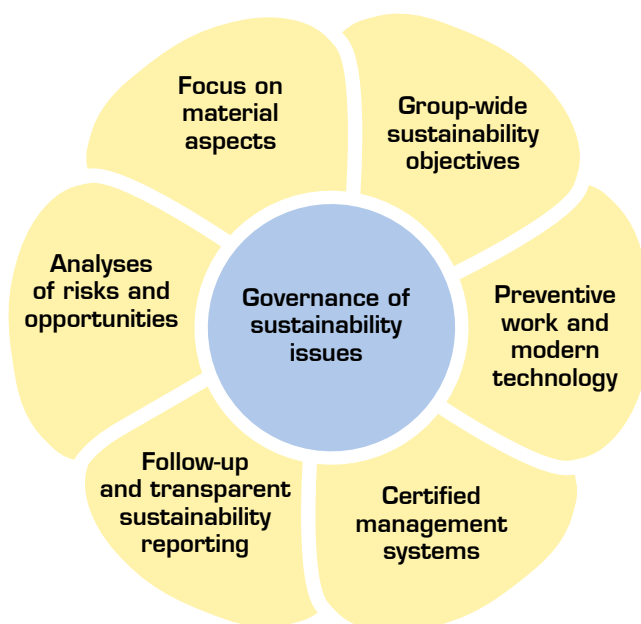
In order to strengthen the requirements and be clearer in communications with the suppliers, a Group-wide guideline has been formulated. The Supplier Sustainability Guideline specifies the sustainable development requirements the Group imposes on its suppliers and this new guideline will be introduced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

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

GOVERNANCE, STRATEGY AND OBJECTIVES

Responsibility for sustainability work is decentralised and delegated to the legal entities. Executives at companies and production facilities are responsible for leading and monitoring activities involving the environment, work environment and social responsibility. Issues involving strategy, risks, monitoring and sustainability accounting, as well as sustainability issues connected to corporate acquisitions, are managed at the Group level.

Governance and strategy for sustainable development is based on:



Supplier Sustainability Guideline

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

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

The "Supplier Sustainability Guideline" covers the following areas:

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

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

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

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

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

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



- Analyses of risks and opportunities.
- Focus on the most important sustainability issues – the material aspects.
- Long-term objectives at the Group level and detailed targets at each site.
- Preventive environmental work and occupational health and safety programmes that are important both in respect of technological solutions relating to resource utilisation, emission abatement equipment, waste management and so forth, and also by involving our employees and offering relevant training.
- Systematic work at all units through certified management systems for quality, environment, energy and health and safety.
- Transparent communication about material aspects and progress in public reports.

Analyses of risks and opportunities

The Group's analyses of risks and opportunities include the consequences of developments in terms of

legislation, stakeholder requirements and expectations and scientific advances in sustainability. Environmental risks in conjunction with the acquisition of other companies are a prioritized area. The issues involved could be soil pollution and breaches of environmental legislation. Opportunities are, for example, associated with our capability to develop more environment-friendly rubber compounds and other products. Read more about environmental risks and opportunities on p. 20–21.

Long-term objectives

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

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

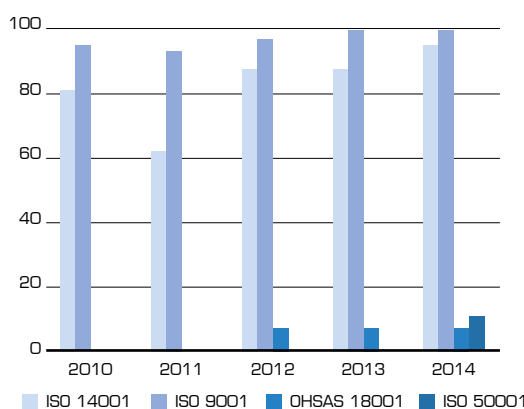
▲ The target has already been achieved. ▲ Positive trend, the target is possible to achieve. ▲ Negative trend, the target was not achieved.

Certified management systems

The Group objectives include the introduction of certified environmental management systems, and experience from this is positive, with the risks and costs diminishing, at the same time as confidence among stakeholders is rising. The environmental work is examined and improved through the regular internal and external environmental audits and 107 internal (116) and 37 external environmental audits (35) were implemented in 2014. During the year, a unit in the US and a unit in Germany were certified.

The standard applied for occupational health and safety (OHSAS 18001) has been introduced at two plants in Sri Lanka. The standard applied for energy management systems (ISO 50001) has been introduced at HEXPOL, and the units in Sri Lanka and one unit in Germany have been certified. Certification of another two units is planned during the coming year.

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



Stellana US receives ISO 14001 Certificate of Approval

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



Environmental Responsibility

Focus on material aspects

MANY KEY ENVIRONMENTAL ISSUES

Key environmental aspects that affect HEXPOL's operations include the use of resources in the form of polymer raw materials, chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects include supplier activities, transportation of raw materials and complete products, as well as customer use of our products. For further information about how environmental aspects are ranked in our materiality analysis, see p. 6.

ENVIRONMENTAL LEGISLATION

HEXPOL is subject to national and international environmental legislation. Several of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. The operations in the UK and one facility in Germany are not subject to any specific environmental approval. Compliance with permits and emission conditions is monitored through measurements and inspections, and about 20 units submit specific environmental reports to supervisory

authorities. About half of the units are planning to apply for minor updates of applicable permits in the near future.

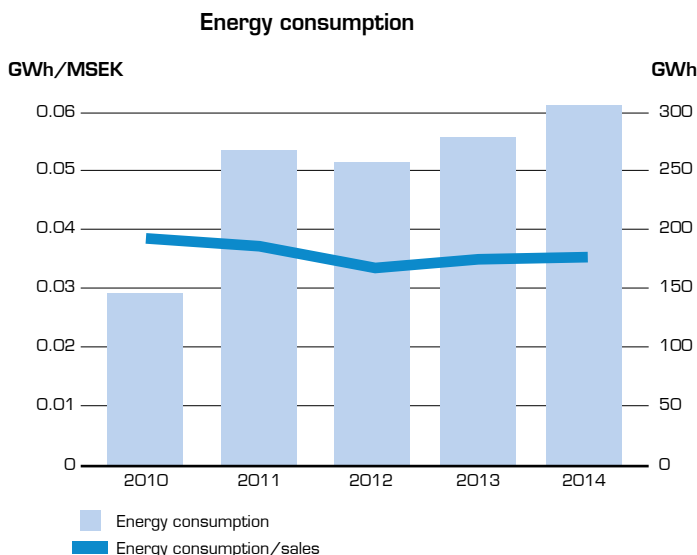
Environmental legislation in the form of EU directives (such as REACH, RoHS, CLP, ATEX and WEEE) and other national or international legislation affect many of the Group's operations and products. One third of the units are subject to producer responsibility legislation for packaging. The following events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

- Supervisory authorities conducted inspections at about half of the plants. Some minor non-conformities were detected and corrective measures have been taken.
- Gislaved Gummi in Sweden received complaints from neighbours due to odour from rubber in the surrounding. The company engages in ongoing dialog with the supervisory authority and has taken action to reduce the adverse effects of the odour.
- Environmental legislation was breached at a facility in the US where some underground tanks had not been correctly registered with the authorities. The infringement resulted in a minor penalty but no legal consequences. The case is now closed.

Looking ahead, we anticipate further activities concerning the REACH legislation, as the second stage of implementation is going on. We also expect that the final stage of the implementation of EU CLP Regulation (classification, labeling and packaging of substances and mixtures) in 2015 will have an impact on the management of chemicals and products. This Regulation aligns previous EU legislation on classification, labeling and packaging of chemicals to the GHS (Globally Harmonized System of Classification and Labeling of Chemicals). We also see a growing interest in the EU Environmental Liability Directive concerning responsibility for environmental damage and the EU Energy Efficiency Directive.

ENERGY CONSUMPTION

Higher energy consumption is a result of the Group's expansion with an increasing number of production facilities and higher production volumes. Here, mixing machines, presses and other production equipment contribute to higher energy consumption, but significant amounts of energy are



MORE EFFICIENT ENERGY CONSUMPTION

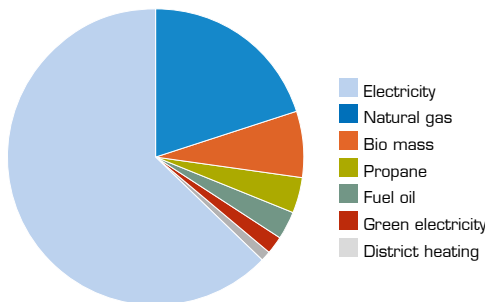
A key sustainability target for HEXPOL is to increase energy efficiency. Here are some examples of activities during the year:

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

also used for heating, cooling, ventilation and moving of material. During 2014, energy consumption rose to 313 GWh (275), but the increase was partly offset by many energy-saving projects. The increased use of biofuel resulted in higher energy consumption, thus contributing to a slightly higher energy KPI (GWh/net sales) compared with the preceding year.

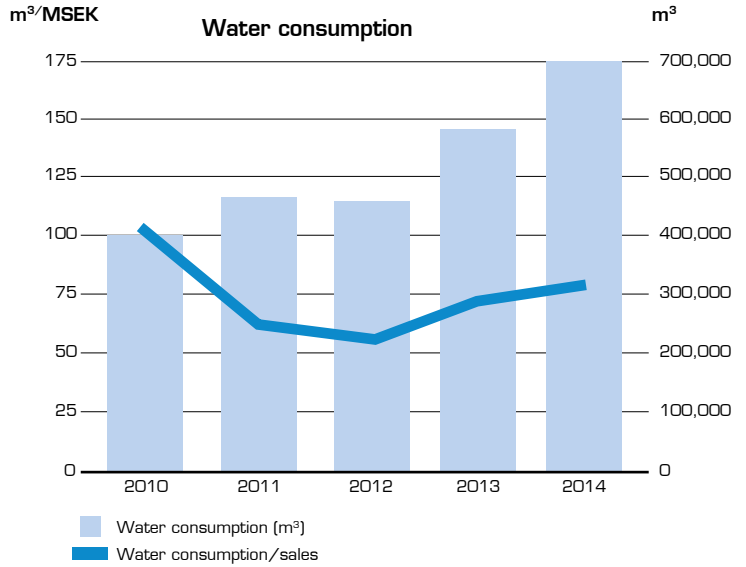
About two thirds of the energy consisted of purchased electricity, nearly 20 percent of natural gas and the rest derived from other sources. The use of biofuel and “green” electricity rose during the year to 9 percent (4). The total energy cost during 2014 was about 179 MSEK (143).

Energy sources



WATER CONSUMPTION

Water issues are important to society and the business community and access to high-quality water is a key issue in many parts of the world. The annual documentation of water-related matters in the Group’s shows that HEXPOL has no production facilities in areas suffering from water shortages or where the aquatic ecosystem is threatened. One exception is a unit in California, USA, where the State has suffered a severe draught in recent years.

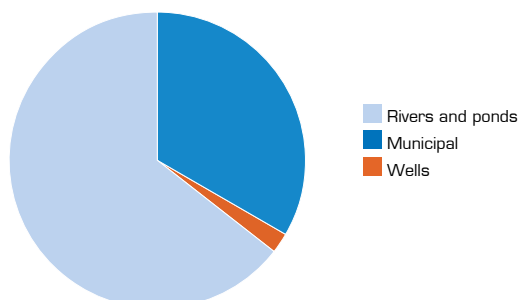


From a natural resources perspective, there are many reasons to be economical with water and this applies to cooling, cleaning, irrigation and hygiene.

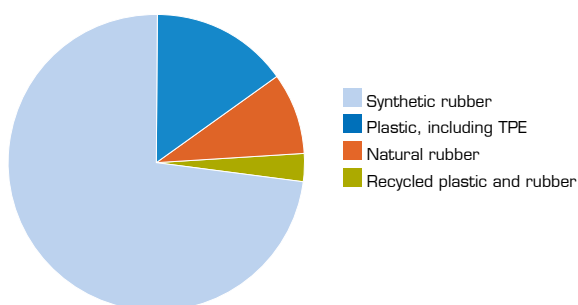
In 2014, approximately 226,000 m³ (190,000) of municipal water was consumed, 17,000 m³ (16,000) from proprietary wells and 441,000 m³ (360,000) from streams. Higher production, testing of new production equipment and leakages in technical systems contributed to an increase in water consumption. In addition, higher temperatures in a neighbouring waterway resulted in the use of a larger amount of cooling water than normal. There are cooling systems with re-circulated water at most of the production facilities and various measures have been implemented to reduce water consumption such as leak searches, training and technical measures. The total cost of water was 2.8 MSEK (2.4)

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

Sources of water



Polymer materials in HEXPOL



POLYMERS AND OTHER CHEMICAL PRODUCTS

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

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

Safe chemical management

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

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

Precautionary work

The preventive chemical effort has accelerated and a number of chemicals have been phased out or had their usage reduced, such as certain phthalates, brominated flame-retardants and heavy metals, as well as chemicals that generate nitrosoamines. During the year, a handful of chemicals were phased out and another ten substances have been identified for future measures. Examples of chemicals that we have focus on are ETU, DETU, DINP and DOTG (see Definitions). This work is complicated since there is no global harmonised legislation and substances that are banned in one part of the world may be permissible in others. Regardless of this, we strive to offer customers options that are advantageous from an environmental and health perspective but without lowering technical performance.

HA oils

In the rubber industry HA (highly aromatic) extender oils are used to facilitate the processing of the rubber compounds. They are also an essential component for the technical performance of tyres and in particular for the road adherence (or grip) properties. Polycyclic aromatic hydrocarbons (PAHs) are, however, present in aromatic oils and the European Union has classified eight PAHs as carcinogenic. In EU there are since 2010 restrictions in the use of PAH in tyres for vehicles. The threshold limit is maximum 3 percent of PAHs in the extender oil. At HEXPOL in Europe such oils are phased out but, as they are allowed in China, Mexico and USA, HA oils above the European PAH limit are still used in some formulations. In a global perspective more than 90 percent of the extender oils have a low PAH concentration and we strive to convince customers that more environment-friendly options are available.

Energy Management System – ISO 50001 certification

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

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

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

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

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

Polymer compounds in a life-cycle perspective

Polymer compounds such as rubber are semi-finished products and can be seen as homogenous mixtures of different ingredients that have previously been defined in a specific formulation or “recipe”. These ingredients, or raw materials, can be subdivided into the following categories: polymers, fillers, plasticizers, accelerators, cross-linking agents and many other special products. Only the right composition and a perfect mixing process result into optimum properties of the final product.

The polymers used in HEXPOL interact with the environment in a number of ways. A certain amount of impact occurs at our plants, while other impacts occur during production of raw materials, transports and disposal of the waste that occurs in various places. The environmental impact – in a life-cycle perspective – of polymers is described below.

Synthetic rubber

About 60 percent of world production of synthetic rubber is used for tire manufacture. HEXPOL's product portfolio contains approximately 90 percent synthetic rubber, the remainder being natural rubber. Synthetic rubber is a product of the petroleum industry and our experience is spread over a large number of polymer types, for example, EPDM, SBR and NBR.

The environmental impact from the production and use of synthetic rubber derives primarily from energy consumption, use of fossil raw materials, emissions to air and water, and waste products. The positive environmental aspects of synthetic rubber is, for example, associated with products that contribute to energy saving and reduction of noise and vibration.

Natural rubber

The rubber tree (*Hevea brasiliensis*) requires a tropical climate. Today, more than 90 percent of all natural rubber comes from Southeast Asia, although there are also plantations in South America and Africa. Nearly 70 percent of natural rubber production is used in the tire industry. About 80 percent of natural rubber production derives from small-scale operations by local growers.

Typically, an area of rain forest is cleared and rubber trees are planted. As a result of such methods, the original tree species disappear and are replaced by a monoculture of rubber trees. However, other types of plants gradually regenerate to a certain extent. A rubber plantation usually has a density of 200 to 500 trees per hectare. It normally takes from four to seven years before tapping of the trees for their sap (latex) can begin. One tree produces approximately 2 kg of latex each year over a period of 25-35 years. The yield is affected to a considerable degree by cultivation techniques, soil conditions, use of biocides and the addition of nutrients. The chief by-product from the rubber plantations is timber from the trees, which is mainly used as firewood, but has also been exported during recent years for use in the manufacture of furniture and flooring.

An overview of the production process for natural rubber shows that the environmental impact are associated with clearing of forest, the use of energy, chemicals, nutrients and biocides, and from emissions to water. HEXPOL has no rubber plantations of its own and natural rubber makes up less than 10 percent of the total use of rubber polymers.

Thermoplastic Elastomers

Thermoplastic Elastomers (TPE's) are a family of rubber like materials that combine the performance of thermoset rubbers with the processing ease of plastics, to deliver enhanced design possibilities for a diverse range of markets including household, automotive, industrial, medical, construction, electronics, sports, toys and caps and closures.

One thing that TPE materials have in common is that they are completely recyclable. TPEs can also be combined with natural materials, for example, cork.



EMISSIONS TO THE ATMOSPHERE

Climate impacting gases

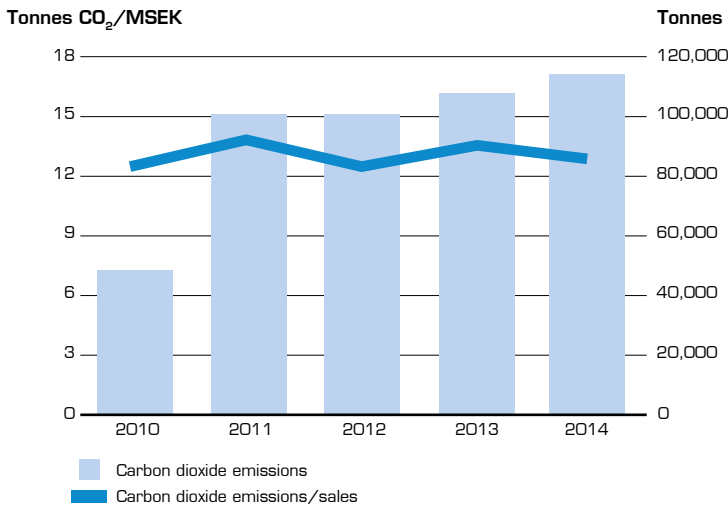
One of the Group's sustainability targets is to reduce the emission of the climate-changing gas, carbon dioxide, from energy consumption. The amount of emissions during the year, which are affected by the use of fuel oil, natural gas, district heating and electricity, totalled 115,000 tonnes (109,000). The indirect emissions through purchases of electricity dominated and accounted for 84 percent (84) of the total amount of carbon dioxide. Despite higher production and more facilities, the Group's KPI (tonne carbon dioxide/net sales) remained unchanged compared with the preceding year.

In a five-year perspective the emission of carbon dioxide has doubled in absolute numbers. The increase is caused by higher production volume and acquisitions of production units. Expressed as tons of carbon dioxide/net sales the picture is more favourable, and improved energy efficiency is contributing to the downward trend. However, the emissions are very dependent on how the purchased electricity is produced, for example by primary energy sources such as coal or hydropower. This is one of the explanations to why our carbon footprint varies from country to country.

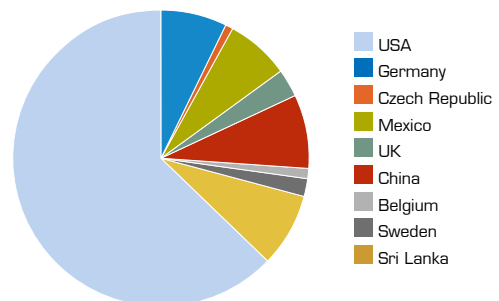
Based on the on-going trend we consider that it is possible to reach the Group target for carbon dioxide emissions (see table on p. 12). The following actions support our goal to reduce the impact on the climate:

- The purchase of "green" electricity in the Czech Republic and Sweden (Gislaved Gummi) will continue to reduce the indirect emissions of carbon dioxide.
- Emissions from direct energy consumption are positively impacted by higher consumption of biofuels in Sri Lanka, a measure that has not yet had full effect because another boiler for biofuels will be installed in 2015.
- The energy-saving programmes will continue to contribute to reduced emissions (see p. 13-14)
- Actions such as increased use of recycled materials, improved transport logistics, vehicles with less fuel consumption, and more transportation by train, will also contribute to lower CO₂ emissions.
- Finally, the environmental adaption of HEXPOL's products will continue generate products that contribute to, for example, lower energy consumption in buildings and reduced fuel consumption in vehicles (see p. 19).

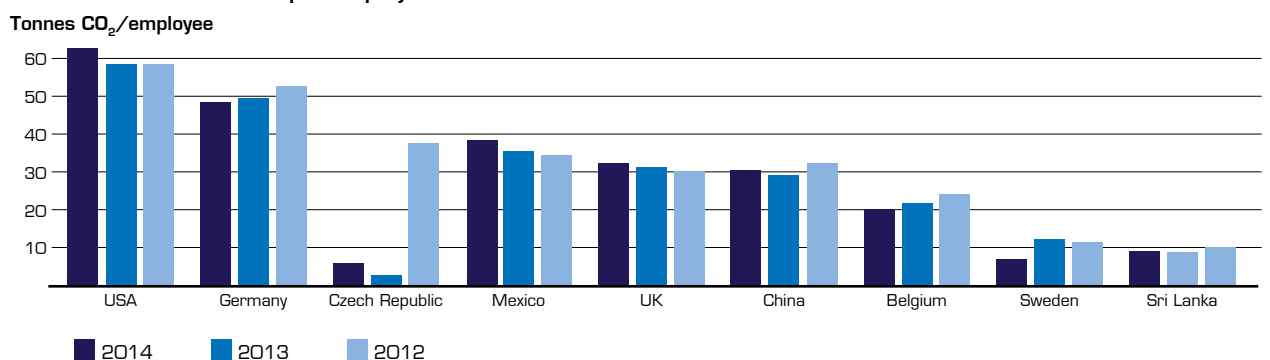
Carbon dioxide emissions



Carbon dioxide emissions per country (% of total emission)



Carbon dioxide emissions per employee





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

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

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

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



Other emissions

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

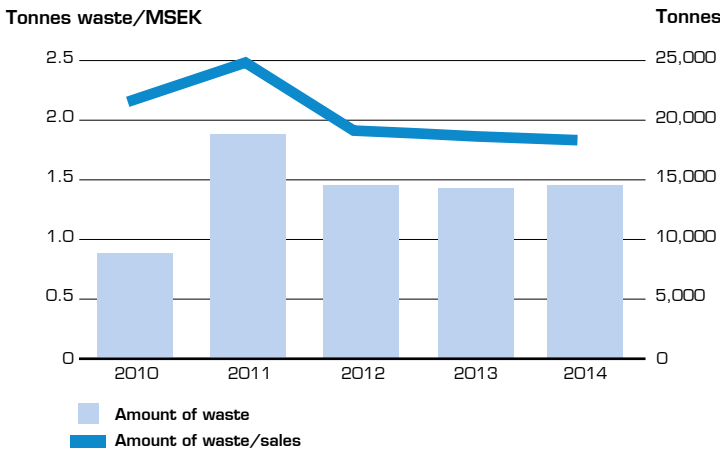
FOCUS ON WASTE

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

that is important to many customers, particularly in industries that manufacture products directly for the consumer market. In the automotive industry, interest in reducing fuel consumption is high and here, light polymer products from HEXPOL can contribute to this. At HEXPOL, an increasing number of examples of products contribute environmental benefits:

- The automotive industry has long requested EPDM rubber that is not electrically charged, for use in, for example, door strips. The risk of electrolytic corrosion increases when the use of light aluminium and magnesium alloys increase in cars. HEXPOL recently developed a type of EPDM with low electrical conductivity that contributes to reducing corrosion.
- Recycled polymers are used in rubber compounds in mud flaps, mats and bumpers for the automotive industry.
- HEXPOL Engineered Products manufactures rubber gaskets that are used in plate heat exchangers worldwide. The gaskets also contribute to energy savings, less climate impact and secure handling of chemicals and food products.
- HEXPOL Compounding produces porous rubber material that contributes to reducing material consumption and reducing weight, thus helping to lower fuel consumption in vehicles.
- Thermoplastic elastomers (TPE) are easy to recycle and are used in many applications, such as the automotive industry. The TPE range also includes products that contain flame retardant substances that constitute environmentally compatible options to the use of traditional environmentally hazardous flame-retardants.
- TPE, combined with such natural material as cork, produces technically interesting properties and reduces the use of fossil raw materials. In certain applications, TPEs can also replace PVC, thus meeting the demands in the environmental policies of certain organisations in the health sector.
- HEXPOL Engineered Products manufactures polyurethane wheels with long service life, thus reducing the need for replacement wheels. This reduces the consumption of materials and the amount of waste. The development of polyurethane wheels for use in offshore wave power plants continued during the year.

Amount of waste

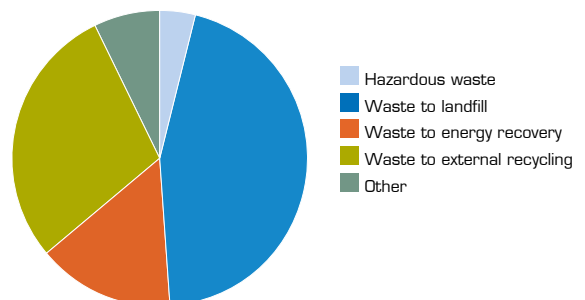


By minimising scrap, improving sorting of waste at source and reducing the amount of waste, facilities are using raw materials more efficiently. Production volume rose during the year, while the amount of waste remained largely unchanged. However, the waste to landfill increased as a result of the acquisition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

ENVIRONMENTAL ADAPTION OF PRODUCTS CONTINUES

Environmental adaptation of products often occurs in cooperation with customers. Minimising the risks associated with chemical substances is something

Waste categories



SUSTAINABILITY-RELATED RISKS

The Group's risk analyses include the consequences of developments in terms of legislation, stakeholder requirements and expectations and scientific advances in sustainability.

Environmental legislation

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

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

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

Contaminated soil

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

Adjacent to a leased property in Gislaved, Sweden, there are signs of historical soil contamination from petroleum hydrocarbons. Another property in Gislaved, owned by Gislaved Gummi, was examined during the year with respect to contaminations according to the Method for Inventories of Contaminated Sites in Sweden. The property was classified as Risk Class 2 and the assessment was based on the previous presence of the solvent trichloroethylene in the facility. No emissions of this solvent have been registered and it is unknown whether the authorities will demand further examinations. One of the plants in the US is exposed to the risk of limited site contamination caused by earlier operations. Although remediation of the site is said to have been performed by the former owner, this has not been fully confirmed. However, there are no legal requirements for remediation of this land that affect the Group.

Hazardous substances in buildings and installations

Ceilings containing asbestos (eternite) are present in some buildings, a factor that will not require any measures until the ceiling has to be replaced. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window seams in some buildings and the caulking compound will be remediated as the windows are gradually replaced. The risks to humans and the environment are very low.



Nonconductive EPDM compounds



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

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

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

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

Accidents and uncontrolled emissions to the environment

We work systematically and preventively to reduce the risk of fires, leakage and other accidents that could harm people and the environment. Risk analyses and other forms of inspections and audits are part of the preventive effort and the “Blue Grading System”, which identifies strong and weak sides, is applied within the Group. The procedures applied in the units are based on requirements from legislation, insurance companies, ISO 14001 and the Group’s internal regulations. No accidents or uncontrolled emissions to the environment occurred during 2014.

Climate-related risks

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

Environmental adaptation of products

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

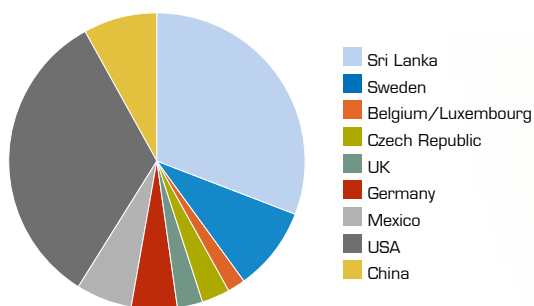
Social responsibility

Diversity, competence, commitment and well-being

EMPLOYEES IN ELEVEN COUNTRIES

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

Number of employees by country



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

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

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

TRAINING/EDUCATION AND EXPERIENCE EXCHANGE

Since a prerequisite for developing the business and the products is having committed, experienced and skilled employees, the training/education and skills development of employees takes place globally.

HEXPOL LEADERSHIP DEVELOPMENT PROGRAM

– MATERIALIZING THE DIFFERENCE is designed for managers in the midst of their career, with the aim of further developing the participants so that they can work as leaders in a multicultural company.

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

A GOOD WORK ENVIRONMENT AND RESPECT FOR HUMAN RIGHTS

Materializing Our Values has its background in internationally known agreements and guidelines concerning human rights, social responsibility and sustainable development, including the UN Global Compact. The Group's requirements are that workplaces should be safe, facilitate development and comply with occupational health and safety and labour legislation. No employee may be discriminated due to gender, religion, age, physical or mental disability, sexual orientation, nationality, political opinions or origin. HEXPOL encourages diversity and distances itself from all forms of discrimination.

Equal rights issues are addressed in a decentralised manner and the employees are entitled to form and join trade unions and to collective negotiations. They also have complete insight into and the right of codetermination in accordance with the provisions of national legislation. During the year, many employees underwent refresher courses in HEXPOL's values, and Materializing Our Values is included in the induction of new employees.

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

Materializing Our Values

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

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

“Materializing Our Values” represents the Group’s Code of Conduct and states the principles governing relations with employees, business partners and other stakeholders.



The guidelines offer direction to those active in the Group in respect of legal, finance and accounting, conflicts of interest, labor conditions, and social aspects as well as good business ethics.

You can find the document on our website www.hexpol.com.

To order printed copies please contact the Group Headquarter at info@hexpol.com.

HEXPOL leadership development program “Materializing the Difference”



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

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

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

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

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

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

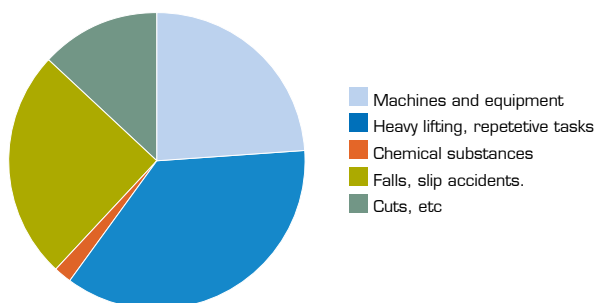
Social responsibility

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

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



Causes of occupational accidents 2014



Preventive measures for occupational health and safety

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

The objective is for no work accidents to occur and our occupational health and safety effort is based

on preventive measures and a systematic approach. One example is the OHSAS 18001 occupational health and safety system, which was successfully introduced in the facilities in Sri Lanka. Work on safety committees is also important and such organisations exist in 89 percent (85) of the facilities. Risk analyses, occupational health and safety measurements, technical measures, training and safety rounds were implemented during the year. The measurements included exposure to dust, solvents and noise. Special health checks of the workforce are conducted at units handling isocyanates. Other types of recurring health checks are common in the Group. Formal safety committees are present at 94 percent of the plants.

The systems for registering near misses, meaning events that could potentially cause an occupational accident, were further developed in 2014. Such systems have now been introduced in 89 percent (85) of the units. A total of 438 near misses (233) were registered, indicating that the reporting systems are being used in daily work. Naturally, the aim of the reporting is to take preventive and remedial measures to reduce the risk of accidents. In the legislative area, new legislation about labelling and risk information about chemicals (GHS/CLP) will mainly impact the Group in coming years. Accordingly, facilities are focusing on preparedness ahead of the changes.

Accidents at work 2010–2014

Year	2014	2013	2012	2011	2010
Lost Work Cases	104	68	73	122	67
Lost Work Days	1,875	1,016	847	891	771
Lost Work Cases/employee	0.03	0.02	0.02	0.04	0.03
Lost Work Days/employee	0,5	0.3	0.3	0.3	0.4

Employee development

Training and competency development occur continuously in our companies and totalled 76,000 hours (55,000) in 2014. This corresponds to more than 20 hours per employee. About 2,500 employees participated in developmental discussions or some other form of performance reviews. Surveys of employee views of occupational health and safety are conducted regularly at several of the units and 12 such surveys were conducted during the year. The results indicated many satisfied employees but also items that can improve, for example, personal development opportunities. HEXPOL Gold Key received the Best Workplace award in an independent evaluation based on employee assessments.

Training programmes involving the environment, occupational health and safety were conducted

regularly during the year and included an average of 6.8 hours (7.2) per person. The training programmes pertained to protection against fire and accidents, evacuation exercises, management of chemical products, use of personal protective equipment and much more. A key target group for this type of training programme is new employees. Information activities about "Materializing Our Values" continued and now include all employees.

Because working in networks also enhances the accumulated competencies, many projects are completed with participants from different cultures with expertise in varying areas. This may apply, for example, to technology and product development, purchases, marketing and a great deal more. The annual conferences for senior executives deal

Wellness at the Workplace

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

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

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

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



Wellness Program Initiatives:

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

with topics such as strategic issues, project results, administration and accounting, markets, products and sustainable development.

PERSONAL DEVELOPMENT AND REMUNERATION

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

Right to representation

HEXPOL's values recognise the employee's right to be represented by trade unions or other employee representatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies depending on local political and cultural conditions in the countries in which we are active. All employees are covered by collective agreements at about 25 percent of the plants and this applies in Sweden and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

SOCIAL INVOLVEMENT

The employees at our units participate in many different social activities. These include "open houses" for employees and their relatives, contacts and projects in cooperation with schools and universities, and financial support for sports, health projects and associations.

From a strategic perspective, it is important that young people and students are informed about the future opportunities offered by the polymer industry. Companies in the US are particularly active in contacts with polymer technology students by arranging study visits, development projects, degree projects and traineeships. ELASTO in Åmål is participating actively in a project aimed at encouraging girls at upper secondary school to show an interest in technical professions.

Other examples of HEXPOL's social involvement include social projects in the US together with the YMCA, Elastomeric in Sri Lanka, which is contributing financial support for the purchase of schoolbooks for the children of employees, and blood donations by staff at GoldKey in the US; GoldKey also gives support to medical care and social activities. Read more about our unit's social involvement on p. 29–30.

HEXPOL supports family for the holidays



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

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

The GoldKey team introduced themselves to the family by providing gift cards to the local grocery store to

take care of their Thanksgiving dinner. At that time they also received a wish list of presents they hoped for to brighten their Christmas.

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

The GoldKey family also continued to support other local charities including: The DDC clinic for genetic disorders in the Amish community, Santa's Hideaway for terminally ill children, The American Heart Association, The American Red Cross, Relay for Life, Wounded Warriors and other local community groups.



Economic responsibility

Investments, costs, savings and distributed value

2014 IN BRIEF

2014 was another good year for the HEXPOL Group. We increased our volumes in all principal markets. Sales rose 11 percent to 8,919 MSEK (8,036) but were impacted by lower sales prices. The price development was stable for our principal raw materials during the year.

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

Key figures	2014	2013	2012
Sales, MSEK	8,919	8,036	8,007
Operating profit (EBIT, MSEK)	1,456	1,255	1,069
Operating margin, %	16.3	15.6	13.4
Profit before tax, MSEK	1,436	1,236	1,047
Profit after tax, MSEK	1,048	930	753
Earning per share, SEK	30.45	27.02	21,88
Equity/assets ratio, %	69.3	61.5	49.2
Return on capital employed, %	28.5	27.0	24.0

SUSTAINABLE DEVELOPMENT AND FINANCE

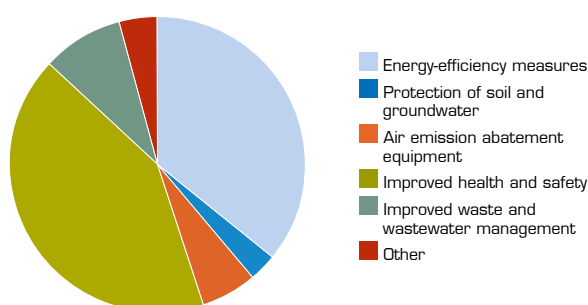
Investments, costs and savings

During the year, production facilities invested 16.7 MSEK (18.5) in the environmental and occupational health and safety area. The investments were dominated by energy optimisation measures and efforts to improve occupational health and safety, meaning the areas that have had high priority for many years. Environmental and work-related costs rose slightly compared with the preceding year to 16.7 MSEK (14.6).

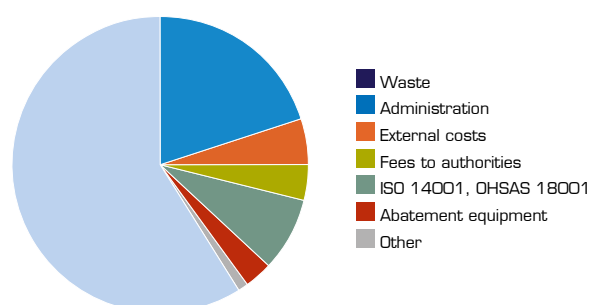
The costs include administration, running of emission abatement equipment and fees to authorities and certification bodies. The main cost item pertained to fees for the management of waste and accounted for 59 percent (50) of the total costs.

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

Sustainability-related investments



Sustainability-related costs





FINANCIAL VALUE FOR STAKEHOLDERS

HEXPOL affects a broad range of stakeholders. We have an economic impact on society and create opportunities for customers, suppliers, employees and society. Our business generates a financial value that is distributed among the various stakeholders. Sourcing represent a large expenditure item, wages and pension plans generates value for our employees, and by paying taxes and employing people the company contributes to local societies in the countries where we are active.

During 2014, the Group had net sales of 8,919 MSEK. 1,743 (1,431) MSEK was distributed according to the table.

Distributed value (SEK millions)

Stakeholder	2014	2013	2012	Comments
Employees	1,025	894	848	Salaries and benefits
Shareholders	310	207	172	Dividend
Creditors	20	24	24	Interest expenses
Society	388	306	294	Reported effective tax for the Group



Highlights during 2014

Small and big steps towards sustainable development

During the year the commitment to continual improvement was demonstrated by a number of small and big steps towards sustainable development. Some examples, from HEXPOL's units all around the world, are found below and other examples are found elsewhere in this Sustainability Report.

USA

- The Statesville plant was named Top 15 Workplace in the State of North Carolina. Won the HEXPOL Company of the Year competition for the 4th time. Continued to support 5th Street Ministries soup kitchen. Began to contribute to the Dove House for abused children. Barium Springs home for orphans and a local Senior centre, as well as other charitable functions.
- The Jonesborough unit maintained the ISO 14001 certificate and built a separate peroxide storage located outside of the main building. The R&D department set up a booth at a career fair at the local high school closest to the plant.
- The Santa Fe Springs unit's recycle program is in place and we recycle all scrap rubber, collector's dust, used oil, cardboard, paper, plastic, scrap metal, used plastic containers and wooden pallets. We have signed agreements with our energy supplier for special operating hours during summer in order to save energy during peak hours and save money while doing this. New oil tanks have been installed to make the operation more efficient and safer (less risk of oil spills). Parker Hannifin CSS division, located in California, named HEXPOL Compounding, CA. "Supplier of the Year".
- At the Kennedale unit an Employee Engagement Committee was implemented. The Electric Tow Motor program eliminated two fuel burning tow motors. The Scrap Recycling Program continued and the company was recertified according to ISO 14001. We arranged a booth at the Career Day at the University of Texas in Arlington.
- The Dyersburg facility continued with dynamic cooling on mixers to shorten mix cycles and reduce water consumption. A mentoring program was implemented to train associates committed to the program to become mentors to new associates as they are hired. Several next generation leader

classes were conducted to train those associates, again committed to becoming the future leaders of the facility. The Dyersburg campus continues with presence in the community through contributions and volunteers donating time to work.

- At the Stellana site in Lake Geneva management worked on making the facility and work cells more ergonomic with tools or work cell layout. The company was certified according to ISO 14001. The Industrial Education teachers from the local high school toured the plant to get an idea of how to prepare their students.
- The Burton unit started several environmental projects in 2014, for example, landfill reduction and increased recycling. We arranged an Open House with plant tours including employees, retirees and families with over 400 in attendance. The company houses a Cooperative Education Program together with the University of Akron and Ohio State in Chemical Engineering, Computer Science, Sales and Marketing.
- The Middlefield unit maintained the ISO 14001 certification and achieved Top 100 Work Places Award based on associate survey. Continued to reduce the waste stream to landfill through intensified recycling program. We implemented an Energy Curtailment Program and a Waste Water Management Program. Continued improving guarding on all production lines and supported several community activities (see p. 26).
- The Muscle Shoals plant was successfully certified according to ISO 14001.
- At Kardoes the housekeeping standards were improved, a new floor was installed, and the dust collector/scrubber system was replaced with a more efficient system.

Mexico

- The unit in Aguascalientes had a successful maintenance audit of ISO 14001. Social activities included sports tournaments, Christmas party and teambuilding session.
- The Queretaro plant continued to avoid production during peak energy periods. Installed capacitor bank and LED lights to reduce peak demand and lighting costs, respectively. Underwent third year follow-up ISO 14001 audit successfully.

Sweden

- Gislaved Gummi implemented a new procedure for workplace risk assessments and relevant staff received training in waste management and safe handling of chemicals. The system for reporting of incidents at workplaces was improved. The housekeeping was improved by further implementation of 5S. Decision to make the company a smoke-free workplace starting in 2015. The energy-efficiency program resulted in substantial energy savings.
- At Stellana in Laxå the rebuilding and reinvestments after the fire continued during theyear. The product quality was improved which, in the long run, will reduce the environmental impact. Reflecting traffic vests were provided for school children.
- At Elasto in Åmål new pumps were installed to increase the energy efficiency. The project with local schools, to attract females to search for qualified technical jobs in industry, continued.

Germany

- The Lichtenfels site finalized certification according to ISO 14001 for Plant 2. We started to implement an energy management system according to ISO 50001. One new big extruder was installed during the year and the plant made major investments in a new oil separator, dust filters and a new storage system for liquid hazardous substances.
- Energy efficiency was high on the agenda at the Hückelhoven unit and during the year they successful implemented ISO 50001. An optimised compressed air system was installed and LED lighting was installed in the production area. A detailed overview of machinery was conducted as base for an in-depth energy consumption survey.

Belgium

- At the Eupen unit started the construction of a new warehouse for chemical raw materials. The plant increased the recycled amount of scrap, for example, by regular scrap-meetings with employees. Social activities included practical training and thesis work for students.

United Kingdom

- The Elasto unit in Middleton extended the sprinkler protection to identified high risk areas and conducted fire awareness training to key personnel.
- The Dukinfield unit retained the ISO 14001 certification. We continued focusing on improving sales volume efficiency against energy consumed. Further improvements concerning the management of waste.

Czech Republic

- The Unicov plant installed new exhaust and filtration equipment for air from mill Line 2. This will improve the workplace environment and reduce the dust emissions.



Sri Lanka

- The new biomass boiler is now successfully running at the Bokundara unit and the installation of a similar unit at the Horana plant was initiated. The result will be a substantial reduction of the emissions of fossil carbon dioxide.
- Ten percent energy saving at the Horana unit by installation of Boll Float Steam Trap at presses. At the Bokundara unit by the same type of equipment was installed at 40 presses.
- Implementation of the energy management system standard ISO 50001 was finalized.
- Social activities included the annual trip for all employees, contact and projects with universities, and schoolbooks to children.

China

- Gislaved Gummi in Qingdao continued energy saving projects, for example, increased production during daylight. Other activities included reduction of scrap and flash, as well as improvement of safety and working environment. Passed ISO 9001 and ISO 14001 annual audit and continued the 5S program with major improvements.
- HEXPOL Compounding in Qingdao installed solar heating for all hot water systems for employee showers. Increased the use of plastic returnable pallets and thereby reducing the wooden pallet usage.
- Stellana in Qingdao signed a contract concerning waste that is transported and treated by an external waste company. Conducted health examinations of all employees. Implemented several measures to reduce electricity consumption and the cost of packaging material, steel grit and other auxiliary material.
- The Foshan unit continued to remove nitrosamine generators and phthalates from the compounds. All employees participated in the audit process to review potential safety hazards in the factory. Utilized returnable containers with additional customers to reduce the waste footprint and also tried to expand this practice to distant customers.

About the sustainability report

Purpose

The purpose of this report is to provide an overview of HEXPOL's sustainability performance during the calendar year of 2014, and, where practicable, provide a comparison to the performance during previous years. The report describes our impacts on our environment, people, our local communities and the economic contribution the company makes in the areas in which we operate. The aim is to provide a focused report that supports the needs of HEXPOL and our stakeholders.

Scope and boundary

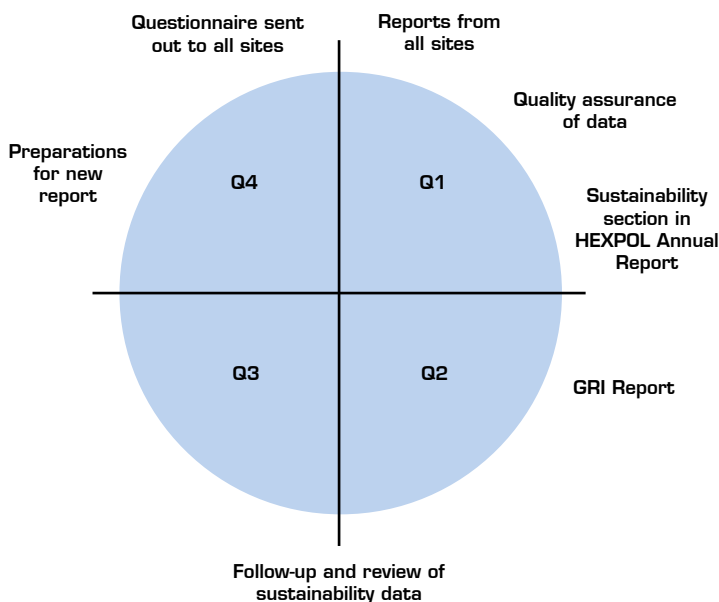
The Sustainability Report covers performance relating to the environment, health, safety and social conditions at the production units worldwide. Operations that belonged to the Group for most of the fiscal year are included in the report. A total of 32 units throughout the world contributed to the report. One acquired company was added (LaFayette, USA) to the report and one plant (Findlay, USA) was closed down and therefore not reported. Companies acquired during fall 2014 were not included in the Sustainability Report. The table on p. 32 shows all units that formed the HEXPOL Group by the end of 2014 and to which extent they are included in the Sustainability Report.

Reporting principles

The annual reporting cycle is shown in the figure. Each unit supplies data to the HEXPOL head office in accordance with the Group's questionnaire for sustainability reporting. All unit managers are responsible for the primary quality assurance of the data provided. The second level of quality control is carried out at the head office, where incoming information is reviewed and compared with data from previous years. Additional assessment of sustainability data is carried out during visits at selected units during the year.

Sustainability data that was presented in the Board of Director's Report (Annual Report) was briefly audited by the financial auditors.

Conversion factors, based on the energy content and quality of the fuel used, are applied for the calculation of emissions of carbon dioxide, sulfur dioxide and nitrogen oxide from the use of direct energy. For companies within EU, emissions of carbon dioxide from indirect energy (mainly electricity) are based on conversion factors in the Covenant of Mayors (EU 2010). As we changed from the Greenhouse Gas Protocol Initiative (GHG Protocol), figures 2010 – 2013 have been recalculated. For companies outside EU the conversion factors in the GHG Protocol were used. Figures for emissions of VOCs (solvents) are based on measurements at the units where they occur, but in most cases VOC emission data is based on mass balance calculations. The report also includes VOC emissions from paints and lacquers, adhesives and glue.



About the sustainability report

Operating unit	Location	No of employees	Area (m ²)	Environmental licence	Included in Sustainability Report
HEXPOL Compounding					
HEXPOL Compounding North Carolina	Statesville, USA	101	3,400	Yes	Yes
GoldKey Processing	Middlefield, USA	178	14,900	Yes	Yes
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	234	19,900	Yes	Yes
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	107	9,800	Yes	Yes
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	226	38,200	Yes	Yes
Chase Elastomer	Kennedale, USA	80	7,200	Yes	Yes
HEXPOL Compounding – California	Santa Fe Springs, USA	36	2,900	Yes	Yes
Robbins	Muscle Shoals, USA	109	20,900	Yes	Yes
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	103	6,500	Yes	Yes
HEXPOL Compounding Queretaro	Queretaro, Mexico	120	8,300	Yes	Yes
HEXPOL Compounding Belgium	Eupen, Belgium	80	3,400	Yes	Yes
HEXPOL Compounding Sweden	Gislaved, Sweden	60	9,200	Yes	Yes, included In summary report for Gislaved unit.
HEXPOL Compounding Germany	Hückelhoven, Germany	59	5,400	Yes	Yes
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	102	8,600	Yes	Yes
HEXPOL Compounding UK	Dukinfield, UK	56	2,500	No*	Yes
HEXPOL Compounding Qingdao	Qingdao, China	80	5,900	Yes	Yes
HEXPOL Compounding Foshan	Foshan, China	34	6,350	Yes	Yes
Elastomeric Group	Bokundara, Sri Lanka	54	2,000	Yes	Yes, included in summary report for Bokundara unit.
ELASTO Sweden	Åmål, Sweden	60	5,300	Yes	Yes
ELASTO UK	Manchester, UK	45	4,500	No*	Yes
Müller Kunststoffe Plant 1	Lichtenfels, Germany	36	3,600	No*	Yes, included in summary report for Lichtenfels unit.
Müller Kunststoffe Plant 2	Lichtenfels, Germany	81	6,300	No*	See above.
HEXPOL TPE Compounding Foshan	Foshan, China	11	750	Yes	Yes, included in summary report for Foshan unit.
HEXPOL Silicone Compounding	Mogadore, USA	-	1,600	-	Acquired during fall 2014, not included in the report
Kardoes Rubber	LaFayette	80	20,500	Yes	Yes, reported August - December
HEXPOL Compounding S.L.U.	Barcelona, Spain	87	12,000	Yes	Acquired during fall 2014, not included in the report
HEXPOL Compounding Viersen GmbH	Viersen, Germany	47	20,000	Yes	See above
RheTech Compounding	Whitmore Lake, USA	-	-	-	See above
RheTech Compounding	Fowlerville, USA	-	-	-	See above
RheTech Colors	Sandusky, USA	-	-	-	See above
RheTech Engineered Plastics	Blacksburg, USA	-	-	-	See above
HEXPOL Engineered Products					
Gislaved Gummi Gaskets	Gislaved, Sweden	99	6,000	Yes	Yes, included in summary report for Gislaved unit.
Gislaved Gummi Lanka	Bokundara, Sri Lanka	511	7,000	Yes	Yes, included in summary report for Bokundara unit.
Gislaved Gummi China	Qingdao, China	129	8,000	Yes	Yes
Stellana Sweden	Laxå, Sweden	79	8,000	Yes	Yes
Stellana US	Lake Geneva, USA	67	6,660	Yes	Yes
Stellana China	Qingdao, China	42	1,080	Yes	Yes
Elastomeric Wheels	Horana, Sri Lanka	497	16,590	Yes	Yes
Gislaved Gummi Profiles	Gislaved, Sweden	25	2,500	Yes	Yes, included in summary report for Gislaved unit.

* Environmental licence is not required.

Global Reporting Initiative (GRI) Index

The organisation GRI (Global Reporting Initiative) has drawn up voluntary global guidelines for how companies and other organisations should report on activities relating to the concept of sustainable development. GRI's guidelines (version G4) place requirements on reporting sustainability data in terms of economic, environmental and social performance indicators. According to GRI, sustainability reporting should provide a balanced and reasonable picture of the organisation's results within the field of sustainability, including both the positive aspects and the negative aspects.

The GRI Guidelines are the most widely accepted and used standard for sustainability reporting. If an organisation wishes to demonstrate that the report is 'in accordance' with the Guidelines, it must self-declare how GRI's Guidelines have been applied in their sustainability report. We report under the Core option and have selected material aspects and associated indicators.

The tables below show the degree to which HEXPOL meets the minimum reporting requirements in accordance with GRI G4. (AR) refers to page numbers in the HEXPOL Annual Report 2014. SR refers to this Sustainability Report.

GENERAL STANDARD DISCLOSURES

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification*
Strategy and Analysis			
G4-1	Statement from the CEO about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	AR 8; SR 5	-
G4-2	Description of key impacts, risks, and opportunities.	SR 6, 13, 20-21; AR 75, 78	+
Organizational Profile			
G4-3	Name of the organization.	HEXPOL AB	+
G4-4	Primary brands, products, and services.	AR 20-53	-
G4-5	Location of HEXPOL's headquarters.	Malmö, Sweden	+
G4-6	Number of countries where HEXPOL operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	AR 118-119, SR 31-32	-
G4-7	Nature of ownership and legal form.	AR 17-18	+

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification*
G4-8	HEXPOL's markets and customers.	AR 20-55; SR 4	–
G4-9	Scale of organization: Total number of employees, total number of operations, net sales, debt and equity, quantity of products or services provided.	AR 20-55, 82-107	+
G4-10	Employees (contract, gender, region, variations, etc).	AR 97-98; SR 22	+
G4-11	Percentage of total employees covered by collective bargaining agreements.	SR 26	+
G4-12	HEXPOL's supply chain.	SR 10, 16	–
G4-13	Significant changes during the reporting period regarding the HEXPOL's size, structure, ownership, or its supply chain.	SR 30-32	–
G4-14	Whether and how the precautionary approach or principle is addressed.	SR 13-26	–
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	SR 6-7, 9, 12	–
G4-16	Memberships of associations and national or international advocacy organizations in which HEXPOL is active.	SR 6-7, 12	–
Identified Material Aspects and Boundaries			
G4-17	Entities included in HEXPOL's consolidated financial statements. Entities that are not covered by the sustainability report.	AR 106; SR 31-32	–
G4-18	process for defining the report content and the Aspect Boundaries. How HEXPOL has implemented the Reporting Principles for Defining Report Content.	SR 31-32	–
G4-19	All the material Aspects identified in the process for defining report content.	SR 6, 8	–
G4-20	Whether the Aspect is material within HEXPOL. Any specific limitation regarding the Aspect Boundary within HEXPOL.	SR 6	–
G4-21	Aspect Boundary outside HEXPOL. Any specific limitation regarding the Aspect Boundary outside HEXPOL.	SR 6	–
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	SR 31	–
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	SR 32	–
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by HEXPOL.	SR 8-10	–
G4-25	Basis for identification and selection of stakeholders with whom to engage.	SR 8-10	–
G4-26	HEXPOL's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	SR 8-10	–
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how HEXPOL has responded to those key topics and concerns.	SR 8-10	–
Report Profile			
G4-28	Reporting period.	2014 (full year)	–
G4-29	Date of most recent previous report.	April 2014	–
G4-30	Reporting cycle.	Annual, SR 31	–
G4-31	Contact point for questions regarding the report or its contents.	Torbjörn Brorson	–

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification*
GRI Content Index			
G4-32	'In accordance' option HEXPOL has chosen. GRI Content Index.	Core, this table shows the GRI Content Index	-
G4-33	Policy and current practice with regard to seeking external assurance for the report.	The sustainability section in the Annual Report is briefly audited and verified	-
Governance			
G4-34	HEXPOL's governance structure for sustainability aspects.	SR 10-11	-
Ethics and Integrity			
G4-56	HEXPOL's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	SR 6-11	-
Economy			
G4-EC1	Direct economic value generated and distributed.	SR 27-28	-
G4-EC2	Financial implications and other risks and opportunities for HEXPOL's activities due to climate change.	SR 21	-
G4-EC3	Coverage of HEXPOL's defined benefit plan obligations.	AR 100	+
G4-EC4	Financial assistance received from government.	None during 2014	-

ENVIRONMENTAL

Materials			
G4-EN1	Materials used by weight or volume.	SR 14-15	+
G4-EN2	Percentage of materials that are recycled input materials.	SR 14	+
Energy			
G4-EN3	Energy consumption within HEXPOL (direct).	SR 13-14	+
G4-EN4	Energy consumption out side HEXPOL (indirect).	SR 13-14	+
G4-EN5	Energy intensity	SR 13	
G4-EN6	Reduction of energy consumption.	SR 14	+
G4-EN7	Reductions in energy consumption in products and services.	SR 19	
Water			
G4-EN8	Total water withdrawal per source.	SR 14	+
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1).	SR 17	+
G4-EN17	Other indirect greenhouse gas (GHG) emissions (scope 3).	SR 17	+
G4-EN18	Greenhouse gas (GHG) emissions intensity.	SR 17	+
G4-EN19	Reduction of greenhouse gas (GHG) emissions.	SR 17, 29-30	+
G4-EN20	Emissions of ozone-depleting substances (ODS).	SR 19	+
G4-EN21	NO _x , SO ₂ and other significant air emissions.	SR 19	+
Effluents and waste			
G4-EN22	Total water discharge by quality and destination.	SR 14	+
G4-EN23	Total weight of waste by type and disposal method.	SR 19	+
G4-EN24	Total number and volume of significant spills.	SR 13, 20-21	+
Products and Services			
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	SR 19	+

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification*
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	SR 13	+
Transport			
G4-EN30	Significant environmental impacts of transporting products and other goods and materials, and transporting members of the workforce.	SR 17	+
Overall			
G4-EN31	Total environmental protection expenditures and investments by type.	SR 27	+
Supplier Environmental Assessment			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	SR 10-11 (partly)	+

SOCIAL

Employment			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.	Not reported	-
Occupational Health and Safety			
G4-LA5	Percentage of total workforce represented in formal joint management-worker H&S committee.	SR 24	+
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, fatalities.	SR 24	+
Training and Education			
G4-LA9	Average hours of training per year per employee.	SR 25	+
G4-LA11	Percentage of employees receiving regular performance and career development reviews.	SR 25	+
Diversity and Equal Opportunity			
G4-LA12	Composition of governance bodies and break down of employees per category with reference to indicators of diversity.	AR 82-87; SR 24	+
Supplier Assessment for Labor Practices			
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria.	SR 10 (partly)	+

HUMAN RIGHTS

Non-discrimination			
G4-HR3	Total number of incidents of discrimination and corrective actions taken.	SR 22	+
Freedom of Association and Collective Bargaining			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated.	SR 10-11, 22-23 (partly)	-

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification*
Child labor			
G4-HR5	Operations and suppliers identified as having significant risk for incident of child labor.	SR 10 (partly)	–
Forced or Compulsory Labor			
G4-HR6	Operations and suppliers identified as having significant risk for forced or compulsory labor.	SR 10 (partly)	–
Supplier Human Rights Assessment			
G4-HR10	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.	SR 10 (partly)	–

SOCIETY

Local Communities			
G4-S01	Percentage of operations with implemented local community engagement.	SR 26, 29-30	–
Anti-corruption			
G4-S04	Communication and training on anti-corruption policies and procedures.	SR 7	–

PRODUCT RESPONSIBILITY

G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	SR 16, 19 (partly)	–
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* Information is presented in the Board of Director's Report in the HEXPOL Annual Report 2014. Annual accounts and consolidated accounts were audited by Ernst & Young AB auditors, Malmö, Sweden. Sustainability data was briefly audited by Ernst & Young.

Definitions

ATEX EU Directive concerning potentially explosive atmospheres. Explosive atmospheres in the workplace can be caused by flammable gases, mists or vapors or by combustible dusts. Explosions can cause loss of life and serious injuries as well as significant damage.

Biofuel Renewable fuel from wood and process residues.

Boundary The boundary for a sustainability or corporate responsibility report refers to the range of entities whose performance is covered in the organization's report.

Carbon dioxide (CO₂) CO₂ is formed in all carbon combustion processes. The gas is released in substantial amounts when petroleum products are used. It is likely that atmospheric emissions of carbon dioxide increase global warming (greenhouse effect).

CDP Carbon Disclosure Project. A voluntary scheme for reporting on an organization's impact on the climate.

Child labour Refers to the employment of workers who do not meet the applicable national minimum legal age requirement.

CLP EU Regulation on Classification, Labelling and Packaging of chemical substances and mixtures.

Climate change Also defined as global warming. Human activity contributes to the warming of the global environment and its resulting effects, which range from higher temperatures to eccentric weather patterns and melting of the ice caps.

Code of Conduct The behavior code for HEXPOL's employees is called "Materializing Our Values". Supplemented by policies relating to finance, information, environment, equal opportunities, IT and health and safety.

Conflict mineral Columbite-tantalite, cassiterite, gold and wolframite originating from the Democratic Republic of the Congo or nearby countries are referred to as conflict minerals. The term refers to the on-going armed conflicts in the region, in which mining operations are often involved and which have resulted in human rights violations.

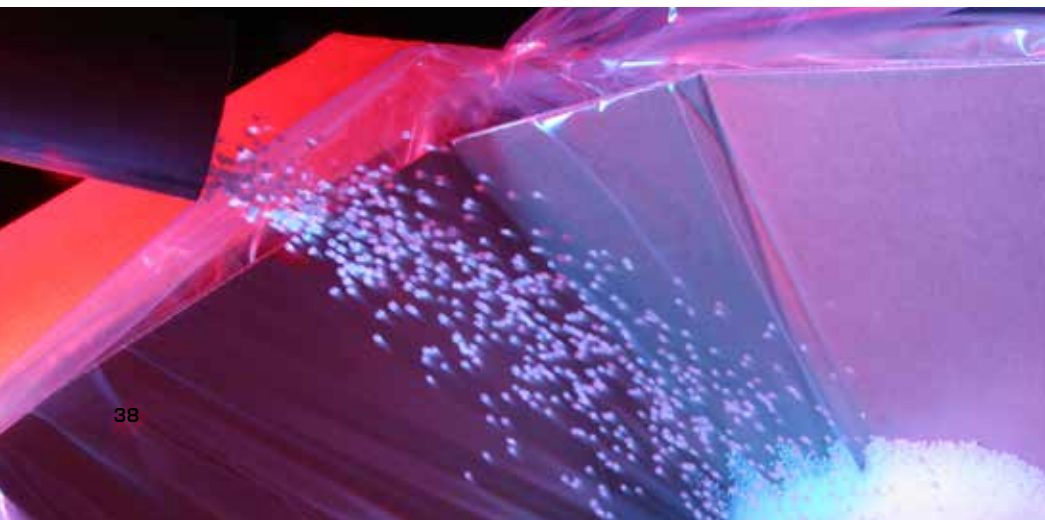
Core indicators Core indicators are GRI indicators identified in the guidelines to be of interest to most stakeholders and assumed to be material unless deemed otherwise on the basis of the GRI reporting principles.

CSR/CR Corporate social responsibility and corporate responsibility are terms used to describe a company's approach to issues concerning the environment, social responsibility, financial responsibility and business ethics. These terms are often used interchangeably with the term "sustainable development".

DETU N,N'-Diethyl thiourea is a rubber accelerator that is hazardous to health and the environment.

DINP Diisononyl phthalate (DINP) is a phthalate used as a plasticizer. At present, according to a EU Directive, DINP is banned in toys and childcare articles that children can put into their mouths.

DOTG N,N'-di-ortho-tolyl guanidine is an accelerator in polyacrylate rubber compounds. The substance releases o-toluidine emissions that are associated with health risks.



ETU Ethylene thiourea is a rubber accelerator that may cause cancer.

Environmental aspects The parts of an organization's activities, products or services that interact with the environment.

Environmental management system The part of the overall management system that includes the organizational structure, planning, activities, distribution of responsibility, practices, procedures and resources for developing, implementing, performing, reviewing and maintaining the organization's environmental policy. ISO 14001 is used as the environmental management standard within the HEXPOL Group.

Freedom of association Refers to the right of employees to lawfully join associations of their own choosing, peacefully associate, organise or bargain collectively.

5s The name of a workplace organization methodology that uses a list of five Japanese words which are seiri, seiton, seiso, seiketsu and shitsuke. Transliterated or translated into English, they all start with the letter "s". The list describes how items are stored and how the new order is maintained. The decision-making process usually comes from a dialogue about standardisation which builds a clear understanding among employees of how work should be done. It also instills ownership of the process in each employee.

GHS Globally Harmonised System of Classification and Labelling of Chemicals.

Global Compact A UN initiative in the area of corporate social responsibility. Participating organizations agree to adhere to ten principles in the areas of human rights, labour conditions, the environment and anti-corruption. Global Compact is reflected in "Materializing Our Values".

Global Reporting Initiative (GRI) GRI is an organization working toward a method for overall reporting and assessment of an operation, including the social and environmental perspectives, as well as financial aspects.

GRI principles The GRI guidelines consist of principles to define report content and quality. The principles defining report content are: materiality, stakeholder inclusiveness, sustainability context, and completeness. The principles defining report quality are: balance, comparability, accuracy, timeliness, reliability, and clarity.

GWh Gigawatt-hour, unit of energy measurement; 1 GWh corresponds to 1 million kWh.

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

HCFCs Substances that deplete the atmospheric ozone layer.

ISO 14001 International standard relating to environmental management systems that was introduced in 1996. Just over 300,000 organisations around the world are currently certified according to ISO 14001. A new version (ISO 14001:2015) will be launched in 2015. See also "environmental management system".

ISO 26000 International standard providing guidance on how organizations can manage issues pertaining to social responsibility. The standard was introduced in 2010 and provided guidance in the formulation of HEXPOL's Code of Conduct.

ISO 50001. International standard for energy management system.

Landfill Solid waste material sent to a landfill.

MSDS Material Safety Data Sheet.

NGO Non-governmental organization.

Nitrosamines Chemical substances that can be generated in the cross-linking (vulcanization) of rubber. Nitrosamines are associated with an increased risk for cancer and nitrosamine-free curing systems have now become established in many parts of the rubber industry.



NO_x (nitrogen oxides) Gaseous oxides formed during combustion processes through the oxidation of nitrogen. Harmful to human health and the environment. Cause acid rain and eutrophication.

OHSAS 18001 An international occupational health and safety management system standard. It specifies the requirements that an organization must meet when implementing a management system to address workplace risks to prevent injuries and ill health.

PAHs Polycyclic aromatic hydrocarbons, often abbreviated as PAHs, 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 is prohibited since many years ago, but they are still present in installations, buildings and equipment. They are also present in the environment due to their long degradation time.

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

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

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

Stakeholder (interested party) Is a party that can affect or be affected by the actions of the business as a whole. Could include employees, communities, shareholders, suppliers, customers, trade groups to name a few.

Sustainable development Development that meets the needs of the present without compromising the abilities of future generations to meet their needs (Brundtland Commission, 1987).

Sustainability-related costs These are costs related to measures for preventing, reducing or repairing environmental damage directly associated with operations. The corresponding measures taken with regard to health and safety in the workplace are also included. The costs reported include, among other items, administration and external consultancy expenses, fees to authorities, costs for introducing and maintaining environmental management systems, costs for waste and charges for external inspections and audits.

Sustainability-related investments These are investments in assets designed to prevent, reduce or repair damage to the environment associated with operations. The corresponding investments made with regard to health and safety in the workplace are also included.

Vulcanization A chemical process for converting rubber into more durable materials with the addition of sulphur or other "curative" agents, for example peroxides. These additives modify the polymer by forming crosslinks between individual polymer chains.

SO₂ (sulfur dioxide) Sulfur dioxide is formed when petroleum products are burned. SO₂ contributes to the acidification of lakes, streams and soil, and causes coniferous trees to shed their needles. Large concentrations in the environment are harmful to human health.

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

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

WEEE The EU Waste Electrical and Electronic Equipment Directive aim to reduce the amount of electronic waste being disposed of and require producers to pay for its reuse, recycling and recovery.

Work-related accident A work-related accident is a sudden event related to work that gives rise to a wound or other physical injury. A typical injury in the rubber industry is a minor cut or crushing injury. HEXPOL reports the number of work-related injuries that give rise to one or more days of absence, called Lost Work Cases (LWCs). The injury rate is then normed by stating the number of such injuries per employee (LWC/employee).

Work-related disease A work-related disease is an disease caused by long-term exposure to a particular factor in the work environment. Such factors can include repetitive lifting or being exposed every day to solvent fumes.



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