



A MATERIAL DIFFERENCE

**Strong global growth in
advanced polymer solutions**

ANNUAL REPORT 2021 WITH SUSTAINABILITY REPORT

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Advanced polymer solutions for better and more sustainable applications

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are sustainable and that will resolve new challenges, often in demanding environments.

The Group's strengths are its global delivery capacity and locally rooted entrepreneurial spirit, with each unit having an excellent familiarity with the market, cutting-edge expertise and development capabilities in advanced polymers. Combined with HEXPOL's global and coordinated platform, the customer offering will be unique.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which, between them, cover a total of three regions and five product areas. HEXPOL generates sales of approximately 16,005 million SEK annually and has some 4,800 employees in 14 countries.



Significant events in 2021

- Acquisition of the Polymer Compounder VICOM 2002 S.L., which is active in the wire and cable industry – an interesting and growing product segment for HEXPOL, driven by electrification.
- Acquisition of Unica, a significant player in Rubber Compounds in Spain, and which is a supplier to several demanding customers in, among others, the automotive industry, the construction sector and agriculture.
- Earth was broken for the TPE investment in Åmål, Sweden. The facility will accommodate a state-of-the-art compounding line with advanced monitoring systems for materials for medical technology production. The investment also lays the foundation for optimized internal logistics and increased automation.
- Efforts aimed at reducing carbon dioxide emissions (CO₂) by 75 percent¹ by 2025 were intensified. Increased purchases of fossil-free electricity, installation of solar cells and energy efficiency contributed to CO₂ emissions decreasing by 20 percent in 2021 compared with 2020.
- A major fire broke out in HEXPOL's plant in Jonesborough, USA. Customer deliveries could be secured by transferring production to nearby facilities.
- HEXPOL established a program for issuing commercial papers with the possibility of these being issued within a framework of 4 billion SEK.

¹ In 2020, HEXPOL adopted a new climate target, meaning that CO₂ emissions from energy use (tons CO₂/sales) will be reduced by 75 percent by 2025, compared with the average for 2018–2019.

Strong and profitable growth despite external challenges

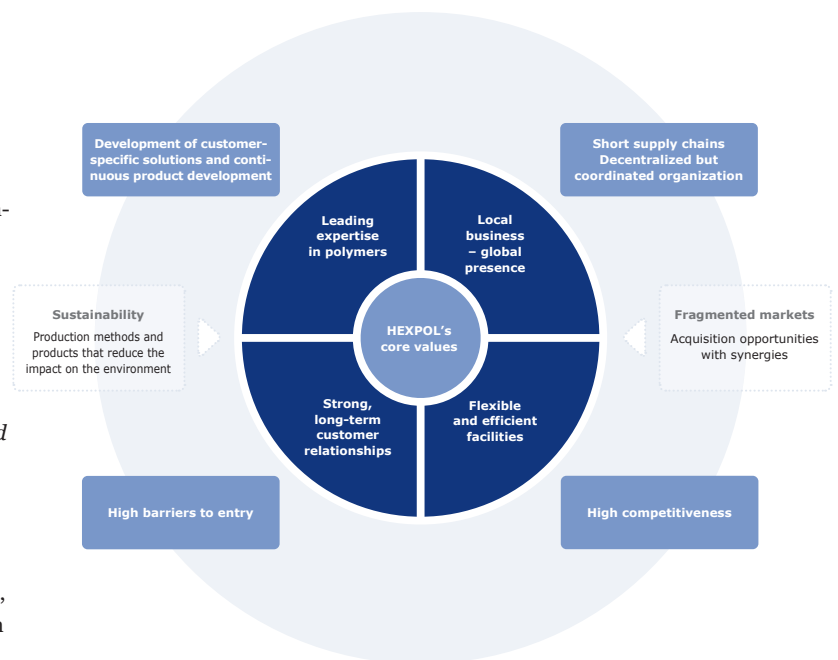
The corona pandemic retained its grip on the world in 2021, although we had learned to deal better with the disease and its consequences. The world's economies recovered significantly compared with the preceding year, but residual effects such as disruptions in the supply of raw materials, component shortages at OEMs and logistics challenges characterized our markets for large parts of the year. Thanks to our strong business model, I can proudly state that HEXPOL handled the external challenges during the year very well. We have clearly strengthened our positions, resulting in strong organic growth and with good profitability.

A strong business model for profitable growth

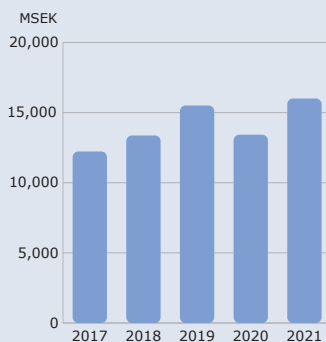
The year was marked by a recovery that we had already been able to see signs of towards the end of the preceding year. We have been able to capitalize on that recovery thanks to our strong business model, which has shown clear advantages. Our business model has also helped us manage obvious external challenges during the year, while we nonetheless strengthened our positions and maintained good profitability.

Our business model is based on our four cornerstones – *Leading polymer expertise, Local business – global presence, Flexible and efficient operations, and Strong and long customer relationships*. These are cornerstones that, properly handled, make us highly competitive, set clear entry barriers and clear benefits for our customers, such as short supply chains and reliable customer-specific solutions.

The structure of our industry, with its fragmented markets, also offers us favourable opportunities for acquisitions with accompanying synergies. Pervading our entire operations are the aspects of sustainability that impact us and our world.

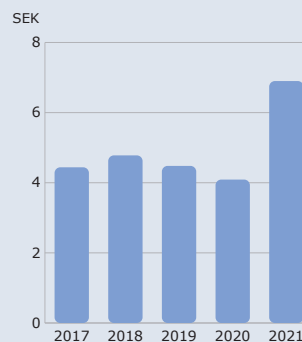


Sales



Sales increased by 19 percent, with all product areas and markets being affected favourably. Sales increased organically by 21 percent.

Earnings per share



Earnings per share amounted to 6.85 SEK, a 67 percent increase.

Adjusted operating profit



Over the year, adjusted operating profit rose by about 36 percent to 2,737 MSEK, primarily due to our strong and solution-oriented customer focus, coordinated processes and full utilization of our decentralized and flexible organization around the world.



“We have clearly strengthened our positions, resulting in strong organic growth and with good profitability.”

President and CEO, Georg Brunstam

2021 – the Group’s best year with strong organic growth, despite significant external challenges

Summing up 2021, it is clear that it was our best year to date.

We achieved very strong organic sales growth of 21 percent compared with the preceding year, driven by good sales in all markets and product areas. Our adjusted profit increased by 36 percent to 2,737 MSEK over the year and earnings per share, adjusted for items affecting comparability, increased by approximately 43 percent to 6.09 SEK.

This was despite many disruptions during large parts of the year in the form of production stoppages at automotive customers, global logistics problems and a shortage of raw materials. To this can be added continued high price increases for raw materials, and energy costs also increased sharply in the second half of the year.

I am proud and grateful to units and employees the world over who were able make adjustments in line with demand and, at the same time, find solutions for our customers under sometimes extreme conditions. I see the year’s strong sales and good results as clear proof of our well-defined business model with its strong customer focus.

During the year, the Group also generated a continued strong operating cash flow of 2,731 MSEK (2,548) while our net debt ratio (ND/EBITDA) amounted to only 0.25 (0.67). HEXPOL’s financial position after the year’s good results meant that the Board of directors can propose an ordinary dividend for 2021 of 3.00 SEK per share and an extra dividend of an additional 3.00 SEK per share, giving a total proposed dividend of 6.00 SEK per share.

Decentralized but coordinated – a material difference

Our business culture defines a clear purpose for all of us – *We create a material difference*. We make a difference every day, both through our products and through our relationships with customers.

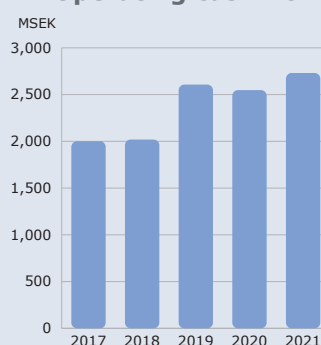
That purpose requires an experienced and decentralized organization. Each unit responds quickly, adjusting to the conditions applicable to them locally, supporting customers optimally while also securing our financial position. At the same time, all essential processes and resources are coordinated centrally to make the best use of our global presence. Effects of the Corona pandemic, such as logistics challenges

Adjusted operating margin



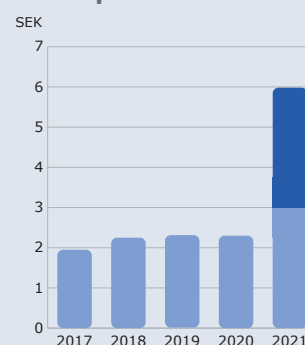
The adjusted operating margin increased to 17.1 percent, a percentage increase of 14 percent compared with the preceding year, mainly due to good sales and volumes, combined with a lower cost base.

Operating cash flow



In 2021, HEXPOL generated a continued strong operating cash flow of 2,731 MSEK (2,548) and the Group’s net debt ratio (ND/EBITDA) amounted to 0.25 (0.67).

Proposed dividend



Following a strong year, HEXPOL’s financial position is good and the Board of Directors proposes an ordinary dividend for 2021 of 3.00 SEK per share and an extra dividend of an additional 3.00 SEK per share, giving a total proposed dividend of 6.00 SEK per share.

but also increasing trade obstacles, have made it clear that shorter supply chains are a business-critical component for many of our customers. With our decentralized business structure and 50 local units in Europe, America and Asia, we are able to offer fast and secure deliveries based on local conditions and being most aware of our customer' needs.

A sustainable business, for us and for our customers

Sustainable development has been an integral part of our operations and long-term strategy for many years. It is a natural part of each unit's strategic plan, budget and social commitment. By using resource-efficient production methods, as well as investing in products with a lower climate impact, we achieve both environmental and business benefits.

Our endeavour of lowering our CO₂ footprint by 75 percent by 2025 was intensified over the year with a number of investments in energy efficiency improvements – solar panels at our facilities or fossil-free energy supply. In 2021, our CO₂ emissions decreased by 20 percent (tons CO₂/MSEK) compared with the preceding year.

In recent years, we have worked on a number of development projects generating green growth and new opportunities for our customers. The TPE product Dryflex Circular, which is based on recycled materials, is one of several green products that are offered for a large number of applications – most recently for interiors for the automotive industry. At the same time, we are also working with our customers to make their products more climate-efficient, by using lighter materials, for example, that reduce the weight of vehicles and thus save fuel.

Many existing raw materials can be replaced with circular or renewable materials. The pace of innovation is high and a realignment is in progress among consumers, customers and suppliers.

Priorities in line with strong mega-trends

In the short term, the disruptions we experienced in 2021 around production stoppages, raw material shortages and logistics problems can continue for a while to come. In that case, we will meet this in the same way as during the past financial year. With a continued strong customer focus, coordinated processes and with full utilization of our decentralized and flexible units around the world. On the

other hand, we are well-positioned for continued growth when these disruptions cease. We will continue to develop with the global trends that we see benefiting our Group. Increasing electrification is driving growth and this year's acquisition of VICOM, active in Wire & Cable, is a good example of how we can strengthen the offering. We see clear business opportunities in sustainable development, most recently when an American car manufacturer chose Rhe-Tech's recycled materials for a popular car model. We will continue to capitalize on the short supply chain, which is so business-critical for customers, as when we acquired Unica this spring to strengthen the offering to the automotive industry in southern Europe. We will meet the growing need for advanced materials for the Medical segment with continued initiatives, such as the investment in a new production line for materials for medical technology in Swedish Åmål.

With a very strong position financially, we are also ready to continue our growth. Our strong business model shows conditions for continued favourable organic growth. With regard to acquisitions, we are, as always, working actively and evaluating a number of opportunities in our various niches, always with good profitability and strong cash flow as the objective.

In conclusion, I would like to extend my sincere thanks to our customers, suppliers and shareholders for their continued trust and for our positive partnership in 2021.

Employees and management teams around the world have faced at times extreme challenges in delivering reliably to our customers – my warmest thanks to all of you. I would also like to take this opportunity to welcome all the new employees from the acquired units.

As I write this, the tragic and terrible war in Ukraine continues to affect millions of people. It is difficult to now assess the long-term consequences for the HEXPOL Group, but with business trends that are favorable for us, a proven and strong business model, a strong financial position and with an experienced and strong management we have good conditions to continue to grow and develop our group.

Malmö, Sweden, March 2022

Georg Brunstam, President and CEO



HEXPOL as an investment

Since its IPO, HEXPOL has generated shareholder value by means of a steady return on equity. The dividend policy means that 25–50 percent of profit for the year¹ is intended for distribution to shareholders as dividends. The Group works continuously to generate value for all of its stakeholders. For HEXPOL as an investment, several factors form the foundation on which the Group generates value.

Strong growth orientation

HEXPOL strives for leading positions and has a strategy to grow both organically and through acquisitions with good margins and strong operating cash flows that enable continued expansion. HEXPOL has progressed from sales of slightly less than 500 MSEK in 2001 to 16,005 MSEK in 2021.

Global market positions

HEXPOL has strong global market positions with the ambition of being the market leader in select technical or geographical segments. With 50 units in Europe, America and Asia, HEXPOL can deliver flexible solutions to both local and global customers. We are present in most industrial segments requiring leading polymer expertise, the largest segments being the automotive and engineering sectors.

Advanced polymer solutions for demanding customer applications

HEXPOL's customers impose rigorous demands and high expectations of solutions to new challenges, often in the most demanding environments. Through cutting-edge knowledge in polymeric materials, solid application know-how and the best service on the market, HEXPOL strengthens its customers' competitiveness, often in direct collaboration with the customers' own development departments.

Contribution to sustainable development

Sustainability forms an integral part of HEXPOL's operations. Reducing the impact on the climate of raw materials, production facilities and products, as well as being prepared for the impact of a changed climate on the Group's value chain, are highly strategic issues. Interest in products containing bio-based or recycled raw materials has increased markedly among many customers, and creating a more circular economy is a strong driving force for HEXPOL and its business partners. Read more about HEXPOL's sustainability work on pages 28–42.



75-percent reduction in CO₂ emissions by 2025²

As an important step in reducing HEXPOL's climate impact, we have continued to reduce the carbon footprint of our energy use, and are, over time, continuously reducing CO₂ emissions by switching to renewable energy from sources including solar, wind and hydroelectric power. In addition, investments are being made in the facilities' energy supply locally, such as in the transition to biofuels and fossil-free electricity. The work was intensified in 2021, resulting in a reduction of 20 percent (tons of CO₂/MSEK) compared with the preceding year.

HEXPOL also continues to develop materials and products with recycled or bio-based raw materials. Examples of this are Dryflex Circular, RheVision and Dryflex Green.

As part of the strategy to increase the sustainability of the operations, HEXPOL has, since 2020, been taking initial steps to comply with the TCFD guidelines for reporting climate-related financial risks and opportunities.

¹ Profit after tax, provided that the company's financial position is judged to be satisfactory.

² In 2020, HEXPOL adopted a new climate target, meaning that CO₂ emissions from energy use (tons CO₂/MSEK) will be reduced by 75 percent by 2025, compared with the average for 2018–2019.

The HEXPOL share and shareholders

Share, share price trend and trading volume

In 2021, the price paid for HEXPOL's Class B share rose by 38 percent (4) while the index of comparable industrial companies, OMX Stockholm Basic Materials, rose by 21 percent (11). The Stockholm exchange as a whole, Nasdaq Stockholm, rose by 35 percent (13).

The highest price paid for HEXPOL's Class B share was noted on 13 August at 122.05 SEK and the lowest price paid was noted on 28 January at 84.35 SEK.

During 2021, 133 million (329.7) HEXPOL shares were traded. An average, 526,168 shares (841,569) were traded per business day for an average of 54,460,658 SEK.

HEXPOL's total return increased by 41 percent over the year, which can be compared with the OMX GI¹ index, which climbed 39 percent. Over the past five-year period, HEXPOL's Class B share has had a total return of about 13 percent.

Ownership structure

HEXPOL's Class B share has been listed on the exchange since 2008. Today, the share is included on Nasdaq Stockholm's large company list, Large Cap, under HPOL B. The share capital in HEXPOL AB totals 68,887,369 SEK, represented by 344,436,846 shares. Of these, 14,765,620 are Class A shares and 329,671,226 Class B shares.

Each Class A share carries ten voting rights and a Class B share one voting right. Each share has a quota value of 0.3 SEK. All shares carry equal rights to the Company's assets and earnings.

The incentive programme for employees introduced at the Annual General Meeting on 29 April 2016, "Incentive program 2016/2020", entitled participants to subscribe for shares during the period 1 June 2019 – 31 December 2020. In December 2020, 235,566 new Class B shares were subscribed for within the framework of the incentive programme. As of 31 December 2020, the new shares were reported as a new share issue in progress and they were registered in January 2021. The programme has now been discontinued.

As of 31 December 2021, HEXPOL AB had 11,588 shareholders (12,575). The largest shareholder is Melker Schörling AB, which owns all Class A shares. Melker Schörling AB also holds Class B shares and owns in total 25 percent of the share capital and 46 percent of the voting rights. The number of shares held by non-Swedish shareholders totalled 42 percent (42) of the capital. The 20 largest shareholders accounted for 72 percent (69) of the capital and 80 percent (78) of the voting rights.

Dividend

HEXPOL's earnings trend and equity/assets ratio determine the size of the dividend. HEXPOL's dividend policy is that 25 to 50 percent of profit after tax for the year will be distributed in dividends to HEXPOL's shareholders, on the condition that the Group's financial position is deemed satisfactory. For 2021, the Board of Directors proposes an ordinary dividend of 3.00 SEK per share (2.30) and an extra dividend of an additional 3.00 SEK per share, giving a total proposed dividend of 6.00 SEK per share. The ordinary dividend corresponds to approximately 49 percent of net profit for the year, adjusted for items affecting comparability.

Shareholder value and analysts

HEXPOL's executive management works continuously to develop the Company's financial information to create favourable conditions for valuing the Group in the most accurate manner possible. This includes working actively through meetings with analysts, shareholders and the media.

In March 2021, HEXPOL held a digital capital markets day. During the day, the company's strategy, business model, operational strengths, growth opportunities, sustainability initiatives, financial plans and targets were presented. Participating during the day were President and CEO Georg Brunstam, Deputy CEO and CFO Peter Rosén and other members of Group Management.

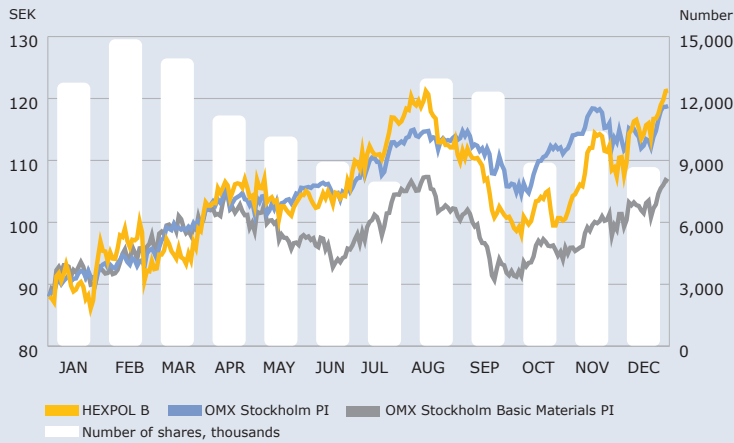
Peter Rosén, Deputy CEO and CFO, is responsible for IR matters at HEXPOL: +46 40-25 46 60, ir@hexpol.com.

For a current list of the analysts who continuously monitor HEXPOL, visit www.hexpol.com.

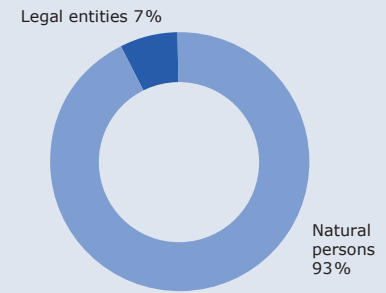


¹ OMX Stockholm Gross Index, the average trend on OMX Stockholm including dividends.

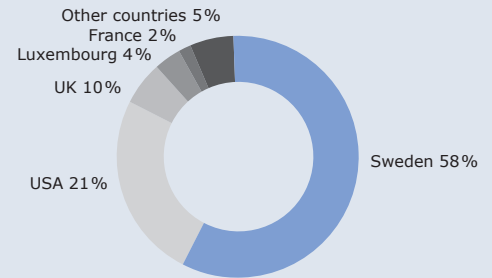
Share price trend and trading volume, 1 Jan–31 Dec 2021



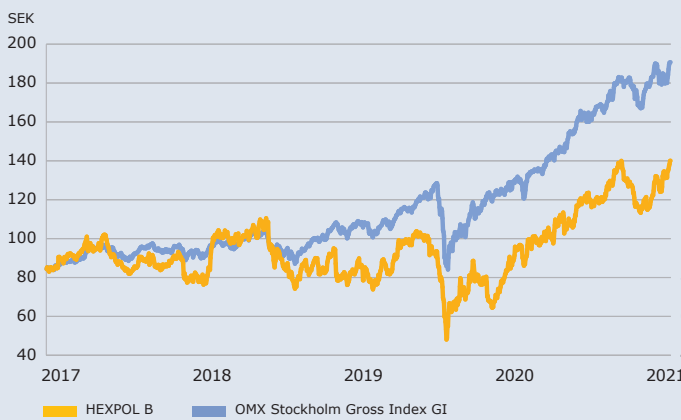
Shareholder categories, % of capital



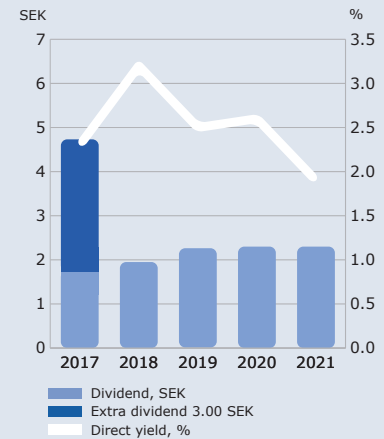
Shareholders by country, % of capital



Total return 2017–2021



Dividends and direct yield per share¹



Key performance indicators per share¹

SEK	2021	2020	2019	2018	2017
Adjusted profit	6.09	4.26	4.93	4.78	4.44
Shareholders' equity	33.82	26.53	28.34	24.96	20.37
Dividend	2.30	2.30	2.25	1.95	4.75 ²
Closing price, Class B share, 31 December	121.30	88.0	91.80	70.05	83.15
Cash flow from operating activities	6.99	6.90	6.86	5.25	4.94

Major shareholders

Owner/manager/custodial bank	Class A shares	Class B shares	Share capital %	Votes %
Melker Schörling AB	14,765,620	70,783,430	24.8	45.8
State street bank and trust co., W9	0	37,552,964	10.9	7.9
BNY Mellon NA (Former Mellon) W9	0	18,549,731	5.4	3.9
Didner & Gerge Fonder Aktiebolag	0	18,297,979	5.3	3.8
ALECTA Pensionsförsäkring, mutual	0	13,673,000	4.0	2.9
The Northern Trust Company	0	13,458,237	3.9	2.8
JP Morgan Chase Bank N.A	0	12,887,634	3.7	2.7
Lannebo fonder	0	9,234,691	2.7	1.9
Handelsbanken fonder	0	8,403,489	2.4	1.8
Brown Brothers Harriman & Co., W9	0	7,583,656	2.2	1.6
Total of the 10 largest shareholders	14,765,620	210,424,811	65.3	75.1
Total other shareholders	0	119,246,415	34.7	24.9
Total	14,765,620	329,671,226	100.0	100.0

Shareholder distribution

Number of shares per shareholder	Number Shareholders	Class A shares	Class B shares
1 – 500	7,351	0	923,400
501 – 1,000	1,244	0	1,016,933
1,001 – 5,000	1,981	0	4,621,277
5,001 – 20,000	677	0	6,735,728
20,001 –	335	14,765,620	316,373,888
Total	11,588	14,765,620	329,671,226

¹ Adjusted for items affecting comparability.

² Including extra dividend of 3.00 SEK per share.

A material difference: The difference that helps our customers – every day

As a company, HEXPOL is propelled forward by its employees and its strong corporate culture with clear values. Our core values form the basis of our way of working and are the natural starting point in our business model. We supply high-quality polymer solutions that enhance our customers’ applications and make them more sustainable. We are driven by our vision of becoming the leading supplier of solutions for sustainable polymer applications.

We create a material difference – We make a difference every day, both through our products and through our relationships with customers.



Strong business model for continued profitable growth

HEXPOL's value-generating business model is based on our core values: We are committed, We are close to you, We make you sustainable, We are entrepreneurs and We are true specialists. Our business model is based on four cornerstones with a strong customer focus: Leading polymer expertise, Local business – global presence, Flexible and efficient facilities, and Strong, long-term customer relationships. This is also how we continue to develop the Group organically and with strong acquisition-driven growth.



Leading expertise in polymers, superior know-how in applications

Over time, HEXPOL has built up leading polymer expertise for a wide range of advanced materials that, together with solid application know-how, meet the strict requirements set by customers. Customer development is our focus and HEXPOL has more than 100 qualified and experienced chemists and application engineers who, in close collaboration with customers, develop polymer solutions for demanding environments.

This also includes the work of developing environmentally and climate-adapted materials that contribute to customers' goals in sustainable development.

Global reach, local presence

As a global Group, HEXPOL can meet the demands of large global companies, but also reduce lead times thanks to our 50 production units on three continents. Sales and development take place close to the customer, usually at, or adjacent to, the local production unit.

With a short distance to the customer, problems such as

limited durability, transport challenges, customs and other trade barriers are eliminated.

Flexible and efficient facilities

Deliveries are made in accordance customer orders and with predetermined call-offs based on the customer's forecast. This gives customers security with regard to delivery and quality, and gives HEXPOL flexibility in its production. The very low level of working capital contributes to HEXPOL's stable profitability.

The well-invested operations are batch-oriented and are measured based on the lowest possible transition from one batch to another. Batch production provides high flexibility, with changing customer needs or external challenges, such as a pandemic, quickly being met by transferring production or scaling up or down.

Strong, long-term customer relationships

HEXPOL's business is driven entirely by customer orders, enabling a clear degree of flexibility. Formulas for different compound are often developed in close cooperation with

customers and require unique expertise. In most cases, the formulas are HEXPOL's property. Products are approved following extensive testing and are then specified very frequently by the component manufacturer.

The close customer cooperation and material complexity provide high entry barriers for competitors and a high proportion of recurring transactions. Many of our customers have been with us for more than 20 years.

Sustainability with and for the customer

Sustainability issues form a natural part of HEXPOL's operations. We focus on energy and climate, a safe working environment, good business ethics, and the development of products helping directly or indirectly reduce environmental impact. Many of the Group's customers have similar priorities and it is in interaction with them that sustainable solutions emerge.

In 2021, 80 percent (86) of the Group's companies registered customer requirements in sustainable development. Read more on page 31. Many customers demand a Code of Conduct and certified environmental management systems. Other requirements concern the phasing out of hazardous chemical substances and sustainability issues being implemented in the supply chain. Interest has grown in products containing bio-based and/or recycled raw materials and is expected to continue growing in the future. HEXPOL has a growing portfolio of renewable and recycled materials and the goal is to reduce the use of fossil-based raw materials. While a number of customers have similar ambitions, being able to make climate-intelligent choices, requires data on the CO₂ footprint of the raw materials. Here we collaborate

with, among others, the producers of raw material to gain access to useful data.

Fragmented markets

Several of the markets we operate in are fragmented, with a few major players and a large number of smaller, locally active manufacturers or customers with their own compounding operations. For us, as a strong global Group, this gives us continued opportunities to make acquisitions and increase our presence in all markets. HEXPOL has extensive experience of integrating acquisitions, enabling us to quickly generate synergies within our own operations.



With a global market presence, HEXPOL helps customers worldwide to secure critical applications with advanced polymer solutions.

The strength of HEXPOL's flexible organization and structure

In January 2021, a major fire broke out at one of HEXPOL's facilities in the US. The facility was completely destroyed. The employees were praised by local authorities for reacting calmly, quickly giving first aid to an injured employee and evacuating the facility. The injured employee recovered after a hospital stay.

Immediately after the fire, HEXPOL activated its crisis plan, which is, among other things, developed to protect all HEXPOL stakeholders. An important part of the plan is to focus all resources and all available options on continuing to maintain a high level of service to customers without delivery disruptions.

In less than 30 days, 882 customer recipes were transferred to various HEXPOL facilities in North America, with a minimum of disruption for customers.



“Although we would naturally have preferred to avoid the fire, it did demonstrate HEXPOL's strengths. Being able to maintain our high level of service and support strengthens the message to the market regarding HEXPOL's secure supply chain, significant capacity and extensive geographical presence.”

Ken Bloom, President of HEXPOL Compounding Americas

A world in change – global trends that benefit HEXPOL

In addition to strong positions in our main segments, HEXPOL has identified a number of global driving forces that afford us additional business opportunities. They suit our business model well and we continuously monitor and assess them to ensure accurate positioning, minimize risk and exploit new opportunities.



Increasing electrification drives growth

The increasing electrification of a growing number of applications in society is becoming evident in pace with the replacement of fossil fuels with renewable ones. This is particularly noticeable in the expanding segment of electrified or hybrid vehicles. HEXPOL also has a comprehensive and broad offering to the wire and cable industry, which plays an important role in enabling electrification.



Clear business opportunities in sustainable development

HEXPOL can contribute to customers' sustainability work by increasing its use of bio-based and recycled raw materials and by means of resource-efficient processes and products.



Short supply chains are business critical for customers

Shorter supply chains are desirable, with shorter distances and response times having become business-critical elements for HEXPOL's customers. The ongoing pandemic and increasing trade barriers are driving development. With global operations in Europe, the Americas and Asia, HEXPOL is a reliable partner with a local presence.



Growing need of advanced materials in the health and medical technology segments

Human health is a global priority. An ageing population, welfare diseases but also an increased awareness of health issues are strong and critical trends. HEXPOL's advanced polymer solutions are increasingly sought after for applications for the health and medical technology segments.

E-mobility increases HEXPOL's business opportunities

The table shows how some of HEXPOL's applications are affected by increased electrification in the automotive industry (hybrid and fully electrified car, respectively).

HEXPOL's Main Applications <small>% of HEXPOL Compounding sales to automotive</small>	Plug-in Hybrid	Fully Electric
Weatherstrip		<ul style="list-style-type: none"> Increased demand for noise cancellation Light weighting for range extension
Suspension & Dampening		<ul style="list-style-type: none"> Different load distribution More air spring systems Different requirements
Hose	<ul style="list-style-type: none"> Higher temperature requirements Need for High Performance elastomers 	<ul style="list-style-type: none"> Only cooling hoses and AC (no Turbo, no fuel pipe) Cooling might not need flexible hoses
Tire	<ul style="list-style-type: none"> Weight reduction development 	<ul style="list-style-type: none"> Different design Different material requirements
Belt	<ul style="list-style-type: none"> Transmission of auxiliaries via ICE 	<ul style="list-style-type: none"> E-drives won't need timing belts Water & AC Systems might be in line with E-drive
Wire & Cable		<ul style="list-style-type: none"> More sensors and more cable Charging cables

Strategies supporting value generation and profitable growth

HEXPOL's overall objective is to generate value for its stakeholders through profitable growth. To achieve this and to maintain long-term competitiveness, we apply six strategies. These strategies safeguard that HEXPOL, Group-wide and within the business areas, works to optimize its operations, achieve market leadership and pursues appropriate activities and acquisitions.



With our core values and business model set-out, detailing our approach and our comparative advantages over the competition, our strategies become more agile and adaptable over time, allowing us to continuously improve our operations.

Strong global market positions

HEXPOL is represented in most industrial segments that demand leading knowledge and development capacity in advanced polymers. The largest segments comprise the automotive and engineering industries, followed by the construction sector. Other important customer segments are the transport sector, the energy, oil and gas sector, the consumer sector, the wire and cable industry and manufacturers of medical technology.

HEXPOL shall be a market leader, ranking number one or two, in all selected technological or geographical segments.

We use our strong global market positions strategically to coordinate processes such as purchasing, research and development and major global account management. We also use the global platform and our knowledge-intensive organization to increase sales through our own units and through benchmarking to further strengthen our positions.

As a leading player in advanced polymers, our strong positions also afford us a clear advantage when seeking growth opportunities through acquisitions. We are well-acquainted with the market, at the local and global level, and know how to assess opportunities and synergies when seeking acquisition candidates.

Efficient supply chain

We safeguard an efficient supply chain by continuously focusing on identifying cost-efficient supplier solutions from which benefits can be derived in terms of volume and technology. Global and Group-coordinated procurement processes are in place, providing strategic economies of scale. The local units ensure delivery quality and raw material supply in their respective markets. Accordingly, maintaining close cooperation with customers by means of a local presence generates opportunities to achieve efficient solutions. Today, a short supply chain and short response times are business-critical components for HEXPOL's customers. The Corona pandemic and increasing trade barriers are current trends driving this development.

Superior management expertise

HEXPOL has chosen to organize its business operations with a strong, decentralized local focus. Our strengths lie in our local entrepreneurial spirit whereby each unit possesses excellent market knowledge and can capitalize on close customer relationships. Short and prompt decision-making processes hasten implementation and boost the organization's capacity. This places great demands on skilled local management teams that assume overall responsibility for their operations, making these teams a strategic asset. They receive support through coordinated Group-wide processes and an ongoing exchange of experiences between units, safeguarding development and "best practice" within the Group.

Sustainable development

The work with sustainable development is focused on solving challenges in the near future but also on building preparedness for future expectations and requirements. An important part of sustainability work is to develop resource-efficient production methods and products with a low climate impact.

Transforming the operations for a lower CO₂ footprint is a challenge. We therefore implement measures that reduce CO₂ emissions from energy use, develop products that contain bio-based and recycled raw materials, and analyze how climate change could affect our facilities, manufacturing processes and value chain.

The transformation is in progress with considerable focus, but will take time and be affected by, among other things, the availability of bio-based and recycled raw materials, demanding product specifications, increased costs, and the development of new technologies. The Group therefore

works strategically with customers and suppliers to drive development and to provide opportunities for assessing and introducing new raw materials and technologies as quickly as possible.

Cost-efficient company

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

Coordination and cooperation around global supplier agreements, equipment design, communication and digitization are examples of support that help us achieve greater efficiency in unison. A broad-based sharing of knowledge between our units provides opportunities for continuous improvement and a set of "best practice" processes.

Capacity for generating customer value

Our task is to strengthen our customers' competitiveness in their markets.

They impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are to resolve new challenges, often in the most demanding environments.

We meet this through solid know-how in advanced polymers, strong application know-how, technical support, developmental power and excellent service.

It is in our close relationships with customers that we gain an in-depth knowledge of the challenges they face, and that we generate long-term success and profitability.

Ambitious targets to drive sustainability forward

We are working to further reduce the carbon footprint of our energy use

- 75% reduction in CO₂ emissions (tons of CO₂/MSEK) by 2025
- Increase purchasing of fossil-free energy
- Increase energy efficiency
- Decreasing the use of fossil fuels
- Continue with installation of solar cells

We will continue to develop our portfolio of green products

- Increase the use of bio-based and recycled raw materials
- Strategic and close collaboration with key suppliers on innovations, materials, processes and reporting
- Implementation of circular materials in selected products
- Provide information about our products' carbon footprint



Flax fibre, coconut shells and agave fibres are examples of plant-based raw materials that we use in RheVision, our bio fibre-reinforced polypropylene series.

A strong growth strategy

HEXPOL has a proven ability to generate strong growth, both organically and through strategic acquisitions. Since 2010, 43 units have been acquired and successfully integrated into the operations, quickly generating synergies for the Group.

The growth strategy stands firm with a target for sales growth of more than 10 percent annually over a business cycle.

Growth has been accompanied by an improvement in the operating margins of the acquired units through synergies and HEXPOL's internal improvement efforts, in which all units are quantified and compared with one another.

Positioned for profitable growth

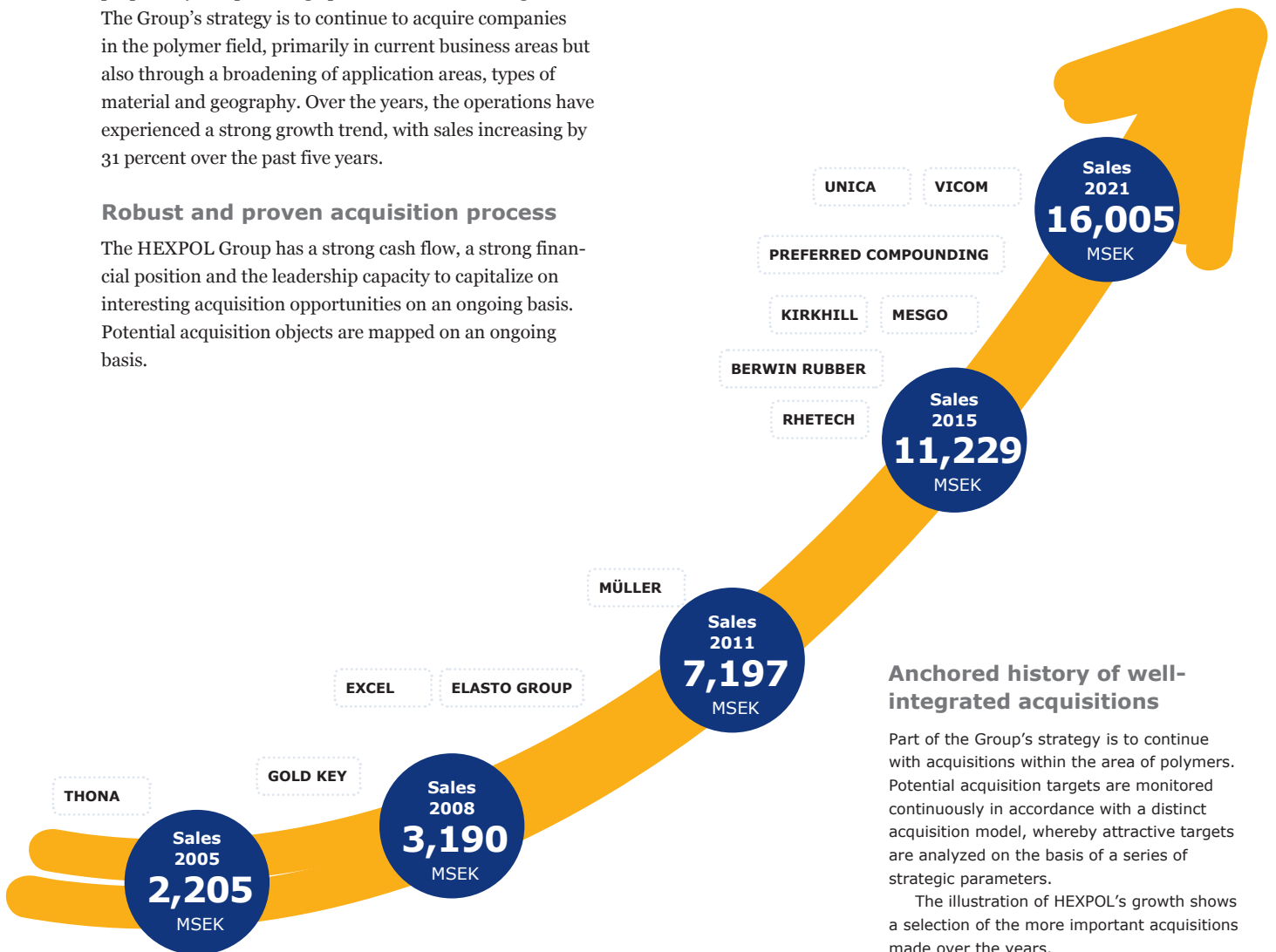
HEXPOL is positioned to benefit from development and to grow organically in its principal markets through new innovations, by growing alongside its existing customers, and by expanding in new customer segments. The Group leverages opportunities arising when Rubber Compounding manufacturers face the decision of whether to switch from proprietary compounding operations to outsourcing. The Group's strategy is to continue to acquire companies in the polymer field, primarily in current business areas but also through a broadening of application areas, types of material and geography. Over the years, the operations have experienced a strong growth trend, with sales increasing by 31 percent over the past five years.

Robust and proven acquisition process

The HEXPOL Group has a strong cash flow, a strong financial position and the leadership capacity to capitalize on interesting acquisition opportunities on an ongoing basis. Potential acquisition objects are mapped on an ongoing basis.

Our acquisition model is based on extensive knowledge of current markets and continuous analysis of adjacent ones. We build long-term relationships with many types of businesses, from family businesses to private equity companies and industrial owners like ourselves. Together with industry experts, we also conduct proactive searches in key areas and maintain an ongoing dialogue with investment banks that are active in the chemicals industry.

We are well regarded in the market for our experience in acquisitions and are prepared to act on opportunities when they arise. At the same time, we have the patience and experience to wait for appropriate opportunities to become available.



Anchored history of well-integrated acquisitions

Part of the Group's strategy is to continue with acquisitions within the area of polymers. Potential acquisition targets are monitored continuously in accordance with a distinct acquisition model, whereby attractive targets are analyzed on the basis of a series of strategic parameters.

The illustration of HEXPOL's growth shows a selection of the more important acquisitions made over the years.

A well-positioned HEXPOL provides conditions for continued growth

Product area	Market	HEXPOL's position	Growth opportunities
HEXPOL Rubber Compounding	Global market growth Recovery in the automotive, construction and general industry segments	<ul style="list-style-type: none"> • Leading position in Europe and North America • Profitable niche position in China 	<ul style="list-style-type: none"> • Capture larger market share – new and existing customers • New customer solutions • The market is fragmented – providing several acquisition opportunities
HEXPOL High Performance Compounding	Global market with structural growth	<ul style="list-style-type: none"> • Good European position in silicone • Improved position in North America and the UK 	<ul style="list-style-type: none"> • Capture larger market share – new and existing customers • New customer solutions • Geographical expansion • Attractive acquisition opportunities
HEXPOL Thermoplastic Compounding	Large global market with structural growth	<ul style="list-style-type: none"> • Favourable position in North America (reinforced PP) • Weak position in Europe • No position in Asia 	<ul style="list-style-type: none"> • Capture larger market share – new and existing customers • New customer solutions • Great acquisition opportunities
HEXPOL TPE Compounding	Global market with structural growth	<ul style="list-style-type: none"> • Good position in Europe • Weak position in North America • Weak but growing position in Asia 	<ul style="list-style-type: none"> • Capture larger market share – new and existing customers • New customer solutions • Geographical expansion • Attractive acquisition opportunities – few sellers
HEXPOL Wheels	Global market with structural growth driven by e-commerce and materials management. The Asian market, and primarily the Chinese market is considerable and continues to grow faster than the rest of the world.	<ul style="list-style-type: none"> • Leading global position in wheels in polymeric materials for forklifts and materials handling 	<ul style="list-style-type: none"> • Capture larger market share – new and existing customers • New customer solutions • Market consolidation – acquisition opportunities
HEXPOL Gaskets and Seals	Global market in growth – driven by energy efficiency, environmental requirements and comfort cooling.	<ul style="list-style-type: none"> • Leading position in Europe and Asia (PHE) • Positive development in North America 	<ul style="list-style-type: none"> • Geographical expansion



Acquisitions driven by increasing electrification generate additional growth

Driven by global trends such as electrification and digitization, HEXPOL's acquisition of the Wire & Cable compounder VICOM fit well with HEXPOL's growth strategy. Early in the acquisition process, HEXPOL was able to perceive clear synergies with the existing operations. VICOM's niche expertise and strong relationships with OEM cable manufacturers in the region fit in well with its own strong development capacity and geographical footprint.

VICOM had previously had a long-standing relationship with HEXPOL's rubber compounding unit in Rubi, Barcelona, which has been a supplier of cable sheathing materials to the company for many years. This established relationship made the acquisition smooth and efficient. VICOM is in the final phase of installing a major new mixer that will provide new opportunities and additional capacity, which will now benefit all of HEXPOL, which is well-positioned for future growth within the current structure.



“I see great opportunities with having VICOM in the Group where we can now utilize the expertise at both of our Spanish facilities to offer even better solutions for customers. The Wire & Cable segment has been on our radar screen for several years and with VICOM as a base, we can now explore this possibility fully.”

Eduard Barragan, President of HEXPOL Compounding SLU

FACTS VICOM: Founded in 2002. Geographical location: just outside Barcelona in Spain. Number of employees: About 30 people.

Extensive experience of extracting synergies

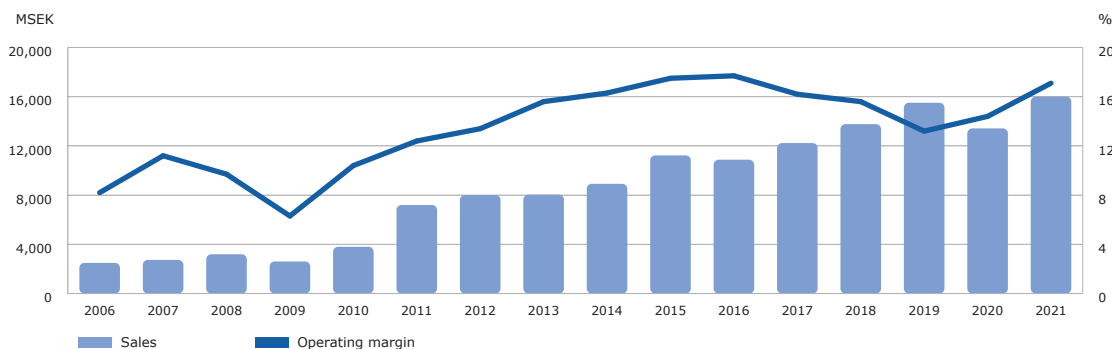
One of the factors behind HEXPOL's success in combining acquisitions and growth with significantly improved operating margins lies in our extensive experience of integrating acquisitions into the existing structure. Even before an acquisition is completed, distinct plans and processes are in place for how synergies are to be realized. In 2021, two strategic supplementary acquisitions were made to further strengthen our positions.

In March, VICOM, a Spanish polymer compounder was acquired, active in the attractive and growing product segment Wire & Cable. HEXPOL considers this segment as strategically important given the trend of increasing electrification. The acquisition strengthens our position in southern Europe. VICOM has superior expertise and capacity, fits in well with our existing structure and strengthens our presence in a growing market.

Newly-acquired Unica, which is a significant player in rubber compounds in Spain and is a supplier to several important customers in, for example, the automotive industry, the construction industry and the agricultural sector, was consolidated as of 1 July. HEXPOL perceives substantial opportunities for synergies in developing the company's profitability once it has been integrated fully into the operations. Unica's advanced compounding plant is strategically located in Corella, Navarra, Spain. In recent years, major investments have been made in technologies and the facility is therefore well-positioned to support development in the automotive industry in Southern Europe. Unica is an excellent complement to our existing operations in Spain, which are mainly found in other areas.

Both acquisitions have been integrated into the European part of the HEXPOL Compounding business area.

Strong sales and operating margin



Well-positioned for continued growth in Rubber Compounds

In April 2021, Unica was acquired, a significant player in rubber compounds in Spain. The acquisition fits well into HEXPOL's portfolio and further strengthens growth in rubber compounds. Unica's focus has been on superior customer satisfaction and high-quality rubber compounds for applications in demanding environments. The customer base includes important customers in, for example, the automotive industry, the construction industry and the agricultural sector.

In recent years, major investments have been made in technologies and the facility is therefore well-positioned to support development in the automotive industry in Southern Europe.

Unica's experienced management team will remain at the company and, further driving growth and technical excellence within HEXPOL. HEXPOL sees strong synergies with the existing operations and expects to increase profitability within Unica's existing operations.

FACTS UNICA:

Sales 2020: 40 MEUR with profitability below the HEXPOL Group's level.
 Geographical location: Corella, Navarra, Spain.
 Number of employees: About 80 people.

Investment in Åmål to meet demand in medical technology

In 2021, HEXPOL took the first step towards an extension of the TPE plant in Åmål, Sweden, which is expected to be completed in the autumn of 2022. It is designed to minimize risks for contamination of products and will accommodate a state-of-the-art compounding line with an advanced monitoring system for materials for medical technology production. The investment also lays the foundation for optimized internal logistics and increased automation.

The new production equipment represents an investment of 57 MSEK and will increase capacity and secure product safety standards for the entire material portfolio at the Åmål facility.



“Health and medical technology is one of the global driving forces that we at HEXPOL see as providing new business opportunities and growth in the future. The investment is being made to meet increased demand and strict requirements from customers. The investment confirms our commitment to this important segment.”

Thomas Nilsson, President of HEXPOL TPE AB



HEXPOL TPE in Åmål specializes in thermoplastic elastomers (TPE) for sensitive and regulated applications such as medical equipment, toys, consumer products, automotive parts and FMCG products. Sustainability and bio-based materials are important driving forces for these segments.

Targets and outcomes in 2021

With clearly-defined financial and sustainability targets, HEXPOL demonstrates how value is generated over time for the Group's different stakeholders. The targets are well-rooted and have been integrated into the business units of the decentralized organization and their respective targets. The financial targets form the basis for the Group's strategies.

Financial targets¹

Sales growth

Sales growth demonstrates HEXPOL's competitiveness in the market and its capacity to leverage its strengths and areas of expertise. Sales growth, adjusted for currency effects, should amount to more than 10 percent, over a business cycle.

Comments on 2021:

Adjusted for exchange rate effects, sales grew by 25 percent, of which organic growth accounted for 21 percent, while acquisitions contributed 4 percent.

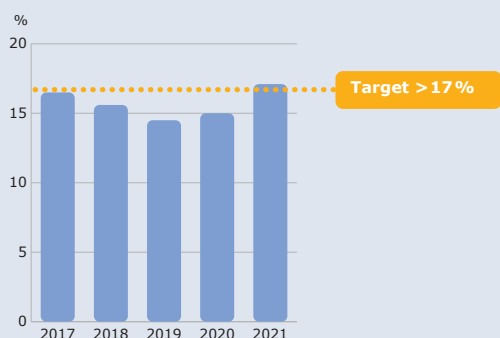


Operating margin

The operating margin shows HEXPOL's capacity to cover operating costs and generate profit for shareholders. The target is for the operating margin, adjusted for items affecting comparability, to exceed 17 percent over a business cycle.

Comments on 2021:

The operating margin, adjusted for non-recurring items, was 17.1 percent and grew compared with the preceding year. The higher margin derives from good sales and volumes combined with a lower cost base.



Equity/assets ratio

The equity/assets ratio measures the proportion of HEXPOL's total assets that are financed with equity. The goal is to exceed 30 percent annually.

Comments on 2021:

The equity/assets ratio remained strong at 65 percent (61). The Group's total assets amounted to 17,963 MSEK (15,073). Net debt amounted to 899 MSEK (1,593), of which 395 MSEK (359) pertains to financial leasing liabilities in accordance with IFRS 16, which gives a net debt/EBITDA of 0.25 (0.67).



¹ Financial definitions can be found on page 100.

Sustainability targets¹

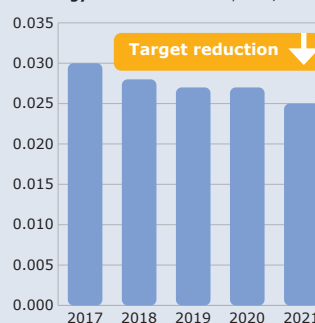
Energy

Energy consumption (GWh/net sales) is to be reduced continuously.

Comments on 2021:

Over the year, investments were made in more energy-efficient production equipment, lighting and infrastructure. Compared with 2020, the key performance indicator for energy use decreased by 8 percent.

Energy in relation to sales, GWh/MSEK



Global goals



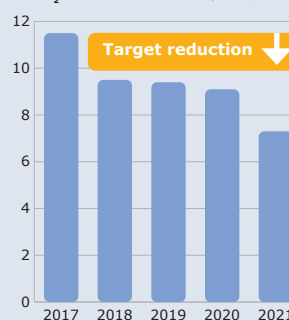
Climate

Carbon dioxide emissions from energy consumption (tons CO₂e/net sales) are to decrease by 75 percent by 2025 compared with the average for 2018–2019 (9.5).

Comments on 2021:

Increased purchases of fossil-free electricity, installation of solar cells and energy efficiency contributed to CO₂ emissions decreasing by 20 percent compared with 2020.

CO₂e in relation to sales, tons/MSEK



Global goals



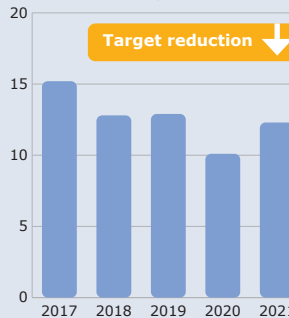
Safe work environment

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

Comments on 2021:

The number of workplace accidents increased compared with 2020 but is lower than the average for the past 5-year period.

Occupational accidents
absence from work/million hours worked



Global goals



¹ Read more about HEXPOL's sustainability-related targets on page 31.

Group summary

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

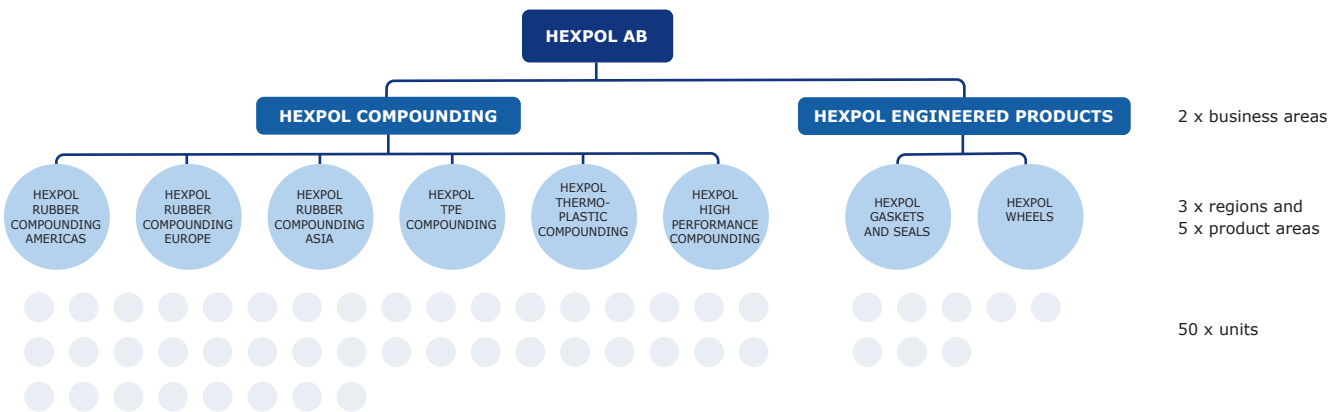
The HEXPOL Group comprises two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which are further divided between three regions and five product areas. Combined they have sales of 16,005 MSEK and, at the end of the year, they had 4,771 employees in fourteen countries.

The Group's strengths are its locally rooted entrepreneurial spirit, with the 50 units having an excellent familiarity with the local market, cutting-edge knowledge and development capabilities in advanced polymers. Combined with HEXPOL's global platform, the customer offering will be unique. HEXPOL's organization is structured to facilitate

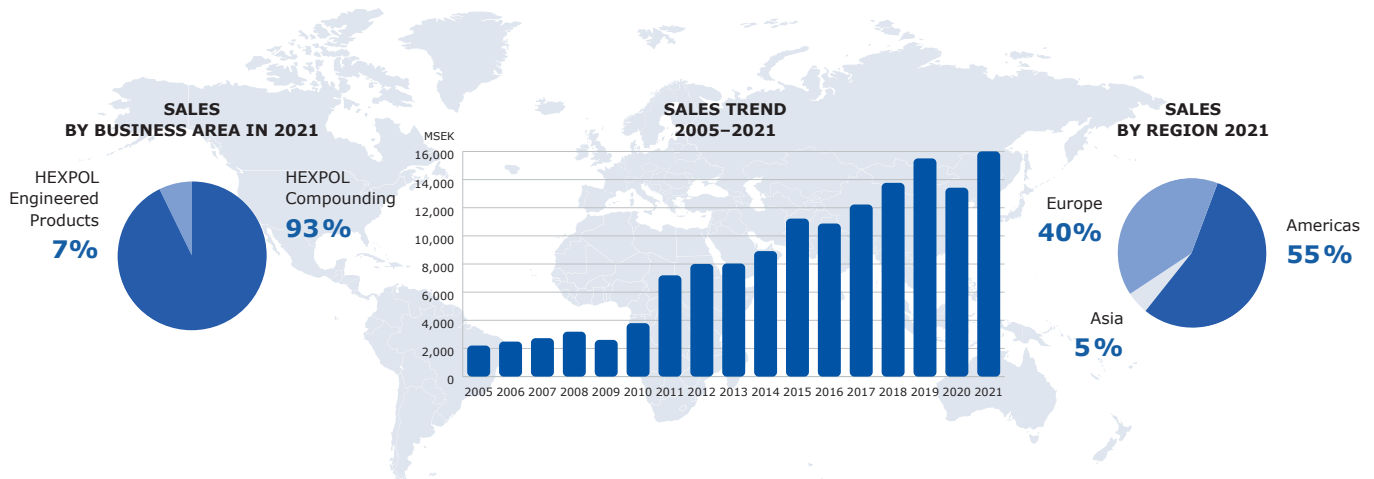
short and prompt decision-making processes, with clear, decentralized responsibility. Most of HEXPOL's plants are relatively new and well-invested. The high level of technology, combined with far-reaching production and technological coordination, provides cost-effectiveness, high and uniform quality and the ability to smoothly redistribute production between units and countries.

Thanks to its customer order-steered batch production, HEXPOL's production organization is flexible. The global production platform enables brief supply chains for the Group's customers, while production capacity can be adjusted quickly and efficiently based on demand.

The organization of the Group



Geographical distribution of sales



HEXPOL Compounding

A world-leading player in advanced polymer compounds

The HEXPOL Compounding business area is one of the world's leading suppliers in the development and manufacturing of customer-specific advanced polymer compounds. Customers are manufacturers of polymer products and components who impose rigorous demands on quality, improved properties and local delivery capacity. The market is global and the largest end-customer segments are the automotive and engineering industries, followed by the construction sector. Other important customer segments are the transport sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

A decentralized, strong and coordinated organization

HEXPOL Compounding's operations encompass 42 units divided between four product areas HEXPOL Thermoplastic Elastomer Compounding, HEXPOL Thermoplastic Compounding, HEXPOL High Performance Compounding and HEXPOL Rubber Compounding, with the three geographical areas, the Americas, Europe and Asia. See the organization of the Group on page 20.

The organization is decentralized and most of the units have been built up with complete organizations for sales, product development and production. Our strong local units and expertise make us flexible and able to shorten our customers' supply chains, which is becoming increasingly important as trade barriers rise, for example.

Coordination and cooperation is managed globally between the units in key areas including development of new materials and products, strategic selection of suppliers, technological equipment design and communications/digitization.

Production is primarily customer order-based and focused on a considerable number of selected raw materials that are largely subject to price fluctuations. Accordingly, pricing for customers is renegotiated numerous times each year, generally monthly or quarterly. The key polymer compound formulas are often developed in close cooperation with

customers and require unique expertise. In most cases, the formulas are HEXPOL's property.

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

A customer-specific offering

Polymer compounds are manufactured through highly technological processes that enhance the properties and performance of the polymers by joining and blending them with various components, such as additives and stabilizers, to create new, customer-specific material combinations.

Whether a customer needs flame retardant, oil resistant, UV stable or medical technology approved polymer materials, HEXPOL Compounding offers solutions that precisely match application requirements.

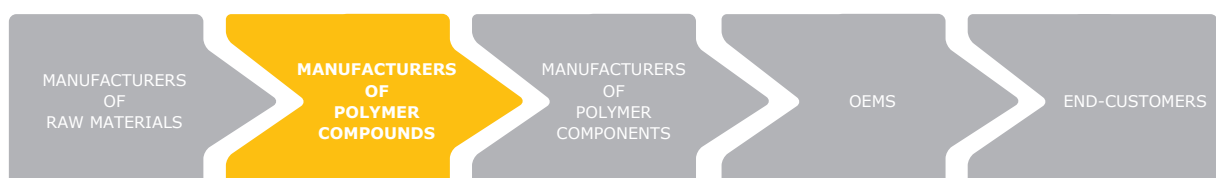
The business area strives to develop products that can improve our customers' total production costs. The focus is primarily on three important areas: rubber compounds (including high-performance elastomers, such as silicone and fluorine rubber), thermoplastic elastomer-compounds (TPE) and thermoplastic compounds (TP).

Leading global market positions

The Group's sales to the automotive industry amount to around 36 percent (36) of total sales and include rubber compounds for products such as sealing strips for doors and windows, hoses and gaskets, as well as reinforced polypropylene compounds. A clearly growing niche, in which HEXPOL's products contribute to improved weight performance, is the electric car market. Increasing electrification also provides favourable growth opportunities in the wire and cable industry, where HEXPOL has brought together its offerings to achieve a more powerful impact on the market. The demands on quality are rigorous, particularly in the premium segment.

The major vehicle manufacturers and their system supp-

HEXPOL Compounding in the value chain



liers operate globally. Increasingly, these customers seek shorter supply chains. HEXPOL focuses on being able to deliver the market’s best products globally, offering identical quality regardless of the production unit, and is, for this reason, a good partner.

Other attractive niches in the transport sector, with growth opportunities for HEXPOL, are trains, aviation and the space industry.

The product area HEXPOL TPE Compounding’s market is growing strongly, with interesting and growing customer applications in medical technology, general industry, the consumer sector and automotive. HEXPOL is well positioned in the market with capacity in Europe, Asia and North America.

The market for the product area HEXPOL Thermoplastic Compounding is growing, with interesting customer applications, particularly for reinforced polypropylene compounds (PP) and polyamide compounds (PA).

Demand for green products is rising steadily, as are sales of such products. HEXPOL has established a strong position, both through extensive customer expertise and long-term development work with materials such as Dryflex Circular and RheVision, which are high-quality alternatives with a high content of recycled raw materials for everything from toys and sporting goods to various applications for machines and vehicles.

Continued growth through strategic acquisitions and consolidations.

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

HEXPOL actively seeks out acquisition opportunities through geographical expansion, consolidation and acquisitions in selected technologies and materials. The markets in which HEXPOL Compounding operates are fragmented with few global competitors and many small or medium-sized family-owned local players.

The smaller and medium-sized manufacturers of compo-

nents find it difficult to maintain proprietary production of rubber compounds long term, choosing therefore to out-source some of this production to HEXPOL, among others, which have substantial opportunities to offer a competitive global concept and cost-efficient manufacturing.

Other major players and international manufacturers of rubber, TPE and thermoplastic compounds are AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS, Kraiburg, A. Schulman and Washington Penn. There is also a large number of smaller, locally active manufacturers and, within rubber compounds, also customers with their own compounding operations.

Significant events in 2021

- Sales increased by 20 percent in 2021 to 14,888 MSEK and was positively affected by underlying organic growth by 21 percent and by acquisitions by 5 percent.
- Strong recovery in all segments. Slightly subdued in the automotive industry, mainly due to shortages of components.
- A major fire broke out in HEXPOL’s plant in Jonesborough, USA. Customer deliveries could be secured by transferring production to nearby facilities.
- The need to continuously adapt production to rapidly changing demand from customers, combined with shortages of raw materials and price increases on raw materials and energy has resulted in higher costs and affected the margin. At the end of the year, the adjusted operating margin was 17.1 percent.
- Solar panels at several production facilities help reduce climate impact.
- Increased purchases of fossil-free origin-labelled electricity.
- Successful customer projects involving recycled and bio-based raw materials.
- ISCC Plus certificates guarantee the content of renewable/recycled raw materials in TPE products produced at the plant in Åmål, Sweden.

Business opportunities in HEXPOL Compounding

HEXPOL Rubber Compounding

develops advanced rubber compounds with an extensive product range for a wide range of customer segments and application areas. HEXPOL Compounding is continuously advancing the technology for producing extremely pure rubber compounds.

- Leading position in Europe and North America
- Profitable niche position in China



HEXPOL High Performance Compounding

offers applications that are weather resistant, electrically insulating, can withstand strong temperature changes and are low in weight. Other examples are seals for highly demanding environments requiring high chemical resistance and able to withstand extremely high and low temperatures.

- Good European position in silicone
- Improved position in North America and the UK



HEXPOL Thermoplastic Compounding

offers a broad range, in which each product group has its own portfolio of recipes, customized for specific OEMs, with distinct properties and specific requirements.

- Favourable position in North America (reinforced PP)
- Weak position in Europe
- No position in Asia



HEXPOL TPE Compounding

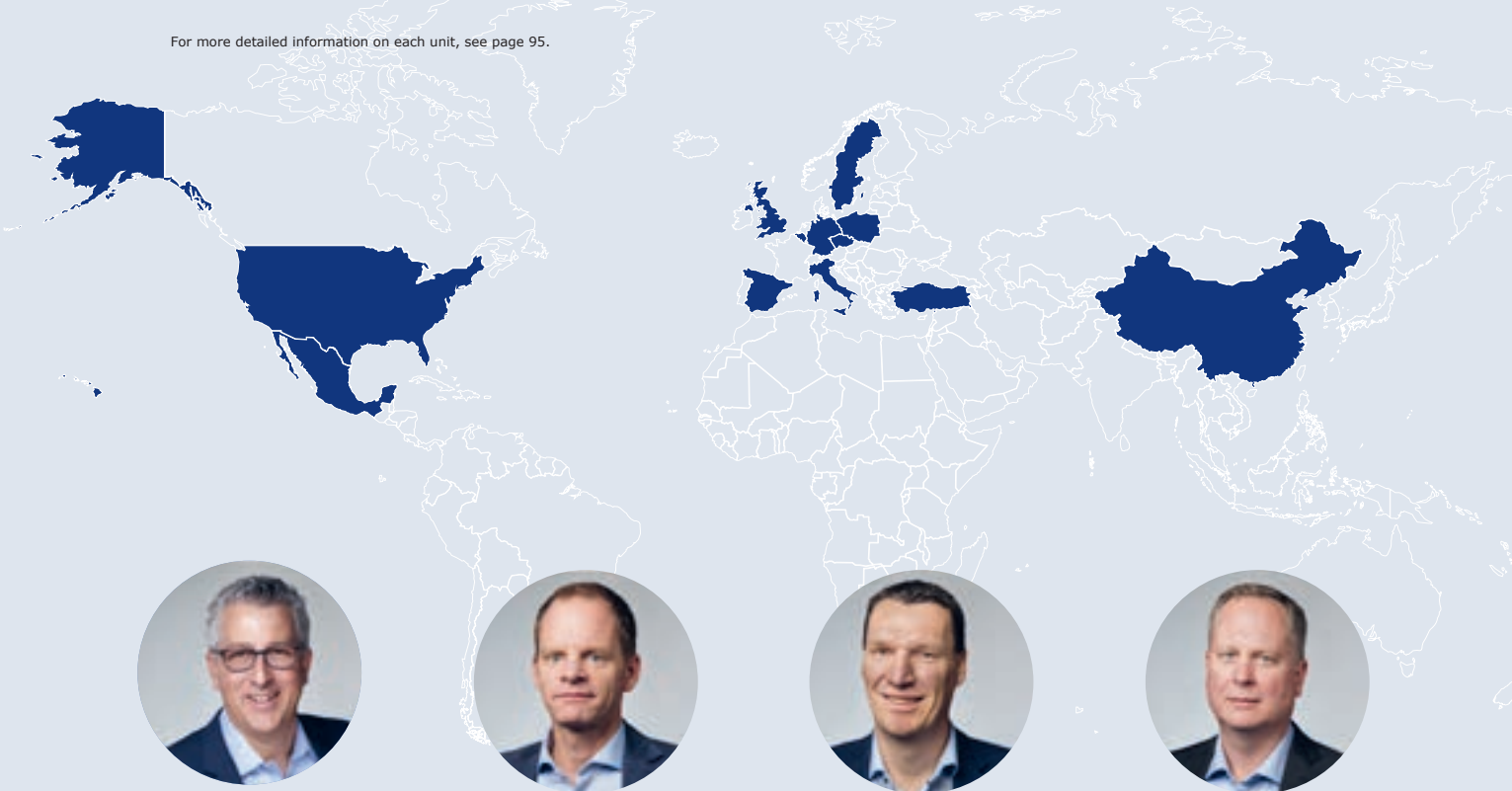
offers one of the strongest portfolios of TPE compounds in the marketplace. The product area also offers a growing range of bio-based TPE compounds and compounds based on recycled TPE to meet the clearly increased demand for sustainable materials that reduce the use of fossil resources.

- Good position in Europe
- Weak position in North America
- Weak but growing position in Asia



HEXPOL Compounding's global presence

For more detailed information on each unit, see page 95.



Ken Bloom

President HEXPOL Compounding Americas



Carsten Rüter

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



Ralph Wolkener

President HEXPOL Compounding Europe/Asia and HEXPOL TPE Compounding



Jan Wikström

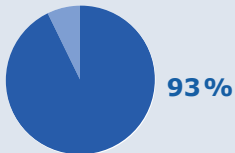
President HEXPOL Thermoplastic Compounding and HEXPOL Engineered Products

SALES 2021
14,888 MSEK
(12,446 MSEK)

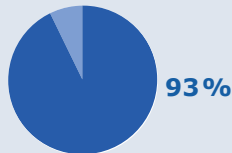
ADJUSTED OPERATING PROFIT 2021
2,541 MSEK
(1,864 MSEK)

NUMBER OF EMPLOYEES 31 DEC 2021
3,264
(3,172)

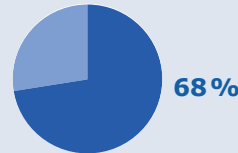
SALES
share, Group



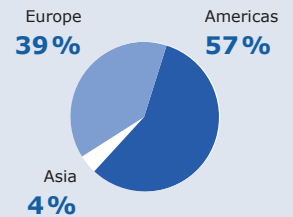
ADJUSTED OPERATING PROFIT
share, Group



NUMBER OF EMPLOYEES
share, Group



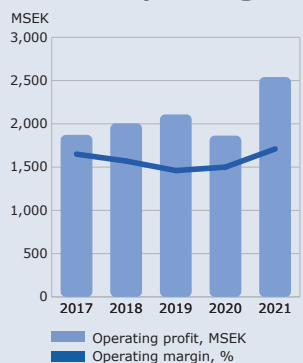
SALES BY REGION



Sales



Adjusted operating profit and operating margin



Average number of employees





Dryflex Circular is now also offered for car interiors

The TPE material Dryflex Circular is part of HEXPOL's sustainable development towards increasing the use of recycled materials. The material consists of polymers from different sources of both consumer and industrial products, which are recycled in closed systems at the end of the product life cycle.

Until now, Dryflex Circular has mainly been used for exterior applications in the automotive industry, but thanks to continued development resulting in new levels of consistency and purity, advanced tests have shown that the material is also suitable for car interior applications.

An important aspect of interior applications is that the parts must not emit odours or volatile substances. The exact specifications and requirements vary depending on the application and car parts manufacturer, but in general the smell of materials must not be disturbing at high temperatures (+80° C). The new mixture was tested at a reputable and accredited laboratory and showed basically no odour at all. The mechanical properties meet the requirements of automotive manufacturers well. The material can also be coloured.

To make the material as sustainable as possible, material recycling takes place locally in Europe, with the shortest-possible transport distance to HEXPOL's European facilities, which are also powered by 100 percent renewable energy.



“The new Dryflex Circular TPE grades open up for use in a variety of interior applications for the automotive industry, such as pads, cup holders, sealing lips and HVAC parts. The material is currently being tested by a German car manufacturer. Together with our circular TPE grades for external applications and our bio-based TPE, we support the objectives of automotive suppliers and OEMs to increase the use of recycled and renewable materials.”

Thomas Köppl, Group Product Manager at HEXPOL TPE

HEXPOL Engineered Products

Strong growth in growing applications

The operations of the HEXPOL Engineered Products business area includes eight units divided between two product areas: HEXPOL Gaskets and Seals and HEXPOL Wheels. See the organization chart on page 20.

Customers are primarily major global OEM manufacturers with market leading positions, for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product. Technical expertise, a high degree of service and long-term relations are of major importance for both parties.

The business area's manufacturing processes are coordinated and standardized. The LEAN concept is applied successfully at all production facilities, ensuring the same superior product quality regardless of where production occurs. All production facilities work within a common business system, which forms the basis for efficient processes with less administration.

Strong product offering for demanding customers in plate heat exchangers

HEXPOL Gaskets and Seals specializes in the manufacture of gaskets for plate heat exchangers and various forms of extruded seals in advanced polymer materials. The technology content is high, and the end product is characterized by high quality requirements. Performance depends on the composition of the rubber material, the geometric design of the gasket and tight tolerances in the manufacturing process. These factors are critical for the performance and service life of the end-product. Gaskets are developed specifically for different applications and delivered in varying sizes, ranging from about 10 centimetres in length up to several meters. The parameters that determine the choice of gasket type and material are temperature, pressure and media.

HEXPOL Gaskets and Seals' objective is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market is growing as the demand for energy-efficient solutions increases and an increasing number of customers make demands in terms of sustainability. HEXPOL Gaskets and Seals' unit in Sweden conducts research

and development in new materials. Development is being driven by and towards withstanding even higher temperatures and pressures, more aggressive external media and by exacting demands for cost-efficiency in the refinement process. All the constituent materials needed for manufacturing within the product area are manufactured adjacent to the unit in Sweden. The rubber material is then distributed to the respective manufacturing units, thus ensuring the quality of the end product regardless of its production site.

Complete customer offering in niche wheels for the materials handling industry

HEXPOL Wheels offers a complete range of wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications. Five types of quality products are manufactured in the product area: polyurethane wheels, thermoplastic wheels, rubber wheels and tires, solid rubber tires and various special products in the above materials.

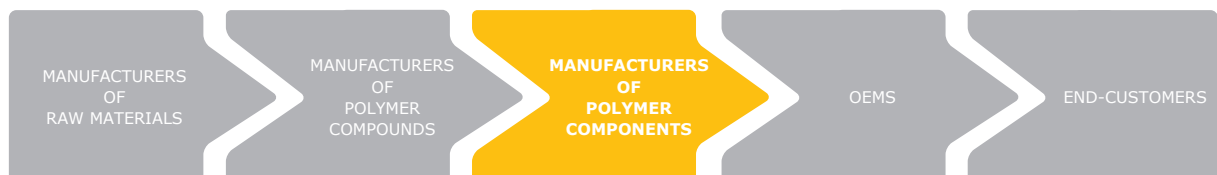
Although polyurethane is used as a generic term in the market, HEXPOL Wheels offers a comprehensive selection of different types of materials. HEXPOL is at the forefront when it comes to developing wheels for the materials handling industry. Success in design is aided by having access to advanced testing equipment for simulating realistic wear and tear and other stresses.

The global forklift market is highly differentiated in terms of product demands and material selection. In the European market, the Vulkollan™ brand, licensed by Covestro, is the market leader with its durability and capacity for withstanding high loads. HEXPOL Wheels is one of the leading manufacturers of Vulkollan™ wheels in Europe. The product area also offers products in materials developed in-house under its own brands, including Powerthane and Powerfriction.

Flexible production

HEXPOL Gaskets and Seals' has standardized equipment at its factories, providing flexibility and easy redistribution of production between units when needs peak or unforeseen

HEXPOL Engineered Products in the value chain



events occur. The machinery is continuously upgraded and is typically highly automated. Considerable emphasis is placed on the control and handling of raw materials, which are purchased from certified suppliers. The production process is real-time monitored and quality controls are conducted at several phases. Gasket production is tool-specific, with each tool creating a unique gasket type. The product area HEXPOL Gaskets and Seals manufactures most of the tools that it uses.

HEXPOL Wheels' size enables synergies in the development of, and access to, a highly comprehensive global product portfolio. Considerable emphasis is placed on the control and handling of raw materials, which are purchased from certified suppliers. The production process is monitored in real-time and quality controls are performed in several phases during the process. The equipment is largely automated and upgraded continuously.

Establishing a European aftermarket distribution centre has helped HEXPOL Wheels cut delivery times, raise its level of service and become more end-user oriented, in line with HEXPOL's concept 'Think globally, act locally'.

Leading global market positions

HEXPOL Gaskets and Seals' production units and distribution centre are strategically well placed in Europe, Asia and North America. Increased energy prices and considerable focus on reducing negative environmental impacts are driving market growth through increased demand for energy recovery and generation, as well as the production of alternative fuels. General GDP growth also drives demand in, for example, comfort (cooling/heating) as well as food and beverages. Plate heat exchangers are used in these areas, and HEXPOL Gaskets and Seals cooperates with all major OEM manufacturers of plate heat exchangers.

HEXPOL Wheels is the only global polyurethane wheel and tire company with production locations in Europe, North America, and Asia. The global forklift wheels market has regional differentiation due to varying design requirements, material preferences, and quality standards. HEXPOL Wheels is well-positioned to capture additional market shares by means of its leading-edge expertise and technical support. In the expansive market for electric warehouse trucks and hand trucks, for example, where growth is linked to increasing warehouse automation and e-commerce, demand for HEXPOL Wheels' products is increasing.

Well-positioned for growth – organically, in niche areas and geographically

HEXPOL Gaskets and Seals focus on developing new markets in Asia and North America continues. The product area carefully monitors market developments and, thanks to its strategically located units around the world, can quickly expand its capacity when needed.

HEXPOL Wheels is well positioned to take an active role in any structural projects. Continued investments in customer service and product development are critical factors for success. The aftermarket segment for forklift wheels also increased and is dominated by OEM forklift manufacturers and independent distributors. The assessment is that the currently fragmented wheel market will be entering a phase of consolidation.

Significant events in 2021

- A strong customer focus and the business area's flexible organization made it possible, in 2021 to address the disruptions in the raw materials and transport markets constructively.
- Sales increased by 14 percent and profit improved.
- Business unit Stellana AB celebrated its 75th anniversary. The company was founded in 1946 by Axel Emilsson in Laxå, Sweden. The first products to be manufactured were phenolic products in the form of wheels and casters.
- Stellana China inaugurated a new warehouse building to handle increased production volumes and enable continued growth.
- Investments made in solar panels at plants in Sri Lanka and China.

HEXPOL Wheels is the only forklift wheel manufacturer able to serve customers globally with production units in Europe, North America, and Asia alike.



Business opportunities in HEXPOL Engineered Products

HEXPOL Wheels

offers a complete range of wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications. Five types of quality products are manufactured in the product area: polyurethane wheels, thermoplastic wheels, rubber wheels and tires, solid rubber tires, and various special products comprised of the materials previously mentioned.

- Leading global position in wheels in polymeric materials for forklifts and materials handling.



HEXPOL Gaskets and Seals

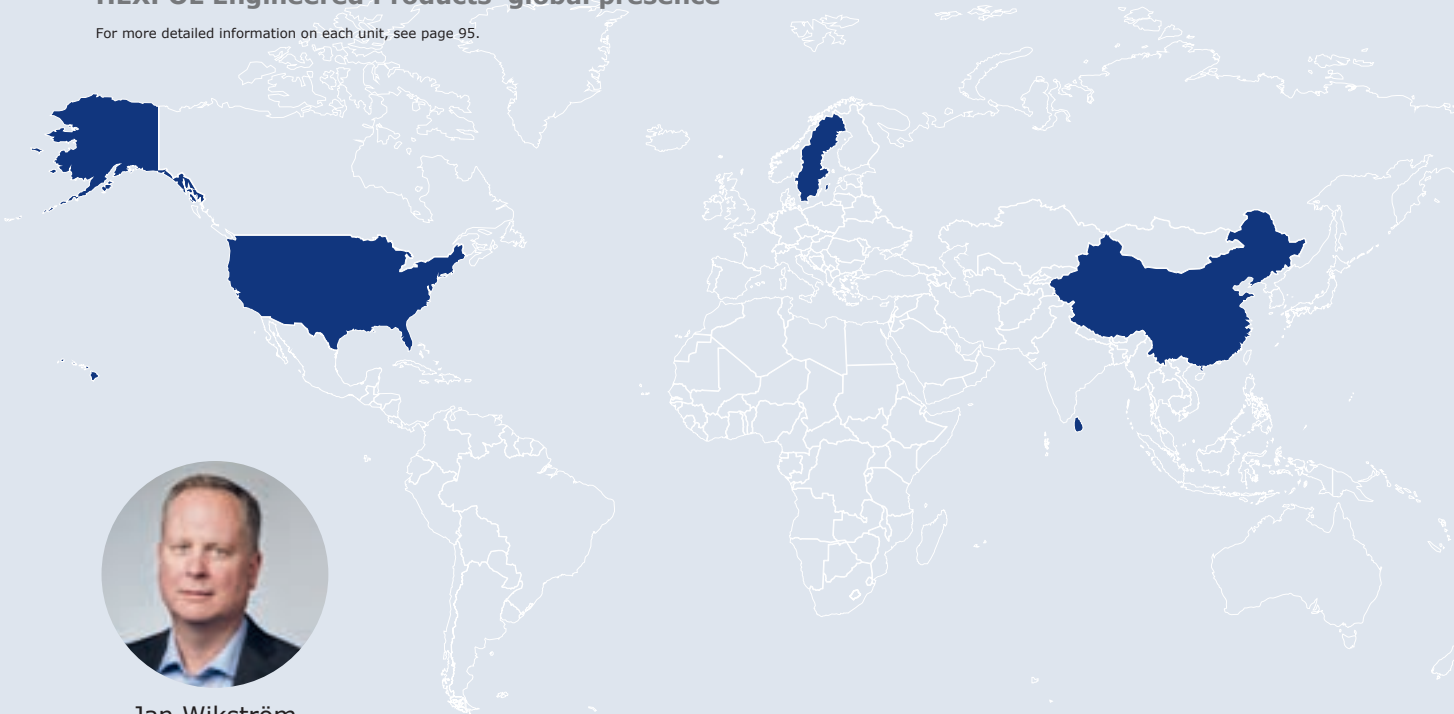
specializes in the manufacture of gaskets for plate heat exchangers and various forms of extruded seals in advanced polymer materials. The technology content is high, and the end product is characterized by high quality requirements.

- Leading position in Europe and Asia (PHE)
- Positive development in North America and the UK



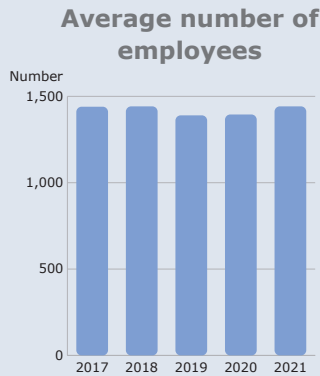
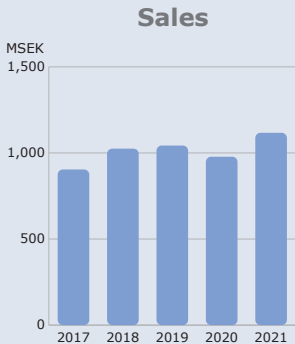
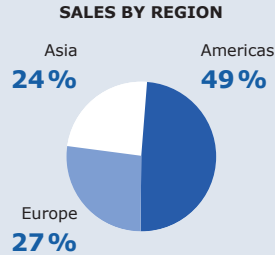
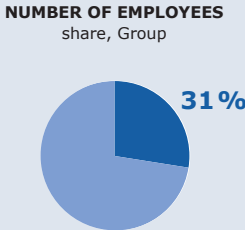
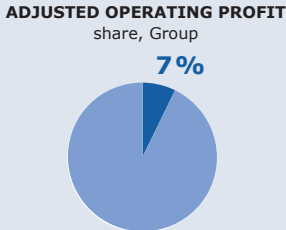
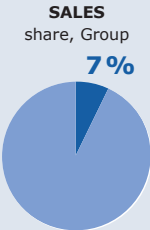
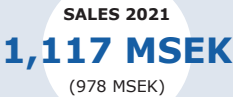
HEXPOL Engineered Products’ global presence

For more detailed information on each unit, see page 95.



Jan Wikström

President HEXPOL Thermoplastic Compounding and HEXPOL Engineered Products



Our role in society

Sustainable development (ESG) is an integral part of the Group's operations and long-term strategy. Through preventive and goal-oriented efforts, we generate value for our stakeholders and for society at large. By using resource-efficient production methods, as well as investing in products with a lower climate impact, we achieve both environmental and business benefits.

The year in brief

The sustainability work was affected by the global pandemic only to a limited extent and many measures could be implemented as planned. However, internal training initiatives and physical meetings with customers were fewer than in previous years. Climate issues and possibilities for reducing our products' CO₂ footprint engaged the Group's stakeholders. This was reflected in, for example, a number of customer projects regarding bio-based or recycled polymer raw materials. In areas like energy efficiency, a safe work environment and social responsibility, good results were achieved during the year.

Important areas

The sustainability work focuses on analyzing and resolving near-term challenges and at the same time on building preparedness for future expectations and requirements. This encompasses targets and activities in social responsibility, business ethics, financial responsibility and the environment. Areas of particular interest are:

- *Climate impact* – To reduce climate impact, long-term targets and plans are in place regarding energy use, raw materials and products. We are working actively to transition to renewable energy sources and raw materials. The speed of this transformation has increased significantly, which is important for the Group, its customers and for society.

- *Resource consumption* – our production processes involve using natural resources, such as water, energy and raw materials. Using resources efficiently contributes to sustainable development and strengthens the Group's competitiveness.
- *Employees* – respect, a stimulating work environment, good business ethics and motivation are crucial factors for employees in our operations and value chain.

Materiality analysis

The materiality analysis communicates which issues are important to the Group's stakeholders and for our business strategy. The analysis forms a basis on which to set priorities, targets and plans of action, and on which to report with regard to sustainable development. Compared with the preceding year's analysis, issues of climate (energy use, reduced CO₂ emissions, adaptation to a changing climate) and polymers were afforded higher priority. We are investing increasing resources in developing products containing recycled or bio-based raw materials that can contribute to a circular economy. The area is therefore given high priority in the materiality analysis. It has also become increasingly important to be able to communicate the products' sustainability performance to customers, by means of CO₂ footprint data or life-cycle analyses (LCA), for example. The materiality analysis is linked to the analysis of risks in sustainable development, which are presented on pages 50–51.

Sustainability work, key performance indicators

Key performance indicator	2021	2020	2019
Energy consumption/net sales, GWh/MSEK	0.025	0.027	0.027
Purchased fossil-free electricity, %	31	26	16
CO ₂ emissions/sales, tons/MSEK	7.3	9.1	9.4
Recycled/bio-based polymer raw materials, %	10	8	8
Violations of environmental and work environment legislation	3	1	6
Occupational accidents, number/million hours worked	12.3	10.1	12.9
Training of employees, hours/employee	20	17	32
Proportion of women in local management teams, %	24	20	18
Human rights violations	0	0	2
Financial value distributed between stakeholders, MSEK	3,375	3,273	3,357

Strategy for sustainable development

The sustainable development strategy forms part of the overall Group strategy. Reducing the impact on the climate of raw materials, production facilities and products, as well as being prepared for the impact of a changed climate on the Group's value chain, are highly strategic issues. The long-term strategy aims to:

- Reduce the Group's risks and costs through preventive measures, risk assessments and investments in effective technical solutions.
- Generate business opportunities through responsible conduct, and developing resource-efficient production methods and products.
- Reduce climate impact and establish contingencies for climate change.
- Apply a goal-oriented and systematic approach aided by certified management systems in the areas of the environment, quality, work environment and energy.
- Ensure we are an attractive employer and an active corporate citizen.
- Ensure we apply sound business ethics and prevent corruption.
- Safeguard open communications regarding targets and outcomes in sustainable development.

In the area of climate, we work with a detailed strategy that includes:

- Measures to reduce CO₂ emissions from energy use, such as increased energy efficiency, phasing out of fossil fuels, installation of solar panels and increased purchasing of fossil-free electricity.
- Developing products with smaller CO₂ footprints, such as increased use of bio-based and recycled raw materials and strategic cooperation with suppliers regarding materials and processes.
- Analyzing how climate change could affect our facilities, manufacturing processes and our business model, such as through scenario and risk analyses.

Governance and follow-up

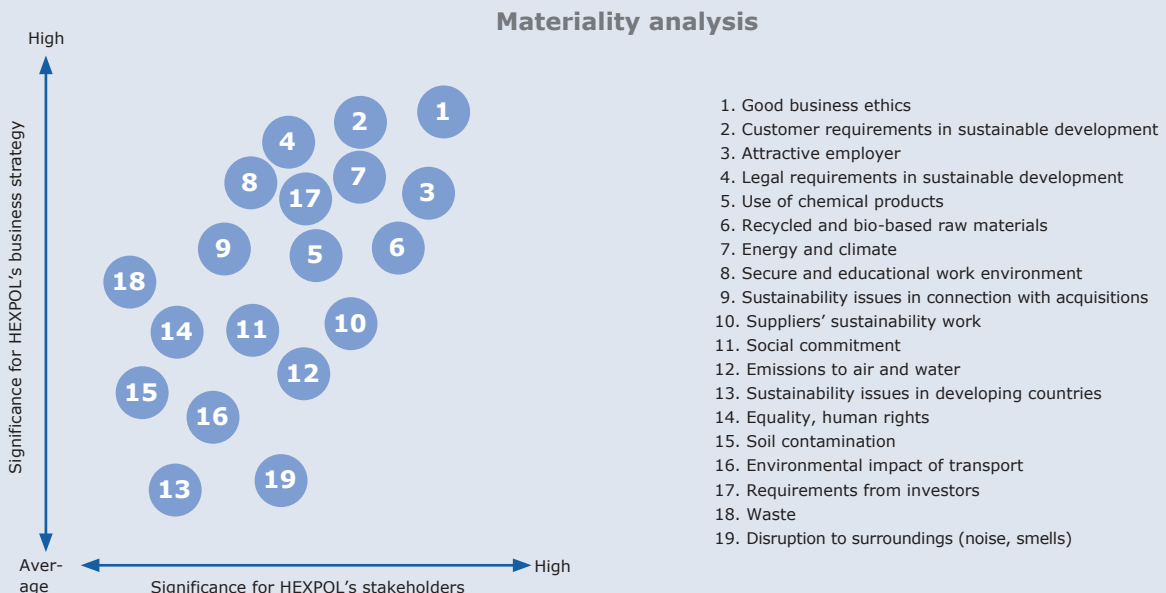
Sustainable development plays a central role in the Group's vision and purpose (page 8) and is a natural part of the strategic planning and budget process. The practical work is decentralized with managers within the Group's companies being responsible for the local implementation of Group policies and targets. The activities are followed up by Group management through dialogues with the companies' management and through internal and external audits. In connection with the Sustainability Report, an in-depth analysis is conducted of compliance with legislation and how targets, performance and key performance indicators have developed over the year. At the Group level, matters related to strategy, risks, followup and sustainability reporting, as well as sustainability issues in conjunction with corporate acquisitions and dialogues with investors are addressed.

The Board of Directors is responsible for overseeing the development of the sustainability work. The Board of Directors monitors the work regularly and approves the policies, goals and strategies. The CEO bears the overarching responsibility for the strategy and the operational aspects of the sustainability work. HEXPOL Sustainability Council, which is led by the CEO, is tasked with deepening and further developing the strategic sustainability work. Among other things, the Council works to disseminate knowledge, support new initiatives, and contribute to integrating sustainability issues into the business model.

Sustainability reporting

The Group's Sustainability Report is an important tool for communicating our sustainability performance, and this year we have chosen to integrate it fully into the Board of Directors' Report. This also means, in accordance with Chapter 6, Section 11 of the Annual Accounts Act, that the statutory Sustainability Report is presented in the Annual Report.

Indicators stated by the GRI (Global Reporting Initiative) are applied as a standard for the report. In the area of




climate, a separate report is submitted in accordance with the Carbon Disclosure Project (CDP). The reporting of climate data is based on the GHG (Greenhouse Gas Protocol) and in the climate area, the Group has begun to apply the recommendations in the TCFD (Task Force on Climate-related Financial Disclosures). According to the requirement in the Global Compact, an annual report is made to the UN (Communication on Progress; CoP). Pages 96–99 provide details of the accounting principles, the statutory Sustainability Report, GRI, Global Compact and TCFD.



CDP
DRIVING SUSTAINABLE ECONOMIES

HEXPOL has been participating in the CDP's reporting of greenhouse gas emissions since 2011. In the CDP's 2020 survey of climate issues, HEXPOL received a C ranking (2019: C), where an A ranking is the highest and D is the lowest. C is in line with Europe's regional average.

WE SUPPORT



In 2017, HEXPOL joined the UN's Global Compact initiative for responsible business, thereby committing to adhere to its ten principles in the areas of human rights, working conditions, the environment and anti-corruption.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures (TCFD) is the financial sector's call-to-arms for the climate. It outlines how companies should manage their climate-related data, including risks and opportunities.

Global Goals for Sustainable Development

Within the framework of Agenda 2030, the UN published its Global Sustainable Development Goals in 2017. The 17 goals provide a clear and useful framework for meeting global challenges and has achieved considerable impact in society. They also serve to inspire innovation and business opportunities in the area of sustainability. Private and public organizations have an important role to play and the business sector is expected to contribute responsible busi-

ness, transparent reporting of its own targets and results, as well as developing products and services that contribute to sustainable development. The Global Goals help us identify areas of importance within sustainable development and we have identified several Goals with a clear bearing on the Group's operations. Based on the Goals, we perceive opportunities to both reduce the environmental impact and create business opportunities. We have therefore linked the Group's targets to seven of the Global Goals. In principle, however, our undertaking encompasses all of the Goals because they are all connected in some way to the Group's operations.

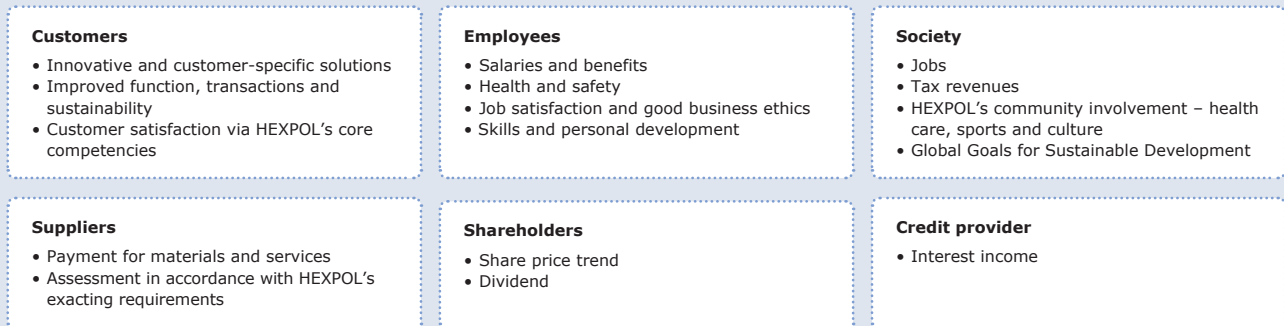
An important starting point for achieving the Goals is to minimize the Group's use of resources. We bring this about by working with innovations, efficiency enhancements, investments in new technology, increased use of renewable energy, and investments in bio-based and recycled plastics. The Global Goals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

Targets and key performance indicators



HEXPOL applies long-term targets and key performance indicators related to the environment, management systems, chemical substances, environmentally adapted products and work environment. The goals are linked to the UN's Agenda 2030 and the global goals for sustainable development Diagrams and tables describing development can be found on pages 34–39. In the area of the climate, work has begun on introducing Science Based Targets (SBTs).

Product development and resource efficiency generate value

HEXPOL builds durable competitiveness by maximizing the value it generates at all stages in the value chain. We achieve this through increased efficiency, working closely with our customers, the right level of quality, high performance in our offering, and by acting responsibly towards our business partners, employees and the external community.



HEXPOL's sustainable development goals

Target	Global goals	Outcome	Continued measures
Energy Energy consumption (GWh/net sales) is to be reduced continuously.		Within the ISO 14001 and/or ISO 50001 frameworks, the production units continued to work with detailed targets. Work involving energy surveys and measures to increase efficiency continued. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption. Since 2010, the performance measure for energy consumption has decreased by about 35 percentage points.	Purchases of energy-efficient equipment, lighting and infrastructure will continue.
Climate CO ₂ emissions (tons CO ₂ e/net sales) are to be reduced by 75 percent by 2025 compared with the average for 2018–2019. The target refers to CO ₂ emissions from energy consumption (Scopes 1 and 2 in accordance with the GHG Protocol).		Various local targets exist and several Group companies to have introduced a joint target for climate and energy. The use of biofuels, purchases of fossil-free electricity and energy optimization reduce CO ₂ emissions. Currently, about 32 percent (28) of energy use consists of fossil-free electricity and biofuels. Since 2010, the key performance indicator for CO ₂ emissions has decreased by about 40 percentage points.	Energy efficiency measures and procurement of biofuels will continue. Purchases of fossil-free electricity will be conducted in all countries where this is possible. This is a prerequisite for the demanding emissions target to be achieved. The proportion of units with proprietary electricity production using photovoltaic cells will increase. Continued phasing out of fossil fuels.
Environmental management systems All facilities are to have certified environmental management systems (ISO 14001). Acquired companies are to introduce ISO 14001 within a period of two years.		Four companies were certified in accordance with ISO 14001 during the year and 87 percent (77) of the plants are now certified.	Five companies are planning to achieve certification in 2022–2023.
Chemical substances Uses of hazardous chemicals are to be identified and controlled. Where possible, hazardous substances should be phased out.		Work to limit the use of particularly hazardous substances is conducted continuously. Over the year, about ten substances were replaced, including several phthalates (plasticizers) and other reactive chemicals that form nitrosamines.	Replacing hazardous substances is a long-term process. There are currently about fifteen chemicals, or groups of chemicals, on the list of substances to be phased out. The work will continue for the foreseeable future.
Products HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of products that contribute to sustainable development.		The development of products contributing to sustainable development continued in 2021, primarily in thermoplastic elastomers (TPE) but with increased intensity in rubber compounds. About 10 percent (8) of the raw materials were recycled polymers.	The development of products with a lower climate impact continues. These are applications in environmental technology, electric vehicles, lighter materials, and mixtures that contain bio-based and recycled raw materials.
Safe work environment The vision is that no accidents will occur at our workplaces. The target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations.		The number of accidents involving absence from the workplace was 12.3 per million hours worked (10.1).	Over the past five years, the key performance indicator for occupational accidents has shown a slight downward trend.

Distributed financial value

HEXPOL generates financial value that is distributed between different stakeholders. These include employees (salaries and benefits), shareholders (dividends), creditors (interest expenses) and society (tax). In 2021, a total of 3,375 MSEK (3,273) was distributed.

Distribution, MSEK	2021	2020	2019	2018	2017
Employees	1,879	1,994	2,069	1,785	1,569
Shareholders	792	792	774	671	1,635
Credit provider	31	41	48	18	13
Society	673	446	466	515	441

Customers' sustainability requirements

Percentage of production units reporting customers' sustainability requirements.

Demands and expectations, %	2021	2020	2019	2018	2017
Implementation of ISO 14001	51	45	54	71	61
Phasing out of hazardous chemical substances	31	36	50	60	61
Compliance with the REACH chemicals legislation	11	18	37	40	47
Environmental declaration of products	33	36	61	57	64
Bio-based and recycled raw materials	24	27	26	–	–
Information about the products' CO ₂ footprint	20	23	22	–	–
Code of Conduct	56	45	63	71	67
Conflict minerals	58	61	65	80	67
Supply chain Code of Conduct	47	20	46	37	31

Ethics and compliance – Materializing Our Values

Behaving ethically and conducting our operations with a high degree of integrity and in accordance with the law are prerequisites for being a responsible corporate citizen. This fosters trust among customers, business partners and other stakeholders.

Code of Conduct

Materializing Our Values is the Group's Code of Conduct, which covers issues involving legal responsibility, accounting, conflicts of interest, working conditions, the environment, social responsibility and business ethics. The Code of Conduct also contains policies within the environment, work environment and other areas. The Code of Conduct is supplemented with a more detailed Compliance Program, in which all managers in the Group sign to confirm that they are compliant with the rules. The managers participate in compulsory training programmes in the area. Zero tolerance applies with regard to non-compliance in respect of business ethics.

Legal compliance

Legal compliance constitutes the baseline for all of the Group's areas of operations. Legislation affects a number of different areas and our efforts are guided by Group employees with relevant expertise and skills, as well as by external specialists.

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

environmental requirements, such as the chemicals legislation REACH. During the financial year, no significant deviations from relevant legislation or Materializing Our Values were registered.

Guidelines for suppliers

The Group's Supplier Sustainability Guidelines serve to follow up with and engage suppliers without, at the same time, overburdening them with the administrative workload. In brief, the guidelines entail the following:

- All suppliers are to be informed of our Code of Conduct and are expected to introduce equivalent undertakings within their own organizations.
- Suppliers meeting specific criteria, such as being associated with potential sustainable development risks, are to conduct a digital self-assessment.
- As part of the self-assessment, the supplier certifies its compliance with relevant legislation, that it works systematically on matters involving the environment and work environment, and that it promotes human rights and combats corruption.
- In cases where we feel uncertain about the supplier's sustainability work, or has identified significant risks, targeted audits are conducted.

During the financial year, 1,096 (598) supplier assessments were performed by means of questionnaires and 124 (39) audits or site visits were carried out.





* Supported by a compliance program addressing competition and anti-corruption legislation.

** Policy available to all employees but not distributed externally.

*** Integrated with Materializing Our Values.

Protection of personal data

The General Data Protection Regulation (GDPR) applies throughout the EU and is intended to improve the protection of the individual's right to privacy. The protection of personal data is included in Materializing Our Values and the Group has implemented a specific Data Protection Policy. Processes and applications have been adapted to guarantee the protection of personal data and compliance with legal requirements.

Human rights

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

The Group's values recognize the employee's right to be represented by trade unions or other employee 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 the Group is active. At about a third of the units, all employees are covered by collective agreements and this applied to Sweden, Sri Lanka, Germany, Spain and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

Business ethics and combating corruption

In accordance with Materializing Our Values and the tenth principle of the Global Compact, the business principles must be characterized by integrity and responsibility. For a global company, these issues are complex and the view of what represents normal business principles varies between diffe-

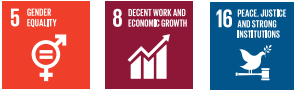
rent countries and cultures. Within the Group, the following methods are used to guide and monitor issues of ethics:

- Materializing Our Values applies to everyone and the management teams within the Group's companies are responsible disseminating the values within their organizations. For the relevant executives, a training program is available.
- We continuously monitor costs, expenses and revenues.
- The company pays special attention to ethical issues in its relationships with business partners. Although normal business practices in each country are to be observed, if the business principles do not correspond with the Code of Conduct, we shall abstain from the transaction or take other relevant measures. Suppliers must declare their compliance with our Code of Conduct.
- With the help of checklists from the Global Compact, annual assessments are made of how the companies work to prevent corruption and how they then work to improve the preventive measures.

The information and training efforts continued over the year and the annual evaluation was conducted. No cases of bribery, corruption or cartelization (o) were registered in 2021. Further information on efforts to combat corruption is presented in the risk section on page 47–51.

Whistle-blowing

Compliance with Materializing Our Values is monitored through internal controls. Employees are encouraged to report suspected violations to their managers or other representatives of management. Where reporting to a superior is out of the question, or is not taken seriously, it is possible to report suspected violations for external assessment via a whistle-blower function (Whistle-blower Policy). This can be done by sending an e-mail to whistle-blower@hexpol.com. HEXPOL will not tolerate any form of retaliation against anyone who, in good faith, lodges a complaint or suspects that the Code of Conduct has been violated. In 2021, no reports for further processing and investigation were received.



Social responsibility

Materializing Our Values applies in the same way worldwide and the Group aims to be a good corporate citizen applying sound business principles. As part of the strategy for sustainable development, the Code of Conduct helps attract, develop and retain committed and skilled employees. Work environment efforts are focused on preventive measures with the vision of zero accidents occurring.

Employees

At the end of the financial year, the number of employees was 4,771 (4,550), of whom 3,264 (3,172) worked in HEXPOL Compounding business area and 1,500 (1,371) in HEXPOL Engineered Products. The Parent Company had seven employees (seven). HEXPOL is a global Group and 93 percent (93) of the employees work outside Sweden.

Diversity and equality

HEXPOL encourages diversity and distances itself from all forms of discrimination. Group policies in this area are being introduced in the local companies and gender equality plans now exist at 58 percent (53) of the units. The employees are entitled to form and join trade unions and have the right to collective bargaining. They also have complete insight into and the right of co-determination in accordance with the provisions of national legislation. Work environment efforts focus on preventive measures and include risk analyses, training programmes and technical improvements.

In the Group, 86 percent (86) of the employees are men. On the Board of Directors, the proportion of women members was 57 percent (57), and in Group Management it was 0 percent (0). The proportion of women in the local management teams averages 24 percent (20).

There is a Group-wide equal opportunity policy, and this serves as a clear message from Group Management to strive

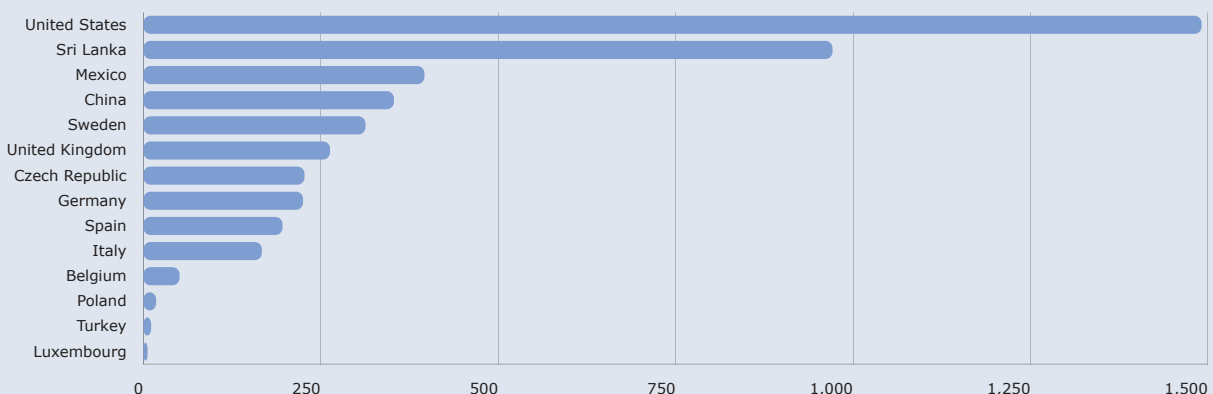
for a higher proportion of females in connection with external and internal recruitment to various positions. During the year, nothing arose that showed that the Group had breached the guidelines concerning equal opportunities or diversity.

Knowledge and skills

Networking efforts and participation in project organizations help bring employees from different cultures together to share their knowledge and experience. In addition to this, formal skills development is conducted at the Group companies and the number of training hours over the year was 98,500 (80,000). This corresponds to 20 hours (17) per employee. The global pandemic meant that a number of training opportunities were postponed. Work satisfaction, personal development, salary and career opportunities are important factors for many employees. About 3,000 people (2,600) participated in development talks or equivalent activities.

The Group offers remuneration that, at a minimum, meets the minimum requirements in the legislation and is fully adapted to the market in the countries where HEXPOL operates. Variable performance-based compensation occurs in parts of the Group. In 2021, salaries, pension premiums and social costs amounted to 2,073 MSEK (1,994). During the year, employee surveys were conducted at 17 units (9). Examples of views and wishes expressed by employees

Number of employees per country



concerned personal development, training, internal communications and planning of working hours.

Health and safety

The overarching objective is that no accidents should occur at our workplaces. The emphasis is on preventive measures, such as risk analyses, systems for reporting incidents, training, work environment management systems (ISO 4500) and technical measures. Responsibility for fostering a favourable work environment lies with the local managements and improvement programs are designed in collaboration with the employees. About 45 percent of the production units have introduced reward programmes for positive initiatives in the areas of health, safety and the environment.

In 2021, 126 occupational accidents (93) occurred that resulted in at least one day of absence. Among contractors, five (three) experienced accidents. It is gratifying that approximately 30 percent (40) of the units reported zero accidents during the year. Occupational accidents caused a total absence of 2,750 days (2,400). The number of accidents per million hours worked has decreased somewhat over the past five years. Two minor violations of work environment legislation occurred in 2021. The following measures contribute to a safer work environment:

- Safety committees, which are important in preventive efforts, are located at 87 percent (84) of the facilities.
- Risk analyses, work environment surveys and health examinations are performed regularly within the Group.
- Training in health and safety is conducted at the units, amounting to 13 hours per employee (8) in 2021. First aid, ergonomics and the handling of hazardous substances are some examples of areas covered in this training.
- Systems for reporting near misses are in place at 91 percent of the facilities (89). During the year, 380 risk situations (450) were registered, which in many cases resulted in preventive measures being implemented.
- Some form of work environment management system is in place at each Group companies and, in many instances, these systems build directly on requirements under national law. Some of the companies have elected to apply for

certification in accordance with ISO 45001 (UK, Czech Republic).

- The US units apply the “Compounding Americas Safety Program”. Important elements of the program include the units sharing good examples, and that experiences of accidents and incidents are analyzed and quickly disseminated. Cross-sectional work environment audits help increase awareness.

Social commitment

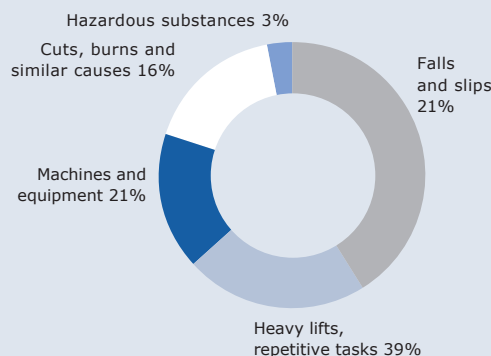
HEXPOL participates actively in the community, including through collaborations with universities, study visits from schools, “open days” for employees and their families, and financial support for healthcare, sports and cultural events. Although the global pandemic had a certain impact on community engagement in 2021, the following activities can be mentioned:

- *Schools:* A small number of production facilities performed activities at local schools, including exchanging knowledge and providing information about the operations.
- *Universities:* More than 10 units participated in teaching and development projects at universities, including degree papers, internships and research projects. Rhe-Tech LLC participated in a collaboration between universities and businesses (Center for Bio plastics and Bio composites) on sustainable solutions for industrial companies. The intention is to progress from concepts to practical and commercial projects and products. For a longtime, the group has been collaborating with the International Institute for Industrial Environmental Economics (IIIEE) at Lund University in Sweden.
- *Local communities:* HEXPOL provides financial support to local schools, to healthcare initiatives, sports and social activities. In many cases, the commitment is long-term and centred on something that engages the Group’s employees.

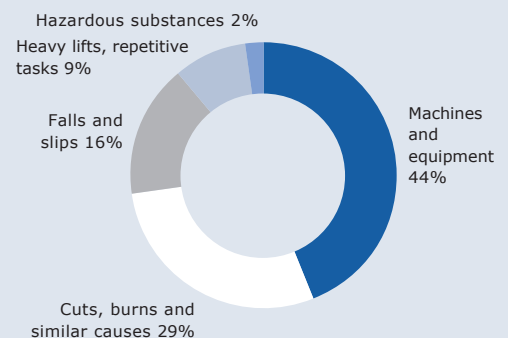
Occupational accidents



Causes of occupational accidents



Registered incidents (near misses)





Environmental responsibility

Key environmental aspects for the Group include the consumption of resources in the form of polymer raw materials, chemical products, energy and water. Climate impacts and how climate change affects the operations and the business model, are other highly important areas. By increasing energy efficiency and reducing the use of fossil energy sources, the Group's carbon footprint is reduced.

Increased use of recycled and bio-based raw materials are other measures that are positive from the perspective of climate. Environmentally compatible product development is therefore a priority area in which the Group's expertise and technology can contribute to the customers' climate work.

Environmental legislation

The Group is affected by national and international environmental legislation. The majority of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, Spain, Italy, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. A few operations in the UK, Poland, Germany and the US are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through measurements and inspections, and close to 40 units (40) 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 (REACH, RoHS, CLP, WEEE, energy optimization, sustainability reporting; see glossary) or other national/international legislation affects most of the Group's operations and products. One third of the units are subject to producer responsibility legislation for packaging. The following

events related to legislation and ordinances occurred during the year:

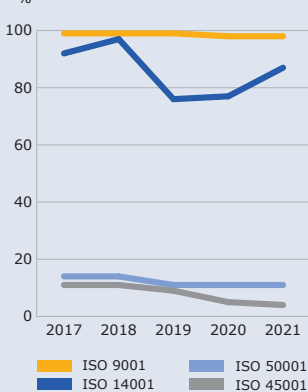
- Energy mappings were performed in accordance with the EU directive on energy efficiency.
- The supervisory authorities conducted inspections at 14 facilities (17). No significant deviations were identified.
- A minor violation of environmental legislation occurred at one unit.

Environmental management systems

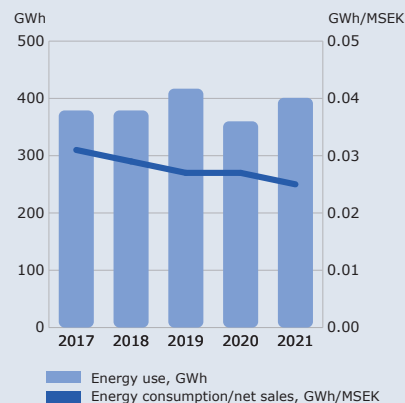
The Group has the target of all of its production units being certified in accordance with ISO 14001 (environment). The management system contributes to the environmental issues being handled in a systematic manner and engenders trust among employees and customers. During the year, 5 units in the US and Mexico were certified. Environmental audits are an important component of ISO 14001 and 145 internal (97) and 48 external audits (42) were conducted during the year).

The work environment standard (ISO 45001) has been introduced at two units in the Czech Republic and the UK. Two plants in Germany, one in the Czech Republic and the units in Sri Lanka are certified according to the standard for energy management systems (ISO 50001). All units are

Certified management systems



Energy use



certified in accordance with ISO 9001 (quality). At the Group level, the social responsibility standard (ISO 26000) provides guidance in strategic sustainability work.

Energy

Energy consumption at the production units is significant and represents a major source of direct and indirect CO₂ emissions. Mixing equipment, presses and other heavy production equipment contribute greatly to energy consumption. Infrastructure such as compressed air, ventilation and lighting is also significant in this context.

In 2021, energy consumption amounted to 401 GWh (360) at an expense of 299 MSEK (252). About 73 percent (73) of the energy consumed was purchased electricity, 16 percent (15) was natural gas and the remainder was from other sources, including biofuels. Energy from biofuels and fossil-free electricity amounted to 32 percent (28) of the total energy consumption. Solar panels have been installed at four production plants in Italy, China and the US. In Sri Lanka, two units have been equipped with solar panels, which will produce electricity over the upcoming years.

The overarching objective is for energy to be used as efficiently as possible, with numerous different energy projects being conducted within the Group each year. Comments on the outcome of the Group's energy targets are given on page 31. Here are some examples of energy-saving projects within the Group:

- Energy mappings have been conducted at 12 facilities (7) in accordance with the EU's energy efficiency directive. The (ISO 50001) energy management system has been introduced at 5 units (5).
- Improved control of the speed at which rubber mixing equipment operates reduces energy consumption. Shorter cycles in mixing also help reduce energy consumption.
- Energy-efficient LED lamps replace older lighting system. Detectors are installed that turn off the lighting when not needed. Increased use of daylight in warehouses.

- Installation of energy-efficient cooling systems and compressors.
- Gas-powered forklifts are being replaced by electric ones.
- Installation of sensors to be able to monitor in detail energy use in equipment and processes.
- Installing steam traps on presses and thermally insulating furnaces reduces energy losses and creates a better work environment.
- Heat recovery and leak detection increase the energy efficiency of compressed air equipment.
- Agreements with energy companies optimize access to electricity and reduce costs.
- Mesgo in Italy sold nearly 100 MWh of energy from its solar cells to the electricity grid.

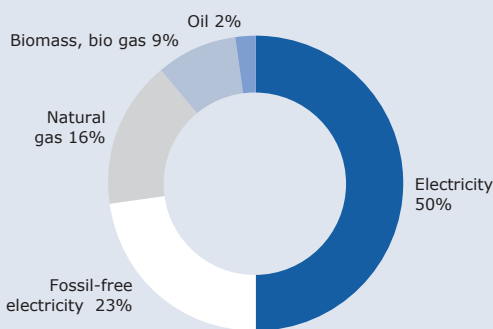
Water

Access to quality water is important and there are many good reasons to save water. Fortunately, most units are located in areas that do not suffer from water shortages, or where aquatic ecosystems are threatened. The exceptions are two facilities in California (US) where prolonged drought causes water shortages and certain restrictions.

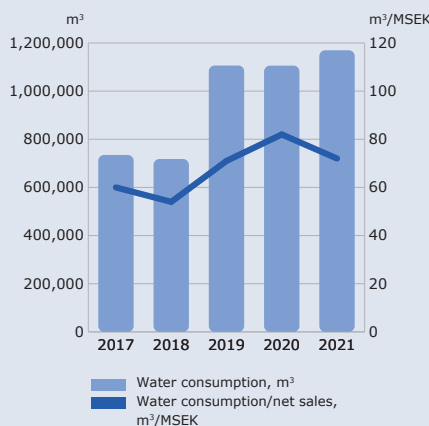
In 2021, 286,500 m³ (359,000) of municipal water was used, 474,600 m³ (485,400) was pumped up from the Group's own wells, and 398,500 m³ (358,700) came from nearby waterways. Costs for water and sewerage amounted to 5.6 MSEK (5.4). Water is used mainly for cooling and sanitary purposes. Closed cooling systems with recirculating water are installed at most of the production facilities, but a handful of units use water from wells and watercourses without recirculation. To reduce water consumption, various measures are implemented, such as technical solutions and leak detection, while educational initiatives also increase awareness of water issues.

Emissions of contaminants to waste water are limited and mainly comprise organic substances and nutrients from cleaning and sanitation. The waste water is treated at municipal treatment plants or similar facilities. At some units,

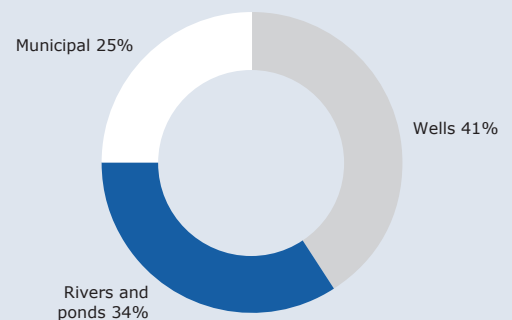
Energy sources



Water consumption



Water consumption by source



cooling water, which has not been in direct contact with products, is released to nearby watercourses. To reduce the risk of unwanted discharges to water, preventive measures have been implemented, such as oil separators and collecting chemical products and oils. Decontamination equipment is available and personnel receive regular training in its use.

Polymer materials and other chemical products

The manufacture and use of polymer products affect the environment. The various stages in the life-cycle of the products contribute to their environmental impact. The table provides examples of the environmental aspects that

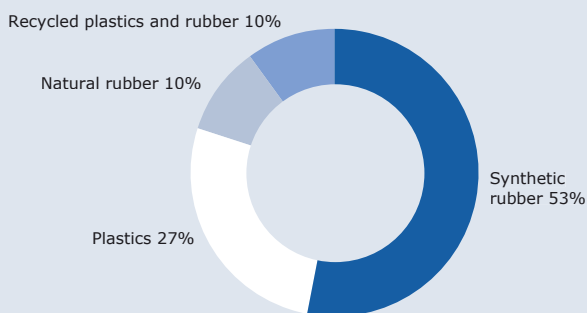
can be associated with the raw materials most common within the Group. The impact is not exclusively negative and polymer materials can, for example, contribute to energy savings, sound attenuation, water management, reduced fuel consumption in vehicles and much more.

The manufacturing processes are based predominantly on polymer raw materials, as well as a large number of chemical products. The latter include plasticizers, anti-oxidants, fillers and reaction chemicals. In terms of volume, synthetic polymers dominate, but in some mixtures natural rubber is used. Thermoplastic elastomers (TPE), thermoplastics (TP), polyurethane plastics, metals and paints are

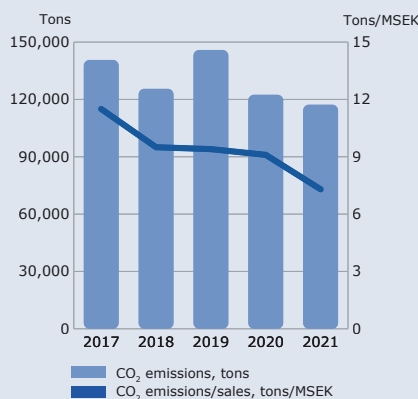
Polymer materials at HEXPOL

Polymers	Description	Environmental impact
Synthetic rubber	About 60 percent of the world's production of synthetic rubber is used by the tire industry. The raw materials for the production of synthetic rubber derive from the petroleum industry (crude oil). Many different types of polymers are used at HEXPOL, including EPDM, SBR and NBR.	The environmental aspects of the manufacture and use of synthetic rubber are primarily energy consumption, the use of fossil raw materials, emissions to air and water, and waste. Examples of positive environmental aspects include rubber's capacity to contribute to lower energy consumption and to reduce noise and vibrations.
Natural rubber	Natural rubber is extracted from the viscous sap (latex) of several species of trees, among which the rubber tree, <i>Hevea brasiliensis</i> , is the most important. The rubber tree grows in regions with a tropical climate and about 90 percent of global production comes from Southeast Asia. Plantations can also be found in South America and Africa. Almost 70 percent of global production is used in the tire industry.	The large-scale cultivation of rubber trees on plantations can have an impact on local ecosystems, displacing the natural rainforest, for example, and replacing it with monocultures. Other negative environmental aspects include the use of pesticides and the impact on watercourses. Positive aspects include the fact that natural rubber is a renewable raw material and that interest in more sustainable, small-scale cultivation methods is increasing. HEXPOL owns no rubber plantations of its own, and all raw materials are instead purchased.
Thermoplastic elastomers	Thermoplastic elastomers (TPE) are a family of materials that share properties with rubber (flexibility, softness), while also offering typical plastic properties (versatility, recycling, advantages in processing). These materials are used in medical technology applications, for example, as well as in toys, vehicles and electronics.	Conventional TPE is produced from fossil raw materials (crude oil). The most important environmental aspects are the use of non-renewable raw materials, emissions of gases that impact the climate, and waste. A positive environmental aspect is that TPE can be recycled. Furthermore, TPE may contain bio-based and recycled raw materials, as is the case with Dryflex Green (bio-based ingredients) and Dryflex Circular (recycled ingredients).
Thermoplastics	Thermoplastics (TP) offer the advantage of melting when heated and solidifying when cooled. They can be remelted several times and are fully recyclable. Thermoplastics are easily processed using different production technologies, such as injection molding. Polyethylene (PE), polypropylene (PP) and polyvinyl chloride (PVC) are examples of thermoplastics.	Conventional thermoplastics are made from fossil petroleum products (for environmental aspects, see TPE). In the Group, RheTech manufactures composite materials comprising recycled thermoplastics and biodegradable waste products, such as rice husks or recycled cotton. The climate impact from such composite materials is significantly lower than for fossil-based materials. An example is the RheVision product line, which consists of polypropylene reinforced with natural fibres.

Polymer materials at HEXPOL
% of total polymer consumption



CO₂ emissions



examples of other important raw materials. Natural cork is used in some TPE products and the product series Dryflex Green, Dryflex Circular and RheVision contain bio-based and recycled raw materials. In terms of volume, polymer applications are dominated by synthetic rubber, although TPE and various plastics are also used to a significant extent. Natural rubber accounts for about 10 percent (12) and recycled polymers (rubber, plastics) for about 10 percent (8). Bio-based raw materials are used to a limited but increasing extent.

Preventive Action Process

Within the Group, thousands of recipes are used to manufacture mixtures with different technical properties. These recipes include a significant number of chemical substances and the Group's objective is to mitigate the risks of hazardous substances and, where possible, to phase out such substances. Compliance with EU chemicals legislation (REACH), and similar requirements regarding risk mitigation and labelling in other countries/regions, is obviously important for the Group's production units. In addition to direct legal requirements, many customers present their own lists of chemicals that are banned or subject to restrictions.

We use a number of chemicals listed as SVHCs (Substance of Very High Concern) in REACH (Candidate List). Preventive measures have a high priority and in 2021 a number of the designated substances were replaced with alternatives that are better from an environmental and health point of view. Additional measures are being taken to reduce the use of, for example, cyclic siloxanes, certain phthalates, solvents, lead and dichloromethane.

In the absence of globally harmonized chemicals legislation, work on phasing out hazardous substances can be complicated. Some chemicals may be banned in one region but, at the same time, permitted elsewhere. An example is certain types of highly aromatic oils (process oils), with a content of PAHs exceeding 3 percent, and which are banned in the EU but allowed in China, Mexico and the US. Regardless of different requirements in different countries, we strive to give customers the opportunity to choose products with as little impact on health and the environmental as possible.

Solvents, metals and conflict minerals

In the manufacture of polyurethane wheels, we use about 150 tons of solvent (120), 38 tons of paints (33) and 3,500 tons of metals (4,500) annually. Frequently asked questions from customers concern the Group's possible use of conflict minerals (see glossaries). Such minerals are used at only one plant where control mechanisms have been put in place.

Renewable and recycled raw materials

In the polymer industry, many different development projects are currently being implemented with the aim of reducing the use of fossil-based raw materials and chemicals. These include recycled carbon black, rubber and plastic polymers from bio-based raw materials, as well as process oils that are produced from biological materials and/or manufactured using methods with a small climate footprint. We are pursuing a continuous dialogue with various chemical and recycling companies and subsequently test many of the products. While much appears interesting, several question marks remain regarding technical features, availability and cost.

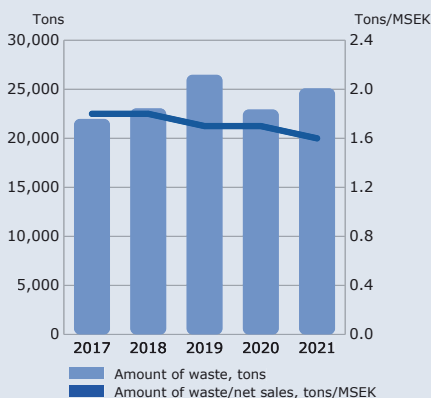
Atmospheric emissions

Gases impacting the climate

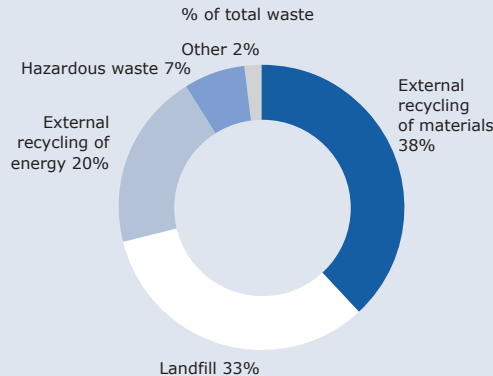
As an important step towards reducing the impact on the climate, measures are being implemented to reduce emissions from energy consumption, that is Scopes 1 and 2 in accordance with the GHG protocol. CO₂ emissions arise through the use of fossil fuels (oil, natural gas, propane), as well as through purchased electricity. In 2021, CO₂ emissions amounted to 117,300 tons (122,500), of which 15,800 tons (13,600) were in accordance with Scope 1 and 101,500 tons (108,900) were in accordance with Scope 2. The indirect emissions from purchased electricity dominated, accounting for 85 percent (89) of total emissions. In a five-year perspective, the key performance indicator for climate impact (tons of CO₂e/net sales) shows a positive trend. The key performance indicator is affected by both positive and negative factors, for example:

- Measures to increase energy efficiency help reduce CO₂ emissions.

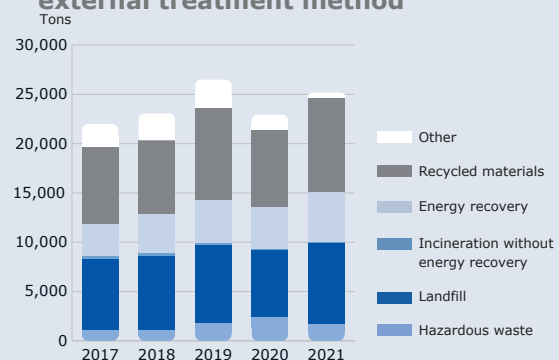
Amount of waste



External waste treatment



Waste categories by external treatment method



- Increased use of fossil-free electricity (Sweden, Germany, Belgium, Czech Republic, UK, Spain), biofuels (Sri Lanka) and biogas (Sweden) reduce CO₂ emissions. Purchases of fossil-free, origin-labelled electricity increased over the year and will increase in the US and Mexico over the next few years.
- Installing solar cells reduces the CO₂ footprint. Such installations are in place in Italy and Mexico. During the year, 2 plants entered operation in Sri Lanka and the build-out of self-produced fossil-free electricity continues.
- Acting in a negative direction is increased production, with increased energy use, as well as acquisitions of companies in countries whose energy systems are largely based on fossil sources.

Outcomes in relation to the Group's climate targets are summarized on page 31. The process of introducing Science Based Targets has begun. Mapping of CO₂ emissions according to Scope 3 in the GHG protocol has begun. The majority of the emissions occur in connection with the suppliers' production of fossil-based polymers and chemical substances. Accordingly, an important measure is to increase the use of raw materials with a smaller climate footprint. It can also be stated that emissions from transports of raw materials and finished products are not insignificant. The work of implementing the guidelines in accordance with TCFD (Task Force on Climate-related Financial Disclosures) is ongoing and an overview is given on pages 98–99.

Other air pollutants

Energy consumption gave rise to emissions of 19 tons (19) of sulfur dioxide (SO₂) and nitrogen oxides (NO_x). The phasing out of heavy fuel oil in Sri Lanka has helped reduce emissions of these air pollutants. Emissions of VOCs (Volatile Organic Compounds) from solvents and paints amounted to about 100 tons (24) and occurred predominantly in the manufacture of polyurethane wheels. In total, some 1.2 tons (1.2) of refrigerant is installed at the production facilities. During the year, a few minor emissions of these ozone-depleting substances (F-gases) occurred.

Waste

From an environmental point of view, it is positive that the proportion of waste that is recycled is increasing. This is a result of more demanding legislation in many countries, but can ultimately be linked to a number of preventive measures at the Group's facilities. The systematics in ISO 14001, Lean Manufacturing and 5S are important tools in reducing spoilage and production of waste. The majority of the units have targets and plans for reducing waste and increasing sorting at source.

Key components in our sustainability work include using raw materials in a resource-efficient manner and reducing the amount of waste produced. The sorting of waste at source for external recycling, as well as the internal reuse of plastic waste and carbon black are some examples of measures being conducted on an ongoing basis. In 2021, the total waste volume amounted to 25,100 tons (23,000), of which

1,640 tons (2,340) consisted of hazardous waste. From a five-year perspective, the key performance indicator (tons of waste/net sales) fell somewhat and the proportion of waste that is sorted at source and handled by external recycling companies has increased significantly. The volume of waste sent to landfill has increased in recent years, which is mainly due to the number of production facilities in the US having increased, where landfill is an accepted method of waste disposal. The cost of waste over the year amounted to 27.6 MSEK (21.6).

Accidents and complaints

During the financial year, no accidents or uncontrolled emissions occurred that impacted the environment. On five occasions, complaints were received from nearby residents (noise, dust and odours).

Transports

Here are some examples of measures implemented in recent years:

- Group companies make use of online conference opportunities, and this increased significantly during the global pandemic. Another effect of the pandemic is that many employees worked from home during the year, reducing the climate impact from travel to and from work.
- When replacing vehicles and company cars, models that consume less fossil fuels are chosen, such as hybrid or electric cars. At several facilities, the number of charging stations for electric cars has been increased.
- Many of the companies work to optimize their transports by, for example, filling trucks to greater extent, coordinating transports and using environmentally friendly routes.



Products contributing to sustainable development

Many of the Group's customers present ambitious environmental and climate targets, often with a focus on reducing the CO₂ footprint of processes and products. In addition, there are strong currents in society around climate policies and legislative measures, such as the EU's Green Deal and the Taxonomy for sustainable investments.



For HEXPOL, it is important to develop processes and products that help reduce climate impact, which also generates business opportunities. The table on page 42 provides an overview of products that, according to the Group's criteria, contribute to sustainable development.

HEXPOL and the EU taxonomy for sustainable investment

The taxonomy for environmentally sustainable investments (the Taxonomy Regulation) is one of the measures included in the EU's plan of action for financing sustainable growth. The taxonomy makes it possible to identify and compare investments that are necessary in achieving a sustainable economy. The intention is that it will provide a basis for future standards and for the labelling of sustainable financial products. Companies with more than 500 employees must report their sales, capital investments and operating expenses in accordance with the taxonomy. In accordance with the taxonomy, the following apply:

- *Contribute to environmental objectives* – To be sustainable in accordance with the regulation, the operations must make a significant contribution to at least one of the six environmental targets stated in the taxonomy. The contribution can be made through internal measures and/or by the company's products facilitating a stakeholder's contribution to one of the environmental targets.
- *Do not counteract environmental objectives* – Meeting one or more of the taxonomy's environmental objectives may not counteract the other environmental objectives.
- *Meet basic principles and standards* – This refers to conventions and guidelines on, for example, work environment and human rights.

- *Adhere to technical criteria* – For an activity or product to be considered sustainable, the taxonomy states specific requirements and criteria. The EU taxonomy is still evolving and it is important to be aware that the regulation does not cover all sustainability initiatives in business and industry. To advance development towards net-zero CO₂ emissions, in an initial stage, the regulation emphasizes activities of particular importance from the perspective of climate. As a polymer company, HEXPOL does not belong to that category and the taxonomy currently lacks criteria that can be applied directly to the Group's operations and products.

In 2021, the EU taxonomy was analyzed by the Group's highest forum for sustainability issues, (the Sustainability Council), which includes the CEO, CFO, Sustainability Director and key individuals within the company. A working group developed criteria and designed a system for collecting data (volumes, income, investments, costs) on products that contribute to sustainable development. The intention was to achieve a good overview of the area and prepare for any future criteria that could be applied by the polymer industry.

The table on page 42 shows that several of HEXPOL's products and product groups contribute to reduced climate impact and the circular economy, while also contributing positively to the Group's income. HEXPOL's main economic activities are not covered by the taxonomy. Thus, HEXPOL's share of sales covered by the Regulation is 0 percent. The share of capital expenditure and operating costs covered by the Regulation is also 0 percent.

Examples of products/product groups*	Contribution to sustainable development	Facilitates the stakeholders' sustainability work
Gaskets for plate heat exchangers	Reduced energy consumption. Reduced climate impact.	✓
Hexlight (low density porous materials)	Reduces the weight of vehicles and thus fuel consumption.	✓
Lifocork (TPE combined with cork from cork oak)	Reduced climate impact.	✓
Wheels for electric forklifts	Decreasing the use of fossil fuels.	✓
Polymer blends used in environmental technology	Products that contribute to renewable technology, such as wind turbines, electric vehicles, solar cells and cables for battery charging.	✓
Dryflex Green (TPE containing bio-based raw materials), Dryflex Circular (TPE containing recycled raw materials)	Reduced climate impact, contributes to circular economy.	✓
RheVision (polypropylene reinforced with natural fibres from bio waste (rice, coconuts, hemp). RheVision also includes products with bio-based or recycled polypropylene	The bio-based content can amount to about 15 percent and, if this is combined with recycled polypropylene, the carbon footprint of the material is considerably lower compared with traditional plastic products.	✓
Forklift wheels of recycled polypropylene with natural fibre content	Reduced climate impact. Recycling of raw materials.	✓
Dryflex WS and WS+ (TPE with hydrophilic properties).	The products swell in contact with water and can be used in tunnels, sewage systems, water tanks and water treatment plants, that is, equipment able to aid adaptation to climate change.	✓
The entire TPE product range is recyclable	Recycling of raw materials.	✓
Long-life polyurethane forklift wheels	Reduces the need for replacement wheels.	✓
Products (envelopes) for retreading rubber tires	Extend tire life.	✓
Recycled rubber raw materials in products for the automotive industry (splash guards, floor mats, bumpers)	Reduces the need for newly manufactured raw materials.	✓
Products used for drinking water and waste water treatment	Economic management of water resources, preventing contamination.	✓

* HEXPOL's internal criteria for identifying products that contribute to sustainable development include at least one of the following conditions: 1) Is used in environmental technology, 2) Is lighter than traditional materials, 3) Is used for electric vehicles or components for electric vehicles, 4) Contains >10% recycled raw materials, 5) Contains >10% bio-based raw materials, 6) Extends product life, 7) Contributes to the sustainable use of water resources, 8) Reduces the effects of climate change, 9) Consists of recyclable TPE.



HEXPOL's growing portfolio of materials for sustainable development

The environmental consequences of the global use of plastics and other polymers have attracted substantial attention. HEXPOL perceives both risks and opportunities and prioritizes continuous environmental adaptation of its production and products.

HEXPOL holds a broad portfolio of environmentally friendly grades of TPE. Dryflex Green contains bio-based polymers. Lifocork is a bio-composite in which raw material from cork oak is combined with TPE. Dryflex Circular is a TPE material containing recycled polymers and offered for a large number of applications – most recently in a car interior for the automotive industry.

A priority area for HEXPOL is replacing hazardous chemical substances in products and reducing the risks to people and the environment. One example is the Hexflame product family, which does not contain halogens as flame retardants.

HEXPOL RheTech uses significant amounts of recycled polymers in its products, in some blends with a proportion of recycled polypropylene exceeding 50 percent. The RheVision product line contains natural fibres from cacti, coconuts and rice, for example. The biological content can amount to about 15 percent and, when combined with recycled polypropylene, the carbon footprint of the material is considerably lower compared with traditional polymer products.

The porous material HexLight reduces weight and therefore also reduces fuel consumption when used in the automotive industry, for example. The technology reduces the density by about 30 percent.

Gaskets from HEXPOL Engineered Products are used in plate heat exchangers worldwide. The gaskets add environmental benefit by reducing energy consumption, reducing climate impact and facilitating safer handling of chemical products and food.

Operations

The Board of Directors and the President of HEXPOL AB (publ.) registered in Malmö, Sweden, hereby present the annual report and consolidated financial statements for the 2021 financial year. The following income statements and balance sheets, statements of changes in shareholders' equity, cash flow statements, statements of comprehensive income and the presentation of the applied accounting policies and notes comprise HEXPOL's formal financial reporting.

Owners and legal structure

HEXPOL AB (publ.), with Corporate Registration Number 556108-9631, is the Parent Company of the HEXPOL Group.

HEXPOL's Class B shares are listed in the Large Cap segment of the Nasdaq Stockholm exchange. HEXPOL AB had 11,588 shareholders on 31 December 2021. The largest shareholder is Melker Schörling AB with 25 percent of the capital and 46 percent of the voting rights. The 20 largest shareholders own 72 percent of the capital and 80 percent of the voting rights.

Operations and structure

HEXPOL is a world leading polymer group, with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets and Seals) and wheels made of polymer materials for forklifts and castor wheel applications (Wheels). Customers are primarily system suppliers to the global automotive and engineering industry, the building and construction and civil engineering sector, the transport sector, the energy, oil and gas sectors, the consumer sector, the cable and wire industry, medical equipment manufacturers and manufacturers of plate heat exchangers, forklifts and castor wheels. The Group is organized in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 4,771 employees in 14 countries at the end of the year.

FINANCIAL YEAR 2021

Sales and operating profit

The HEXPOL Group's sales increased by 20 percent over the year to 16,005 MSEK (13,424), including negative currency effects. Acquisitions made during the year increased sales by 4 percent, while exchange rate fluctuations reduced sales by 5 percent and organic sales increased by 21 percent.

Sales in Europe increased by 30 percent, with sales in the Americas also increasing by 12 percent and sales in Asia increasing by 19 percent compared with the preceding year.

Operating profit increased to 3,074 MSEK (1,935), and the operating margin increased to 19.2 percent (14.4). Profit includes 337 MSEK (negative 76) in items affecting comparability, related mainly to the insurance settlement following the fire at one of our US plants earlier in the year, although it also includes a planned restructuring of our production in the UK (see also Note 2). Over the year, exchange rate fluctuations had a negative impact of 155 MSEK on operating profit.

Business Area HEXPOL Compounding's sales increased by 20 percent over the year to 14,888 MSEK (12,446). Operating profit amounted to 2,878 MSEK (1,791). The operating margin amounted to 19.3 percent (14.4).

Business area HEXPOL Engineered Products' sales amounted to 1,117 MSEK (978), an increase of 14 percent. Operating

profit amounted to 196 MSEK (144), and the operating margin increased to 17.5 percent (14.7).

For significant events in 2021, please see page 1.

Financial income and expenses

Consolidated net financial items amounted to a negative 43 MSEK (negative 80), including exchange-rate gains and losses.

Tax expenses

The consolidated tax expense amounted to 673 MSEK (446), corresponding to a tax rate of 22.2 percent (24.0).

Profit of the year

Profit before tax for the year amounted to 3,031 MSEK (1,855). Profit after tax amounted to 2,358 MSEK (1,409) and earnings per share amounted to 6.85 SEK (4.09). Profit after tax includes 259 MSEK (negative 59) in items affecting comparability, related mainly to the insurance settlement following the fire at one of our US plants earlier in the year, although it also includes a planned restructuring of our production in the UK.

Investments, depreciation and amortization

The Group's investments amounted to 304 MSEK (253) and are mainly attributable to ordinary maintenance investments. Depreciation, amortization and impairment amounted to 471 MSEK (440).

Profitability

The return on capital employed amounted to 22.8 percent (14.3). The return on shareholders' equity amounted to 22.2 percent (13.9).

Cash flow

The operating cash flow amounted to 2,731 MSEK (2,548). Cash flow from operating activities increased to 2,406 MSEK (2,376).

Financial position

The equity/assets ratio amounted to 65 percent (61). The Group's total assets amounted to 17,963 MSEK (15,073). Net debt amounted to 899 MSEK (1,593). HEXPOL has implemented the dividend of 792 MSEK (792) approved by the Annual General Meeting, corresponding to a dividend of 2.30 SEK per share. The Group has the following major credit agreements with Nordic banks:

- A credit agreement with a limit of 125 MUSD that will fall due in February 2022.
- A credit agreement with a limit of 2,000 MSEK that will fall due in July 2022.
- A credit agreement with a limit of 1,500 MSEK that will fall due in September 2023.
- A credit agreement with a limit of 1,500 MSEK that will fall due in June 2024.

Following the end of 2021, the credit agreement falling due in February 2022 was replaced with a new credit agreement of a corresponding size.

During the year, a program was established for issuing commercial papers with the possibility of these being issued within the framework of 4 billion SEK. See Note 15 for further information.

The goodwill value is tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. On 31 December 2021, consolidated goodwill and intangible assets amounted to 9,724 MSEK (8,502), influenced by exchange rate effects.

Financial targets

The Group has the following financial targets.

- Each year, the equity/assets ratio shall exceed 30 percent.
- Yearly average over a business cycle:
- Sales growth (adjusted for exchange rate effects) is to exceed 10 percent.
 - The operating margin (adjusted for items affecting comparability) is to exceed 17 percent.

Principles for remuneration of senior executives

The 2021 Annual General Meeting adopted guidelines for the remuneration of the CEO and other senior executives as follows. Other senior executives are defined as members of Group Management. The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the Annual General Meeting. These guidelines do not apply to any remuneration decided or approved by the General Meeting.

A prerequisite for the successful implementation of the company's vision, business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to attract and retain qualified senior executives. To this end, it is necessary that the company offers competitive remuneration on market terms. These guidelines enable the company to offer the executive management a competitive total remuneration. Further information about HEXPOL's vision and business strategy can be found on HEXPOL's website, www.hexpol.com.

The total remuneration to senior executives shall be on market terms and consist of fixed cash salary, variable remuneration, other benefits and pension. Additionally, the General Meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related incentive programmes.

The fixed remuneration for senior executives in HEXPOL shall be adapted to the market and competitive. It shall be based on the areas of responsibility, authority, skills and experience of the individual executive.

In addition to a fixed annual salary, senior executives shall also be able to receive variable remuneration. The criteria for this remuneration must be designed to foster the company's vision, business strategy and long-term interests, including its sustainability. The criteria applied are based on earnings, earnings per share and working capital. The variable remuneration consists of two parts. The first of these parts, annual variable cash remuneration, shall be linked to individualized predetermined and measurable criteria. The variable cash remuneration shall be based on earnings and working capital. The second part, cash remuneration in

accordance with the company's long-term cash-based incentive program (LTI) shall be based on improved earnings per share.

For cash remuneration in accordance with LTI, payment of the remuneration shall be made by half in the second year after the end of the measurement period and with the remaining half in the third year after the end of the measurement period. The design of the criteria for variable cash remuneration and the terms for payment contributes to the company's vision and business strategy, as well as to its long-term interests and sustainability.

The extent to which the criteria for awarding variable cash remuneration have been satisfied shall be determined when the measurement period has ended. The Remuneration Committee is responsible for the evaluation so far as it concerns variable cash remuneration to the CEO. For variable cash remuneration to other executives, the CEO is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration is capped and shall constitute a maximum of 130 percent of the fixed annual cash salary of which, 80 percent is attributable to annual cash remuneration and 50 percent to LTI.

For senior executives, pension benefits shall be paid not earlier than from the age of 60 years. For the CEO, pension benefits, including health insurance (Sw: sjukförsäkring), shall either be benefit or fee based, or a combination of both. A prerequisite for variable cash remunerations is that they should not qualify for pension benefits. Variable cash remuneration shall qualify for pension benefits only to the extent required by mandatory collective agreement provisions applicable to the executive. For other executives, pension benefits, including health insurance, shall either be benefit or fee based, or a combination of both. The pension premiums for premium defined pension shall amount to not more than 45 percent of the fixed annual cash salary.

Other benefits may include, for example, life insurance, medical insurance (Sw: sjukvårdsförsäkring) and company cars. Premiums and other costs relating to such benefits may amount to not more than 10 percent of the fixed annual cash salary. In relation to employments governed by rules other than Swedish, duly adjustments may be made for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

The notice period shall normally be six months on the part of the employee, without the right to severance pay. Between the company and the CEO, the CEO is entitled to a notice period of six months. On notice of termination by the company, a notice period of 24 months shall apply. For other senior executives, the notice period shall normally be 12 months on the part of the company. Fixed cash salary during the period of notice and severance pay may normally together not exceed an amount equivalent to the fixed cash salary for two years for the CEO, and the fixed cash salary for one year for other senior executives.

In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for senior executives of the company have been taken into account by including information on the employees' total income, the components of the remuneration and

increase and growth rate over time, in the Remuneration Committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

The Board of Directors has established a Remuneration Committee. Remuneration to the CEO and other senior executives shall be prepared by the Remuneration Committee and resolved by the Board of Directors based on the proposal of the Remuneration Committee. The Committee's tasks include preparing the Board of Directors' decision to propose guidelines for executive remuneration. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the General Meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The CEO and other members of the executive management do not participate in the Board of Directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

In 2021, the company followed the applicable remuneration guidelines adopted by the Annual General Meeting.

The Board of Directors proposes that the 2022 Annual General Meeting resolves on guidelines for remuneration to the CEO and other senior executives as follows. Other senior executives are defined as members of Group Management. The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the Annual General Meeting. These guidelines do not apply to any remuneration decided or approved by the General Meeting.

A prerequisite for the successful implementation of the company's vision, business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to attract and retain qualified senior executives. To this end, it is necessary that the company offers competitive remuneration on market terms. These guidelines enable the company to offer the executive management a competitive total remuneration. Further information about HEXPOL's vision and business strategy can be found on HEXPOL's website, www.hexpol.com.

The total remuneration to senior executives shall be on market terms and consist of fixed cash salary, variable remuneration, other benefits and pension. Additionally, the General Meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related incentive programmes. The fixed remuneration for senior executives in HEXPOL shall be adapted to the market and competitive. It shall be based on the areas of responsibility, authority, skills and experience of the individual executive.

In addition to a fixed annual salary, senior executives shall also be able to receive variable remuneration. The criteria for this remuneration must be designed to foster the company's vision, business strategy and long-term interests, including its sustainability. The criteria applied are based on earnings, earnings per share and working capital. The company's sustainability work also includes an environmental target for CO₂ emissions to be reduced in relation to targets set by the Board. The variable remuneration comprises three parts. The first of these parts, annual variable cash remuneration, shall be linked to individualized predetermined and measurable criteria. The variable cash remuneration shall be based on earnings and working capital. The second part, cash remuneration in accordance with the company's long-term cash-based incentive programme (LTI) shall be based on improved earnings per share. The third part shall be based on a reduction in CO₂ emissions.

For cash remuneration in accordance with LTI, payment of the remuneration shall be made by half in the second year after the end of the measurement period and with the remaining half in the third year after the end of the measurement period. The design of the criteria for variable cash remuneration and the terms for payment contributes to the company's vision and business strategy, as well as to its long-term interests and sustainability.

The extent to which the criteria for awarding variable cash remuneration have been satisfied shall be determined when the measurement period has ended. The Remuneration Committee is responsible for the evaluation so far as it concerns variable cash remuneration to the CEO. For variable cash remuneration to other executives, the CEO is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration is capped and shall constitute a maximum of 140 percent of the fixed annual cash salary of which, 80 percent is attributable to annual cash remuneration, 50 percent to LTI and 10 percent is attributable to the fulfilment of environmental targets regarding reduced CO₂ emissions.

For senior executives, pension benefits shall be paid not earlier than from the age of 60 years. For the CEO, pension benefits, including health insurance (Sw: sjukförsäkring), shall either be benefit or fee based, or a combination of both. A prerequisite for variable cash remunerations is that they should not qualify for pension benefits. Variable cash remuneration shall qualify for pension benefits only to the extent required by mandatory collective agreement provisions applicable to the executive. For other executives, pension benefits, including health insurance, shall either be benefit or fee based, or a combination of both. The pension premiums for premium defined pension shall amount to not more than 45 percent of the fixed annual cash salary.

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The notice period shall normally be six months on the part of the employee, without the right to severance pay. Between the company and the CEO, the CEO is entitled to a notice period of six months. On notice of termination by the company, a notice period of 24 months shall apply. For other senior executives, the notice period shall normally be 12 months on the part of the company. Fixed cash salary during the period of notice and severance pay may normally together not exceed an amount equivalent to the fixed cash salary for two years for the CEO, and the fixed cash salary for one year for other senior executives.

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The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests,

including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Research and development

HEXPOL's research and development expenditure over the year amounted to 111 MSEK (97), mainly comprising development expenses in close collaboration with customers. The Group has currently no significant research expenditure that meets the criteria for capitalization.

Events after the reporting period

On March 8, 2022, HEXPOL signed an agreement to acquire 70% of the shares in German almaak international GmbH, a specialist in advanced recycled compounds. almaak had sales in 2021 of 75 MEUR with a profitability level just below the HEXPOL Group. almaak operates two sites in Germany and has approximately 190 employees. The acquisition price amounts to approximately 70 MEUR on a debt-free basis and is funded by a combination of cash and existing bank facilities. The transaction will close after regulatory approval, which is estimated to the second quarter of 2022.

We do not have our own operations in Ukraine or Russia, but due to developments in Ukraine, there is a great risk of financial impact for the Group. With the current situation and uncertainty, it is not possible to fully anticipate the financial consequences for the HEXPOL Group.

Proposed distribution of unappropriated earnings

The Board of Directors proposes that earnings be allocated as follows: That a cash dividend of 6.00 SEK per share be distributed to the shareholders, comprising an ordinary dividend in accordance with the dividend policy of 3.00 SEK per share and a supplementary dividend of 3.00 SEK per share.

KSEK	
Total dividend from profit brought forward	2,066,621
To be carried forward	4,110,846
Total unrestricted funds	6,177,467

Innovative recycled material finds a home in a popular car model

Alongside a well-known American car brand, HEXPOL has developed and commercialized a polypropylene mixture for molded parts for the exterior of a particular model. The car manufacturer required that at least 50 percent of the mixture should comprise recycled propylene, while the mixture should be cost-neutral or cheaper than its predecessor.

One of the challenges was to secure commercial quantities of recycled propylene. HEXPOL's RheTech team found a local company that recycles bumpers from salvaged cars and was able to deliver sufficient volumes. The company removes all non-propylene paint and other components and then grinds the material into particles of a size that can be used in RheTech's production equipment. Based on this, the next challenge was to meet the car manufacturer's product specification requirements. HEXPOL's engineers developed a mixture that exceeded the physical properties set by the manufacturer. The final mixture contains up to 69 percent recycled polypropylene. Finally, it must be possible to process the mixture in the existing tool designed for another supplier's mixture. HEXPOL worked with the manufacturer for a whole year, testing 21 separate molds to produce 42 individual parts. The RheTech blend successfully passed all tests and was, in most cases, even better than its predecessor. Among other things, the customer's waste is reduced – a sustainable side effect of HEXPOL's development of the new material.

In July 2021, the car manufacturer launched HEXPOL's unique materials in production. The recycled and sustainable material constitutes a major new volume product for RheTech, while also achieving a clear reduction in the total amount of waste sent to landfill. Based on current production volumes, the project is expected to save more than 170,000 car bumpers from ending up in landfill every year. The American car manufacturer was very impressed with RheTech's product results and discussions are already in progress regarding other applications for the new mixture.



Risks and risk management

The capacity to identify, evaluate, manage and monitor risks is an important part of the governance and control of HEXPOL's business operations. The purpose is to achieve the Group's objectives through well-considered risk-taking within a defined framework.

Market risk management

Risk	Description	Risk management
Covid-19	The Covid-19 pandemic has caused substantial uncertainty and volatility in the world economy, and has had a major negative impact on people's health. This has led to significantly lower economic activity and increased unemployment around the world. In addition, the pandemic and the measures implemented by countries, public authorities and companies around the world, have had a considerable negative impact on demand for products and services, leading to disruptions in production and supply chains. This has affected our customers and HEXPOL alike. The continued effects of the pandemic on us, our customers and on global supply chains remain highly uncertain and unpredictable. This applies to, but is not limited to, demand for products and services, pricing, access to raw materials, delivery opportunities, production disruptions, the health of our employees and our financial results. In addition to what is described here, it is highly likely that the Covid-19 pandemic will affect several other risks described in this Risks and Risk Management section.	We have undertaken measures at all of our units to safeguard the health and safety of our employees by following local health recommendations and regulations and encouraging people to work from home if possible. To be able to react quickly to shifting and often uncertain demand, we are focusing even more on close customer contacts, allowing us to adapt production to meet our customers' needs. We are also adapting our costs to the lower level of demand. During the first year of the pandemic, we also sharply reduced our costs when a number of employees left the company. We have not received any employment support in Sweden.
Economic sensitivity	The Group is involved in worldwide operations that are primarily geared toward the market for polymer compounds, gaskets for plate heat exchangers and wheels for the forklift industry. These markets, and thus also HEXPOL, depend on both the general economic trend and the political situation in the world and conditions that are unique for certain countries or regions in which HEXPOL or HEXPOL's customers produce or sell their products. As is the case for nearly all business operations, the general economic climate affects volumes among HEXPOL's existing and potential customers. Accordingly, a weak economic trend throughout or in parts of the world could entail lower-than-expected market growth. Developments in HEXPOL's customer segments constitute one of the principal risks related to the business environment. This results in stringent demands in terms of understanding the current and future demands, requirements and wishes of both direct and end customers.	HEXPOL's operations are widely spread geographically, with a broad global customer base within numerous market segments, providing a favourable risk diversification. Possible negative effects of a downturn in one market can therefore be partially offset by increased sales in another market. HEXPOL has a flexible production that can adapt to changed customer requirements.
Competition and price pressure	HEXPOL's operations are conducted in sectors subject to competition and are thus affected by, for example, severe price pressure, which is in turn driving demand for cost-efficient solutions. Through improvements to their technology and production expertise, competing companies may begin to produce at low cost and thus increase competition with HEXPOL's products. HEXPOL's future competitive capacity is dependent on its ability to utilize the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this into attractive products and customized solutions at a competitive price. Increased competition and price pressure in the markets in which HEXPOL is active could have an adverse impact on the Group's operations.	Focusing on product development is one of HEXPOL's operational strategies to maintain long-term profitability and sustainable competitiveness. The Group possesses in-depth and wide-ranging polymer and applications expertise. Most of the plants are relatively new and well-invested with high technology level. Overall, approximately five percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.
Acquisitions and integration	HEXPOL works on the basis of an active acquisition strategy, which has resulted in a series of successful acquisitions. Strategic acquisitions will also be a part of the growth strategy in the future. However, it cannot be guaranteed that HEXPOL will be able to find suitable acquisition targets; nor can it be guaranteed that the necessary financing for future acquisition targets can be obtained on terms that are acceptable for the Group. This could result in reduced or declining growth for HEXPOL. The completion of acquisitions also entails risks. In addition to the company-specific risks, the acquired company's relations with customers, suppliers and key individuals could be affected negatively. There is also a risk that integration processes could prove more costly or take more time than estimated and that anticipated synergies in full or in part fail to materialize.	HEXPOL evaluate a large number of companies to find acquisitions that can strengthen the Group's product portfolio or geographical position, and that supports the Group's strategic plan. An analysis of the entire company, a so-called due diligence is done to assess any potential risks before decision is taken. HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions. Based on extensive experience of acquisitions and integrations of these, combined with clear strategies and objectives, HEXPOL has good potential to successfully continue the active acquisition strategy.

Strategic and operational risk management

Risk	Description	Risk management
Customers	<p>HEXPOL conducts operations in a large number of geographic markets and offers products to a considerable number of customer categories. One major customer group comprises system suppliers to the automotive industry. A decline or weak trend in the automotive industry could have a negative impact on HEXPOL's operations.</p> <p>This customer group could thus entail certain risks for HEXPOL. If HEXPOL's customers fail to fulfil their obligations, or drastically reduce or cease their operations, the Group's operations could be adversely impacted.</p>	HEXPOL has a favourable risk diversification in terms of geographical areas and customer groups. No single customer accounts for more than 10 percent of the Group's sales.
Products	If HEXPOL's products do not meet customer requirements, complaints and recalls may occur.	HEXPOL uses quality systems to ensure that the product complies with specified requirements.
Suppliers	HEXPOL's products consist of many different raw materials from several different suppliers. To be able to manufacture, sell and deliver products, HEXPOL depends on externally supplied goods meeting agreed requirements with respect to factors such as quantity, quality and delivery time.	HEXPOL has a favourable risk diversification in terms of suppliers and the Group is not, to any significant extent, dependent on any single supplier.
Key personnel	If key persons leaves and successors cannot be recruited or if HEXPOL is unable to attract qualified personnel, this could have a negative impact on the Group's operations.	HEXPOL's future success largely depends on its ability to recruit, retain and develop the Group's employees. HEXPOL strives to be an attractive employer and encourages internal recruitment.
Production disruptions	Damage to production facilities caused, for example, by fire, flood, mechanical damage, natural disaster, can lead to interruption of business and affect customer deliveries.	HEXPOL has many units which gives certain flexibility in terms of supporting production. HEXPOL works regularly with risk prevention.
Raw materials	HEXPOL depends on a significant number of input materials, primarily plastics and rubber raw materials. Trends in the market may result in higher purchasing prices for input materials that are crucial for HEXPOL. In view of the competitive situation, there is a risk that HEXPOL cannot raise prices sufficiently to fully offset the increased costs, leading to reduced margins.	To meet the increased costs for input materials, HEXPOL works, among other things, to improve production efficiency, developing more cost-effective processes and holding monthly price negotiations.
Cyber risk	HEXPOL uses modern IT infrastructure for communications and business support. Disruptions in these systems can have a negative effect on operations, both in terms of marketing activities and production. Cyber attacks and misuse of data can also lead to personal data and intangible assets falling into the wrong hands.	HEXPOL takes IT security and cyber risks very seriously and continuously assesses the reliability and weaknesses of the company's security system. All HEXPOL units are covered by the Group's IT policy, which clearly states what requirements apply. Compliance with the above-mentioned policy is audited annually by the Group's auditors to a certain extent, but mainly by representatives of the IT organization.

Legal risk management

Risk	Description	Risk management
Legislation and regulation	HEXPOL's principal markets are subject to extensive regulation. Amendments to the regulatory framework, customs regulations and other trade obstacles, anti-competition regulations, price and currency controls, as well as other public legal guidelines, ordinances and restrictions in the countries in which HEXPOL is active could have an adverse impact on the Group's operations.	HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works for quick adaptation to identified future changes in the area. HEXPOL educates employees in business ethics guidelines and senior managers and employees within purchasing and sales participate in education of international law relating to cartels and other illegal business collaborations.
Tax risk	HEXPOL conducts its operations through subsidiaries in a number of countries. The Group's interpretation of applicable laws, tax treaties, OECD's guidelines and regulations can be challenged by local tax authorities. Rules and guidelines may be subject to future changes which can have an impact on the Group's tax position.	The business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of prevailing tax legislation, tax agreements, OECD's guidelines and regulations. The Group has obtained advice on certain matters from independent tax advisers. Transactions between Group companies are normally conducted at arm's length.



Legal risk management, cont.

Risk	Description	Risk management
Intellectual property rights	<p>HEXPOL sells its products under several well-known brands. It is of major commercial significance for the Group that these brands can be protected against unauthorized use by competitors and that the goodwill associated with the brands can be maintained.</p> <p>According to a licence agreement with Covestro AG, HEXPOL is entitled to use the Vulkollan brand and logotype in connection with the manufacture and marketing of wheels produced by HEXPOL Wheels. The licence agreement with Covestro AG extends for one-year periods and notice may be given three months prior to the end of the agreement. Notice of termination of the agreement by Covestro would have a negative impact, since Vulkollan wheels currently accounts for a major share of the sales of the subsidiary Stellana AB.</p>	HEXPOL has an ongoing dialogue with the license owner.
Health, safety and the environment	<p>HEXPOL has operations in many countries with different permit requirements and environmental legislation. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes may have a negative impact on the Group's operations.</p>	<p>HEXPOL's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health, safety and the environment. The Group continuously monitors anticipated and implemented changes in legislation in the countries where the Group operates. Most of the companies within the Group conduct operations that are subject to permits or mandatory declaration under applicable local environmental legislation. Accordingly, these operations are under the supervision of the appropriate authorities.</p> <p>On an ongoing basis, HEXPOL ensures that it holds all of the necessary permits and that it fulfills all of the necessary applicable declaration obligations.</p> <p>Most of the production units are certified in accordance with ISO 14001 and internal and external environmental audits are conducted regularly.</p> <p>In the US, HEXPOL provides a health insurance system through which employees receive compensation for health care. The Group's expenses are maximized to a fixed amount per individual and year.</p>

Financial risk management

Risk	Description	Risk management															
Currency risk	<p>In its operations, HEXPOL is exposed to various financial risks, of which the currency risk is the dominant one. Exchange-rate fluctuations affect HEXPOL's earnings, in part when sales and purchases take place in different currencies (transaction exposure) and, in part when the income statements and balance sheets of foreign subsidiaries are translated to SEK (translation exposure). HEXPOL's global operations give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss.</p> <p>In conjunction with the translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange rate fluctuations could have an impact on the Group's balance sheet.</p>	<p>HEXPOL's business is local, which means that sales and purchases normally are made in local currency and thus limits the Group's transaction exposure.</p> <p>A sensitivity analysis shows that the effect of a change of 10 percent against all currencies in relation to the exchange rate for SEK would affect sales by 1,493 MSEK and operating profit by 263 MSEK.</p> <table border="1"> <thead> <tr> <th>Currency</th> <th>Sales</th> <th>Operating profit</th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>866</td> <td>199</td> </tr> <tr> <td>EUR</td> <td>519</td> <td>81</td> </tr> <tr> <td>Other</td> <td>108</td> <td>-17</td> </tr> <tr> <td>Total</td> <td>1,493</td> <td>263</td> </tr> </tbody> </table>	Currency	Sales	Operating profit	USD	866	199	EUR	519	81	Other	108	-17	Total	1,493	263
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Other	108	-17															
Total	1,493	263															
Interest risk	Changes in the market interest rates affect HEXPOL's net financial items.	Excess liquidity and credit agreements are primarily managed at Group level and in accordance with the financial policy and to variable interest rate. On 31 December 2021, external liabilities amounted to 2,222 MSEK (2,796). A change in the interest rate of 1 percentage point on the Group's closing liabilities for 2021 would impact the full-year earnings by approximately 22 MSEK before tax.															
Credit risk	The financial risks to which HEXPOL is exposed also include credit risks, meaning that a customer or business partner will be unable to fulfil their payment obligations or to settle receivables that HEXPOL has invoiced or intends to invoice. Financial credit risks are defined as the risk that counterparties with which the Group has invested cash and cash equivalents, has current bank investments or has entered into financial instruments will be unable to fulfil their obligations.	<p>HEXPOL conducts regular credit assessments of customers. HEXPOL has widely diversified customers in terms of both geographical areas and customer groups, which limits the risk of significant customer losses.</p> <p>HEXPOL's excess liquidity is primarily used to amortize external loans and further surpluses are placed in well-known banks.</p>															

Financial risk management, cont.

Risk	Description	Risk management
Financing and liquidity risk	To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations could ultimately require additional financial resources. HEXPOL's ability to ensure future capital requirements depends to a great extent on successful sales of the Group's products and services. There are no guarantees that HEXPOL will be able to secure the necessary capital. In this regard, general developments in the share capital and credit markets are also of considerable significance. The liquidity risk is defined as the risk that the Group will be unable to entirely fulfil its payment undertakings when they fall due or will only be able to do so on highly unfavourable terms.	HEXPOL has a strong balance sheet, providing a financial platform for future acquisitions. HEXPOL has four major credit agreements with Nordic banks. For further information on these, please see Note 15. During the year, HEXPOL established a program for issuing commercial papers with the possibility of these being issued within a framework of 4 billion SEK.
Insurable risks	HEXPOL's operations, assets and employees are to some extent exposed to various types of risks that may affect HEXPOL's operations.	HEXPOL has a centrally procured coverage for property, liability, disruption, travel and transport insurance, etc., combined with local insurances where necessary.

Sustainable development risk management

Risk	Description	Risk management
Environmental and labour legislation	Developments in environmental legislation affect HEXPOL in both the short and long term. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. Climate change is an area where it is likely that additional legislation, fees and taxes will be introduced. In the area of chemicals, the EU's REACH regulation carries significant influence. The Group uses substances listed by REACH as SVHCs (Substances of Very High Concern) and it is likely that demands that these be phased out (or that other risk mitigation measures be introduced) will increase.	The Group works continuously to identify new and amended environmental and work environment legislation. In the short term, we have not identified significantly amended requirements. The production units hold current environmental permits and only minor updates are expected. The units are under the supervision of the authorities, with internal and external environmental audits being conducted via ISO 14001. In response to REACH, the development departments have reformulated several recipes, in which hazardous substances have been phased out, or where their use has decreased. This work is ongoing.
Contaminated soil	Most of the Group's facilities are built on land not previously used for contaminating operations. No emissions or accidents of significance for the soil or groundwater were registered in 2021. There is limited contamination of the soil at three facilities. This contamination is historical in nature and the Group is not subject to any legal requirements to decontaminate the soil. In 2021, demands were made of one of the Swedish units regarding possible partial responsibility for studies and measures at a former landfill site. The legal aspects of this are under investigation.	Regular assessments of the risk for soil contamination and other environmental damage are made in conjunction with acquisitions. Where it is considered necessary, sampling of soil and groundwater is conducted. Through risk analysis and preventative actions the probability and consequences of uncontrolled emissions are minimized.
Hazardous substances in buildings	The roofs of certain buildings comprise Eternit tiles containing asbestos. The risks are considered minor and do not require actions to be taken until the roofs are to be replaced. There may also be small amounts of asbestos in pipe systems at a particular plant. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window seams in a number of buildings and the caulking compound will be remedied as the windows are gradually replaced. The risks to humans and the environment are very low.	Regular assessments of the presence of asbestos and PCB are made in conjunction with acquisitions. In accordance with the legislation in different countries inventories has been carried out and relevant precautions have been taken. No further measures are currently relevant.



sustainable development risk management, cont.

Risk	Description	Risk management
Climate-related risks	<p>The Group emits significant amounts of CO₂ through its energy consumption. In addition, most of the products are based on fossil raw materials. It is likely that more demanding emission policies and measures will be introduced in several countries/regions. It is also likely that customers will demand increased use of renewable raw materials.</p> <p>Two of the facilities have identified flooding as a climate-related risk and certain precautions have been taken. Four facilities are located in areas that could be exposed to extreme weather conditions. Two facilities are located in areas with a shortage of fresh water.</p>	<p>The Group works actively to mitigate emissions of gases affecting the climate and originating from our production facilities and products. Scenario analyses of how physical climate changes, policy decisions and legislation affecting HEXPOL have been initiated. With regard to these issues, the Group has begun to apply the TCFD guidelines, see page 98. Climate-related risks are taken into account in conjunction with acquisitions and supplier assessments.</p>
Environmental and climate adaptation of products	<p>The interest for environmentally adapted products is increasing in many industries and many of the customers sets requirements regarding phase-out of hazardous substances and other properties that have importance to health and environment, particularly climate impact. If the requirements are not met, there is a risk that the deal will be lost.</p>	<p>The Group is taken an active role within the area and is offering knowledge that contributes to environmental friendly product development. Many of the Group's sustainable products show good potential for business development, for example Dryflex Green, which contains bio-based raw materials, and Dryflex Circular, which contains recycled polymers.</p>
Human rights	<p>The risk for any violation of the human rights at the production facilities is considered low. The main part of the Group's suppliers of raw material is global chemical companies and the risks around human rights are considered as low. HEXPOL has identified suppliers of natural rubber as a potential risk area. Formal sustainability audits have been therefore been performed at natural rubber plantations in Sri Lanka. The situation around human rights there was assessed as good.</p>	<p>Materializing Our Values states how human rights are viewed. The Code of Conduct is supplemented by the commitments under the UN Global Compact. The whistle-blowing system makes it possible for employees to sound the alarm regarding possible irregularities. In the collected data for the annual Sustainability Report, all companies must take a stand on questions regarding human rights in their own operation and among the suppliers. No significant deviations have ever been registered.</p>
Anti-corruption	<p>The Group has operations in both industrialized and developing countries. No matter where the operations are, there is a risk that sound business principles are not applied. For this reason, good business ethics are afforded a very high priority in the materiality analysis. The message from the Group management is that zero tolerance is applied for anti-corruption and lack of business ethics.</p>	<p>The Global Compact and the business ethics guidelines guide employees in questions regarding what is and is not allowed in contacts with business partners. In the Compliance Programme the managers confirm, through their signature, that the rules are followed. Managers and employees within sales and marketing are part of the mandatory educations within the area. In the collected data for the annual Sustainability Report, all companies must take a stand on how they have worked against corruption during the year. The questions originate from the Global Compact. No significant deviations have been registered.</p>

Confidence in our continued development is based on responsible governance

HEXPOL delivered its best year ever, and with the Group's strong market position and efficient business model, one could be forgiven for adding "... best year this far". This was despite an unlikely cocktail of challenges packed into a relatively brief period.

Another year with the pandemic limited our opportunities to attend meetings both internally, as well as externally with our customers. Other challenges were a shortage of raw materials and thus large cost increases for materials, increased energy prices, production stoppages in the automotive industry, global logistics problems with sharply increased transport costs, high level of sick-leave and, in the US in particular, rising wage inflation.

HEXPOL has again proven that our strong customer focus and global presence, with capacity to deliver from several production units, is critical and valuable for our customers. We have also demonstrated skill in our capacity to quickly adjust our costs and we understand the importance of continuously working to lower our *breakeven point*. With little advance notice in our order backlog, we are accustomed to this fast-moving environment, although in 2020 and 2021, this was put to the test like never before and proved achievable even under extreme conditions.

Large organizations are sometimes criticized for not being sufficiently agile and fast-footed compared with smaller, local suppliers. But our highly decentralized organization, with coordinated group processes, has in 2020 and 2021, despite our size, adapted faster than most people thought possible.

The strategy process is an important part of the Board's corporate governance work, with an essential part of this being to increase our focus on sustainability. This mainly involves measures and plans for "here and now", that is, breaking the trend and mitigating environmental impacts in the short term. One of our concrete targets is to lower our CO₂ imprint by 75 percent by 2025. To further strengthen the focus, we will build sustainability into our incentive system from 2022 onwards.

In 2021, the HEXPOL Group has shown its ability to maintain good profitability and good cash flow under the most unusual and difficult conditions. With our solid business model, skilled leadership and strong balance sheet, we are well equipped for continued growth, organically but above all through a continued offensive and active acquisition agenda.

Malmö, Sweden, March 2022

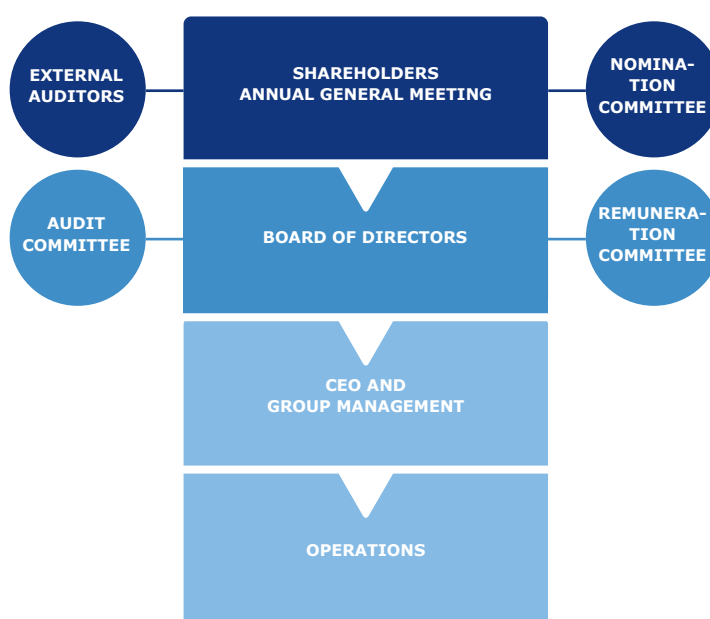
Alf Göransson, Chairman of the Board



Alf Göransson
Chairman of the Board

Corporate Governance Report

HEXPOL is a public company listed on Nasdaq Stockholm, Large Cap. The governance of the HEXPOL Group is based on Swedish legislation, primarily the Companies Act, HEXPOL's Articles of Association, the Nordic Main Market Rulebook for Issuers of Shares and the Swedish Code of Corporate Governance (the Code*).



Ownership structure and share

On 31 December 2021, HEXPOL's share capital amounted to 68,887,369 SEK, divided between 344,436,846 shares, of which 14,765,620 were Class A shares, conveying ten votes apiece, and 329,671,226 Class B shares, conveying one vote apiece. The largest individual shareholder is Melker Schörling AB, whose holding at the end of 2021 comprised a total 14,765,620 Class A shares and 70,783,430 Class B shares, corresponding to 46 percent of the votes and 25 percent of the capital in the company. No other shareholder has a direct or indirect holding amounting to at least 10 percent of the total number of votes in the company. For more detailed information on ownership structure and the share, see pages 6–7.

Articles of Association

HEXPOL's current Articles of Association were adopted on 28 April 2020. The Articles of Association state that the objective of the company's operations is to acquire, own and actively manage shares mainly in industrial, trading and service companies. The company shall also own and manage securities, sell services in the administrative area and pursue other operations compatible therewith.

The Articles of Association formalize issues such as shareholders' rights, the number of Board Members and auditors; that the Annual General Meeting (AGM) is to be held annu-

ally within six months of the end of the financial year; how the notice convening the AGM is to be sent; and that the company's Board has its registered office in Malmö, Sweden. The current Articles of Association are available on the company's website.

General Shareholder Meetings

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

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

* The Code is available at www.bolagsstyrning.se

Annual General Meeting 2021

The 2021 AGM was held on 28 April 2021. The Annual General Meeting was conducted by advance voting only (so-called postal vote) on the basis of temporary legal rules due to the risk of contagion of Covid-19. At the AGM, shareholders in attendance represented approximately 68 per cent of the total voting rights. The Chairman of the Board, Alf Göransson, was elected Chairman of the Meeting. At the Meeting the Income Statement and Balance Sheet and the consolidated Income Statement and Balance Sheet, was approved.

The Meeting approved the Board's proposal for a dividend of 2.30 SEK per share for the 2020 financial year. Alf Göransson, Jan-Anders E. Månson, Malin Persson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson were re-elected as members of the Board.

Alf Göransson was re-elected as Chairman of the Board. The Meeting approved the Board's proposed guidelines for remuneration of HEXPOL's senior executives and the 2020 Remuneration Report.

Annual General Meeting 2022

HEXPOL's Annual General Meeting 2022 will be held on 28 April 2022 in Malmö, Sweden. For information about the AGM, refer to page 104 and the company's website <https://investors.hexpol.com/sv/bolagsstyrning/bolagsstamma>.

Nomination Committee

HEXPOL's AGM determines the composition of the company's Nomination Committee. The Nomination Committee's task is to submit proposals regarding the Chairman of the AGM, Chairman and other members of the Board, as well as in respect of the fees and other remuneration for Board assignments to each of the Board members. The Nomination Committee is also to submit proposals regarding the election and fees to be paid to auditors.

In the nomination process in preparation for the 2021 Annual General Meeting, the Nomination Committee applied rule 4.1 of the Code on diversity policy in preparing its proposals for the Board. The Nomination Committee concluded that the Board of HEXPOL has an even gender distribution and an appropriate composition in other regards.

The 2021 AGM passed a resolution to the effect that HEXPOL's Nomination Committee should comprise four members representing the largest shareholders in terms of voting rights and that Mikael Ekdahl (Chairman), representing Melker Schörling AB, Henrik Didner representing Didner & Gerge Fonder and Marcus Lüttgen representing Alecta Pensionsförsäkring and Mats Gustafsson representing Lannebo fonder should be members of the Nomination Committee ahead of the 2022 AGM.

Should a shareholder who is represented by one of the members of the Remuneration Committee cease being one of the largest shareholders in HEXPOL, or should a member of the committee no longer be employed by such a shareholder or for any other reason leave the committee prior to the AGM 2022, the committee is entitled to appoint another representative from among the major shareholders to replace such a member.

During the year, the Nomination Committee held five meetings at which minutes were recorded. The Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2022 AGM.

The Board of Directors and its work*Composition of the Board and independence*

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, with no more than two deputies. HEXPOL's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles.



In September 2021, the Board of Directors visited the subsidiary HEXPOL TPE in Åmål, Sweden.

The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on 28 April 2021 resolved to elect a Board consisting of, Alf Göransson (Chairman), Malin Persson, Jan-Anders E. Månson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson. The Board was elected for the period up until the 2022 AGM.

HEXPOL's CEO and HEXPOL's Deputy CEO and CFO participate in Board meetings. On request, other HEXPOL employees attend Board meetings to present certain specific issues.

The Board's assessment of its members' independence in relation to the company, its management and major shareholders, which is shared with that of the Nomination Committee, is presented on page 60.

According to the requirements presented in the Code, the majority of the Board members elected by the AGM shall be independent in relation to the company and its management, and at least two of the Board members shall also be independent in relation to the company's major shareholders. As shown on page 60, HEXPOL meets these requirements. Members can be reached at the address of HEXPOL's head office.

Responsibilities of the Board of Directors

The Board is responsible for determining the Group's overall objectives, developing and monitoring the general strategy, decisions on major acquisitions, divestments and investments and ongoing monitoring of operations during the year. The Board is also responsible for ongoing evaluation of management and for ensuring that there are effective systems for monitoring and internal control of the company's operations and its financial position, and for the Group's organization and management pursuant to the Swedish Companies Act. The Board also appoints the President and CEO, the Audit Committee and Remuneration Committee,

as well as deciding on matters involving the salary and other remuneration of the President and CEO.

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

Evaluation of the Board's work

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

The evaluation is coordinated by the Chairman of the Board. In 2021, the Chairman conducted a written questionnaire-based survey of all Board members. The results of the evaluation have been reported and discussed by the Board and the Nomination Committee.

Board committees

The Board has established two committees from among its members: the Audit Committee and Remuneration Committee. The Board's Audit Committee, which is a preparatory function in the contact between the board and auditors, follows a written instruction and should through its operations meet the requirements of the Companies Act and the EU Audit Regulation.

The Audit Committee's tasks include, among other things, to assist the Nomination Committee in preparing the proposal of auditors and auditing fees to the General Shareholder Meeting, the Committee shall monitor so that the auditor's mandate does not exceed the applicable rules, procure audit services and submit a recommendation in

Work of the Board of Directors in 2021



accordance with the EU Audit Regulation. The Committee shall also review and monitor the auditor's impartiality and independence, and paying particular attention if the auditor provides the company with services other than auditing. The Committee shall also issue guidelines for services other than auditing provided by auditors and when appropriate to approve such services in accordance with the issued guidelines. The Committee shall participate in the planning of the audit work and related reporting and should regularly consult and discuss with the external auditors to keep informed about the direction and scope of the audit. The Committee shall also review and monitor the Group's financial statements, the work of the external auditors, the company's internal control system, the current risk profile and the company's financial information.

The committee's tasks also include making recommendations and suggestions to ensure the reliability of financial reporting as well as other issues the Board assigns the Committee to prepare. The Audit Committee shall meet regularly with HEXPOL's auditors and report back to the Board.

The committee has not, except as expressly stated in the Board's adopted written instructions for the Audit Committee, authority to make any decisions on behalf of the Board. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member shall possess accounting or auditing qualifications, and all the Committee members must be familiar with economic and financial issues. In 2021, the Audit Committee consisted of Gun Nilsson (Chairman), Malin Persson and Märta Schörling Andreen. During the period, the Audit Committee held four minuted meetings, each attended by all of the members.

The task of the Board's Remuneration Committee is to deal with matters involving remuneration guidelines, salaries, bonus payments, warrants, pensions and other forms of remuneration for Group Management. The Remuneration Committee may also address issues related to other management levels, should the Board decide in this respect, as well as other similar issues that the Board assigns the committee to prepare. The committee has no authority to

make decisions, but instead presents its findings and proposals to the Board for a decision. The Board appoints the members of HEXPOL's Remuneration Committee annually. During 2021, the Remuneration Committee consisted of Alf Göransson (Chairman) and Märta Schörling Andreen. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

Board activities in 2021

During the year, the Board held a total of eight Board meetings, one of which was the statutory meeting. At the meetings, HEXPOL's CEO reported on the market position and financial position as well as significant events that affected the company's operations. The Board has also, among other things, addressed questions related to investment, interim reports, the annual report, acquisitions and the auditors' report on the audit work.

In 2021, all of the Board members elected by the Annual General Meeting attended all Board Meetings.

Auditors

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

At the 2021 Annual General Meeting, authorized public accountants Joakim Falck and Karoline Tedevall, employees of Ernst & Young AB, were elected as the company's auditors for a term of one year extending until the end of the ensuing Annual General Meeting. The auditors for the subsequent term will be elected at the 2022 AGM.



Joakim Falck

Ernst & Young AB
Authorized Public Accountant and member of FAR

Born: 1972

Nationality: Swedish

Other assignments: Nolato AB, ITAB Shop
Concept AB, Xano Industri AB, Garo AB



Karoline Tedevall

Ernst & Young AB
Authorized Public Accountant and member of FAR

Born: 1978

Nationality: Swedish

Other assignments: Alfa Laval AB, Bona AB,
Oxe Marine AB

Internal audit

The Board shall according to the Code annually evaluate the need for a separate audit function (internal audit) to ensure that established principles for financial reporting and internal control are followed and that the company's financial statements are prepared in accordance with the law, applicable accounting standards and other requirements for listed companies. The Board have with regard to HEXPOL's work and procedures for internal control assessment that there is no need for a special review function. The issue of a special audit function will be reviewed again in 2022.

CEO and Group Management

The President and CEO is responsible for leading and controlling HEXPOL's operations pursuant to the Swedish Companies Act, other legislation and ordinances, applicable rules for listed companies, including the Code, the company's Articles of Association and the instructions and strategies established by the Board. The President and CEO shall ensure that the Board receives unbiased, detailed and relevant information required to enable the Board to make well-founded decisions. In addition, the President and CEO is responsible for keeping the Board informed of the company's development between Board meetings. The President and CEO has appointed a Group Management consisting of the CFO, the head of M&A and strategy and the company's business and product area managers.

Group Management has overriding responsibility for the Group's operations and the allocation of financial resources among business operations and for the financing and capital structure. Regular Group Management and Steering Committee meetings serve as the forum for the implementation of the Group Management's overall governance down to each business and product area, and, in turn, down to the subsidiary level. The organization is structured to facilitate short and prompt decision-making processes, with clear, decentralized responsibility. Group Management is presented on page 61, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.



Information on remunerations

Refer to Note 4 on page 71 for information on remuneration, pensions and other benefits for the Board, President and other senior executives.

Financial reporting

HEXPOL provides continuous market information concerning the company's progress and financial position.

HEXPOL aims to be open, factual and provide a high degree of service in terms of financial reporting in an effort to build market confidence in the company and enhance interest in the HEXPOL share among current and potential investors. HEXPOL has a communication policy, whose aims include ensuring that the Group fulfils the requirements concerning information disclosure to the stock market.

HEXPOL's financial and other communication activities must always comply with the EU Market Abuse Regulation, Nasdaq Stockholm Exchange's regulations, generally acceptable behaviour in the stock market and other relevant regulations and legal obligations to which HEXPOL may be subject. Communication activities shall also be designed to create a flow of uniform actions between the company, the employees and the business environment. The policy establishes the distribution of responsibility for information matters and stipulates who may represent the company as a spokesperson. The policy also includes procedures for interim reports, Annual Reports, Annual General Meetings, press releases, meetings with investors and the company's website. The company's prevailing communication policy is reviewed annually and is revised as needed.



Internal control of financial reporting

The internal control of financial reporting is part of the overall internal control within HEXPOL and is a central component of the Group's corporate governance. The most important objectives are for the internal control to be efficient and effective, to provide reliable reports and compliance with laws and regulations.

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

Control environment

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

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

correct, complete and delivered in time for consolidated financial reporting.

The Group's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board monitors the company's assessment of the internal control through the work conducted by the Audit Committee, for example. This work includes an on-going review of the matters deemed to affect financial management. The Board also maintains direct contacts with the company's auditors to safeguard the internal control.

Risk management

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

Control activities

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

Information and communication

To ensure the completeness and correctness of financial reporting, the Group has formulated information and

communication guidelines designed to ensure that relevant and significant information is exchanged within the business, in the particular unit and to and from management and the Board. Guidelines, handbooks and job descriptions pertaining to the financial process are communicated between management and personnel and are accessible electronically and/or in a printed format. Via the Audit Committee, the Board receives regular feedback in respect of the internal control process.

To ensure that the external communication of information is correct and complete, HEXPOL complies with a Board-approved communication policy that stipulates what may be communicated, by whom and in what manner.

Follow-up

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

Information including the following can be found on the company's website: www.hexpol.com

- Articles of Association
- Code of Conduct
- Previous years' Corporate Governance Reports, commencing 2008
- Previous years' Sustainability Reports
- Information from HEXPOL's Annual General Meetings, commencing 2008 (notices, minutes, CEO's speeches and communique)
- Information on details of Members of the Board, CEO and auditor
- Information on Nomination Committee and the company's instructions to the Nomination Committee
- Information on principles for remuneration of senior executives
- Remuneration Report
- Information in preparation for the 2022 Annual General Meeting

Board of Directors



Alf Göransson

Chairman

Elected: 2007

Born: 1957

Nationality: Swedish

Education: International B.Sc. (Econ.)

Other assignments: Chairman of the Board of Loomis AB, NCC AB and Axfast AB. Member of the Boards of Attendo AB, Sweco AB, Melker Schörling AB, Anticimex AB and Sandberg Development Group.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: No

Committee: Remuneration Committee

Own holding and holdings of related parties: 3,000 Class B shares



Malin Persson

Member

Elected: 2007

Born: 1968

Nationality: Swedish

Education: M. Sc. (Eng.)

Other assignments: Member of the Boards of e.g. Peab AB, Getinge AB and Ricardo AB.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: Yes

Committee: Audit Committee

Own holding and holdings of related parties: -



Jan-Anders E. Månson

Member

Elected: 2008

Born: 1952

Nationality: Swedish

Education: M. Sc. (Eng.) and PhD

Other assignments: Distinguished Professor at Purdue University. Co-Exec. Dir. Indiana Next Generation Manufacturing Competitiveness Center (INMAC), Exec. Dir. Ray Ewry Sports Engineering Center and member of the Board of Eelcee Ltd.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: Yes

Committee: -

Own holding and holdings of related parties: -



Märta Schörling Andreen

Member

Elected: 2014

Born: 1984

Nationality: Swedish

Education: B.Sc. (Econ.)

Other assignments: Member of the Boards of Melker Schörling AB, Hexagon AB, Absolent Group and AAK AB.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: No

Committees: Audit Committee and Remuneration Committee.

Own holding and holdings of related parties: 14,765,620 Class A shares and 70,783,430 Class B shares, through Melker Schörling AB.



Kerstin Lindell

Member

Elected: 2016

Born: 1967

Nationality: Swedish

Education: M. Sc. (Eng.), Tech. Lic., B.Sc. (Econ.)

Other assignments: Chairman of the Board of Bona AB and of the Chamber of Commerce and Industry of Southern Sweden. Member of the Boards of Peab AB and Inwido AB and honorary doctor Lund University.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: Yes

Committee: -

Own holding and holdings of related parties: 5,000 Class B shares



Gun Nilsson

Member

Elected: 2017

Born: 1955

Nationality: Swedish

Education: B.Sc. (Econ.)

Other assignments: Chairman of the Board of Hexagon AB. President of Melker Schörling AB and Member of the Boards of AAK AB, Bonnier Group AB, Einar Mattsson AB, Absolent air Care Group AB and the Swedish Corporate Governance Board.

Independent in relation to the company and management: Yes

Independent in relation to major shareholders: No

Committee: Audit Committee

Own holding and holdings of related parties: 5,000 Class B shares

Group Management



Peter Rosén

CFO, Deputy CEO and IR Manager

Year employed: 2019

Born: 1968

Nationality: Swedish

Education: B.Sc. (Econ.)

Other assignments: –

Own holding and holdings of related parties: 17,000 Class B shares



Georg Brunstam

President and CEO

Year employed: 2007

Born: 1957

Nationality: Swedish

Education: M. Sc. (Eng.)

Experience: More than 40 years of experience from international industrial companies. Among other positions, CEO of NOLATO AB and Business Area Manager and member of Group Management at Trelleborg AB.

Other assignments: Chairman of the Board of AAK AB and Member of the Boards of Nibe Industrier AB and GeBe Consulting AB.

Own holding and holdings of related parties: 655,000 Class B shares



Jan Wikström

President of HEXPOL Thermoplastic Compounding, HEXPOL Wheels and HEXPOL Gaskets and Seals

Year employed: 2008

Born: 1972

Nationality: Swedish

Education: M.Sc.

Other assignments: –

Own holding and holdings of related parties: 650,000 Class B shares



Ken Bloom

President of HEXPOL Compounding Americas

Year employed: 2020

Born: 1963

Nationality: American

Education: B.Sc. (Eng.) and MBA in finance.

Other assignments: –

Own holding and holdings of related parties: –



Ralph Wolkener

President of HEXPOL Compounding Europe/ASIA and President of HEXPOL TPE Compounding

Year employed: 1997

Born: 1971

Nationality: Belgian

Education: B.Sc. (Econ.)

Other assignments: –

Own holding and holdings of related parties: 40,000 Class B shares



Carsten Rüter

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

Year employed: 1997

Born: 1971

Nationality: German

Education: M. Sc. (Eng.)

Other assignments: –

Own holding and holdings of related parties: 50,000 Class B shares



Magnus Berglund

Senior Vice President, Strategy, M&A

Year employed: 2008

Born: 1971

Nationality: Swedish

Education: M.A. (Econ.) and B.Sc. (Eng.)

Other assignments: –

Own holding and holdings of related parties: 17,000 Class B shares

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Consolidated income statements

MSEK	Note	2021	2020
Sales	2	16,005	13,424
Costs of goods sold		-12,532	-10,496
Gross profit		3,473	2,928
Sales costs		-119	-272
Administration costs		-579	-632
Research and development costs		-111	-97
Other operating income		678	21
Other operating expenses		-268	-13
Operating profit	2, 3, 4, 5, 6, 9, 10, 11	3,074	1,935
Financial income	7	32	43
Financial expenses	7	-75	-123
Profit before tax		3,031	1,855
Tax	8	-673	-446
Profit after tax		2,358	1,409
of which, attributable to Parent Company's shareholders		2,358	1,409
Earnings per share, before and after dilution SEK		6.85	4.09

Consolidated statement of comprehensive income

MSEK	2021	2020
Profit after tax	2,358	1,409
Items that will not be re-classified to the income statement		
Re-measurement of defined benefit pension plans	1	0
Income tax relating to items that will not be re-classified to the Income Statement	-	-
	1	0
Items that may be re-classified to the income statement		
Translation difference	950	-1,261
	950	-1,261
Other comprehensive income after tax	951	-1,261
Total comprehensive income	3,309	148
of which, attributable to Parent Company's shareholders	3,309	148

Consolidated balance sheets

MSEK	Note	2021	2020
ASSETS			
Fixed assets			
Goodwill and intangible fixed assets	9	9,724	8,502
Tangible fixed assets and right-of-use assets	10, 11	2,430	2,261
Financial fixed assets	21	3	3
Deferred tax assets	8	79	51
Total fixed assets		12,236	10,817
Current assets			
Inventories	12	1,739	1,094
Accounts receivable	13, 21	2,401	1,744
Current tax receivables		145	138
Other current receivables		67	41
Prepaid expenses and accrued income		55	39
Cash and cash equivalents	21	1,320	1,200
Total current assets		5,727	4,256
TOTAL ASSETS		17,963	15,073
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
New share issue in progress		-	0
Other capital contributions		619	619
Reserves		1,547	596
Profit brought forward including profit for the year		9,415	7,849
Total equity attributable to parent company's shareholders	14	11,650	9,133
Attributable to non-controlling interests		0	0
Total shareholders' equity		11,650	9,133
Non-current liabilities			
Interest-bearing liabilities	15, 21	301	2,699
Other liabilities	21	58	38
Deferred tax liabilities	8	602	521
Pension provisions	16	66	64
Total non-current liabilities		1,027	3,322
Current liabilities			
Interest-bearing current liabilities	15, 21	1,921	97
Accounts payable	21	2,431	1,796
Current tax liabilities		267	153
Other current liabilities	21	67	68
Other provisions	17	7	64
Accrued expenses and prepaid revenues	18, 21	593	440
Total current liabilities		5,286	2,618
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		17,963	15,073

Consolidated changes in shareholders' equity

MSEK	Attributable to Parent Company's shareholders					Profit brought forward including profit of the year	Total
	Share capital	New share issue in progress	Other capital contributions	Reserves			
31 December 2019	69	-	598	1,857	7,232	9,756	
2020							
Total comprehensive income							
Profit after tax	-	-	-	-	1,409	1,409	
Other comprehensive income	-	-	-	-1,261	-	-1,261	
Total comprehensive income	-	-	-	-1,261	1,409	148	
Transactions with shareholders							
New share issue in progress	-	0	21	-	-	21	
Dividend	-	-	-	-	-792	-792	
31 December 2020	69	0	619	596	7,849	9,133	
2021							
Total comprehensive income							
Profit after tax	-	-	-	-	2,358	2,358	
Other comprehensive income	-	-	-	951	-	951	
Total comprehensive income	-	-	-	951	2,358	3,309	
Transactions with shareholders							
New share issue	0	-0	-	-	-	-	
Dividend	-	-	-	-	-792	-792	
31 December 2021	69	-	619	1,547	9,415	11,650	

Consolidated Cash Flow statements

MSEK	Note	2021	2020
Cash flow from operating activities	20		
Operating profit		3,074	1,935
Adjustment for non-cash items		471	451
Net financial items		-50	-40
Tax paid		-579	-385
Cash flow from operations before changes in working capital		2,916	1,961
Cash flow from changes in working capital			
Changes in operating receivables		-855	273
Changes in operating liabilities		345	142
Cash flow from operations		2,406	2,376
Investing operations			
Investments in tangible fixed assets		-293	-239
Sales of tangible fixed assets		0	0
Investments in intangible fixed assets		-11	-14
Acquisitions of operations	22	-558	-412
Cash flow from investing activities		-862	-665
Financing activities	20		
Loans raised		1,953	2,016
Amortization of liabilities		-2,435	-3,125
Amortization of lease liabilities		-92	-98
New share issue in progress		-	21
Dividend		-792	-792
Cash flow from financing activities		-1,366	-1,978
Cash flow for the year		178	-267
Cash and cash equivalents, 1 January		1,200	1,624
Exchange-rate differences in cash and cash equivalents		-58	-157
Cash and cash equivalents, 31 December		1,320	1,200

Operating cash flow, Group

MSEK	2021	2020
Operating profit	3,074	1,935
Depreciation/amortization/impairment	471	440
Other items not affecting cash flow	-	11
Change in working capital	-510	415
Sales of tangible fixed assets	0	0
Investments	-304	-253
Operating cash flow	2,731	2,548

Note 1 Accounting principles

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

The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 69. The applied accounting policies correspond to those applied in the preceding year with the exception of the new IFRS applied commencing 1 January 2021. None of the amendments and interpretations of existing standards be applied as of financial years commencing 1 January 2021 had any effect on the consolidated or Parent Company's financial statements.

New standards 2021

The IBOR reform – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise in connection with the reference interest rate reform, including replacing one reference interest rate with another. The Phase 2 changes provide the following practical solutions: When changing the basis for determining the contractual cash flows for financial assets and liabilities (including lease liabilities), the practical solutions have the effect that the changes that are necessary as a direct consequence of a reference interest rate reform and are considered economically equivalent to the previous basis, will not result in an immediate gain or loss being recognized in the income statement. The relief provisions for hedge accounting will allow most IAS 39 or IFRS 9 hedging relationships that are directly affected by the IBOR reform to continue being reported. The amendment took effect on 1 January 2021.

IFRS 16 Leases – supplement to the standard regarding rent reductions as a consequence of Covid-19. The relief rule entails lessees not having to determine whether a rent reduction as a consequence of Covid-19 entails a modification of the existing agreement or not. As a result, the rent reduction can be reported directly in profit or loss. The supplement is applied from 1 June 2020 and has been extended to 30 June 2022.

IFRS 3 Business Combinations – minor changes were made to update the references to the performance framework and add an exception for reporting liabilities and contingent liabilities within the framework of IAS 37 and IFRIC 21. The amendments confirm that contingent assets will not be reported at the time of acquisition. The amendment took effect on 1 January 2022.

IAS 37 Provisions, Contingent Obligations and Contingent Assets – the amendment clarifies that the direct costs of fulfilling a contract include both the additional costs of fulfilling its obligations and a breakdown of other costs that are directly attributable to fulfilling a contract. The amendment took effect on 1 January 2022.

New and amended IFRS yet to come into effect – None of the new standards, amended standards or IFRIC interpretations that have been published are expected to have any impact on the consolidated or Parent Company's financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

The Parent Company and the other companies over which the Parent Company has a direct or indirect controlling influence are included in the consolidated financial statements. Subsidiaries are included in the consolidated financial statements as of the day upon which controlling influence is attained and divested companies up to the time when a controlling interest over them ceases. The consolidated financial statements have been prepared in accordance with the cost method, with the exception of certain financial instruments that have been measured at fair value.

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

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

TRANSLATION OF FOREIGN CURRENCIES

Functional currency and reporting currency

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

Transactions and balance-sheet items

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

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

SUBSIDIARIES

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

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

ASSOCIATED COMPANIES

The equity method is applied for one minor associated company.

SEGMENT REPORTING

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

Included in the segments' earnings, assets and liabilities are directly attributable items as well as items that can be allocated to the segments in a reasonable and reliable manner. Segment reporting for the operating segments comprises earnings up to operating revenues, and capital employed. Items in the Income Statement that are not allocated comprise financial income and financial expenses, and tax expenses. Assets and liabilities that have not been allocated to the segments are tax assets and tax liabilities and financial assets and financial liabilities. Internal billings between business areas occur at market value. In the presentation of the Group's geographical markets, the operations have been subdivided into the Group's key geographical markets, which are Sweden, Europe, the Americas and Asia. Sales are recognized according to customer location, while assets are recognized according to the actual physical location of these assets.

OTHER CLASSIFICATIONS

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

REVENUE RECOGNITION

The Group's agreements with customers include only one kind of performance commitment, sales of goods. Revenue from sales of goods is recognized when the performance commitment is fulfilled, which occurs at a particular point in time. The agreements have short periods of validity. Sales are reported excluding VAT and at the transaction price determined in accordance with the customer agreement. The agreements include information on pricing, volume discounts, payment terms and delivery terms. The transfer of control of the goods to the customer occurs in accordance with the delivery terms in the various agreements. A customer may choose to collect the goods from the company or to have the goods delivered. The proceeds from the sale are recognized at a particular point in time, when the goods have been delivered to the customer or collected by the customer. Variable compensation may be payable to customers under retroactive volume discounts, for which provisions are applied under accrued expenses in the balance sheet, based on their anticipated value. Normally, neither accrued nor prepaid revenues are reported, that is, no contract balances are recognized – only accounts receivable following delivery. Normal payment terms are applied, meaning there no financing components are included in the agreements. The Group has no commitments in the form of returns.



RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalized as follows: Capitalization of development expenditures in the Group occurs only in exceptional cases and is only applied to new products where significant development expenditures are involved, where the products have a probable earnings potential that could accrue to the Group and the costs are clearly distinguishable from ongoing product development expenditure. Capitalized development expenditures are amortized according to the useful life of the assets.

INCOME TAX

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

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

Deferred taxes comprise: Tax on temporary differences arising between the value of assets and liabilities for tax purposes and their carrying amount in the consolidated financial statements, deductible loss carry-forwards and other tax deductions. Deferred tax is also recognized for transactions included in other comprehensive income and shareholders' equity. Deferred tax is calculated applying tax rates that have been decided or announced on the balance-sheet date. Temporary differences on shares in subsidiaries are not recognized because it is not probable that these will be utilized in the foreseeable future. Deferred tax assets are recognized insofar as it is probable that future taxable surpluses will be available to offset them against.

LEASING

Right-of-use assets and lease liabilities are reported in the balance sheet. HEXPOL applies the relief rules regarding short-term leases with a maturity of 12 months or less and leases where the underlying asset has a value of less than SEK 50,000. Expenses incurred in connection with these leases are reported on a straight-line basis over the lease period as operating expenses in profit or loss.

Lease liabilities

Lease liabilities are initially valued at the present value of the lease fees that were not paid on the commencement date. These lease liabilities are recognized in the items interest-bearing liabilities and interest-bearing current liabilities in the balance sheet.

The term of the lease is determined as the non-cancellable period plus with periods in which the agreement can be extended or terminated early if HEXPOL is reasonably certain that it will exercise such options. When determining the length of the lease, all available information and circumstances indicating a financial value for exercising an extension option or not exercising an option to terminate the lease are taken into account. Options to extend or terminate the lease relate primarily to the Group's leases on buildings.

The lease payments include fixed payments (following deductions for any benefits in connection with the signing of the lease), variable lease fees dependent on an index or price, and amounts that are expected to be paid under residual value guarantees. In addition, the lease payments include the exercise price of any option to purchase the underlying asset or penalty fees payable upon termination if HEXPOL is reasonably certain that it will exercise these options. Variable lease fees not dependent on an index or price are expensed in the period to which they are attributable.

In the event that the implicit interest rate cannot easily be determined from the agreement, the marginal loan rate is applied in the present value calculation of lease payments. The marginal loan rate is determined by using the 12-month STIBOR model for each currency with a premium corresponding to the Group's external loan margins. HEXPOL has chosen not to divide the interest rate into different asset classes as this is not material. Following the commencement date of a lease, the lease liability increases to reflect the interest rate on the lease liability and decreases as lease payments are disbursed. In addition, the lease liability is reassessed as a result of agreement modifications, changes in the estimate of the lease term, changes in lease payments or changes in the assessment of whether to acquire the underlying asset or not.

Right-of-use assets

HEXPOL recognizes right-of-use assets in the balance sheet from the commencement date of the lease. The right-of-use assets are reported under the item tangible fixed assets in the balance sheet.

Right-of-use assets are valued at cost less deductions for accumulated depreciation and any impairment, and adjusted for revaluations of the lease liabilities. Cost includes the initial value of the attributable lease liability, direct expenses, any advance payments made on or before the commencement date of the lease after deduction of any incentives received, and an estimate of any restoration costs.

Provided that HEXPOL is not reasonably certain that it will assume ownership of the underlying asset at the end of the lease, the right-of-use asset will be written off on a straight-line basis over the term of the lease or the useful life of the underlying asset, whichever is shorter.

GOODWILL

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

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

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

DEPRECIATION/AMORTIZATION

Depreciation/amortization is performed on a straight-line basis across the useful life of the asset based on the depreciable/amortizable amount (cost less estimated residual value) and is based on the useful life of the asset. At a minimum, the useful life and residual value of the assets are revised at the end of each financial year.

The following useful lives are applied:

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

DEPRECIATION OF COMPONENTS

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

IMPAIRMENT LOSSES

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

Financial instruments that are recognized in the Balance Sheet include cash and cash equivalents, accounts receivable, other financial receivables, accounts payable, interest-bearing liabilities and other financial liabilities. A financial asset or financial liability is recognized from the Balance Sheet when all benefits and risks associated with ownership have been transferred. Financial assets and liabilities are recognized in, and deducted from, the Balance Sheet applying settlement-date accounting.

Classification of financial instruments

Financial instruments are classified in the following categories: Financial assets and financial liabilities measured at fair value through profit or loss, and financial assets and financial liabilities measured at amortized cost.

The classification is based on the company's business model and the nature of the instrument.



Calculation of fair value

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

Financial assets and liabilities valued at amortized cost

Financial assets and liabilities are initially measured at fair value plus transaction costs and, subsequently, at amortized cost, less any provisions for impairment. Receivables are initially recognized at fair value and subsequently at amortized cost applying the effective interest method, less any provision for expected and incurred loan losses. Provisions for expected loan losses are applied in accordance with the simplified method, meaning that expected loan losses are reserved for the remaining maturity. Impairment of accounts receivables are reported in operating expenses. Financial liabilities are measured at amortized cost, applying the effective interest method.

Interest income

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

Cash and cash equivalents

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

HEDGE ACCOUNTING

Hedge accounting is applied if the hedging actions taken have the stated objective of constituting a hedge, have a direct correlation to the hedged item and effectively hedge the item. An effective hedge generates financial effects that offset those that arise through the hedged position. When hedging fair value, the change in the fair value of the hedging instrument is recognized in profit or loss together with the change in the value of the liability or asset to which the risk hedging applies. The value of the net assets of foreign subsidiaries, including goodwill and other adjustments of fair value, is partly hedged through foreign-currency loans. These loans are recognized at the exchange rate prevailing on the balance-sheet date and the exchange rate differences on the loans are recognized in other comprehensive income.

Cash flow hedges

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

PENSION AND SIMILAR COMMITMENTS

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

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

Actuarial gains and losses are recognized in other comprehensive income. Defined-benefit plans are items for which the insurer (Alecta in Sweden) cannot specify the Group's share of the total plan assets and, pending this information becoming available, pension obligations are recognized as defined contribution plans. At 31 December 2021, Alecta's surplus in the form of the collective consolidation level was, preliminarily, 172 percent (148).

PROVISIONS

The Group recognizes provisions when the Group has a legal or informal undertaking as a result of the occurrence of an event and it is likely that an outflow of resources will be required to settle the undertaking and a reliable estimate can be made of the amount. A provision for restructuring is recognized when a detailed formal action plan has been established and expectations have been created among those who will be affected by the actions.

RELATED-PARTY TRANSACTIONS

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

IMPORTANT ASSESSMENTS AND ASSUMPTIONS

The Board of Directors makes accounting estimates and assumptions that affect the application of the accounting policies and the recognized figures for assets, liabilities, revenues and expenses. These estimates are based on historical experience and on various assumptions considered reasonable under the prevailing conditions. The actual outcome could deviate from these accounting estimates. The areas including such assessments and assumptions and that could have a material impact on consolidated profit and the Group's financial position include assessments of the present value of forecast cash flows when testing possible impairment of goodwill (Note 9), shares in subsidiaries (Note 33), assessments of assets and liabilities identified in connection with acquisitions (Note 22).

ACCOUNTING POLICIES IN THE PARENT COMPANY

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

- In the Parent Company, in accordance with RFR 2, Group contributions received are recognized as financial income, in accordance with the main rule.
- In the Parent Company, shares in Group companies are recognized at cost before any impairment. Impairment testing is carried out when there are indications of impairment, that is, when there are indications that the book value exceeds the recoverable amount. The recoverable amount corresponds to fair value or value in use, whichever is highest.
- In the Parent Company, financial assets and liabilities are initially reported at fair value plus transaction costs and subsequently at amortized cost. The Parent Company applies IFRS9, but since all accounts receivable are intra-group, credit risk is limited.

The Parent Company continues to apply the exemption included for legal entities in RFR 2 and expenses all leases on a straight-line basis over the term of the lease. Accordingly, right-of-use assets and lease liabilities are not included in the Parent Company's balance sheet. However, leases are identified in the same way as in the Group, that is, an agreement is, or contains, a lease if the agreement assigns the right to determine the use of an identified asset for a certain period in exchange for compensation.

Note 2 Segment reporting

Information about operating segments

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

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

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

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Eliminations		Group	
	2021	2020	2021	2020	2021	2020	2021	2020
Sales, external	14,888	12,446	1,117	978	-	-	16,005	13,424
Sales, internal	425	359	106	109	-531	-468	-	-
Operating profit	2,878	1,791	196	144	-	-	3,074	1,935
Operating margin, %	19.3	14.4	17.5	14.7	-	-	19.2	14.4
Net financial items							-43	-80
Tax							-673	-446
Profit of the year							2,358	1,409
Operating assets	15,835	13,241	570	440	-	-	16,405	13,681
Unallocated assets	-	-	-	-	-	-	1,558	1,392
Group Total	15,835	13,241	570	440			17,963	15,073
Operating liabilities	2,888	2,215	179	113	-	-	3,067	2,328
Unallocated liabilities	-	-	-	-	-	-	3,246	3,612
Group Total	2,888	2,215	179	113	-	-	6,313	5,940
Investments	269	233	35	20	-	-	304	253
Depreciation/amortization/impairment	446	409	25	31	-	-	471	440

Items affecting comparability in 2021 in the income statement are mainly attributable to the fire that broke out in Jonesborough, TN, in the US on 7 January 2021. The income in the same period is the insurance compensation for the fire, which was disbursed in October. In addition to the cost of the fire, costs for restructuring the UK operations are included. The costs in 2020 refer to restructuring costs.

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group		
	2021	2020	2021	2020	2021	2020	
NON-RECURRING ITEMS							
Costs of goods sold		-31	-17	-	-3	-31	-20
Sales and administration costs		-	-56	-	-	-	-56
Other operating income		628	0	-	-	628	-
Other operating expenses		-260	0	-	-	-260	-
Operating profit		337	-73	-	-3	337	-76
Tax						-78	17
Profit of the year						259	-59

MSEK	Sales per recipient country		Fixed assets		MSEK	HEXPOL Compounding		HEXPOL Engineered Products		
	2021	2020	2021	2020		2021	2020	2021	2020	
Geographic region										
Sweden	404	363	323	313	Sales per geographic market and business area					
Europe, excl. Sweden	5,930	4,495	4,872	4,012		Europe	5,788	4,383	546	475
USA	7,003	6,207	6,677	6,118		Americas	8,507	7,572	304	274
Americas, excl. USA	1,808	1,639	81	112		Asia	593	491	267	229
Asia	860	720	283	262		Total	14,888	12,446	1,117	978
Total	16,005	13,424	12,236	10,817						

Note 3 Related-party transactions

Transactions between Group companies are conducted on market-based terms. In 2021, the Group purchased energy for 19 MSEK (13) from the associated company, Megufo AB, in Sweden.

On 31 December 2021, the Group had a liability of 6 MSEK (3) to this associated company.

See also Note 4.

Note 4 Employees and personnel expenses

MSEK	2021	2020
Costs for remuneration of employees		
Salaries and remuneration, etc.	1,763	1,701
Total	1,763	1,701
Pension costs	45	53
Social-security costs	265	240
Total	310	293

	2021		2020		MSEK	2021	2020
Average number of employees	of whom, men		of whom, men		Personnel costs per country		
Sweden	313	68%	330	68%	Sweden	294	291
Belgium	51	86%	50	84%	Belgium	37	41
Czech Republic	227	89%	223	89%	Czech Republic	78	74
Germany	225	89%	220	89%	Germany	126	118
Mexico	396	90%	414	87%	Mexico	79	78
Luxembourg	6	67%	6	50%	Luxembourg	37	26
USA	1,491	88%	1,614	90%	USA	990	1,019
China	353	67%	312	64%	China	65	52
Sri Lanka	971	92%	948	93%	Sri Lanka	52	52
UK	263	90%	268	89%	UK	115	103
Spain	196	87%	88	90%	Spain	104	48
Italy	167	80%	156	80%	Italy	90	87
Turkey	11	73%	11	64%	Turkey	2	2
Poland	18	61%	17	59%	Poland	4	3
Total	4,688	86%	4,657	86%	Total	2,073	1,994

KSEK	Board fee		Committee fee		Total	
	2021	2020	2021	2020	2021	2020
Remuneration of the Board of Directors						
Georg Brunstam, Chairman ¹	-	11,048	-	13	-	11,061
Alf Göransson ²	967	447	133	11	1,100	458
Kerstin Lindell	397	390	-	-	397	390
Jan-Anders E. Månson	397	390	-	-	397	390
Malin Persson	397	390	125	125	522	515
Märta Schörling Andreen	397	390	175	175	572	565
Gun Nilsson	397	390	250	250	647	640
Total	2,952	13,445	683	574	3,635	14,019

¹ Georg Brunstam was the Chairman of the Board until the Extraordinary General Meeting on 20 November 2020. From and including 17 February 2020, Georg Brunstam was the Acting Chairman of the Board. Of the total for 2020, 138 KSEK pertains to ordinary Board fees and 10,923 KSEK to remuneration as Acting Chairman of the Board, divided between salary (7,137 KSEK), variable remuneration (1,500 KSEK) and pension (2,286 KSEK).

² Alf Göransson took over as Chairman of the Board at the Extraordinary General Meeting on 20 November 2020.

KSEK	Basic salary		Variable salary		Non-recurring items		Pension cost		Car, housing and other benefits		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Remuneration of senior executives												
Mikael Fryklund ³	-	1,145	-	3,525	-	24,954	-	416	-	16	-	30,056
Georg Brunstam ⁴	12,300	1,333	15,990	240	-	-	5,538	306	618	27	34,446	1,906
Peter Rosén ⁵	3,900	3,404	4,290	614	-	-	1,076	919	251	148	9,517	5,085
Other members of Group management, 5 (6) persons	24,330	22,655	25,483	11,489	-	-	1,990	1,792	1,287	1,132	53,090	37,068
Total	40,530	28,537	45,763	15,868	-	24,954	8,604	3,433	2,156	1,323	97,053	74,115

³ CEO until and including 16 February 2020. Non-recurring costs include salary (19,723 KSEK) and pension (5,231 KSEK) during the period of notice.

⁴ Acting Chairman of the Board from and including 17 February 2020 and up to and including 19 November 2020 and CEO from and including 20 November 2020.

⁵ Acting CEO from and including 17 February 2020 and up to and including 19 November 2020 and Deputy CEO from and including 20 November 2020.



Principles of remuneration of the Board of Directors and senior executives

Remuneration is paid to the Board in accordance with the resolution of the Annual General Meeting.

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

Between the company and the President, the President is entitled to employment termination notice of six months. On notice of termination by the company, a notice period of 24 months shall apply. For other senior executives, the period of notice is six months and from the company the norm is 12 months. There are no agreements concerning severance pay. For information of incentive programme, see Note 14.

Note 5 Fees and cost remuneration paid to auditors

MSEK	2021	2020
EY		
Audit assignment	11	11
Audit activities in addition to audit	1	1
Tax consultancy	1	1
Other services	0	0
Total	13	13

Note 6 Expenses broken down by cost of nature

MSEK	2021	2020
Employee benefits expenses	2,073	1,994
Depreciation/amortization/impairment	471	440
Input costs, other external expenses	10,797	9,063
Other operating expenses	268	13
Total	13,609	11,510

No development expenditures were capitalized in 2021 or 2020.

Note 7 Financial income and expenses

MSEK	2021	2020
Assets and liabilities valued at amortized cost		
Interest income from accounts receivable	0	0
Interest income other financial assets	2	3
Total interest income according to the effective-interest-rate method	2	3
Other financial income		
Exchange rate differences on financial items	30	40
Total	30	40
Total financial income	32	43
Assets and liabilities valued at amortized cost		
Interest expense liabilities to credit institutions and commercial papers	-31	-41
Interest expenses and other financial liabilities	0	0
Total interest expense according to the effective-interest-rate method	-31	-41
Other financial expenses		
Expected credit losses on financial assets	0	0
Interest expense lease liabilities	-12	-15
Exchange rate differences on financial items	-25	-41
Other	-7	-26
Total	-44	-82
Total financial expenses	-75	-123
Net financial items	-43	-80

Note 8 Taxes

MSEK	2021	2020
Current tax expense		
Tax expense on profit for the year	-682	-460
Total	-682	-460
Deferred tax expense		
Deferred tax pertaining to temporary differences	9	14
Utilized/revaluation of loss carry forwards	0	0
Total	9	14
Total reported tax expense	-673	-446

As of 31 December 2021, the Group had loss carry forwards of 0 MSEK (1) that had not been capitalized due to uncertainty concerning their value for tax purposes. Of these, 0 MSEK (0) expires within five years.

MSEK	2021	%	2020	%
Reconciliation of effective tax				
Profit before tax	3,031		1,855	
Tax according to current tax rate for the Parent Company	-624	-21	-397	-21
Effect of other tax rates for foreign subsidiaries	-41	-1	-43	-2
Non-deductible expenses	-14	0	-13	-1
Non-taxable revenues	11	0	9	0
Deductible goodwill amortization	3	0	4	0
Revaluation of tax-loss carry forwards/temporary differences	0	0	0	0
Tax attributable to prior years	-8	0	-6	0
Total reported tax expense	-673	-22	-446	-24

MSEK	Opening balance		Recognized in profit/loss		Acquisitions		Recognized directly in comprehensive income		Translation differences		Closing balance	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Deferred tax receivables/tax liabilities												
Intangible assets	-372	-394	-10	-16	-21	-	-	-	-33	38	-436	-372
Tangible assets	-134	-155	-5	11	-	-	-	-	-6	10	-145	-134
Current assets	16	13	4	3	-	-	-	-	4	0	24	16
Operating liabilities	19	3	20	16	-	-	-	-	-5	0	34	19
Loss carry forwards	0	3	0	0	-	-	-	-	0	-3	0	0
Liabilities	1	2	0	0	-	-	-	-	-1	-1	0	1
Total	-470	-528	9	14	-21	-	-	-	-41	44	-523	-470

Note 9 Intangible fixed assets

MSEK	Goodwill		Other intangible assets		Total	
	2021	2020	2021	2020	2021	2020
Accumulated acquisition value						
Opening balance, 1 January	7,929	8,734	898	982	8,827	9,716
Acquisitions	525	-	101	-	626	-
Investments	-	-	11	14	11	14
Reclassification	7	15	-7	-15	0	0
Translation difference	634	-820	58	-83	692	-903
Closing balance, 31 December	9,095	7,929	1,061	898	10,156	8,827
Accumulated depreciation						
Opening balance, 1 January	-2	-11	-323	-276	-325	-287
Depreciation according to plan for the year	-	-	-75	-77	-75	-77
Reclassification	-	1	-	-1	-	0
Translation difference	-6	8	-26	31	-32	39
Closing balance, 31 December	-8	-2	-424	-323	-432	-325
Carrying amount, 31 December	9,087	7,927	637	575	9,724	8,502
MSEK					2021	2020
Goodwill distributed by operating segment						
HEXPOL Compounding					9,059	7,901
HEXPOL Engineered Products					28	26
Closing balance, 31 December					9,087	7,927

Other intangible assets pertain mainly to acquired customer relations and remaining amortization period is between 4 and 12 years. Other intangible assets do not include any significant amounts in respect of capitalized development costs.

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

When calculating the present value of future cash flows, a cost of capital (WACC) of 9.6 percent before tax (9.2) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on the budget for 2022 approved by the Board of Directors and the strategy plan for the period 2023–2024, followed by annual growth levelling out at 2 percent (2). The most important estimates involve sales growth and development of operating margin, and are based on experience and current information on the market development. According to calculations, there is no impairment requirement. A sensitivity analysis shows that a 50-percent decrease in sustainable growth, an increase in WACC by 2 percentage points and a decline in sustainable profitability (operating profit before, depreciation, amortization and impairment) by 2 percentage points would still not result in the need for impairment in any operating segment.

Note 10 Tangible fixed assets and leasing

MSEK	Land and buildings		Machinery and equipment		Total	
	2021	2020	2021	2020	2021	2020
Tangible fixed assets						
Accumulated acquisition value						
Opening balance, 1 January	1,208	1,289	4,524	4,862	5,732	6,151
Acquisitions	20	-	67	-	87	-
Investments	6	16	246	187	252	203
Divestments, disposals	-2	-1	-43	-38	-45	-39
Reclassification	4	12	-4	-12	0	0
Translation difference	86	-108	367	-475	453	-583
Closing balance, 31 December	1,322	1,208	5,157	4,524	6,479	5,732
Accumulated depreciation						
Opening balance, 1 January	-545	-551	-3,209	-3,334	-3,754	-3,885
Depreciation according to plan for the year	-40	-43	-187	-239	-227	-282
Divestments, disposals	0	1	44	28	44	29
Reclassification	0	0	0	0	0	0
Translation difference	-40	48	-266	336	-306	384
Closing balance, 31 December	-625	-545	-3,618	-3,209	-4,243	-3,754
Accumulated impairment						
Opening balance, 1 January	-17	-19	-38	-42	-55	-61
Impairment ¹	-18	0	-69	0	-87	0
Translation difference	-1	2	-5	4	-6	6
Closing balance, 31 December	-36	-17	-112	-38	-148	-55
Carrying amount, tangible fixed assets	661	646	1,427	1,277	2,088	1,923
Leased assets ²	302	284	40	54	342	338
Book value	963	930	1,467	1,331	2,430	2,261

¹ This includes scrapping/impairment following the Jonesborough fire

² For further information on leased assets, see also Note 11.

MSEK	2021	2020
Distribution of depreciation/amortization/impairment of tangible, intangible and right-of-use assets for the year		
Costs of goods sold	437	406
Selling costs	3	3
Administration costs	27	28
Product development costs	4	3
Total	471	440

Note 11 Right-of-use assets

HEXPOL distribute its leasing agreements into the following categories of right-of-use assets: premises, production and office equipment and vehicles. The following table present the closing balance of the right-of-use assets and lease liabilities and changes during the year:

MSEK	Right-of-use assets			Lease liability
	Land and buildings	Machinery and equipment	Total	
Opening balance, 1 January 2020	351	76	427	441
Additional agreements	12	24	36	36
Depreciation of right-of-use assets	-51	-30	-81	-
Terminated agreements	1	-11	-10	-5
Revaluation of agreements	0	0	0	10
Translation difference	-29	-5	-34	-40
Interest expense lease liabilities	-	-	-	15
Lease fees	-	-	-	-98
Closing balance, 31 December 2020	284	54	338	359
Additional agreements	24	17	41	63
Agreements added through acquisitions	28	2	30	30
Depreciation of right-of-use assets	-52	-30	-82	-
Terminated agreements	0	-5	-5	-5
Revaluation of agreements	0	0	0	0
Translation difference	17	3	20	28
Interest expense lease liabilities	-	-	-	12
Lease fees	-	-	-	-92
Closing balance, 31 December 2021	301	41	342	395

The amount that are attributable to leasing activities and are recognized in profit or loss during the year are presented below.

MSEK	2021	2020
Depreciation of right-of-use assets	-82	-81
Interest expense lease liabilities	-12	-15
Expenses relating to short-term lease agreements	0	0
Expenses relating to agreements where the underlying asset is of low value	0	0
Expenses for variable lease fees	0	0
Result of ended agreements	0	1
Total expenses related to leasing activities	-94	-95

HEXPOL recognizes cash outflow attributable to leasing agreements amounting to 92 MSEK (98) for the 2021 financial year. For a term analysis of the Group's lease liabilities, see Note 20.

Note 12 Inventories

MSEK	2021	2020
Raw materials	1,300	733
Goods in production	70	52
Finished goods	369	309
Total	1,739	1,094

No significant impairments were recognized in 2021 and 2020.

Note 13 Accounts receivable

MSEK	2021	2020	MSEK	2021	2020
Age distribution of accounts receivable			Provisions for bad debt losses		
Not due	2,177	1,597	Opening balance	-53	-29
Past due, 1–30 days	201	136	Provision for the year	-1	-33
Past due, 31–60 days	20	10	Actual losses	2	1
Past due, more than 60 days	3	1	Reversal	17	1
Accounts receivable	2,401	1,744	Translation differences	-4	7
			Closing balance	-39	-53

MSEK	Not past due	Past due, 1–30 days	Past due, 31–60 days	Past due, more than 60 days	Total
31 December 2020					
Reported amount of accounts receivable – gross	1,600	142	14	41	1,797
Credit loss reserves	-3	-6	-4	-40	-53
Closing balance	1,597	136	10	1	1,744

MSEK	Not past due	Past due, 1–30 days	Past due, 31–60 days	Past due, more than 60 days	Total
31 December 2021					
Reported amount of accounts receivable – gross	2,178	204	26	32	2,440
Credit loss reserves	-1	-3	-6	-29	-39
Closing balance	2,177	201	20	3	2,401

Note 14 Shareholders' equity

	Class A shares		Class B shares		Total	
	2021	2020	2021	2020	2021	2020
Changes in the number of shares						
Opening balance, 1 January	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280
New share issue	-	-	235,566	-	235,566	-
Closing balance, 31 December	14,765,620	14,765,620	329,671,226	329,435,660	344,436,846	344,201,280

	2021	2020	Class A shares	Class B shares	Total
Average number of shares	344,436,846	344,201,280			
Number of votes			147,656,200	329,671,226	477,327,426

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

The Annual General Meeting in April 2016, resolved to implement an incentive programme (2016/2020) for senior executives and key employees through a directed issue of maximum 2,100,000 subscription warrants. During 2016, 1,408,000 subscription warrants were subscribed for by 39 senior executives and key employees. The issue rate was SEK 9 per subscription warrant with each warrant conveying the right to subscribe for 1.01 new Class B shares at subscription rate SEK 88.70, adjusted for special dividend in May 2017 according to the warrant terms. In 2017, 225,000 warrants were subscribed for by 1 senior executive at an option premium of SEK 9 per warrant and with each warrant conveying the right to subscribe for one Class B share at a subscription rate of SEK 88.70. The warrants conveyed the right to subscribe for shares during the period 1 June 2019 – 31 December 2020, the programme has now been concluded. In December 2020, 235,566 new shares were subscribed for within the framework of the 2016/2020 incentive programme. These new shares are reported as an ongoing new issue as of 31 December 2020. The new shares were registered in January 2021.

Note 15 Interest-bearing liabilities

MSEK	2021	2020
Non-current liabilities		
Interest-bearing liabilities in addition to leasing	1	2,428
Liabilities, leasing	300	271
Non-current liabilities	301	2,699
Current liabilities		
Interest-bearing liabilities in addition to leasing	1,826	9
Liabilities, leasing	95	88
Current liabilities	1,921	97

MSEK	Utilized		Un-utilized	
	2021	2020	2021	2020
Bilateral loan, 125 MUSD	-	650	555	374
Bilateral loan, 1,500 MSEK	-	990	875	510
Bilateral loan, 1,500 MSEK	-	-	1,500	-
Bilateral loan, 2,000 MSEK	-	770	1,375	1,230
Total non-current liabilities	1	18	-	-
Liabilities, leasing	300	271	-	-
Total non-current liabilities	301	2,699		
Bilateral loan, 1,500 MSEK	-	-	-	1,500
Commercial papers*	1,825	-	-	-
Other current liabilities	1	9	-	-
Liabilities, leasing	95	88	-	-
Total current liabilities	1,921	97		

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

- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2022.
- A three-year credit agreement with a limit of 2,000 MSEK that will fall due in July 2022.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in September 2023.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in June 2024.

Following the end of 2021, the credit agreement falling due in February 2022 was replaced with a new credit agreement of a corresponding size.

For loan agreements with an option to extend the original maturity date, all extension options have been exercised. All bilateral loans are amortization-free and carry a floating interest for each one-month and three-month period. Outstanding commercial papers at the end of the year mature at a fixed interest rate with a remaining term of 2 to 4 months.

All bilateral credit agreements include financial covenants, all of which were fulfilled at 31 December 2021.

See also information on changes in liabilities in Note 20, and the maturity analysis in Note 21.

* In accordance with the issue agreement signed in connection with the establishment of the commercial paper program, HEXPOL AB's bilateral credit agreements also function as back-up facilities for outstanding commercial papers. As of 31 December 2021, HEXPOL AB had unused credit capacity in long-term facilities of 3,000 MSEK, of which 1,825 MSEK was reserved for outstanding volumes in the market for commercial papers. In accordance with IAS1, outstanding volumes are reported in the balance sheet as current liabilities, although, given the Group's financing and liquidity risk, they are of a non-current nature.

Note 16 Pension provisions

MSEK	2021	2020
Change in provision		
Opening balance, 1 January	64	55
Provisions for the year	2	9
Closing balance, 31 December	66	64

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

Note 17 Provisions

MSEK	Restructuring programme		Other provisions		Total	
	2021	2020	2021	2020	2021	2020
Opening balance	32	78	32	16	64	94
Provisions for the year	0	4	2	21	2	25
Utilized during the year	-29	-45	-32	-3	-61	-48
Translation difference	1	-5	1	-2	2	-7
Closing balance	4	32	3	32	7	64

Closing balances in 2020 for restructuring programmes refers to reorganizations and concentrations within the business areas and were utilized during 2021.

Note 18 Accrued expenses

MSEK	2021	2020
Personnel-related expenses	382	299
Accrued expenses for goods and services	179	119
Other	32	22
Total	593	440

Note 19 Pledged assets and contingent liabilities

MSEK	2021	2020
Pledged assets		
Current assets	2	5
Total	2	5
Contingent liabilities		
Guarantee for the benefit of associated companies	0	0
Total	0	0

Note 20 Cash flow statement

MSEK	2021	2020
Financial items received and paid		
Interest income received	31	6
Interest expenses paid	-81	-46
Total	-50	-40
Adjustments for non-cash items		
Depreciation/amortization/impairment	471	440
Other items not affecting cash flow	-	11
Total	471	451

Cash flow statement – Change in liabilities in financing activities	MSEK	1 Jan 2020	Non-cash changes			31 Dec 2020
			Cash flows	Acquisitions	Leases	
Interest-bearing liabilities	3,562	-1,125	–	–	0	2,437
Interest-bearing liabilities, lease liabilities	441	-83	–	41	-40	359
Liabilities arising from financing activities	4,003	-1,208	–	41	-40	2,796

Cash flow statement – Change in liabilities in financing activities	MSEK	1 Jan 2021	Non-cash changes			31 Dec 2021
			Cash flows	Acquisitions	Leases	
Interest-bearing liabilities	2,437	-610	–	–	0	1,827
Interest-bearing liabilities, lease liabilities	359	-92	30	70	28	395
Liabilities arising from financing activities	2,796	-702	30	70	28	2,222

Note 21 Financial instruments and risk management

Financial instruments per category and measurement level. As regards the risks and the risk management, see pages 49–50 in the Board of Directors' Report

31 Dec 2020	Financial assets/liabilities valued at:			Total
	Amortized cost	Fair value through profit or loss	Measurement level	
MSEK				
Assets in the balance sheet				
Non-current financial assets	3	–		3
Accounts receivable	1,744	–		1,744
Cash and cash equivalents	1,200	–		1,200
Total	2,947	–		2,947
Liabilities in the balance sheet				
Interest-bearing liabilities, non-current	2,428	–		2,428
Interest-bearing non-current lease liabilities	271	–		271
Interest-bearing liabilities, current	9	–		9
Interest-bearing current lease liabilities	88	–		88
Accounts payable	1,796	–		1,796
Other liabilities	68	–		68
Accrued expenses	440	–		440
Total	5,100	–		5,100

31 December 2021	Financial assets/liabilities valued at:			Total
	Amortized cost	Fair value profit or loss	Measurement level	
MSEK				
Assets in the balance sheet				
Non-current financial assets	3	–		3
Accounts receivable	2,401	–		2,401
Cash and cash equivalents	1,320	–		1,320
Total	3,724	–		3,724
Liabilities in the balance sheet				
Interest-bearing liabilities, non-current	1	–		1
Interest-bearing non-current lease liabilities	300	–		300
Interest-bearing liabilities, commercial papers, current	1,826	–		1,826
Interest-bearing current lease liabilities	95	–		95
Accounts payable	2,431	–		2,431
Other liabilities	334	–		334
Accrued expenses, provisions	600	–		600
Total	5,587	–		5,587

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

Term analysis, 31 December	Total amount		Fall due within 1 year		Fall due within 1–2 years		Fall due within 2–5 years		Fall due after 5 years	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
MSEK										
Non-current liabilities										
Interest-bearing liabilities	1	2,428	-	-	1	1,420	-	1,008	-	-
Liabilities, leasing	337	326	-	-	58	62	107	102	172	162
Total non-current liabilities	338	2,754	-	-	59	1,482	107	1,110	172	162
Current liabilities										
Interest-bearing liabilities*	1,826	9	1,826	9	-	-	-	-	-	-
Liabilities, leasing	44	44	44	44	-	-	-	-	-	-
Accounts payable	2,431	1,796	2,431	1,796	-	-	-	-	-	-
Other current liabilities	67	68	67	68	-	-	-	-	-	-
Accrued expenses	593	440	593	440	-	-	-	-	-	-
Total current liabilities	4,961	2,357	4,961	2,357	-	-	-	-	-	-

All bilateral loans are amortization free and carry floating interest at three-month period. Outstanding commercial papers at the end of the year mature at a fixed interest rate with a remaining term of 2 to 4 months.

* In accordance with the issue agreement signed in connection with the establishment of the commercial paper program, HEXPOL AB's bilateral credit agreements also function as back-up facilities for outstanding commercial papers. As of 31 December 2021, HEXPOL AB had unused credit capacity in long-term facilities of 3,000 MSEK, of which 1,825 MSEK was reserved for outstanding volumes in the market for commercial papers. In accordance with IAS1, outstanding volumes are reported in the balance sheet as current liabilities, although, given the Group's financing and liquidity risk, they are of a non-current nature.

Note 22 Acquisitions

Acquisitions during 2021

Acquisition in Compounding in 2021 – Vicom 2002 S.L.

In March, the HEXPOL Group acquired 100 percent of VICOM 2002 S.L. which is a Spanish polymer compounder active in the attractive and growing wire and cable product segment. The acquisition consideration amounted to approximately 26.3 MEUR on a debt-free basis.

Sales amounted to 35 MEUR and profit after tax to 0.5 MEUR during the period March to December 2021. For the full year 2021 the sales amounted to 40 MEUR and profit after tax to 0.4 MEUR.

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

MSEK	
Purchase consideration	267
Fair value of acquired net assets	99
Goodwill	168

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. Through the acquisition, we strengthen our position in southern Europe in a segment that benefits from the global electrification trend. The company has a high level of expertise and capacity and fits well into our existing structure. The fair value of the acquired net assets includes the estimated value of 29 MSEK in acquired intangible assets, of which 28 MSEK was identifiable intangible assets in the form of customer relationships.

The following assets and liabilities were included in the acquisition:

MSEK	Balance sheet at the time of acquisition	Adjustment to fair value	Fair value
Cash and cash equivalents	26	-	26
Accounts receivable	73	-	73
Current assets	27	-	27
Tangible assets	45	-	45
Right-of-use assets	30	-	30
Intangible assets	1	28	29
Deferred tax liability	-	-2	-2
Non-current liabilities	-23	-	-23
Non-current lease liabilities	-30	-	-30
Accounts payable	-65	-	-65
Current liabilities	-11	-	-11
Acquired net assets	73	26	99
Purchase considerations			267
Cash and cash equivalents in acquired operations			26
Change in the Group's cash and cash equivalents			241

Transaction costs for the above acquisition amounted to 1 MSEK and have been reported in the operating profit.



Acquisitions within Compounding in 2021 – Unica

In addition to the acquisition of Vicom 2002 S.L., the HEXPOL Group acquired 100 percent of the shares in Unión de Industrias C.A., S.A. (Unica) from Espiga Capital, a Spanish private equity company, on 1 July. Unica is a significant player in rubber compounds in Spain and is a supplier to several important customers in, for example, the automotive industry, the construction industry and the agricultural sector. The acquisition consideration amounted to 41 MEUR on a debt-free basis, which was financed through a combination of existing cash and bank balances and existing bank loans. The acquisition analysis is still preliminary as certain data remains outstanding and the operations were consolidated as of July 2021.

Sales amounted to 21 MEUR and profit after tax to 0.6 MEUR for the period July to December 2021. For the full year 2021, the sales amounted to 46 MEUR and the loss after tax to 2.4 MEUR.

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

MSEK	
Purchase consideration	417
Fair value of acquired net assets	60
Goodwill	357

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. Through the acquisition, we strengthen our position in rubber compounds vis-à-vis customers with high demands in Spain and other EU countries. Unica is an perfect complement to our operations in Spain, which are mainly found in other areas. The fair value of the acquired net assets includes 72 MSEK for the estimated value of acquired intangible assets, of which 69 MSEK was identifiable intangible assets in the form of customer relationships.

The following assets and liabilities were included in the acquisition:

MSEK	Balance sheet at the time of acquisition	Adjustment to fair value	Fair value
Cash and cash equivalents	100	-	100
Accounts receivable	123	-	123
Current assets	38	-	38
Tangible assets	42	-	42
Intangible assets	3	69	72
Deferred tax liabilities	-2	-17	-19
Non-current liabilities	-134	-	-134
Accounts payable	-105	-	-105
Current liabilities	-57	-	-57
Acquired net assets	8	52	60
Purchase considerations			417
Cash and cash equivalents in acquired operations			100
Change in the Group's cash and cash equivalents			317

Transaction costs for the above acquisition amounted to 2.5 MSEK and have been reported in the operating profit.

Acquisitions during 2020**Acquisitions within Compounding**

In early October 2018, the HEXPOL Group acquired 80 percent of the shares in MESGO Group. According to the agreement HEXPOL had an option to acquire the remaining shares (during the period March 2022–June 2023) and the Caldara family had an option to sell the remaining shares to HEXPOL (during the period March 2020–June 2023), the commitment was reported as a liability to minority shareholder.

The option was exercised by the minority owner and HEXPOL acquired the remaining 20 percent of MESGO Group. The change in value of reported debt in the final settlement had a negative effect on operating profit of 11 MSEK and net financial items of 16 MSEK in interest expense. The transaction was completed on 6 August 2020, with the purchase consideration amounted to 39.8 MEUR.

Note 23 Events after the balance sheet date

On March 8, 2022, HEXPOL signed an agreement to acquire 70% of the shares in German almaak international GmbH, a specialist in advanced recycled compounds. almaak had sales in 2021 of 75 MEUR with a profitability level just below the HEXPOL Group. almaak operates two sites in Germany and has approximately 190 employees. The acquisition price amounts to approximately 70 MEUR on a debt-free basis and is funded by a combination of cash and existing bank facilities. The transaction will close after regulatory approval, which is estimated to the second quarter of 2022.

We do not have our own operations in Ukraine or Russia, but due to developments in Ukraine, there is a great risk of financial impact for the Group. With the current situation and uncertainty, it is not possible to fully anticipate the financial consequences for the HEXPOL Group.

Parent Company's Income Statements

MSEK	Note	2021	2020
Sales	24	58	57
Administration costs		-95	-98
Operating profit	25, 26	-37	-41
Financial income	27	1,467	1,678
Financial expenses	27	-39	-79
Profit after financial items		1,391	1,558
Appropriations	28	0	0
Profit before tax		1,391	1,558
Tax	29	-25	-23
Profit after tax		1,366	1,535

Comprehensive income matches profit after tax

Parent Company's balance sheets

MSEK	Note	2021	2020
ASSETS			
Fixed assets			
Tangible fixed assets		0	0
Intangible fixed assets	30	1	2
Interest-bearing intra-Group receivables		720	653
Holdings of shares in Group companies	33	9,279	8,631
Deferred tax assets		0	0
Total fixed assets		10,000	9,286
Current assets			
Intra-Group operating receivables		155	476
Interest-bearing intra-Group receivables		1,813	1,729
Prepaid expenses and accrued income		38	32
Cash and bank balances		540	529
Total current assets		2,546	2,766
TOTAL ASSETS		12,546	12,052
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	69
New share issue in progress		-	0
Total restricted shareholders' equity		69	69
Non-restricted shareholders' equity			
Share premium reserve		619	619
Profit brought forward		4,192	3,449
Profit of the year		1,366	1,535
Total non-restricted shareholders' equity		6,177	5,603
Total shareholders' equity		6,246	5,672
Untaxed reserves	28	0	0
Non-current liabilities			
Interest-bearing liabilities	32	0	2,410
Total non-current liabilities		0	2,410
Current liabilities			
Accounts payable		2	2
Current tax liabilities		27	24
Interest-bearing intra-Group liabilities		4,392	3,900
Interest-bearing liabilities	32	1,825	0
Accrued expenses and prepaid revenues	31	54	44
Total current liabilities		6,300	3,970
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		12,546	12,052

Parent Company changes in shareholders' equity

MSEK	Share capital	New share issue in progress	Share premium reserve	Profit brought forward	Total
31 December 2019	69	-	598	4,241	4,908
2020					
Total comprehensive income					
Profit for the year	-	-	-	1,535	1,535
Transactions with shareholders					
New share issue in progress	-	0	21	-	21
Dividend	-	-	-	-792	-792
31 December 2020	69	0	619	4,984	5,672
2021					
Total comprehensive income					
Profit for the year	-	-	-	1,366	1,366
Transactions with shareholders					
New share issue	0	-0	-	-	-
Dividend	-	-	-	-792	-792
31 December 2021	69	-	619	5,558	6,246

Parent Company's cash flow statements

MSEK	2021	2020
Cash flow from operations		
Operating profit	-37	-41
Adjustment for non-cash items, depreciations	0	0
Financial income received	31	76
Financial expenses paid	-40	-81
Tax paid	-28	-25
Cash flow from operations before changes in working capital	-74	-71
Cash flow from changes in working capital		
Changes in current receivables	-5	3
Changes in current liabilities	11	22
Cash flow from operations	-68	-46
Investing operations		
Investments in intangible fixed assets	0	0
Change in interest-bearing receivables	174	306
Dividends from subsidiaries	1,292	1,462
Group contributions received	145	140
Acquisitions	-648	-412
Cash flow from investing activities	963	1,496
Financing operations		
Loans raised	7,085	4,404
Amortization of liabilities	-7,177	-5,110
New share issue in progress	-	21
Dividend	-792	-792
Cash flow from financing operations	-884	-1,477
Cash flow for the year	11	-27
Cash and cash equivalents, 1 January	529	556
Cash and cash equivalents, 31 December	540	529

Note 24 Sales

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

Note 25 Employees and personnel expenses

	2021	2020	MSEK	2021	2020
Average number of employees			Salaries, other remunerations and social-security costs		
Women	3	3	Board of directors	4	14
Men	4	4	CEO and Deputy CEO	29	35
Total	7	7	Other employees	29	11
			Social security costs, pension costs and payroll tax	36	30
			Total	98	90

Note 26 Fees and cost remuneration paid to auditors

MSEK	2021	2020
EY		
Audit assignment	1	1
Audit activities in addition to audit	0	0
Other services	0	0
Total	1	1

Note 27 Financial income and expenses

MSEK	2021	2020
Dividend	1,292	1,462
Group contributions	145	140
Interest income	0	1
Interest income from Group receivables	30	75
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	1,467	1,678
Interest expenses	-31	-40
Interest expense from Group liabilities	-3	-29
Exchange-rate loss	0	-4
Other financial expenses	-5	-6
Financial expenses	-39	-79

Note 28 Appropriations and untaxed reserves

MSEK	2021	2020	MSEK	2021	2020
Overdepreciation	0	0	Opening balance, 1 January	0	0
Total	0	0	Accumulated excess depreciation	0	0
			Closing balance, 31 December	0	0

Note 29 Taxes

MSEK	2021	2020	MSEK	2021	2020
Current tax expense			Reconciliation of effective tax		
Tax expense for the year	-25	-23	Profit before tax	1,391	1,558
Deferred tax expense			Tax according to current tax rate for the Parent Company	-287 -21%	-333 -21%
Deferred tax pertaining to temporary differences	0	0	Non-deductible expenses	-5 -0%	-3 -0%
Total reported tax expense	-25	-23	Non-taxable revenues	267 19%	313 20%
			Total reported tax expense	-25 -2%	-23 -2%

Note 30 Intangible fixed assets

MSEK	Other intangible		Total		MSEK	Other intangible		Total	
	2021	2020	2021	2020		2021	2020	2021	2020
Amortized cost					Accumulated amortization/depreciation				
Opening balance, 1 January	3	2	3	2	Opening balance, 1 January	-1	-	-1	-
Investments	-	1	-	1	Depreciation for the year	-1	-1	-1	-1
Closing balance, 31 December	3	3	3	3	Divestments, disposals	-	-	-	-
					Closing balance, 31 December	-2	-1	-2	-1
					Carrying amount, 31 December	1	2	1	2

Note 31 Accrued expenses and prepaid revenues

MSEK	2021	2020
Personnel-related expenses	51	40
Other	3	4
Total	54	44

Note 32 Interest-bearing liabilities

MSEK	2021	2020
Non-current liabilities		
Interest-bearing liabilities	0	2,410
Non-current liabilities	0	2,410
Current liabilities		
Interest-bearing liabilities	1,825	-
Current liabilities	1,825	-
Bilateral loan, 1,500 MSEK	-	990
Bilateral loan, 125 MUSD	-	650
Bilateral loan, 2,000 MSEK	-	770
Total non-current liabilities	-	2,410
Commercial papers*	1,825	-
Total current liabilities	1,825	-

* In accordance with the issue agreement signed in connection with the establishment of the commercial paper program, HEXPOL AB's bilateral credit agreements also function as back-up facilities for outstanding commercial papers. As of 31 December 2021, HEXPOL AB had unused credit capacity in long-term facilities of 3,000 MSEK, of which 1,825 MSEK was reserved for outstanding volumes in the market for commercial papers. In accordance with IAS1, outstanding volumes are reported in the balance sheet as current liabilities, although, given the Group's financing and liquidity risk, they are of a non-current nature.

For further information regarding interest-bearing liabilities, see also note 15.

Note 33 Parent Company's holdings of shares and participations in Group companies

Subsidiaries	Corp. Reg. No	Registered office	Proportion of equity, %	Carrying amount, MSEK	Proportion of equity, %	Carrying amount, MSEK
			2021	2020	2021	2020
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101	100	101
Megufo AB	556421-2453	Gislaved, Sweden	50		50	
HEXPOL Holding AB	559078-6405	Malmö, Sweden	100	0	100	0
Stellana AB	556084-8870	Laxå, Sweden	100	29	100	29
Elastomeric Engineering Co., Ltd. 1)		Sri Lanka	99.6	58	99.6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. 2)		Sri Lanka	100		100	
HEXPOL Compounding HQ Sprl		Belgium	100	702	100	702
HEXPOL Compounding Sprl		Belgium	100		100	
Socofin Sprl-u		Belgium	-		100	
Corvus bvba		Belgium	-		100	
HEXPOL Compounding s.r.o		Czech Republic	100	435	100	435
HEXPOL Compounding Lesina s.r.o		Czech Republic	100	709	100	709
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V 3)		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V 3)		Mexico	100		100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7	100	7
HEXPOL Compounding GmbH		Germany	100	70	100	70
HEXPOL TPE GmbH		Germany	100		100	
HEXPOL Compounding Viersen CoKG		Germany	100		100	
HEXPOL Compounding Viersen Verwaltungs GbmH		Germany	100		100	
Stellana Deutschland GmbH		Germany	100		100	
HEXPOL TPE AB	556191-5777	Åmål, Sweden	100	250	100	250
HEXPOL TPE Ltd		UK	100	34	100	34
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	33	100	33
Unión de Industrias C.A., S.A. (Unica)		Spain	100	420	-	
Vicom 2002 S.L.		Spain	100	228	-	
Berwin Group Limited		UK	100	365	100	365
Flexi-Cell (UK) Ltd		UK	100		100	
Berwin Rubber Company Limited		UK	100		100	
Berwin of Lydney Limited		UK	100		100	
Berwin Industrial Polymers Limited		UK	100		100	
MESGO SpA		Italy	100	2,066	100	2,066
MESGO Iride Colors Srl		Italy	100		100	
3A MCOM Srl		Italy	100		100	
MESGO Polska		Poland	100		100	
MESGO Asia		Turkey	100		100	
HEXPOL Finance UK Ltd		UK	100	0	100	0
HEXPOL Holding Inc.		USA	100	3,683	100	3,683
RheTech LLC		USA	100		100	
RheTech Engineered Plastics		USA	100		100	
RheTech Thermocolor LLC		USA	100		100	
Robbins Holding Inc.		USA	100		100	
Robbins LLC		USA	100		100	
Synpol LLC		USA	100		100	
HEXPOL Compounding CA Inc		USA	100		100	
Kirkhill Rubber Company		USA	100		100	
Preferred Compounding Corp.		USA	100		100	
Preferred Compounding de Mexico S. de R.L. de C.V.		Mexico	100		100	
HEXPOL UK Ltd		UK	100		100	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC		USA	100		100	
HEXPOL Compounding (UK) Ltd		UK	100		100	
Chase Elastomer (UK) Ltd.		UK	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. 4)		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. 5)		Mexico	100		100	
HEXPOL H.K Co., Ltd.		China	100		100	
HEXPOL Asia LLC		USA	100		100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100		100	
Total carrying amount in the Parent Company				9,279		8,631



MSEK	2021	2020
Participations in Group companies		
Opening balance	8,631	8,219
Acquisitions	648	412
Book value	9,279	8,631

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

Note 34 Pledged assets and contingent liabilities

MSEK	2021	2020
Sureties for subsidiaries	78	76
Total	78	76

Note 35 Proposed distribution of unappropriated earnings

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

Profit brought forward	4,192,366
Share premium reserve	618,728
Profit of the year	1,366,373
Total unrestricted funds	6,177,467

The Board of Directors proposes that earnings be allocated as follows:
 That 6.00 SEK per share be distributed in cash to shareholders, of which 3.00 SEK as an ordinary dividend in accordance with the dividend policy and an additional dividend of 3.00 SEK.

Total dividend from profit brought forward	2,066,621
To be carried forward	4,110,846
Total	6,177,467

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

Malmö, 28 March 2022

Alf Göransson
Chairman of the Board

Malin Persson
Board Member

Märta Schörling Andreen
Board Member

Kerstin Lindell
Board Member

Gun Nilsson
Board Member

Jan-Anders E. Månson
Board Member

Georg Brunstam
CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 30 March, 2022. The consolidated Income Statement and Balance Sheet and the Parent Company's Income Statement and Balance Sheet will be presented to the Annual General Meeting on 28 April 2022 for adoption.

Our audit report was submitted on 30 March 2022

Joakim Falck
Authorized Public Accountant

Karoline Tedevall
Authorized Public Accountant

Auditor's Report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of HEXPOL AB (publ) except for the corporate governance statement on pages 52-61 and the statutory sustainability report on pages 28-42 for the year 2021. The annual accounts and consolidated accounts of the company are included on pages 28-89 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 52-61 and the statutory sustainability report on pages 28-42. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

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

Goodwill and participations in group companies

Description

The carrying value of goodwill as of 31 December 2021 amounts to 9.087 MSEK in the consolidated balance sheet, which represents 51% of total assets. Participations in group companies amounts to 9.279 MSEK in the parent company's balance sheet, which represents 74% of total assets. The company performs an impairment test annually, and when there is an indication of impairment, to ensure the carrying value does not exceed the estimated recoverable value. The recoverable amount is determined for each cash generating unit by calculating the present value of future cash flows. Future cash flows are based on management's business plans and forecasts, and includes a number of assumptions, including earnings performance, growth, investment requirements and the discount rate. For participations in group companies the recoverable amount is the higher of fair value and value in use.

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

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

How our audit addressed this key audit matter

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-43 and 94-105. The remuneration report for the financial year 2020 also constitutes other information. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

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

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

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

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

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

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

Report on other legal and regulatory requirements

Report on the audit of the administration and the proposed appropriations of the company's profit or loss

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of HEXPOL AB (publ) for the year 2021 and the proposed appropriations of the company's profit or loss.

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

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

The auditor's examination of the ESEF report

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the ESEF report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for HEXPOL AB (publ) for the financial year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the ESEF report #[68f986d013d98e8498895a1f25a1623b13e735a52a94f48ff302831584e53fb1] has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinions

We have performed the examination in accordance with FAR's recommendation RevR 18 *Examination of the ESEF report*. Our responsibility under this recommendation is described in more detail in the *Auditors' responsibility section*. We are independent of HEXPOL AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the ESEF report in accordance with Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the ESEF report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the ESEF report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the ESEF report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the ESEF report.

The audit firm applies ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the ESEF report has been prepared in a format that enables uniform electronic reporting of the annual and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the ESEF report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the ESEF report, i.e. if the file containing the ESEF report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the ESEF report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the ESEF report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, financial position, changes in equity and cash flow.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 52-61 has been prepared in accordance with the Annual Accounts Act.

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

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

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 28-42, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Joakim Falck, Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of HEXPOL AB (publ) by the general meeting of the shareholders on the 28th of April 2021 and has been the company's auditor since the 28th of April 2021.

Karoline Tedevall, Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of HEXPOL AB (publ) by the general meeting of the shareholders on the 28th of April 2021 and has been the company's auditor since the 28th of April 2021.

Malmö, 30 March 2022

Joakim Falck
Authorized Public Accountant

Karoline Tedevall
Authorized Public Accountant

About the Sustainability Report

HEXPOL’s Sustainability Report for 2021 in accordance with the GRI Standards and Communication on Progress (Global Compact) covers aspects relating to the environment, work environment, social issues and business ethics. The ambition is for the report, with supplementary information, to provide employees and external stakeholders a transparent picture of the company’s activities in the area of sustainability and how these interact with the business operations. All units that were part of the Group throughout 2021 are included in the accounts. In total, 45 production facilities (44) contributed data. Lists of production facilities can be found on page 95.

Accounting principles

Each production unit contributes quantitative and qualitative information in accordance with HEXPOL’s form for sustainability reporting. The picture shows the annual reporting cycle. The head of each company/unit is responsible for the quality assurance of the data submitted. This year’s performance is compared with and verified against the preceding year’s data. Additional quality controls are performed in connection with interviews and site visits.

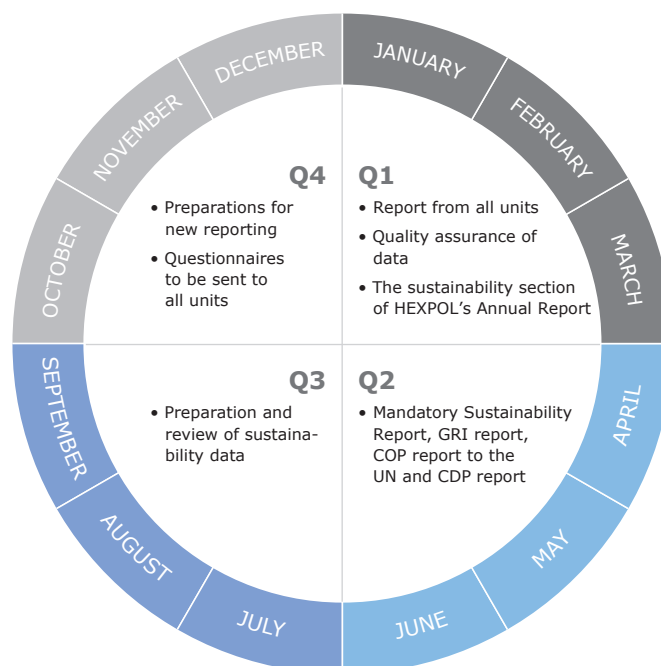
Emissions of carbon dioxide (CO₂e), sulfur dioxide (SO₂) and nitrogen oxides (NO_x) from direct energy use (Scope 1 in accordance with the GHG Protocol) are calculated using conversion factors. These are based on the energy content and quality of the fuels used. The Group also reports CO₂ emissions from indirect energy use, comprising electricity and district heating (Scope 2 in accordance with the GHG Protocol). The emission factors from purchased electricity in different countries are based on data from carbon-footprint.com (2019). In cases where the energy supplier presents specific information regarding the energy mix, the supplier’s calculation model is used. The figure for CO₂ emissions in 2020 has been corrected to a lower value.

The reason was an error in the accounting system, causing certain emissions to be counted twice. Information on emissions of VOCs (solvents) are based mainly on mass balance calculations and on data on the efficiency of the treatment plants.

Statutory Sustainability Report

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, the company has chosen to include the Sustainability Report within the Board of Directors’ Report. The table below indicates where in the annual report the statutory information can be found.

Area	Page
Business model	9
Policies, frameworks, stakeholders and material issues	28–30, 32–33
Environmental responsibility	36–40
Personnel conditions and social responsibility	34–35
Human rights	33
Prevention of corruption	33



Units	Place	Number of employees	Building area m ²	Production capacity, tons	Permits in accordance with environmental legislation
HEXPOL Compounding – North Carolina	Statesville, USA	82	3,900	20,000	Yes
GoldKey Processing	Middlefield, USA	185	13,900	40,000	Yes
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	255	20,800	55,000	Yes
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	202	45,700	136,000	Yes
HEXPOL Compounding – Kennedale	Kennedale, USA	56	7,200	18,000	Yes
HEXPOL Compounding – Aguascalientes	Aguascalientes, Mexico	114	6,500	24,600	Yes
HEXPOL Compounding – Querétaro	Querétaro, Mexico	133	12,150	53,000	Yes
VALLEY Processing	California City of Industry, USA	67	7,400	56,000	Yes
Kirkhill Rubber	Long Beach, USA	66	14,960	48,000	Yes
RheTech Compounding	Whitmore Lake, USA	88	10,900	65,000	Yes
RheTech Compounding	Fowlerville, USA	35	5,700	38,000	Yes
RheTech Colors and HEXPOL TPE North America	Sandusky, USA	41	6,500	4,500	Yes
Preferred Compounding – Barberton	Barberton, USA	59	12,700	20,300	Yes
Preferred Compounding – Huntingdon	Huntington, USA	88	5,900	22,700	Yes
Preferred Compounding – Whitewater	Whitewater, USA	41	4,270	8,000	Yes
Preferred Compounding – Tallapoosa	Tallapoosa, USA	103	11,150	34,100	Yes
Preferred Compounding – San Luis Potosi	San Luis Potosi, Mexico	149	10,440	36,300	Yes
Robbins	Muscle Shoals, USA	38	22,600	-	Yes
HEXPOL Compounding Belgium	Eupen, Belgium	68	4,200	20,000	Yes
HEXPOL Compounding Germany	Hückelhoven, Germany	71	6,300	35,000	Yes
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	115	7,900	35,000	Yes
HEXPOL Compounding Lesina	Lesina, Czech Republic	112	7,350	35,000	No
Berwin Rubber	Dukinfield, UK	154	9,400	36,700	Yes
HEXPOL Compounding Spain	Barcelona, Spain	85	12,500	30,000	Yes
Berwin Industrial Polymers	Lydney, UK	57	5,900	21,000	Yes
MESGO S.p.A	Gorlago, Italy	52	6,200	10,000	Yes
MESGO S.p.A	Carobbio degli Angeli, Italy	61	10,800	15,000	Yes
MESGO IRIDE COLORS S.r.l Garlasco	Garlasco, Italy	43	7,600	8,000	Yes
3A MCOM S.r.l	Grigno, Italy	17	10,300	20,000	Yes
MESGO POLSKA Sp. Z o.o	Tomaszow Mazowiecki, Poland	18	9,000	3,000	No
MESGO ASIA KAUCUK	Sekerpinar, Cayirova, Turkey	11	1,700	2,000	No
HEXPOL TPE Germany	Lichtenfels, Germany	152	7,210	35,000	No
HEXPOL TPE Sweden	Åmål, Sweden	82	5,300	20,000	Yes
HEXPOL TPE UK	Manchester, UK	49	4,800	13,000	No
HEXPOL Compounding Qingdao	Qingdao, China	59	8,300	20,000	Yes
HEXPOL Compounding/TPE Foshan	Foshan, China	62	8,200	25,500	Yes
Stellana US (Wheels)	Lake Geneva, USA	75	7,500	-	Yes
Stellana Sweden (Wheels)	Laxå, Sweden	78	11,800	-	Yes
Stellana China (Wheels)	Qingdao, China	89	5,000	-	Yes
Gislaved Gummi (Compounding, Gaskets and Seals)	Gislaved, Sweden	156	20,000	19,000	Yes
Gislaved Gummi Lanka (Gaskets and Seals)	Bokundara, Sri Lanka	439	10,500	-	Yes
Gislaved Gummi Qingdao	Qingdao, China	148	12,500	-	Yes
Elastomeric (Wheels)	Horana, Sri Lanka	580	11,800	-	Yes
Unica	Corella, Spain	82	16,000	32,400	Yes
Vicom	Olderola, Spain	26	8,288	28,000	Yes

GRI Standards

The organization behind the GRI (Global Reporting Initiative) has established voluntary global guidelines for how companies and other organizations should report on their activities in sustainable development. Reporting according to GRI must focus on sustainability aspects that are of material importance for the organization and its stakeholders. It

must include both positive and negative aspects. HEXPOL has chosen to report in accordance with GRI Standards. The report has been prepared in accordance with GRI Standards: Core option. The indicators have been adapted to the assessment of material sustainability issues presented on pages 28–29.

Areas/Sustainability aspects	GRI information	Pages in Annual Report
THE COMPANY'S SUSTAINABILITY PROFILE		
A message from the CEO	102-14	3
HEXPOL's profile incl. business model, overarching objectives and governance, as well as risks and opportunities	102-1 – 102-5, 102-7, 102-9 – 102-10, 102-18	8–10, 18–19, 28–30, 42, 49–51
Code of Conduct, Group policies, whistle-blower policy and external initiatives	102-12 – 102-13, 102-16	29–30, 32–33
Stakeholder dialogue	102-40 – 102-44	30–31
Accounting profile incl. materiality analysis	102-45 – 102-56	28–29, 94–95
Overarching management principles	103-1 – 103-3	28–31, 32, 34, 36
FOCUS AREAS WITH SUSTAINABILITY ASPECTS IN ACCORDANCE WITH THE GRI STANDARDS		
Operations: Resources		
Materials, chemical substances	301-1 – 301-2, 102-11	38–39
Energy	302-1, 302-3 – 302-5	37
Water	303-1	37
Climate, atmospheric emissions	305-1 – 305-7	39–40
Discharges to water, waste	306-1 – 306-4	37, 40
Area of operations: Employees		
Health and safety	403-1 – 403-2	35
Skills development	404-1 – 404-3	34–35
Diversity and equality	405-1	34
Area of operations: Finance		
Financial value generated	201-1	31
Compliance		
Anti-corruption	205-2 – 205-3	33
Competition issues	206-1	32
Compliance (environment)	307-1,	36, 103
Non-discrimination	406-1	34
Freedom of association and the right to collective agreements	407-1	34
Child labour	408-1	33
Forced labour	409-1	33
Suppliers and compliance in the supply chain	308-1, 414-1	32–33
Social commitment		
Participation in local community activities	413-1	35

Global Compact

Ten principles around responsible business

In 2017, HEXPOL joined the UN's initiative for responsible business, the Global Compact. The Group thus became part of a worldwide network that today consists of more than 14,000 companies in 160 countries, of which about 430 in Sweden. The Group participates as Signatory.

Through the Global Compact, HEXPOL supports ten fundamental principles in respect of human rights, labour conditions, environmental considerations and anti-corruption. The ten principles are based on various UN conventions, such as the Declaration of Human Rights and the Convention against Corruption. Nowadays, the global goals

that the UN presented in the autumn of 2015 also join the Global Compact. In 2016, HEXPOL linked the Group goals to the global goals.

Communication on Progress

It is a requirement that organizations that have joined the Global Compact must make an annual report (Communication on Progress; COP) of how to meet the ten principles.

To simplify Communication on Progress, we use GRI Standards and the cross-reference table below shows which indicators are relevant in this context.

Global Compact	GRI indicators
Human rights	
1. Companies must support and respect internationally proclaimed human rights	103-2, 412-2, 413-1
2. Companies must ensure that they are not involved in human rights violations	103-2, 414-1
Working conditions	
3. Companies must maintain freedom of association and recognize the right to collective bargaining	103-2, 102-41, 407-1
4. Companies must work for the abolition of all forms of forced labour	103-2, 409-1
5. The companies must work for the abolition of all child labour	103-2, 408-1
6. Companies must work for the elimination of all discrimination in employment and professional practice	103-2, 102-8, 406-1
Environment	
7. Companies must support the precautionary principle with regard to environmental risks	103-2, 102-11, 301-1
8. Companies must take initiatives to promote greater environmental responsibility	103-2, 301-1, 302-4, 302-5
9. Companies must encourage the development and dissemination of environmentally friendly technology	103-2, 301-2, 302-4, 305-5
Corruption	
10. Companies must counteract all forms of corruption, including extortion and bribery	103-2, 102-16, 205-2, 205-3

TCFD

The Task force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative launched in 2017. The purpose is to develop recommendations for voluntary and consistent reporting of climate-related financial risks and opportunities.

The TCFD's guidelines are based on governance, strategy, risk management, measurement values and target scenarios. For HEXPOL, it is, in purely concrete terms, about having financial control of how the Group is affected by climate change over time, and how the operations are affected by controls to limit CO₂ emissions. The table below shows where the central recommendations in TCFD are dealt with in the Annual Report. Although the Group's climate work focuses on these areas, additional efforts remain before the recommendations are fully met.

Supporting the TCFD is voluntary and joining is open to all. About a thousands of companies and organizations are officially affiliated with the TCFD and HEXPOL is now taking the initial steps to follow the guidelines. The TCFD lists four key areas in which investors and other market participants find it important to obtain information:

- *Steering* – The Board has appointed a member with special responsibility for following up the sustainability work, including climate-related risks and opportunities. The Board regularly receives information on how the climate work has developed and is ultimately responsible for the design and implementation of the Group's climate goals.
- *Strategy* – climate change brings risks and opportunities for HEXPOL, with the issues it involves forming part of the Group's overarching strategy for sustainable development. If we envisage a scenario in which society resolves

to steer strongly towards very low fossil-based CO₂ emissions, the company will be affected both by increased costs (taxes, fees) and various regulations, including legislation. The realignment to reduce the Group's CO₂ footprint is in progress but will require substantial resources for many years to come. If, at the same time, we envisage a scenario in which temperatures rise significantly, the Group will be affected by physical risks that will probably extend throughout the value chain. Current risk analyses, take flooding, extreme weather conditions and drought into account. To meet the TCFD's guidelines, the Group needs to continue to work with possible scenarios with the objective of being able to express how the Group's earnings capacity would be affected by these various situations.

- *Risk management* – to mitigate its risks, the Group is steering away from fossil-based energy. In addition, opportunities are being created through the development of products containing bio-based and recycled raw materials. Read more about risks and risk management on p. 51.
- *Metrics and targets* – the Group has reported CO₂ emissions for a long time and publishes key performance indicators on how emissions are changing over time. In 2020, a demanding new climate target was introduced for the Group.

Area	TCFD recommendations	References / pages
Climate: Organization and governance	a) Describe the Board's insight into and management of climate-related risks and opportunities.	A message from the CEO page 3, Governance and follow-up page 29, Chairman of the Board page 52.
	b) Describe the management's role in assessing and managing climate-related risks and opportunities.	A message from the CEO page 3, Material areas pages 28–29, Governance and follow-up page 29.
Climate strategy	a) Describe the climate-related risks and opportunities that the organization has identified in the short, medium and long term.	Risks and risk management page 51.
	b) Describe the effects of climate-related risks and opportunities on the organization's business, strategy and financial planning.	Strategy for sustainable development pages 28–29, Products that contribute to sustainable development pages 41–42.
	c) Describe the resilience of the organization's strategy in the light of various climate-related scenarios, including a +2°C or lower scenario.	The scenario analysis is under development, but some comments can be found in the section Risks and risk management page 51.
Risk management	a) Describe the organization's processes for identifying and evaluating climate-related risks.	Materiality analysis pages 28–29, Risks and risk management page 51.
	b) Describe the organization's processes for managing climate-related risks.	Governance and follow-up page 29, Strategy for sustainable development 28–29, Risks and risk management page 51.
	c) Describe how processes for identifying, evaluating and managing climate-related risks are integrated into the organization's overall risk management.	Strategy for sustainable development 28–29, Risks and risk management page 51.
Measurements and goals	a) Report which metrics the organization uses to evaluate climate-related risks and opportunities in line with its strategy and risk management processes.	Ambitious targets page 13, Sustainable development goals page 31, About the Sustainability Report page 94, Sustainability ten-year overview page 103.
	b) Report Scope 1, Scope 2 and Scope 3 greenhouse gas emissions and the related risks.	Gases impacting the climate pages 39–40. Although Scope-3 emissions have been calculated preliminarily, the company is waiting to publish data.
	c) Describe the measures that the organization uses to manage climate-related risks and opportunities and to measure the outcome against the goals.	Ambitious targets page 13, Sustainable development goals page 31, Sustainability ten-year overview page 103.

Financial definitions

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

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

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

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

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

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

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

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

EBITA Operating profit, excluding amortization and impairment of intangible assets.

EBITA margin EBITA in relation to sales.

EBITDA Operating profit before depreciation, amortization and impairment.

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

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

INTEREST-COVERAGE RATIO Profit before tax plus interest expenses in relation to interest expenses.

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

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

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

NON-RECURRING ITEMS Non-recurring items refers to integration- and restructuring costs and acquisition costs.

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

OPERATING MARGIN Operating profit as a percentage of sales.

OPERATING MARGIN ADJUSTED FOR NON-RECURRING ITEMS/ ADJUSTED OPERATING MARGIN Operating profit adjusted for items affecting comparability in relation to sales.

OPERATING PROFIT ADJUSTED FOR ITEMS AFFECTING COMPARABILITY/ADJUSTED OPERATING PROFIT Operating profit adjusted for items affecting comparability.

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

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

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

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

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



HEXPOL uses alternative key figures associated with the Group's financial position: return on capital employed, net debt, net cash, debt/equity ratio and equity/assets ratio. The key figures are used to assess opportunities for dividends, strategic investments and to manage financial commitments. Operating cash flow is used to show what funds the operations generate to make strategic investments and repayments, as well as to pay dividends. HEXPOL considers earnings measures excluding items affecting comparability to be of value to investors in understanding underlying earnings before items affecting comparability. Sales growth, excluding exchange rate effects and acquisitions are valuable key figures for HEXPOL and investors in being able to monitor the trend in the underlying operations. For reconciliation of alternative key figures, please see the Year-end report available on our website.

Glossary

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

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

CO₂e GHG Green House Gases HEXPOL reports emissions of the greenhouse gas carbon dioxide (CO₂ equivalents; CO₂e) from energy consumption, that is, Scope 1 and Scope 2 in accordance with GHG Protocol.

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

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

COMPOUNDING/COMPOUNDS Mixing/mixtures of polymeric materials with additives.

COMPRESSION MOULDING Moulding and vulcanization of the polymer product by means of injection whereby the polymer is forced into a closed mould (injection), alternatively, is placed directly in the cavity in the mould before the mould is closed and the product is thus formed (compression).

CONFLICT MINERAL Tantalum, tin, gold and tungsten are called conflict minerals if they originate from the Democratic Republic of Congo and neighbouring countries. The name has arisen because there are armed conflicts in the region, where mining often contributes to continued conflicts and leads to violations of human rights.

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

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

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

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

EU TAXONOMY The taxonomy for environmentally sustainable investments makes it possible to identify and compare investments that are necessary in achieving a sustainable economy.

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

GLOBAL COMPACT A UN initiative concerning corporate responsibility. The participating organizations undertake to support ten fundamental principles in respect of human rights, labour conditions, environmental considerations and anti-corruption. HEXPOL joined the Global Compact in 2017.

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

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

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

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

ISO 14001 International standard concerning environmental management systems, which was introduced in 1996. Some 350,000 organizations (570,000 facilities) worldwide are currently certified in accordance with the ISO 14001 requirements.

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

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

ISO 50001 International standard governing energy management systems.

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

PA Polyamide, a commonly used thermoplastic.

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

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

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

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

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

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

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

TCFD The Task Force on Climate-related Financial Disclosures (TCFD) provides recommendations on reporting climate-related financial risks and opportunities.

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

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

TPO Polyolefin blends.

TPS Styrenic block copolymers.

TPU Thermoplastic polyurethanes.

Financial ten-year overview

MSEK	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
INCOME STATEMENTS, condensed										
Sales	16,005	13,424	15,508	13,770	12,230	10,879	11,229	8,919	8,036	8,007
Operating expenses	-12,931	-11,489	-13,465	-11,620	-10,244	-8,958	-9,265	-7,463	-6,781	-6,938
Operating profit	3,074	1,935	2,043	2,150	1,986	1,921	1,964	1,456	1,255	1,069
Net financial items	-43	-80	-35	11	-18	-8	-21	-20	-19	-22
Profit before tax	3,031	1,855	2,008	2,161	1,968	1,913	1,943	1,436	1,236	1,047
Tax	-673	-446	-466	-515	-441	-516	-550	-388	-306	-294
Profit for the year	2,358	1,409	1,542	1,646	1,527	1,397	1,393	1,048	930	753
BALANCE SHEETS, condensed										
Assets										
Fixed assets	12,236	10,817	12,116	9,698	7,048	6,423	5,868	4,832	3,946	3,971
Current assets	4,407	3,056	3,685	3,594	2,489	2,128	1,877	1,626	1,335	1,372
Cash and cash equivalents	1,320	1,200	1,624	1,164	813	1,297	978	826	597	564
Total assets	17,963	15,073	17,425	14,456	10,350	9,848	8,723	7,284	5,878	5,907
Shareholders' equity and liabilities										
Shareholders' equity	11,650	9,133	9,756	8,592	7,010	7,559	6,233	5,049	3,617	2,909
Interest-bearing liabilities	2,222	2,796	4,003	2,332	840	29	524	567	962	1,809
Other liabilities and provisions	4,091	3,144	3,666	3,532	2,500	2,260	1,966	1,668	1,299	1,189
Total shareholders' equity and liabilities	17,963	15,073	17,425	14,456	10,350	9,848	8,723	7,284	5,878	5,907
CASH FLOW STATEMENTS, condensed										
Cash flow from operations	2,406	2,376	2,361	1,806	1,699	1,710	1,760	1,432	1,223	1,115
Net investments in tangible and intangible fixed assets	-304	-253	-286	-207	-195	-150	-118	-118	-136	-177
Acquisitions of operations	-558	-412	-2,204	-2,190	-1,081	-295	-1,043	-413	-3	-926
Cash flow from financing operations	-1,366	-1,978	427	775	-823	-1,075	-479	-777	-1,060	33
Cash flow for the year	178	-267	298	184	-400	190	120	124	24	45
Cash and cash equivalents, 1 January	1,200	1,624	1,164	813	1,297	978	826	597	564	557
Exchange-rate differences in cash and cash equivalents	-58	-157	162	167	-84	129	32	105	9	-38
Cash and cash equivalents, 31 December	1,320	1,200	1,624	1,164	813	1,297	978	826	597	564
Key figures										
Average shareholders' equity, MSEK	10,642	10,135	9,534	8,077	6,871	6,826	5,887	4,333	3,263	2,691
Average capital employed, MSEK	13,491	13,332	13,484	9,678	7,898	7,186	6,861	5,116	4,664	4,458
Return on shareholders' equity %	22.2	13.9	16.2	20.4	22.2	20.5	23.7	24.2	28.5	28.0
Return on capital employed, %	22.8	14.3	15.2	22.5	25.1	26.8	28.6	28.5	27.0	24.0
Sales growth excl currency effects, %	25	-11	7	9	12	-4	11	6	6	-2
Operating margin, %	19.2	14.4	13.2	15.6	16.2	17.7	17.5	16.3	15.6	13.4
Profit margin before tax, %	18.9	13.8	12.9	15.7	16.1	17.6	17.3	16.1	15.4	13.1
Earnings per share, before dilution SEK ¹	6.85	4.09	4.48	4.78	4.44	4.06	4.05	3.05	2.70	2.19
Earnings per share, after dilution SEK ¹	6.85	4.09	4.48	4.78	4.44	4.06	4.05	3.05	2.70	2.19
Net debt, MSEK	-899	-1,593	-2,376	-1,143	-27	1,268	454	259	-312	-1,215
Net debt/equity ratio, multiple	-0.1	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.1	0.4
Equity/assets ratio, %	65	61	56	59	68	77	72	69	62	49
Shareholders' equity per share, SEK ^{1,2}	33.82	26.53	28.34	24.96	20.37	21.96	18.11	14.67	10.51	8.45
Dividend, MSEK	792	792	774	671	1,635	585	413	310	207	172
Dividend per share, SEK ²	2.30	2.30	2.25	1.95	4.75	1.70	1.20	0.90	0.60	0.50
Operating cash flow, MSEK	2,731	2,548	2,607	2,019	2,001	2,057	2,185	1,676	1,418	1,209
Cash flow from operating activities, MSEK	2,406	2,376	2,361	1,806	1,699	1,710	1,760	1,432	1,223	1,115
Cash flow from operating activities per share, SEK ^{1,2}	6.99	6.90	6.86	5.25	4.94	4.97	5.11	4.16	3.55	3.24
Average number of employees	4,688	4,657	4,844	4,454	4,326	4,028	3,858	3,493	3,411	3,112
Number of employees at year-end	4,771	4,550	5,061	4,640	4,389	4,140	3,867	3,666	3,433	3,332
Sales per employee, MSEK	3.41	2.88	3.20	3.09	2.83	2.70	2.91	2.55	2.36	2.57

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

Sustainability, ten-year overview

AREA		2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Environment											
Compliance	Number of violations of environmental legislation	1	1	3	2	3	1	2	2	4	1
Energy	Energy use, GWh	401	360	417	379	379	355	309	313	275	258
	Energy consumption/net sales, GWh/MSEK	0.025	0.027	0.027	0.029	0.031	0.033	0.030	0.035	0.034	0.032
Climate	CO ₂ emissions from energy consumption, tons ¹	117,300	122,500	145,800	125,600	140,700	142,900	117,400	114,900	108,500	100,500
	CO ₂ emissions/sales, tons/MSEK	7.3	9.1	9.4	9.5	11.5	13.1	11.4	12.9	13.5	12.6
Water	Water consumption, m ³ thousands	1,159.6	1,105.7	1,106.3	718.0	734.8	884.3	700.3	684.1	570.7	450.2
	Water consumption/net sales, m ³ /MSEK	72	82	71	54	60	81	68	77	71	56
Waste	Amount of waste, tons	25,130	22,950	26,500	23,100	22,000	19,800	16,000	14,800	14,500	14,900
	Amount of waste/net sales, tons/MSEK	1.6	1.7	1.7	1.8	1.8	1.8	1.6	1.7	1.8	1.9
Raw materials	Recycled/bio-based plastics and rubber, % of total use	10	8	8	15	15	18	1	3	2	2
Management systems	ISO 14001 certified facilities, % of total number	87	77	76	97	92	89	93	96	88	88
People											
Employees	Number of employees, average	4,688	4,657	4,844	4,454	4,326	4,028	3,858	3,493	3,411	3,112
Compliance	Number of violations of environment legislation	2	0	3	0	0	1	0	2	0	1
Health and safety	Workplace accidents, lost working days, number/million hours worked	12.3	10.1	12.9	12.8	15.2	15.1	15.9	14.3	10.0	12.6
Diversity	Number of women on the Board of Directors of the Group, %	57	57	57	57	57	43	29	29	17	17
	Number of women in local management teams, %	24	20	18	18	14	15	12	11	10	10
Education	Training of employees, hours/employee	20	17	32	26	22	19	23	22	16	15
Management systems	ISO 45001-certified facilities, % of total	4	5	9	11	11	9	7	7	7	0
Code of Conduct	Reported human rights violations, number	0	0	2	1	1	1	0	1	0	1
Finance											
	Financial value distributed between stakeholders, MSEK ²	3,375	3,273	3,357	2,989	3,658	2,559	2,366	1,743	1,431	1,338
	Taxes paid, MSEK	673	446	466	516	441	515	550	388	306	294

¹ In accordance with GHG (Greenhouse Gas Protocol) HEXPOL reports Scope 1, that is, emissions from direct energy use (e.g. fuel oil, natural gas), and Scope 2, that is, from indirect energy use (e.g. purchased electricity, district heating).

² Compensation to suppliers is not included.

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on 28 April 2022, at 3:00 p.m. CET in Malmö Sweden.

Due to the continued spread of the coronavirus, precautionary measures will be implemented in connection with the AGM. Shareholders are encouraged to carefully consider the opportunity to exercise their voting rights at the AGM by voting in advance (so called postal voting). Any updated information will be published on HEXPOL AB's website www.hexpol.com.

Shareholders who wish to participate in the AGM must

- be registered in the shareholders' register maintained by Euroclear Sweden AB no later than 20 April 2022,
- notify the Company of their participation by mail to HEXPOL AB, "Annual General Meeting", c/o Euroclear Sweden, Box 191, SE-101 23 Stockholm, by telephone on +46 (0)8-402 90 49 or via the website www.hexpol.com, or submit a postal vote, no later than 22 April 2022.

Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than 20 April 2022 to be entitled to participate in the AGM. The trustee should therefore be notified in due time before said date.

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

Shareholders exercising their voting rights by postal voting are not required to notify the company separately of their participation in the AGM. The postal voting form is available on the company's website.

Proposal for dividend

The Board of Directors proposes to the Annual General Meeting of 28 April 2022 that a dividend of 6.00 SEK per share be paid, of which 3.00 SEK per share (2.30) represents an ordinary dividend and 3.00 SEK per share as an extra dividend

Annual Report

HEXPOL's Annual Report is distributed digitally and can be downloaded from www.hexpol.com. Shareholders wishing to receive a printed copy should send their name and address to ir@hexpol.com or place their order directly with HEXPOL AB via the website www.hexpol.com.

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

Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

ACTIVITY	DATE
Interim report January–March 2022	28 April
Annual General Meeting	28 April
Interim report January–June 2022	15 July
Interim report January–September 2022	21 October
Year-end report 2022	February 2023



HEXPOL AB is a public company. Corp. Reg. No. 556108-9631. Registered office in Malmö, Sweden.

Denna årsredovisning finns även på svenska. The Annual Report is published in Swedish and English. The Swedish version is the original and has been audited by HEXPOL's auditor. All values are expressed in Swedish kronor (SEK), unless otherwise stated. Swedish kronor is abbreviated SEK, thousand of Swedish kronor as TSEK and millions of Swedish kronor as MSEK. Figures in parentheses refer to the preceding year, 2020, unless otherwise stated.

HEXPOL reports sustainability for 2021 in accordance with the GRI Standards, Global Reporting Initiative guidelines for sustainability reporting, Core option.

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



The Annual Report is produced by HEXPOL in collaboration with RHR Corporate Communication. Graphic design by G-byråen Sverige.

The Annual Report is printed by Taberg Media Group on Munken Kristall paper from Arctic Paper Munkedals AB, one of the most environmentally friendly paper mills in the world. The paper is made from raw materials from sustainable forestry and meets the requirements for both FSC, PEFC and the EU Ecolabel.

HEXPOL is a world leading polymer group, with strong global positions in advanced polymer compounds, gaskets for plate heat exchangers and wheels made of polymer materials for forklifts and castor wheel applications.

Customers are primarily global suppliers to the automotive and engineering industries, the construction and civil engineering industries, and in sectors such as transport, energy, oil/gas and consumer products, as well as the cable and wire industry and medical technology manufacturers, plate heat exchangers and forklifts.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products. The HEXPOL Group generated sales of 16,005 MSEK in 2021 and the Group has some 4,800 employees in 14 countries.



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