



HEXAGON  
COMPOSITES

# ANNUAL REPORT

2015

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# HEXAGON COMPOSITES ASA

## HEX.0L

Hexagon Composites ASA is a globally leading supplier of composite pressure cylinders for gas applications. The most important advantages of our products are light weight, high capacity, a long lifetime and a high level of safety.

*“ The increasing global focus on lower emissions and reduced particulates will drive demand for natural gas, biogas and hydrogen in the coming years.”*

### WORKFORCE

428



### MODERN AND AUTOMATED PLANTS



NORWAY

USA

### OPERATING INCOME

1,444

MNOK

### NET PROFIT

4.6

MNOK

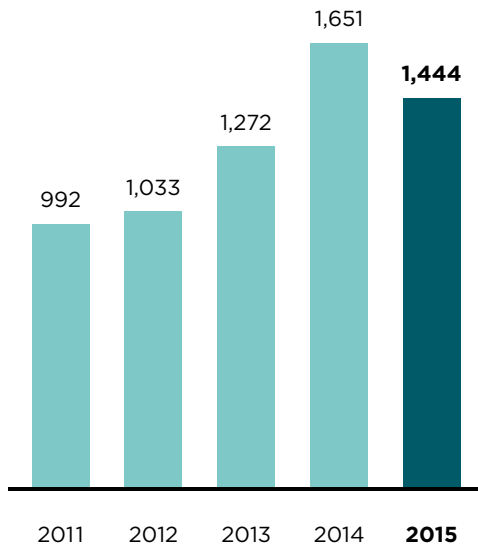
### EQUITY RATIO

39.8

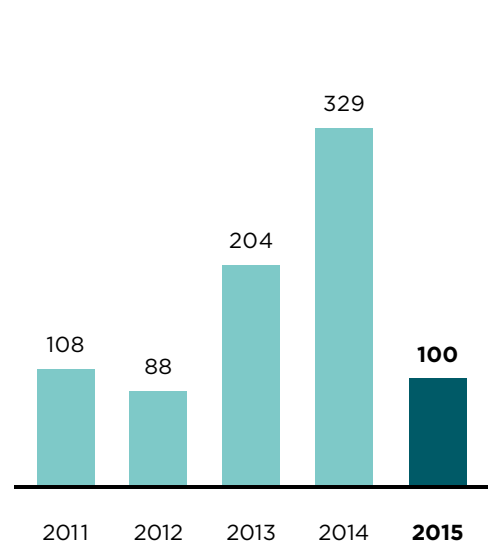
%

## KEY FIGURES

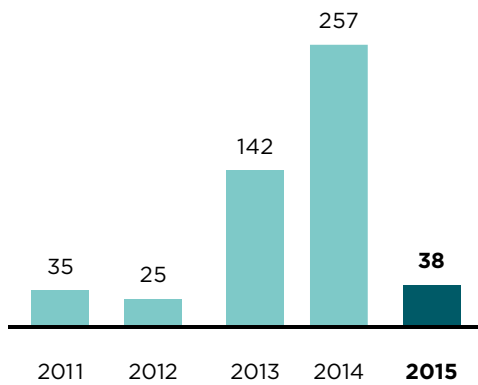
OPERATING INCOME MNOK



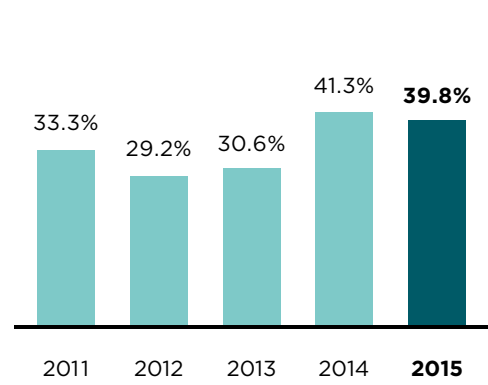
EBITDA MNOK



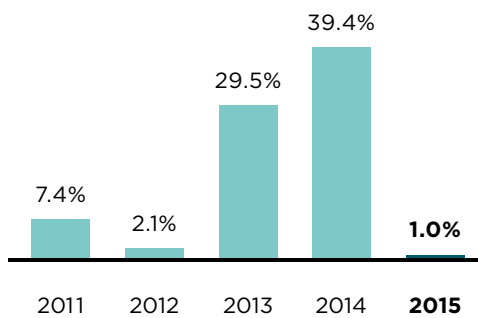
EBIT MNOK



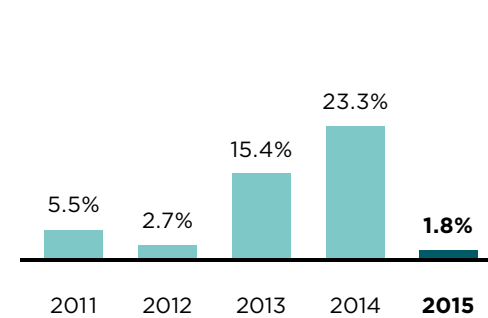
EQUITY RATIO %



RETURN ON EQUITY %



TOTAL RATE OF RETURN %



Consolidated figures for 2013-2015 from continuing operations.  
 Consolidated figures for 2012 and previous years as previously reported.

## KEY FIGURES

(NOK 1 000)

<b>REVENUES AND PROFIT</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating income	1 443 873	1 650 829	1 271 621	1 032 984	991 791
Operating profit before depreciation (EBITDA)	100 119	329 151	204 362	87 799	108 048
Operating profit (EBIT)	37 513	256 788	142 064	24 587	35 307
Profit before tax	291	237 419	128 443	8 241	28 357
Profit after tax	4 563	164 672	89 643	5 447	19 063
<b>CAPITAL 31.12</b>					
Total assets	1 180 789	1 179 615	1 137 346	887 971	796 606
Equity	470 138	487 109	348 564	259 488	264 898
Equity ratio (1)	39.8 %	41.3 %	30.6 %	29.2 %	33.3 %
<b>PROFITABILITY AND RATE OF RETURN</b>					
Cash flow from operations	41 276	175 908	158 575	116 295	117 360
Operating margin (2)	2.6 %	15.6 %	11.2 %	2.4 %	3.6 %
Return on equity (3)	1.0 %	39.4 %	29.5 %	2.1 %	7.4 %
Total rate of return (4)	1.8 %	23.3 %	15.4 %	2.7 %	5.5 %
NIBD/EBITDA (5)	3.0	0.3	1.0	3.2	3.1
<b>SHARES</b>					
Share capital	13 329	13 329	13 329	13 329	13 329
Total number of shares per 31.12	133 294 868	133 294 868	133 294 868	133 294 868	133 294 868
Earnings per share (6) (NOK)	0.03	1.24	0.67	0.04	0.14
Cash flow per share (7) (NOK)	0.31	1.33	1.19	0.87	0.88
Equity per share (8) (NOK)	3.56	3.67	2.62	1.95	1.99

Consolidated figures for 2013-2015 from continuing operations.

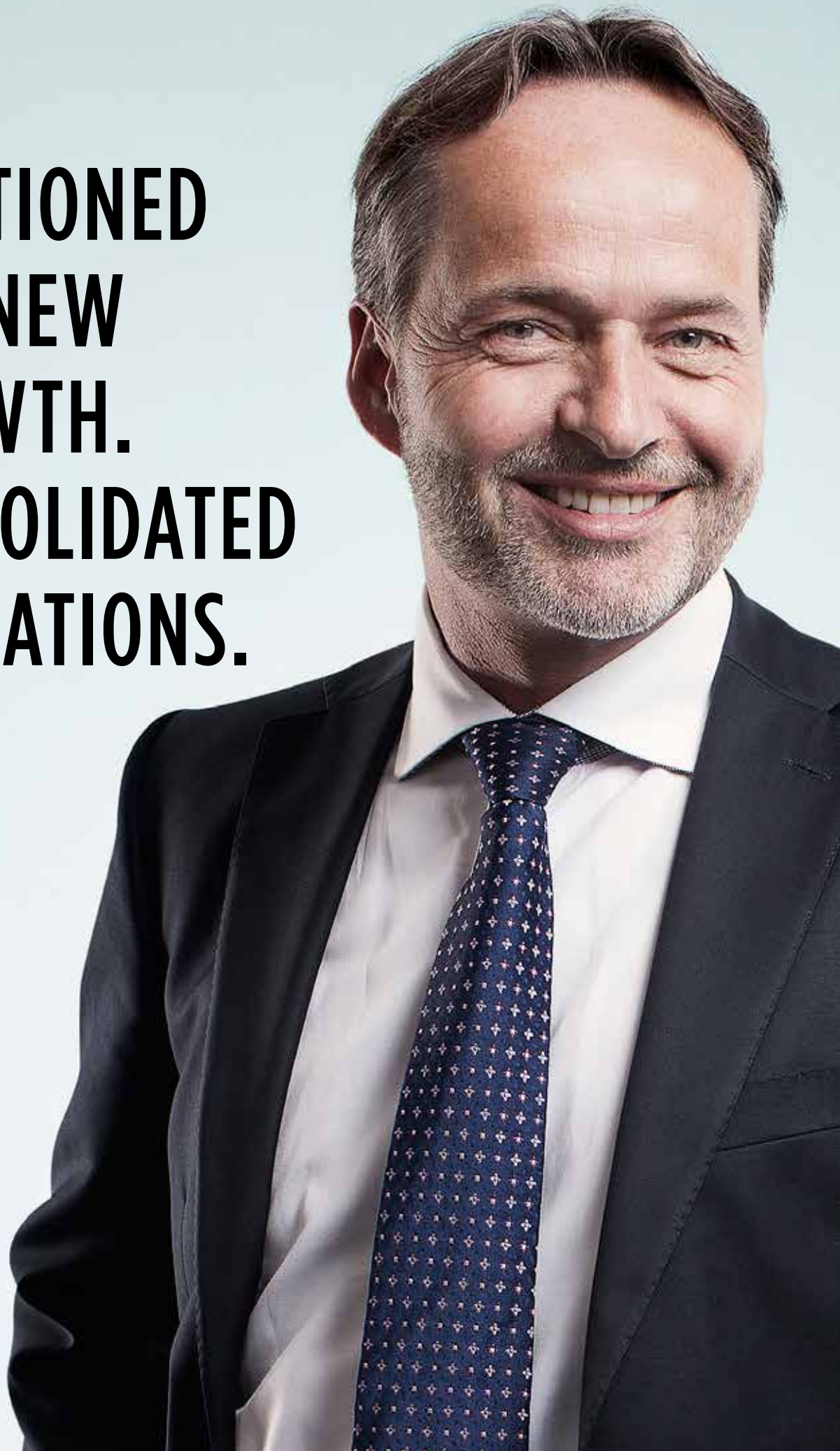
Consolidated figures for 2012 and previous years as previously reported.

### DEFINITION OF KEY FIGURES

- 1) Shareholders' equity as a percentage of total assets.
- 2) Operating profit as a percentage of operating income.
- 3) Profit after tax divided by average shareholders' equity.
- 4) Profit before tax + interest expense divided by average total assets.
- 5) Net interest-bearing debt divided by EBITDA.
- 6) Net profit for the year divided by average number of shares outstanding.
- 7) Net cash flow from operations divided by average number of shares outstanding.
- 8) Shareholders' equity divided by average number of shares outstanding.

Words from the Group President

**POSITIONED  
FOR NEW  
GROWTH.  
CONSOLIDATED  
OPERATIONS.**



Hexagon Composites maintains an expectation of significant growth despite the impacts of low oil and diesel prices experienced recently. The increasing global focus on lower emissions and reduced particulates will drive demand for natural gas, biomethane, hydrogen and other alternative fuels in the coming years. In 2015 Hexagon Composites consolidated its operations to position itself for this growth.

#### 2015 AT A GLANCE

2015 has been a strong year for our Heavy-Duty Vehicles segment, despite the narrowing price delta between natural gas and oil. The market remains robust. Existing end customers remain committed to their programs, however adoption rates by new customers have been slower than previously estimated. We expect this to change when the price of oil rebounds.

Strong sales in 2015 were driven by the new 27-inch diameter cylinder in North America, which was launched in the beginning of the year. High demand for CNG-powered transit buses in the US and Europe was also a main factor. We see increasing momentum in the Asian and South American bus markets, mainly in response to environmental concerns.

Our Mobile Pipeline™ business faced challenging market conditions throughout the year, which resulted in a substantial reduction in realized orders. North American orders from the oil and gas sector have stopped, and general macro-related uncertainties have delayed investment decisions in Latin America. We continue to expect significant growth opportunities in these markets medium and long term, but have limited visibility at this point in time.

Hydrogen fuel cell vehicles are essential to the global low-carbon, low-emission future. We are well positioned across the hydrogen value chain with strong operations supporting passenger cars, transit buses, ground storage and backup power solutions. We expect increasing momentum during 2016.

In 2015 Hexagon Ragasco entered several new geographical markets. We expect this to support our strategy of improved capacity utilization in the second half of the year, which historically has been slow due to seasonality in Europe. Long-term agreements suggest composite cylinders are the preferred choice of many LPG resellers.

**Words from the Group President****ADDING CUSTOMER VALUE**

Our customers have asked for flexibility with regards to financing and marketing. In response, we have introduced leasing solutions together with partners for our Mobile Pipeline™ customers, and we are leveraging financing available through export credit agencies for markets worldwide. Hexagon Ragasco has made investments enabling custom designs, dimensions and branding possibilities that will support its customers' marketing efforts.

**STAYING AGILE**

In the second half of 2015 it was necessary to take cost saving measures in the Group. This mainly affected the High-Pressure Cylinders business area. Hexagon Raufoss restructured its operating model to achieve profitable operations in the European Light-Duty Vehicles segment by integrating operations with Hexagon Ragasco. Hexagon Lincoln implemented programs targeting fixed and indirect costs while continuing its efforts to reduce material costs without compromising safety. Both of these measures included a reduction in workforce.

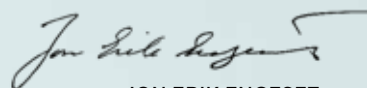
**DRIVING SUSTAINABILITY**

Natural gas and biomethane are key to reducing local pollution and carbon emissions. The use of Natural Gas Vehicles (NGVs) is growing strongly across the globe. We are also seeing a strong interest in developing the hydrogen market. Decades of research and development on hydrogen transportation and storage solutions has prepared us for a leadership position in this field.

**PREPARING FOR THE FUTURE**

On 29 February 2016 we announced that an agreement has been entered into with Mitsui & Co. whereby they will assume around 25% ownership of Hexagon Composites. We are very proud to have such a highly reputed global company as a significant shareholder. The deal will significantly strengthen our balance sheet and prepare us for both organic and non-organic growth in the years ahead.

I am grateful for the hard work and dedication of our employees during a challenging year. As we look towards our actions in repositioning the Company for 2016 and beyond, I express my sincere thanks for the cooperation and support from our shareholders and other key stakeholders during 2015.



**JON ERIK ENGESET**  
Group President

# IMPORTANT EVENTS IN 2015

## Q1

### THE MARKET

- Record delivery volumes for Heavy-Duty Vehicle operations.
- Softer Mobile Pipeline™ sales due to order postponements.
- Hexagon Lincoln launched new 27-inch cylinder, its largest and lightest vehicle fuel tank to date.

### PRODUCTION

### ANNUAL PROFIT 2014

- Reasonable capacity utilization in the Low-Pressure Cylinders segment.
- Operating income increased 30% from 2014 to NOK 1,650.8 million.
- EBIT was NOK 256.8 million and profit after tax was NOK 164.7 million.

## Q2

### THE MARKET

- Continued soft Mobile Pipeline™ sales due to order postponements.
- Consecutive record-delivery performance in the quarter for Heavy-Duty Vehicle operations.

### PRODUCTION

### FINANCIAL MEASURES

- Continued good capacity utilization in the Low-Pressure Cylinders segment.
- Bondholder's Meeting approved early redemption of NOK 300 million bond.
- Secured extended financing facilities in a club-deal that increased financing capacity from NOK 685 million to NOK 1 billion on an unsecured basis.

### DIVIDEND

- Dividend of NOK 0.62 per share paid for 2014.

## Q3

### THE MARKET

- Awarded extension of MAN Truck & Bus supplier nomination for global transit bus market.
- Released 16-inch all-carbon cylinder for transit bus and refuse truck market.
- Secured new long-term Low-Pressure Cylinders distribution agreement with Gasco in Saudi Arabia.

### PRODUCTION

### OPERATIONS

- Good capacity utilization in the Low-Pressure Cylinders segment.
- Operating losses driven by very weak Mobile Pipeline™ and low seasonal Low-Pressure Cylinders sales.
- Restructured European Light-Duty Vehicles business unit according to plan.
- Initiated additional program of cost saving initiatives to enhance weak short-term profitability.

## Q4

### THE MARKET

- Nominated by a leading international vehicle modifier, to supply CNG fuel tanks to passenger vehicles in Europe.

### OPERATIONS

- Profitability was restored, though at lower levels than in the previous year.
- All restructuring and cost initiatives completed.

## Q1 2016

### THE MARKET

- Awarded extension of long-term agreement with New Flyer Industries for the North American transit bus market.

### OPERATIONS

- Established a separate business unit for Hydrogen storage and transportation systems.

### M & A

- Acquisition of 67 % of a Brazilian entity to pursue fuel systems opportunities for transit buses and heavy-duty trucks.

### INVESTMENT

- The Group announced proposed private placement of new shares and strategic cooperation agreement with Mitsui & Co., Ltd.

## BOARD OF DIRECTORS

**KNUT FLAKK**  
Chairman

MSc (BI Norwegian Business School) and MBA (London Business School). Knut Flakk owns the Flakk Group and has extensive experience from establishing, developing and operating industrial companies both in Norway and internationally. He has been the CEO of the Flakk Group since 1996.

Number of shares: 44,429,038

**KRISTINE LANDMARK**  
Deputy Chair

MSc (NHH, Norwegian School of Economics), Managing Director of Slettvoll Møbler AS. Kristine Landmark has extensive experience from various management positions within the banking and furniture industries. She is a board member of several corporate groups, companies and associations. Independent board member.

Number of shares: 10,000

**MAY BRITT MYHR**  
Board member

Cand Scient (MSc) in Chemistry (NTNU), Head of Department Petroleum Engineering, University of Stavanger. Myhr has long experience from oil and gas research and development, including CEO of SINTEF Petroleum. She has been member of a wide range of boards, including Aker Exploration ASA, Sevan Marine ASA and MultiClient Geophysical ASA. Independent board member

Number of shares: 0

**TOM VIDAR RYGH**  
Board member

MSc (NHH, Norwegian School of Economics), Senior Advisor and partner at Nordic Capital. Tom Vidar Rygh has more than 30 years of experience within finance and industry. He has previous experience as chairman or member of a wide range of boards including Telenor ASA, Oslo Stock Exchange and Storebrand ASA. Independent board member

Number of shares: 50,000

**SVERRE NARVESEN**  
Board member

Civil Engineer, Head of Norwegian Centres of Expertise, Raufoss Industrial Cluster. Sverre Narvesen has 15 years experience from various management positions within the fields of Automotive and Defence at Raufoss ASA. He holds board positions in several industrial companies and has experience developing innovation companies. Independent board member.

Number of shares: 0



## EXECUTIVE MANAGEMENT



**JON ERIK ENGESET**  
CEO & President

M.Sc. and MBA (NHH), Appointed CEO & President in 2013. Previously, Jon Erik Engeset was the CEO of SafeRoad. He has extensive experience from various senior managerial positions at Rolls Royce and Norsk Hydro.

Number of shares: 420,867  
Number of options: 150,000



**DAVID BANDELE**  
CFO

Bachelor of Economics from the University of Sheffield, qualified Chartered Accountant (ACA). Appointed CFO in 2014. Bandele has held several senior positions in the field of finance and controlling, previously as CFO of Aker Floating Production ASA. He has extensive manufacturing and supply-chain experience from General Electric Healthcare.

Number of shares: 32,745  
Number of options: 100,000



**TORE J. FJELL**  
Senior Vice President

M.Sc./BA. Tore J. Fjell has extensive experience from various management positions at Elkem and Orkla and as Director of Oslo Stock Exchange with responsibility for listed companies. He has previously been a board member at Hexagon Composites.

Number of shares: 775,131



**JACK SCHIMENTI**  
President  
High-Pressure Cylinders CNG & CHG

Bachelor Degree in Industrial Engineering. Jack Schimenti has been employed at Hexagon Lincoln since 2005 and assumed the position as President in 2010. He has extensive experience from production processes for composites.

Number of shares: 60,341  
Number of options: 100,000



**SKJALG SYLTE STAVHEIM**  
Managing Director  
Low-Pressure Cylinders LPG

Degree in Business Administration from BI Norwegian Business School. Skjalg Sylte Stavheim has been employed at Hexagon Ragasco since the beginning of 1996 and assumed the position as Managing Director in 2013. He also has experience from Delta Consult, Norbok and Raufoss ASA.

Number of shares: 144,715  
Number of options: 50,000

◀ *The Board of Hexagon Composites from the left: Kristine Landmark, May Britt Myhr, Knut Flakk, Tom Vidar Rygh and Sverre Narvesen.*

This is Hexagon Composites

# STRENGTHENING OUR GLOBAL LEADERSHIP

The technology group Hexagon Composites is a leading global supplier of composite pressure cylinders for gas applications. The value-added features we offer are light weight, high capacity, long lifetime and a high level of safety. We are working with leading gas distributors, vehicle manufacturers, and system and component suppliers to be at the forefront of our industry. Our ambition is to create value for customers, owners and other key stakeholders by delivering innovative and cost-effective solutions through sustainable business practices.

## HIGH-PRESSURE CYLINDERS CNG & CHG

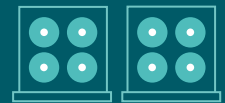
CNG  
Automotive



Mobile  
Pipeline™



Hydrogen Storage  
and Transportation  
Systems



## LOW-PRESSURE CYLINDERS LPG

Composite  
LPG Cylinders



Hexagon Composites ASA is listed on the Oslo Stock Exchange under the ticker HEX (HEX.OL). Based in Ålesund, Norway, the Group has 428 employees and generated NOK 1,444 million in operating income in 2015. Production is carried out in modern, automated plants in Norway and the US.

### **BUSINESS SEGMENTS**

Hexagon Composites is comprised of two focused business segments: High-Pressure Cylinders CNG & CHG and Low-Pressure Cylinders LPG. Our organization structure reflects the characteristics of the market segments, the areas of application, and the nature of our products.

#### **HIGH-PRESSURE CYLINDERS CNG & CHG**

##### **CNG Automotive – Fuel cylinders for vehicles**

Hexagon Composites designs and manufactures high-pressure composite fuel cylinders for trucks, transit buses, and light-duty vehicles. Our cylinders are mainly used for Compressed Natural Gas (CNG), compressed biogas, and Compressed Hydrogen Gas (CHG).

Light weight, compact size, and superior safety make our TUFFSHELL® cylinders an attractive alternative for the Natural Gas Vehicle (NGV) market. Our Type 4 composite cylinders are around 30% the weight of steel cylinders. This, combined with lower emissions, reduced particulates, and lower fuel costs of gas powered engines, gives our customers a competitive edge while reducing the environmental impact of their operations.

##### **Mobile Pipeline™ - Gas transportation and storage**

Hexagon Composites designs and manufactures high-pressure composite cylinders and systems for the transportation and storage of CNG, biogas, and CHG.

Our TITAN® and SMARTSTORE® systems are designed for bulk transportation of natural gas. Light weight and high storage capacity make these systems ideal for customers that require large volumes of gas at a high flow rate, but are not currently served by pipeline. With four times more capacity and 30% the weight of steel tubes, our cylinders are more economical in use under most conditions. This enables a faster return on investment.

#### **Hydrogen**

Hydrogen is considered one of the most important clean energy carriers emitting no greenhouse gases during use. Hexagon Composites has strengthened its hydrogen-related operations and continues to work with numerous partners – OEMs, Hydrogen Refueling Stations (HRS) owners, and government bodies – to develop our hydrogen storage and transportation solutions.

Hexagon Composites is well positioned across the hydrogen value chain with vehicle tanks for cars and buses, ground storage, transportation, and backup power solutions. The Company expects strong momentum over the coming quarters.

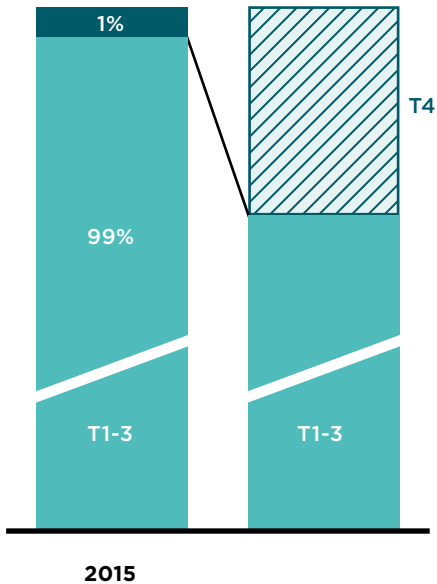
#### **LOW-PRESSURE CYLINDERS LPG**

We design and manufacture low-pressure composite cylinders for LPG (propane and butane) used for cooking, heating, and recreation worldwide, as well as fuel cylinders for forklift trucks in selected markets. As the world's leading manufacturer of LPG composite cylinders, we have sold more than 10 million units to over 70 countries in the last 15 years.

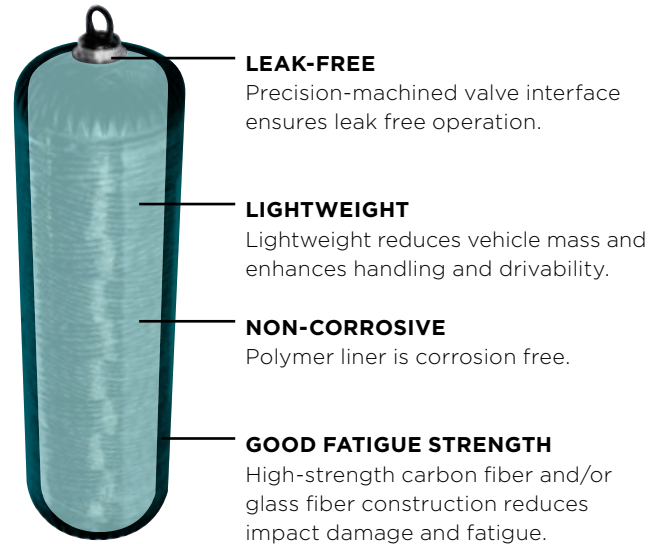
Our state-of-the-art production facilities deliver products with value-added advantages over traditional steel cylinders including light weight, durability, safety and user-friendliness.

This is Hexagon Composites

**TYPE 4 CYLINDER FUTURE ADOPTION**



**PROVEN TYPE 4 TECHNOLOGY**



**A MARKET DRIVEN BY ECONOMIC AND ENVIRONMENTAL CONSIDERATIONS**

The rapid increase in the use of natural gas for fuel worldwide over the last several years has resulted in strong, long-term growth trends in our niche markets. Although recent volatility in oil prices and uncertain macro factors have influenced parts of our business near-term, the fundamental market drivers remain robust.

The environmental benefits of reduced particulate matter (PM), NOx emissions and greenhouse gases (GHG), especially in cities, continue to motivate adoption of alternative fuels. In addition, the stability of CNG prices remains attractive compared to volatile oil-derived alternatives.

**Two major market shifts**

Two major market shifts are driving the future growth of Hexagon Composites. First, industries are moving from liquid to gaseous fuel. Second, an increasing number of end users are moving from steel technology to lighter, safer, and more durable composite alternatives.

**INNOVATION AND COST-EFFECTIVE PRODUCTION**

Product and process innovation, along with highly automated and efficient production, are core competitive strengths underlying our global leadership. Differentiation through innovation is essential to grow market share and margin contribution. We work closely with customers and suppliers to excel in these areas.

**EXPERTISE**

Innovation, ambition, and expertise are critical success factors for our business. We encourage diversity in our hiring practices with a goal to hire people with different backgrounds and the expertise necessary to develop our business. We emphasize empowerment, and a flat organization structure that recognizes employee accomplishments and enables them to thrive.

EXPANDING INTERNATIONAL COVERAGE

31 DECEMBER 2015

 428



HEXAGON LINCOLN,  
LINCOLN, NE, USA



274



17,000 m<sup>2</sup>



HEXAGON COMPOSITES  
BRAZIL LTDA, SAO PAULO,  
BRAZIL\*



9\*



400 m<sup>2</sup>



HEXAGON  
COMPOSITES  
ÅLESUND, NORWAY



11



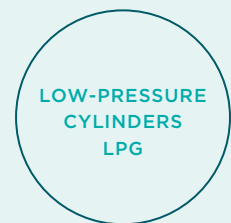
HEXAGON RAUFOSS,  
HEXAGON BUS SYSTEMS,  
RAUFOSS, NORWAY



28



3,000 m<sup>2</sup>



HEXAGON RAGASCO,  
RAUFOSS, NORWAY



115



5,000 m<sup>2</sup>

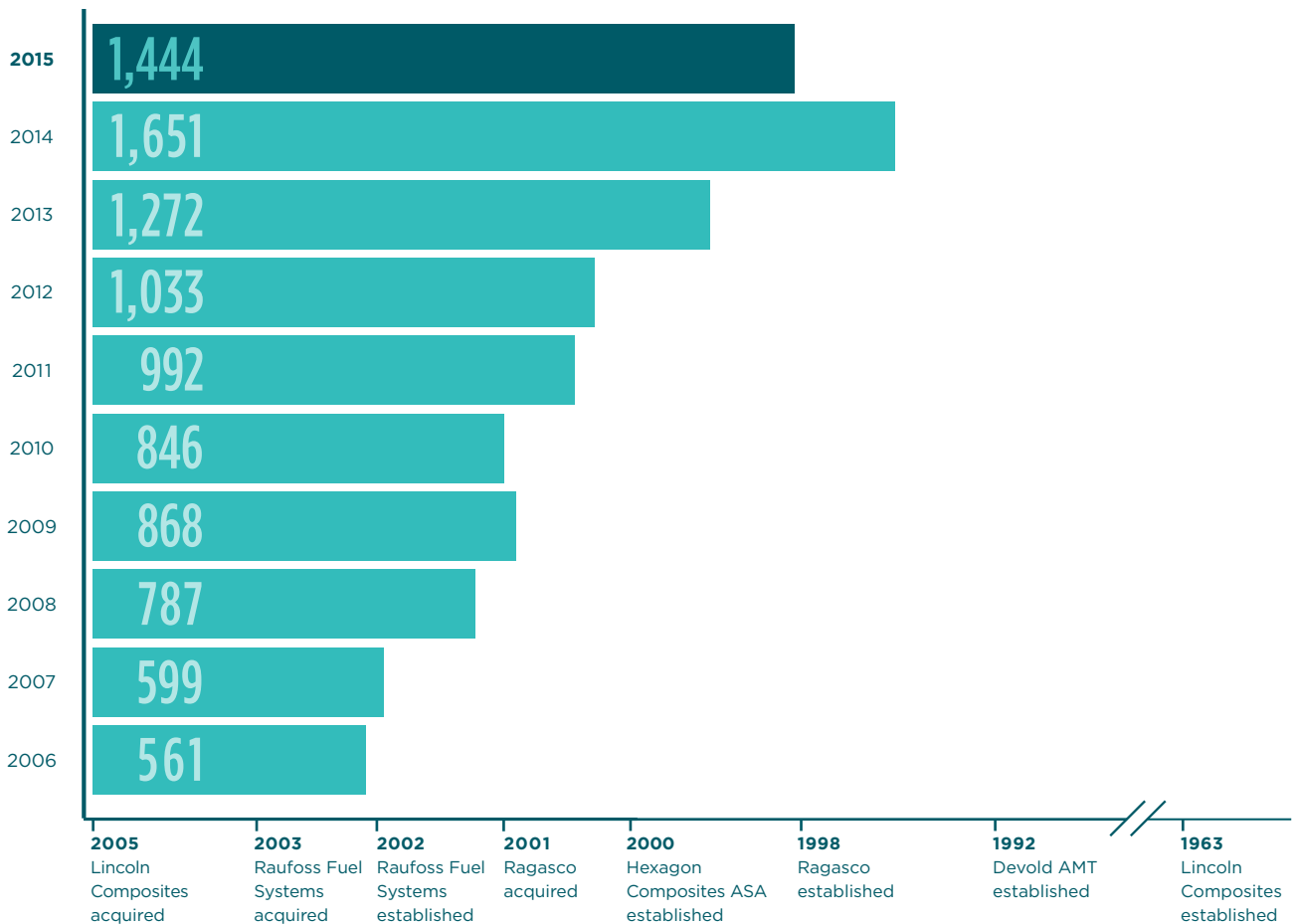
● Hexagon administration and production sites  
● Sales offices and representatives: Sweden, Denmark, Germany, Austria, Spain, Russia, India, Singapore and USA

\* Acquired 67% of Hexagon Composites Brazil Ltda. in first quarter 2016

History

# SOLID EXPERIENCE IN A GROWING MARKET

**OPERATING INCOME**  
NOK MILLION



**1999**

Flakk Group became the largest owner of publicly listed Norwegian Applied Technology ASA in which Comrod (composite antennae) was a central member. The Flakk Group was already the largest owner of Devold AMT AS, a world leader in multiaxial glass and carbon fibre reinforcements and therefore saw the opportunities for growth in the composite industry.

**2000**

Norwegian Applied Technology ASA was merged with Devold AMT AS. The Group changed its name to Hexagon Composites, and the headquarters moved from Stavanger in Norway to Ålesund, Norway. The aim was to achieve a listed group which had the strength to make further acquisitions of industrial companies with composites expertise and global potential within niche markets.

**2001**

The Group acquired Ragasco, a leader in the development and production of composite LPG cylinders based in Raufoss, Norway.

**2003**

The Group acquired Raufoss Fuel Systems from Raufoss ASA. The company supplies high-pressure cylinders for gas-powered buses with a market focus in Europe.

**2005**

The Group acquired Lincoln Composites from General Dynamics, both located in Nebraska, USA. The company operates in the same business area as Raufoss Fuel Systems, with its main focus on the American and Asian markets.

**2006**

Comrod acquired Eltek Defence and Lerc to extend its product portfolio. Devold AMT established new production facilities in Lithuania and the US to exploit the growth in Devold AMT's most important market segment, the wind power industry.

**2007**

The business area for composite antennae demerged and was listed separately as Comrod Communication ASA.

**2009**

A new factory with two production lines for high-pressure cylinders opened in Nebraska, USA.

**2010**

Ragasco's new production line for LPG cylinders opened in Raufoss. Hexagon acquired Composite Scandinavia, a Swedish company that produces low-pressure LPG cylinders.

**2012**

Remaining production of composite reinforcements in Norway was relocated to the company's factory in Lithuania. The CNG passenger car division demerged from Ragasco and merged with Hexagon Raufoss. Production of LPG cylinders at Composite Scandinavia in Sweden was closed down. The production volume was transferred to Raufoss and the production equipment was sold to a joint venture company in Russia.

**2013**

Hexagon Composites performed a re-branding and implemented a uniform profile throughout the Group. This year marked our entry into the Russian, LPG cylinders market.

**2014**

Hexagon Devold was sold to Saertex GmbH & Co. KG so the Group could focus on further development of the pressure cylinder business. A capacity expansion program in Nebraska, USA commenced during the year. The company acquired MasterWorks in Maryland, USA, securing key technology and enhanced engineering capacity.

**2015**

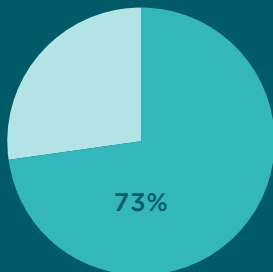
Hexagon Raufoss restructured its operating model to achieve profitable operations. The company was operationally integrated with Hexagon Ragasco to take advantage of synergies between the two entities. Other initiatives on optimizing our cost base were enacted to drive profitability in the challenging operating climate caused by uncertainty in the market following significant oil price volatility.

High-Pressure Cylinders for CNG &amp; CHG

# ENGINEERING SOLUTIONS FOR THE WORLD'S ENERGY NEEDS

## OPERATING INCOME MNOK

# 1,047



- High-Pressure Cylinders CNG & CHG
- Low-Pressure Cylinders LPG

EBIT  
MNOK

# -13.4

## KEY FIGURES

(NOK)

	2015	2014
Operating income	1 047 350	1 098 337
EBITDA	35 776	216 295
EBIT	-13 398	183 940
EBITDA %	3.4 %	19.7 %
EBIT %	-1.3 %	16.7 %

### HEXAGON LINCOLN, LINCOLN, NE, USA



## 274



## 17,000 m<sup>2</sup>

TUFFSHELL®  
TITAN®  
SMARTSTORE®

### HEXAGON RAUFOSS HEXAGON BUS SYSTEMS, RAUFOSS, NORWAY



## 28



## 3,000 m<sup>2</sup>

CNG passenger car  
TUFFSHELL® bus  
systems installation

Hexagon Composites is the global leader in Type 4 high-pressure composite cylinders for the storage and transportation of gas in natural gas vehicles (NGVs) and mobile pipelines. Our wholly-owned subsidiaries, Hexagon Lincoln, Hexagon Bus Systems and Hexagon Raufoss, design and manufacture Type 4 cylinders and gas distribution systems at modern automated facilities in Lincoln (Nebraska, USA) and Raufoss (Norway). Our cylinders are primarily used for compressed natural gas (CNG), biomethane and compressed hydrogen gas (CHG).

**Our products are 30% the weight of steel cylinders. This — combined with lower emissions, reduced particulates and lower fuel costs of gas-powered engines — makes our customers more competitive and reduces the environmental impact of their operations.**

#### **BENEFITS TO THE BOTTOM LINE AND THE ENVIRONMENT**

Demand for our products is driven by the price of natural gas and the environmental benefits of alternative fuels. Consumers are looking to control their fuel costs, and the stability of natural gas prices compared to volatile oil-derived fuels allows them to do so. In addition, increased global focus on vehicle emissions attracts investments in adopting natural gas, biomethane and hydrogen.

#### **OPERATING RESULTS**

The High-Pressure Cylinders business area generated NOK 1,047.4 (1,098.3) million in operating income and made an operating loss (EBIT) of NOK -13.4 (183.9) in 2015. Growth in sales of our TUFFSHELL® fuel cylinders for the heavy-duty truck and transit bus market had a positive influence on developments for the year. Weak sales of our Mobile Pipeline™ solutions, as well as our European Light-Duty Vehicles business unit, affected operating results negatively.

Read more about the financial results in the Board of Directors' Report.

#### **KEY DEVELOPMENTS AND IMPORTANT EVENTS 2015**

- Achieved consecutive year-to-year growth in sales to the heavy-duty truck and transit bus markets, despite low oil and traditional fuel prices.
- Experienced soft Mobile Pipeline™ sales due to macro factors impacting the North American and Latin American markets.
- Released two key next-generation all-carbon CNG high-pressure cylinders for the heavy-duty vehicle market.
- Successfully developed and launched new TITAN® XL, world's largest capacity CNG trailer
- Awarded extension of MAN Truck & Bus supplier nomination for global transit bus market.
- Restructured European Light-Duty Vehicles business unit at Raufoss according to plan.
- Nominated by a leading international vehicle modifier to supply CNG fuel tanks to passenger vehicles in Europe.
- Increased number of projects and market opportunities in Hydrogen business unit.

#### **OBJECTIVES ACHIEVED IN 2015**

- Reinforced dominant US position in Natural Gas Vehicle (NGV) market for Class 8 tractor-trailer vehicles, mainly driven by launch of 27-inch cylinder.
- Reached record sales in transit bus segment.
- Launched next-generation, all-carbon cylinders.
- Strengthened hydrogen-related operations.
- Implementation of Lincoln expansion program adjusted according to market demand.
- Implemented R&D Center of Excellence in Lincoln, with effective prioritization of R&D initiatives.

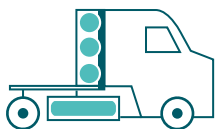
#### **STRATEGY**

Hexagon Composites intends to remain the market leader in design, development, production and sales of Type 4 high-pressure CNG and CHG cylinders. We comply with the strictest safety standards and strive to be at the forefront of sustainability and reliability. We aim to be the preferred partner for new technology and infrastructure, cooperating with key players who drive innovation in the industry. Highly-automated production enables us to provide customers with high-quality and cost-competitive solutions as the market grows. The expansion program in Lincoln will secure ample capacity to meet demand for high-pressure fuel cylinders throughout 2016 and beyond.

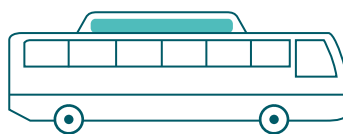
Furthermore, we intend to remain the global leader in distribution systems for road transportation of CNG beyond the pipeline. We see great potential in this vast and unexplored market. Our TITAN® and SMARTSTORE® products allow CNG, biomethane and hydrogen to compete effectively against pipeline gas, liquefied natural gas (LNG) and oil-derived fuels. We will continue to promote CNG as the preferred energy for off-pipeline and high-horsepower energy consumers. We will also look to expand CNG as a fuel in rail and marine applications.

Hydrogen is considered an essential part of the fuel mix required for the green transition. Hexagon Composites has already taken a significant role in shaping the Hydrogen storage industry and is well positioned across the Hydrogen value chain with cylinders for passenger and commercial vehicles, ground storage, transportation and backup power solutions. The establishment of a separate business unit as of 2016 was done to further strengthen our organizational capability to lead the development of a new high-growth market niche.

## High-Pressure Cylinders for CNG &amp; CHG



Heavy-Duty Trucks



Transit Buses

## CNG AUTOMOTIVE — FUEL CYLINDERS FOR VEHICLES

Hexagon Composites all-composite fuel tanks for trucks, transit buses and light-duty vehicles are around 30% the weight of steel cylinders. This combined with lower emissions and lower fuel costs of gas powered engines, gives our customers a competitive edge while reducing the environmental impact.

### HEAVY-DUTY TRUCKS

Light weight, superior safety, durability and high capacity make our TUFFSHELL® cylinders an attractive solution for the heavy-duty truck market. The US is our primary market, with TUFFSHELL® cylinders installed in Class 7 and 8 tractor-trailers, refuse collection trucks and other heavy-duty truck platforms.

#### Market

The North American heavy-duty truck market experienced solid sales in 2015 despite continued low oil and diesel prices. Record volumes were mainly driven by sales of our new 27-inch diameter cylinder and renewed orders from existing major customers.

Several factors contributed to the continued strong performance of this sector. First, the environmental benefits of reduced particulate matter (PM), NOx emissions and greenhouse gases (GHG), continue to attract customers and investments in NGVs. Second, the stability of CNG prices remains appealing compared to volatile oil-derived alternatives. Third, strategic alliances among fuel systems providers, fuel station owners and truck manufacturers are reducing up-front costs and allowing faster returns on investments. These alliances are also improving products and services across the industry.

The North American heavy-duty segment remains robust, and we expect continued solid demand in this market. The Company will explore further heavy-duty opportunities in other markets traditionally served by steel cylinders. We believe the demonstrated benefits of high-pressure composite cylinders will outweigh the initial cost savings experienced with steel cylinders, resulting in a shift toward our products.

#### Competition

We are the global market leader for Type 4 CNG cylinders in the heavy-duty truck segment. Durability, safety, low weight and large capacity are important characteristics in the North American market. Our competitors are Type 3 and Type 4 cylinder manufacturers.

Natural gas continues to gain momentum in the US and the market shift toward CNG over LNG has been stronger than expected, which is a significant development for our company. Demand for LNG trucks has proven very soft, with the fuel price delta all but erased by low diesel prices and reduced CNG system costs.

### TRANSIT BUS

Modern CNG and biomethane low-floor buses equipped with our systems and cylinders are some of the most efficient, safest and cleanest transit buses available. Our primary markets are in Europe and North America, where more than 80% and 85% of gas-powered transit buses use our products respectively. Our roof-mounted bus systems lead the market in Europe, and TUFFSHELL® is the cylinder of choice for roof-mounted systems in North America. Interest from other markets has increased as low-floor transit buses have become increasingly popular worldwide.

#### Market

Sales to the transit bus markets in Europe and North America reached record levels in 2015. The Company was awarded a ten year extension of its global transit bus supplier nomination with MAN Truck & Bus AG in the second half of 2015. There has been steady growth in this market for a number of years due to an increased focus on environmentally-friendly public transportation. The market has been largely unaffected by oil price and the renewed global focus on emissions is likely to stimulate demand further.

In Europe, growth has been primarily driven by local demands for cleaner air quality. In North America, demand has been strengthened by low CNG prices and enhanced engine reliability. Global demand for bus systems is expected to remain strong, but also follow market specific trends for bus projects.

#### Competition

Hexagon Composites is the clear market leader in the European and North American transit bus markets. Our light-weight cylinders are a key deciding factor due to the stability demands for roof-mounted cylinders on low-floor buses. Our main competitors in both markets are Type 3 suppliers.



### Light-Duty Vehicles

#### LIGHT-DUTY VEHICLES

Hexagon Composites' cylinders are the ideal fuel tanks for light-duty vehicles due to their combination of safety, efficiency and durability. They are typically around 30% of the weight of steel, which reduces fuel consumption, extends vehicle range and provides better stability and handling. We mainly deliver cylinders to major passenger car manufacturers in Europe, with additional deliveries to North America, South East Asia and South America.

#### Market

The European Light-Duty Vehicle segment remained weak throughout the year mainly due to suspension of orders from a key customer due to plant restructuring activities as well as general low order income.

Hexagon Raufoss implemented a restructuring and down-sizing process to achieve profitable operations during this time, integrating operations with Hexagon Ragasco and taking advantage of synergies between the two businesses.

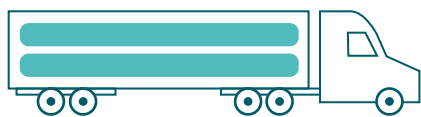
Despite weak order income in 2015, the medium- and long-term outlook for this market is positive. In fourth quarter 2015, Hexagon Raufoss was nominated by a leading international vehicle modifier to supply cylinders for a new NGV model. The first deliveries are targeted for second half of 2016, and the program is scheduled to run for up to seven years. The estimated overall delivery value is around NOK 150 million (approximately USD 18 million). This is a new customer to Hexagon Raufoss, and the nomination will further strengthen our position in the European NGV market.

Furthermore, a major OEM order for a new NGV model entering the market will revitalize the production and sales activities for Hexagon Raufoss in first quarter 2017 and onward. Two new cylinders have been developed with this OEM since end of 2014. The program is scheduled to run for up to six years.

#### Competition

Steel cylinders have been the predominant solution in the European light-duty market. However, increased global focus on vehicle emissions and incentives as well as vehicle taxes and duties on traditional vehicles, are expected to drive demand for lighter NGVs. Our light-weight cylinders, combined with our extensive systems knowledge, give us a competitive edge in this market.

## High-Pressure Cylinders for CNG &amp; CHG



TITAN®



SMARTSTORE®

## MOBILE PIPELINE™ — SOLUTIONS FOR OFF THE NETWORK

Hexagon Composites' Mobile Pipeline™ solutions offer distribution of CNG and biomethane off the pipeline network. TITAN® is highly effective in areas without a pipeline network, and SMARTSTORE® is ideal where large trailers are not permitted. Their light weight composite construction provides maximum payload within allowable gross vehicle road weight limitations.

### Market

Consolidated sales volumes of Mobile Pipeline™ solutions declined significantly in 2015 compared with the previous year. The demand for CNG in industrial, refueling, and exploration and production applications declined after a long period of growth.

In North America, CNG is the lower-cost fuel option to diesel for high-horsepower drill rigs and fracking pumps, but overall decrease in drilling and fracking activity did not support major investment in this area in 2015. Activity is expected to lag behind in 2016 as well. However, Mobile Pipeline™ did support successful flare capture projects in North Dakota. New emission regulations in the Bakken field and other oil and gas exploration areas in the US and globally will provide future opportunities for Mobile Pipeline™ products to play a key role in flare gas recovery.

In Latin America, general macro-related uncertainties have delayed project investment decisions. These conditions persist, however new opportunities such as off-pipeline refueling, landfill gas and replacement of propane continue to be sourced and developed.

In emerging markets, the strong US dollar made investments for many clients less competitive. Combined with political, financial and economic uncertainties, we saw a reduction in realized orders during the second half of 2015.

Despite these challenges, Hexagon Composites remains the market leader in large-scale production of composite storage and distribution products for compressed energy gases. This position is supported by a strong track record of safety, market-leading products and new developments with increased transport efficiency. In 2015 the Company introduced TITAN® XL, the largest capacity trailer in the

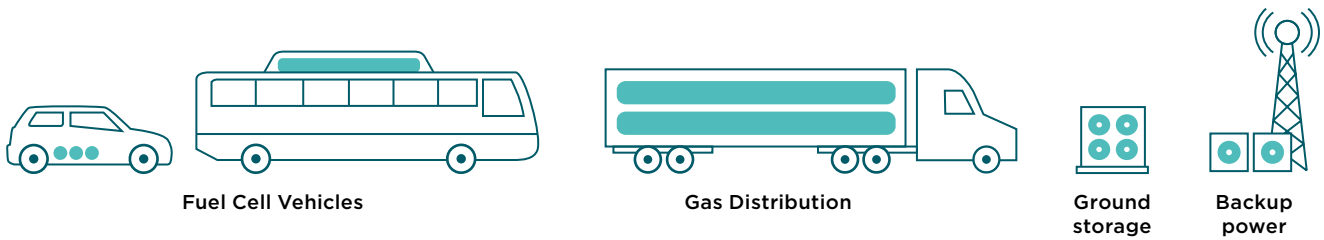
world to date, increasing CNG transport volume by 40% over the standard TITAN® product. It also created a more compact and efficient 20-foot SMARTSTORE® to support mid-sized commercial consumers distributing biomethane from off-grid production sites to carbon neutral refueling sites. The Company expects US DOT approval of both products in 2016.

Hexagon Composites expects significant growth opportunities in this market after the anticipated 2016 recovery. CNG remains the most economic fuel choice for industry and transportation. Mobile Pipeline™ solutions require low capital expenditures compared to pipeline installations, do not cause visual or environmental concerns, and can be deployed and redeployed within weeks.

The Mobile Pipeline™ division has several large projects on the horizon, but timeframes depend on how soon the markets rebound. During the interim, it will focus on continued awareness about the benefits of CNG. It expects to retain its strong market position when the market recovers.

### Competition

Mobile Pipeline™ products (TITAN® and SMARTSTORE®) are unique within the gas transportation sector because they enable greater load capacity at lower weight than competing solutions. In addition, superior design with fewer couplings and connections results in significantly lower operating costs. However, there is strong competition mainly from traditional steel cylinder solutions due to lower investment cost. There are also a limited number of competitors delivering Type 3 cylinders (aluminum inner liners) and Type 4 cylinders (plastic inner liners). However, these are much smaller than our TITAN® cylinders.



## HYDROGEN - THE FUTURE OF CLEAN ENERGY

Hydrogen is one of the cleanest fuels available as it emits no greenhouse gases during use. Hexagon Composites is well positioned across the value chain with products for fuel cell vehicles, ground storage, transportation and back-up power solutions. The low-fatigue cycling properties of composite pressure cylinders make them more suitable for storage than steel alternatives.

### Market

The High-Pressure Cylinders area has significantly strengthened its hydrogen-related operations during 2015, and continues to work with numerous partners (OEMs, refueling station builders and government agencies) to develop fuel storage and transportation solutions. Players in Germany, Japan, Korea and North America are leading in the development of hydrogen-powered cars and related refueling infrastructure.

The Company is experiencing high development activity and expects further increased momentum throughout 2016.

The High-Pressure Cylinders organization began reporting hydrogen-related operations within a separate business unit from the start of 2016. While the majority of 2015 income in this business unit was related to grants and funded development, there was approximately NOK 11.7 million of product sales to the European, North American and Asian markets.

### Fuel cell vehicles

A number of leading OEMs are introducing Hydrogen fuel cell vehicles (FCV) as an alternative to battery electric vehicles. The market potential for the FCV segment is significant. Given its strong presence and experience in the NGV market, FCVs are a natural expansion for the Company.

### Ground storage

The introduction of fuel cell vehicles will drive the demand for Hydrogen refueling stations (HRS), which will generate good market opportunities for the Company's Type 4 cylinder technology. The fatigue-resistant cycling properties of composite pressure cylinders make them more suitable for storage than steel alternatives.

### Gas distribution

Demand for Hydrogen distribution solutions will grow strongly as a function of the demand for fuel systems. Hexagon Composites' Mobile Pipeline™ solutions will be certified for Hydrogen distribution. Type 4 tanks allow more gas to be transported in a given trailer space.

### Backup power

Hydrogen fuel cells are an efficient and emerging choice for low-emission, reliable backup power used for telecommunications, emergency services, medical services and in remote locations. Hexagon Composites offers backup power solutions with lightweight Hydrogen tanks that enhance system performance and payback.

### Marine and train

Hexagon Composites is engaged in initiatives aimed at developing the use of hydrogen in the marine and train industry. These markets are perceived as emerging market opportunities for the Company.

### Competition

Hexagon Composites has established a leading position in the hydrogen industry and our high-pressure cylinders are at the forefront of hydrogen and fuel-cell vehicle technology. Type 4 cylinders are widely accepted as the optimal solution for 700 bar hydrogen storage systems. Global regulations require that new tank designs undergo extreme pressure, temperature and fatigue tests, regardless of size.

Among our competitors are the existing Type 3 and Type 4 CNG cylinder manufacturers as well as a new class of competitors that emerged in 2015 including automotive OEMs and Tier 1 suppliers.

## High-Pressure Cylinders for CNG & CHG

### RESEARCH, DEVELOPMENT AND INNOVATION

Hexagon Composites is allocating more resources toward technology and process development with key, dedicated personnel in the business area.

A research & development center of excellence was established in Lincoln, enabling effective prioritization of R&D initiatives.

We have a strong, ongoing focus on product development in close collaboration with our customers. We work actively on innovative solutions and improvements like product standardization, which contributes to lower production costs and operating benefits for our customers. We strive to cultivate a strong relationship between product design, development, material selection and manufacturing processes to ensure optimal, cost-effective solutions.

Harnessing the strategic advantage of our joint venture with Agility Fuel Systems, we launched our largest capacity and lightest weight cylinder to date. The new 27-inch (686 mm)

diameter tank is featured in Agility's state-of-the-art 160 DGE Behind-the-Cab CNG system. It is based on our core product and enhanced with unique technology jointly developed by the two companies. Further, we released our new 16-inch (406 mm) all-carbon cylinder for the transit bus and refuse truck market in late 2015. The cylinders are our highest capacity and lightest weight tanks for this market to date.

The Company applied new material and process technology to manufacture hydrogen qualification tanks. The tanks successfully passed the rigorous and most current global and European standards.

In 2015 Hexagon Lincoln developed the TITAN® XL, our largest capacity trailer that increases CNG transport efficiency by 40% over our other TITAN® products. We also created a more compact and efficient 20-foot SMARTSTORE® to support mid-sized commercial consumers distributing bio-gas from off-grid production sites to CO2 neutral refueling of fleets. We expect US DOT approval of both in 2016.

### PRODUCTION

We strive to achieve high-capacity utilization and stable production to ensure efficient, cost-effective operations. Capacity utilization within the CNG Automotive business unit has been good and efficiencies on new product configurations continue to improve. The re-scoped expansion program, comprised of leading automated technology, was optimized to meet expected capacity requirements and will continue into 2016.

Production was adjusted in Mobile Pipeline™ operations during the second half of 2015 in line with near-term demand outlook. The division took advantage of this adjustment to move operations into its new, state-of-the-art production facility, and to streamline operations for the expected market rebound in end of 2016.

Capacity utilization at the Raufoss facility for bus system assembly was high throughout the year. However, demand is highly project dependent, and there was a decline in orders in the fourth quarter.

Production of cylinders for passenger cars at Raufoss was paused the first half of the year due to suspension of orders from a key customer, as well as general low order income. Production commenced in the second half of the year, and volume is expected to increase during 2016 with the production start of one new major order.

### MARKET OUTLOOK

Current market conditions remain uncertain due to low oil and diesel prices, however, market fundamentals remain favorable. Hexagon Composites is well positioned for significant growth in the medium and long term.

Key factors driving the adoption of natural gas powered engines — including long-term price stability, lower environmental impact, and cost advantages — remain healthy. The expectation of an improved increase in the adoption rate among heavy-duty vehicles through 2020 continues despite some uncertainty from recent oil price volatility. Other important factors influencing the rate of growth include conversion costs, developments in refueling infrastructure, expansion of engine alternatives and increasing operating experience.

Within the Mobile Pipeline™ unit our long-term business presence in all major global markets is expected to support the planned growth in revenues and results. Despite disappointing short-term results, the Company expects to retain its strong market position and be well prepared for a rebound in this market. While we expect some recovery in 2016, volumes will remain below normal levels.

#### Objectives for 2015-2016

- Re-establish volumes in Mobile Pipeline™ markets.
- Strengthen market share positions in established markets for CNG vehicles.
- Expand market reach geographically.
- Continuously improve production efficiencies and reduce operational costs.
- Solidify additional Hydrogen OEM business.

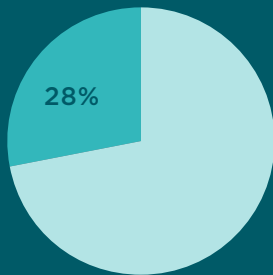
High-Pressure Cylinders for CNG & CHG



# INCREASING OUR GLOBAL REACH

## OPERATING INCOME MNOK

# 405



- Low-Pressure Cylinders LPG
- High-Pressure Cylinders CNG & CHG

EBIT  
MNOK

# 53.4

## KEY FIGURES

(NOK)

	2015	2014
Operating income	405 090	559 092
EBITDA	65 862	138 537
EBIT	53 411	99 133
EBITDA %	16.3 %	24.8 %
EBIT %	13.2 %	17.7 %

## HEXAGON RAGASCO RAUFOSS, NORWAY



115



5,000 m<sup>2</sup>

*“An increased focus on safety, ease of use and high corrosion resistance is strengthening demand for composite LPG cylinders globally.”*

Hexagon Composites is a global supplier of low-pressure composite Liquefied Propane Gas (LPG) cylinders mainly for leisure activities, household use, catering kitchens and forklift trucks. An increased focus on safety, ease of use and high corrosion resistance is strengthening demand for composite LPG cylinders globally. Long-term targeted initiatives have resulted in several key orders, which have secured growth, improved capacity utilization and enabled us to expand into new markets outside of Europe.

Hexagon Ragasco, our major operating unit within the Low-Pressure Cylinders business area, is the world's leading producer of composite LPG cylinders. A pioneer in the industry, it has sold around 11 million cylinders worldwide in the last 15 years, including 1.1 million in 2015. The unit started operations in 2000, and has since developed a customer base mainly composed of LPG distributors in over 70 countries. The Company continues to build partnerships in new regions to help gas businesses increase customer loyalty without compromising on safety.

Our unique composite cylinders deliver clear advantages over traditional steel alternatives in the form of significantly lower weight, no corrosion, translucence, increased safety and user friendliness. Production is carried out in modern, fully automated facilities located in Raufoss, Norway.

#### OPERATING RESULTS

The Low-Pressure Cylinders business area generated NOK 405.1 (559.1) million in operating income and made an operating profit (EBIT) of NOK 53.4 (99.1) in 2015. Despite numerous encouraging market responses, volumes for the year did not reach the record levels achieved in 2014, which were driven mainly by new, major orders from the Middle East. Sales to Europe were solid during the year with continued high volumes from Scandinavia, France and Switzerland. We also received orders from new markets in Europe and the rest of the world. Underlying growth is satisfactory and the Company's position has been strengthened in 2015. A stable volume enabled sufficient capacity utilization during first half of the year and fourth quarter. Capacity was seasonally low during third quarter.

Read more about the financial results in the Board of Directors' Report.

#### STRATEGY

Hexagon Ragasco aims to be the undisputed market leader and preferred global supplier of mass-produced, Type 4 all-composite LPG cylinders. We will achieve this with a unique exchange program for LPG distributors featuring a premium cylinder. This initiative will enable distributors to increase their revenue, market share and margins.

The Company strives to achieve high-capacity utilization, stable production and efficient and cost-effective operations. We will accomplish this by expanding our market share in Europe and other select markets.

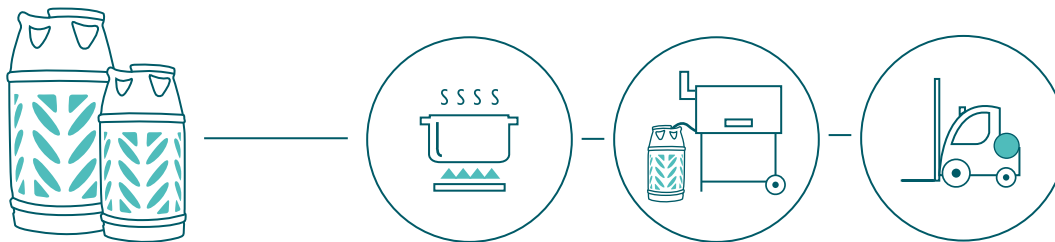
#### KEY DEVELOPMENTS AND IMPORTANT EVENTS 2015

- Increased interest and secured new orders to markets outside Europe.
- Secured new long-term distribution agreement with Gasco in Saudi Arabia. First product deliveries completed in fourth quarter.
- Celebrated 10 million cylinders sold worldwide.
- Awarded "Norway's smartest industrial company" in competition with 58 Norwegian companies.
- Achieved satisfactory capacity utilization during the year except in third quarter, which was seasonally low.

#### OBJECTIVES ACHIEVED IN 2015

- Achieved initial sales to new markets outside of Europe.
- Initiated new product features including custom designs, dimensions and branding possibilities.
- Continued focus on business development resources to support further growth strategies.
- Implemented significant capital expenditure projects to improve productivity and manufacturing flexibility.

## Low-Pressure Cylinders LPG



Cooking, heating, recreation and fork-lift trucks

**MARKET**

In 2015, the Company focused its efforts on taking market share from steel cylinders with a targeted geographic rollout. It intensified initiatives to develop recurring sales inside and outside of Europe, with a goal of increased sales and capacity utilization for the second half of the year.

The recently announced long-term distribution agreement with Gasco in Saudi Arabia, following the successes in Qatar and Iraq the previous year, shows increasing market penetration in the Middle East. The Italian and UK market presence continues to gain traction in Europe, and our product has also been introduced in Taiwan. In addition, there is increased momentum in certain African markets, supported by the promotion of LPG as an alternative to traditional forms of biomaterial used for heating and cooking.

**Europe**

Our most important market is European domestic and leisure customers, which are mostly characterized by increased seasonal demand and sales volumes in the first half of the year. In France, however, LPG cylinders are used year-round in rural areas for cooking, resulting in strong demand and consistent sales volumes.

The introduction of the LPG cylinder into Italy in 2015 has proven successful. This is a major LPG market for cooking and heating, and the company expects increased momentum in the years to come.

The Company's operations in Russia has been restructured. The long-term opportunities in Russia remain attractive.

**New markets outside Europe**

Currently, steel cylinders dominate markets outside of Europe because of price. Although they are cheaper, steel products are susceptible to corrosion, especially in areas with high levels of humidity, affecting the safety and useful life of the cylinders. Our products have the competitive advantage in these markets with superior safety and durability.

The Company has focused on several of these markets, including the Middle East, Africa, Southeast Asia and North and South America, to secure growth and improve capacity utilization in the seasonally slower second half of year. Our efforts have generated several new minor orders in these markets. Although periodic in nature, these orders have enhanced our marketing and commercial expertise, and strengthened our competitive position in these markets. Increasing our market penetration in these regions is a priority going forward.

**Middle East**

In third quarter, the Company secured a new five-year distribution agreement with Gasco to distribute composite LPG cylinders to the domestic Saudi Arabian market. As a part of the agreement the first LPG cylinders were shipped in the fourth quarter and were introduced to the Saudi market during first quarter of 2016. This long-term distribution agreement represents a milestone in our strategy to secure growth and improve capacity utilization in the second half of the year. This alliance will strengthen our position in the region, as Saudi Arabia is one of the largest Middle Eastern markets for domestic LPG usage.

**Asia and Africa**

Several new Asian and African markets are showing promise. There is increased momentum in certain African markets, supported by the promotion of LPG as an alternative to traditional forms of biomaterial used for heating and cooking.

Our cylinder was launched in Taiwan in the second half of the year. Among several benefits, the distributor focuses on its corrosion-free feature, as humidity is an issue in the region, especially in the outlying islands.

**North America**

During 2015 we focused on select segments of the North American market, specifically consumer-focused retail businesses specializing in BBQ accessories, recreational vehicles (RV) and marine appliances. So far we have yet to achieve any notable sales volumes in this market.

**CUSTOMERS**

Hexagon Ragasco's customers are primarily leading national and international LPG distributors. These distributors manage large quantities of cylinders through their own exchange centers or through dealers. End-use customers typically make a one-time payment for cylinders followed by exchanges when the cylinders are empty.

**Creating customer value**

Hexagon Ragasco began offering custom designs, dimensions and branding possibilities to its customers in 2015. It also began leveraging financing available through export credit agencies that will provide new opportunities to its customers. Both of these strategic measures are expected to contribute to further sales growth in the Low-Pressure Cylinders business area.

**CYCLE TIME****APPROVALS**

Our cylinders have been approved and sold in more than 70 countries globally, and we seek approval to sell our cylinders in new countries. Fuel cylinders for forklift trucks require separate approvals. These cylinders are currently approved for sale and use in the US and Canada, which constitute the most interesting market areas for forklift trucks.

**COMPETITIVE POSITION**

In 2015, Hexagon Composites solidified its position as the leading global supplier of composite LPG cylinders. Our position was strengthened relative to both steel and other composite cylinder alternatives.

Our largest competitor is the traditional steel cylinder (Type 1) due to its low purchase price, but it is significantly heavier and subject to corrosion. Our lightweight cylinders are less costly to transport, and the translucence and superior design makes our composite LPG cylinders easier to monitor and use. In addition, our cylinders are safer with lower risk of explosion. We believe that these characteristics strengthen our competitive position compared to steel.

There are other composite cylinder alternatives in all of our markets, however none of them currently present a significant competitive threat to our business. We are the market leader in terms of cost and quality within this segment. We expect that competition will increase over time.

**BUSINESS DEVELOPMENT**

Hexagon Composites continues to strengthen its position as a global supplier of composite LPG cylinders. The Company will allocate more dedicated resources toward business development, secure and improve existing market positions and identify opportunities for further expansion.

**PRODUCTION & PRODUCT DEVELOPMENT**

Production and product development are fully integrated at our plant in Raufoss, Norway. This is a prerequisite for cost efficiency in our highly automated production system, which requires only eight operators for each production shift. In addition to meeting customer requirements, our development activities focus on continued improvement of our products and production processes.

In 2015, Hexagon Ragasco was awarded "Norway's smartest industrial company" in competition with 58 other Norwegian companies. We were honored for using innovation and technology in the most intelligent manner, with a positive impact on productivity and competitive power. The Company exports more than 90% of its products and continuously improving productivity is essential to remain competitive in the global market. Over a period of ten years, Hexagon Ragasco has reduced the cycle time per composite LPG cylinder from 74 seconds to 14 seconds. This corresponds to a productivity increase of more than 80%.

**Operations**

During the year, we operated 24/7 to meet customer demand. Production stability and volumes were satisfactory during 2015. Volumes in the first and second quarter remained at similar levels. Seasonally low volumes for the third quarter were not avoided in 2015, compared to last year when two large orders to the Middle East contributed to high-capacity utilization.

**MARKET OUTLOOK**

The outlook for composite LPG cylinders is good. In established markets, we are acquiring market share from steel cylinders. Outside of Europe we expect demand to increase in the medium and long term. Increasing wealth in developing countries should generate demand for high-quality products, improving our competitive position over steel cylinders. In particular, increased focus on the health and environmental impact of traditional cooking fuels is expected to increase domestic demand for LPG.

**Objectives for 2016 – 2017**

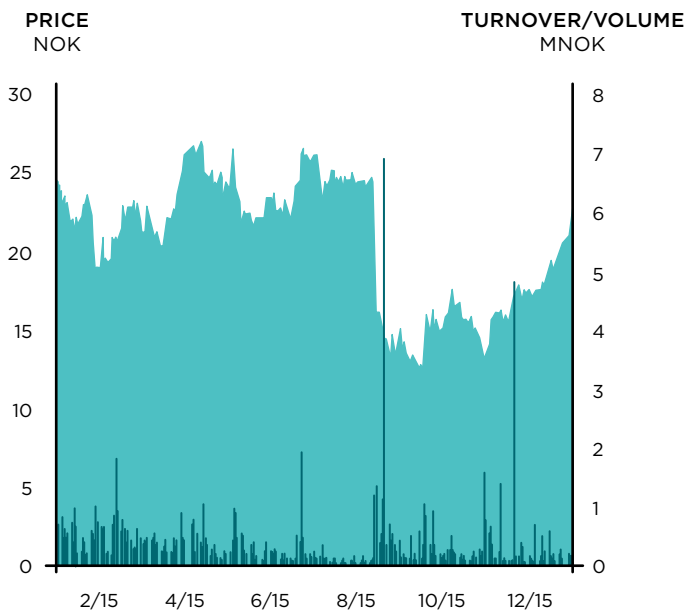
- Realize and take advantage of the many opportunities within this market.
- Increase sales and capacity utilization for the second half of 2016 to offset seasonally low volumes.
- Leverage new technology to enhance production and increase customer value.
- Implement measures to improve productivity and manufacturing flexibility.
- Increase market penetration outside of Europe.
- Expand on new custom product offerings.
- Begin unique exchange program for LPG distributors featuring a premium cylinder.

# GREEN TECHNOLOGY PREVAILS OVER OIL AND MACRO VOLATILITY

Hexagon Composites' share price remained stable in the first half of the year, but declined significantly in the second half. This is in line with the negative macro-related sentiment and oil-price volatility that lowered realized sales for Mobile Pipeline™ during this time. Positive market sentiment, combined with a market focus on global environmental sustainability shifts, contributed to a reversal at end of year. Despite these ups and downs, the opening and closing share prices remained relatively equal.

## HEXAGON SHARE VOLUME 2015

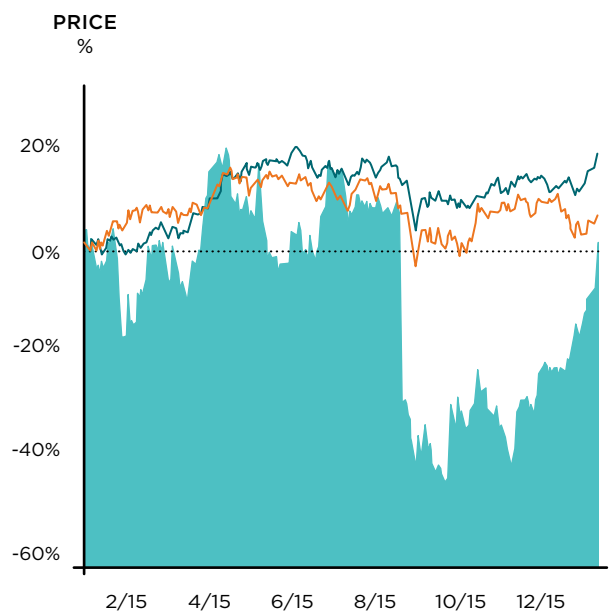
— Share price  
— Volume



(SOURCE: OSLO STOCK EXCHANGE)

## OSE PRICE TRENDS IN 2015

— OSEBX  
— OSE20 Industrials  
— Hexagon Composites



(SOURCE: OSLO STOCK EXCHANGE)

**10 LARGEST SHAREHOLDERS AS OF 15 MARCH 2015**

<b>SHAREHOLDER</b>	<b>NUMBER OF SHARES</b>	<b>SHARE OF TOTAL</b>	<b>COUNTRY</b>
Flakk Investment AS	42 615 988	31.97 %	NOR
Bøckmann Holding AS	10 000 000	7.50 %	NOR
MP Pensjon PK	9 767 614	7.33 %	NOR
Odin Norge	7 438 064	5.58 %	NOR
Nødingen AS	6 940 045	5.21 %	NOR
Swedbank Robur Smabolagsfond Norden	5 624 346	4.22 %	SWE
Skandinaviska Enskilda Banken (publ) Oslofilialen	3 999 607	3.00 %	NOR
JP Morgan Chase Bank, N.A, S/A Escrow Account	2 716 393	2.04 %	GBR
JP Morgan Chase Bank, NA - Handelsbanken Nordic Custody	1 697 751	1.27 %	SWE
JP Morgan Chase Bank, N.A. London, Nordea Treaty Account	1 435 960	1.08 %	GBR
<b>Total 10 largest shareholders</b>	<b>92 235 768</b>	<b>69.20 %</b>	
Remaining	41 059 100		
<b>Total number of shares</b>	<b>133 294 868</b>		

A detailed overview of the largest shareholders at 31.12.2015 is disclosed in Note 17 in the Financial Statements.

Hexagon Composites ASA is listed on the Oslo Stock Exchange (OSE) under the ticker HEX (HEX.OL). Share capital was NOK 13.3 million at the end of 2015, divided into 133.3 million shares with a nominal value of NOK 0.10. Hexagon Composites has one class of shares. See the Corporate Governance section in this report for more information on the Company's policies and procedures relating to shareholders and shares.

As of 31 December 2015, the market value of our shares for the year remained relatively unchanged at NOK 3,052 (3,039) million based on a market price of NOK 22.90 (NOK 22.80) per 31 December 2015. The highest daily closing price in the year was NOK 27.00 and the lowest price was 12.60. By comparison, the Oslo Stock Exchange Industrial index increased by 19.3% while the OBX increased by about 3%. However, the Group remains well positioned for significant growth medium and long term as a result of continued natural gas and alternative fuel mega-trends.

Hexagon Composites ASA is listed on the Match Segment of the Oslo Stock Exchange. All shares are freely transferable. In 2015, 98.4 million (140.0) shares were traded with a turnover rate of 73.8% (105.1). Shares were traded daily and liquidity developed positively.

**SHARE DISTRIBUTION AND MAJOR SHAREHOLDERS**

The number of shareholders decreased 3% to 2,663 (2,755) in 2015. The number of foreign shareholders was 186 (197) representing 16.6% (17.4%) ownership in the Company.

The majority of the foreign shareholders are from Sweden, United Kingdom and the US.

Our largest shareholder is Flakk Investment AS, including related parties, with an ownership interest of 33.3% (34.3%). Three industrial investors, including Flakk Investment AS and related parties, MP Pensjon and Bøckmann Holding AS represented a combined ownership interest of 50% at the end of 2015. The 20 largest shareholders own 78.5% (71.8%) of the Company. Other shareholders are primarily private individuals, and small- and medium-sized companies.

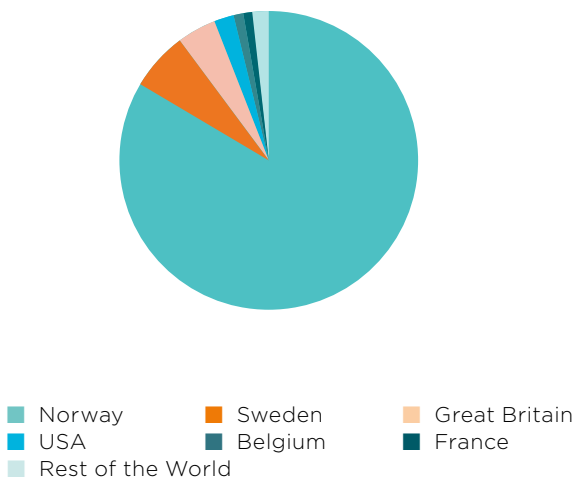
Flakk Gruppen AS, the parent company of Flakk Investment AS and owned 98.7% by Knut Flakk, completed a restructuring and a generational change in the course of 2015. At the beginning of the year, Chairman of the Board, Knut Flakk and related parties controlled 45 729 038 shares (34.3%) in Hexagon Composites. At the end of the year, Knut Flakk and related parties controlled 44 429 038 shares (33.3%).

Other major transactions were the acquisition of 6.7 million shares by Swedbank Robur Fonder AB in May and 2.3 million shares by Odin Norge in November 2015.

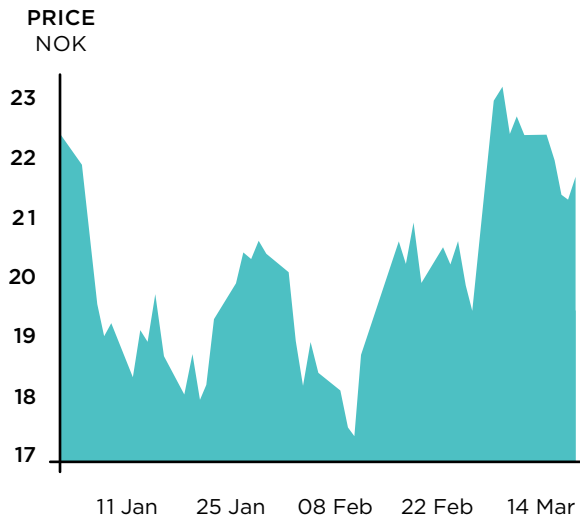
Several employees including key management personnel of Hexagon Composites hold shares and share options in the Company.

Shareholder Information

**OWNERSHIP DISTRIBUTIONS OF SHARES 2015**



**HEX SHARE PRICE 2016**



**PROPOSED PRIVATE PLACEMENT**

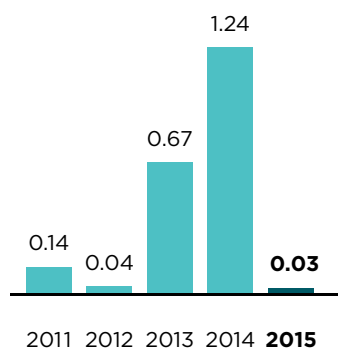
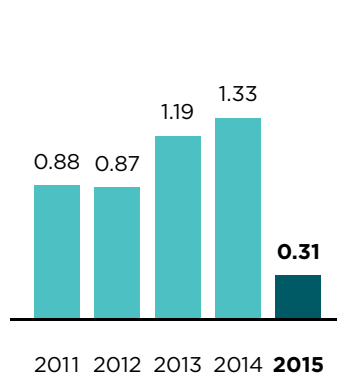
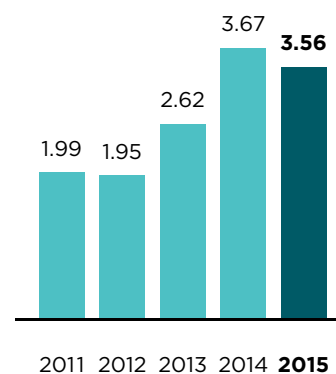
On 27 February 2016, Hexagon Composites ASA and Mitsui & Co., Ltd. entered into an agreement where Mitsui will invest NOK 667 million in the Company. Further, Hexagon Composites and Mitsui have entered into a five year strategic cooperation agreement. After the transaction, Mitsui will hold 25.01% of the shares in the Company. Flakk Investment will hold 20.57% of shares, and the total holding of Knut Flakk and his close associates will be 21.66%.

Completion of the investment agreement is subject to approval by the extraordinary general meeting (EGM) of the Company. The EGM is will be held on 21 March 2016.

**DIVIDEND POLICY**

Hexagon Composites is focusing on developing its business in high-growth markets and intends to make the investments necessary to realize its growth ambitions. Our main objective is to provide competitive returns to shareholders primarily through increasing the intrinsic value of our business. Dividend payments are dependent on financial performance and excess cash after key investment requirements. For the year 2014 Hexagon Composites proposed a dividend of NOK 0.62 per share, which was paid in 2015. The Board proposes to the annual General Meeting on 20 April 2016 that no dividend be paid.

The ordinary General Meeting was held on 21 April 2015. The General Meeting authorized a dividend of NOK 0.62 per share to be paid on 7 May 2015. The General Meeting also approved an authorization to increase in share capital by a maximum of NOK 1.3 million, which amounts to 13 million shares or about 10% of existing share capital. The approval covers one or more share capital increases and authorizes the Board to set the subscription price per share in connection with each share issue. The Board was also granted the authority to purchase their own shares up to a combined nominal value of NOK 1.3 million or 10% of current issued share capital. The authority is valid until the Company's ordinary General Meeting in 2016.

**EARNINGS  
PER SHARE**  
NOK

**CASH FLOW FROM  
OPERATIONS PER SHARE**  
NOK

**EQUITY  
PER SHARE**  
NOK

**KEY FIGURES SHARES**

	2011	2012	2013	2014	2015
Closing Price NOK	2.46	4.47	32.30	22.80	22.90
Assessment value Price NOK	2.51	4.40	31.30	23.60	22.45
High NOK	7.10	4.47	32.30	39.10	27.00
Low NOK	2.38	2.55	4.32	18.90	12.60
Total return %	(62.3)	81.7	622.6	(28.8)	3.0
Market capitalization (NOK 1 000)	327 905	595 828	4 305 424	3 039 123	3 052 452
Turnover by value (NOK 1 000)	27 686	61 731	1 463 559	4 172 911	2 015 203
Turnover by no. of shares (1 000)	6 711	16 837	91 008	140 065	98 372
Number of transactions	1 403	4 738	33 603	146 914	89 285
Number of days traded	234	247	248	250	251
Turnover rate	5.0 %	12.6 %	69.3 %	105.1 %	73.8 %
Beta	0.50	0.61	0.66	1.02	1.80
P/E	17.20	109.39	48.03	18.46	668.98
P/B*	1.24	2.30	12.35	6.24	6.49
Earnings per share	0.14	0.04	0.67	1.24	0.03
Cash flow from operations per share	0.88	0.87	1.19	1.33	0.31
Dividend per share**	0.00	0.15	0.33	0.62	0.00
Equity per share	1.99	1.95	2.62	3.67	3.56
Share capital (NOK 1 000)	13 329	13 329	13 329	13 329	13 329
Closing number of shares (1 000)	133 295	133 295	133 295	133 295	133 295
Number of shareholders, Norwegian	1 336	1 330	2 240	2 558	2 663
Number of shareholders, foreign	49	50	132	197	186
Ownership share, foreign	4.4 %	3.6 %	17.3 %	17.40 %	16.55 %

\* Exclusive goodwill.

\*\* The Board proposes to the annual general meeting on 20 April 2016 that no dividend be paid.

# POSITIONING THE COMPANY FOR FUTURE GROWTH

## MARKET LEADING POSITION

**OBJECTIVES 2015** Enhance product innovation and business development.

- Mobile Pipeline™: Expand the global reach of TITAN® and SMARTSTORE®.
- CNG Automotive: Maintain 2014 level of product enhancement and market share gains.
- Low-Pressure Cylinders LPG: Secure high-capacity utilization in 2015.
- Hydrogen: Further investments to commercialize our products and know-how.

**RESULTS 2015** Achieved consolidated Group sales of NOK 1,444 million. The Group has retained its strong position in the markets where we operate.

- Mobile Pipeline™: Delivered to 11 countries despite challenging market due to steep fall in price of oil products. A stop in sales to the North American oil and gas sector was the principal driver for the decline.
- CNG Automotive: Increased market share driven by the launch of 27-inch all-carbon cylinder in addition to a strong transit bus market sales
- Low-Pressure Cylinders LPG: Increased capacity utilization in second half of the year is still an opportunity for the company to improve profitability. Initiatives to build a recurring client base in the long term is starting to yield results, e.g. Gasco agreement in Saudi Arabia and agreements in Italy, Kenya, Taiwan and Uruguay, all secured during 2015.
- Hydrogen: Established a separate business unit as of 2016 to drive profitable growth within this area.

**OBJECTIVES 2016**

- Mobile Pipeline™: Drive recovery within Mobile Pipeline™ solutions. Offer leasing options to customers.
- CNG Automotive: Leverage advantages in scale and technology to secure profitability. Develop and implement a strategic sales approach to grow in North America and globally.
- Low-Pressure Cylinders LPG: Leverage new production technology to increase customer value. Secure high-capacity utilization by continuing to build the recurring customer base.
- Hydrogen: Commercialize our Hydrogen product portfolio.

## GROWTH

**OBJECTIVES 2015**

- Further organic growth in consolidated Group EBIT in particular for Mobile Pipeline™ solutions and Hydrogen solutions. Remain agile and opportunistic to new business opportunities.

**RESULTS 2015**

- Decline in EBIT heavily impacted by reduction in sales volume of Mobile Pipeline™ solutions and LPG cylinders, after a record year in 2014.

**OBJECTIVES 2016**

- Restore top-line growth in High-Pressure and Low-Pressure segments together with realizing significant savings to our cost base.

## LIQUIDITY

**OBJECTIVES 2015**

- Generate sufficient financial resources to fund business development, product and process innovation, and ongoing business requirements.

**RESULTS 2015**

- The sharp decline in Mobile Pipeline™ solutions sales combined with a period of heavy capital expenditure programs in both High-Pressure and Low-Pressure segments, put strain on the Group's liquidity towards the end of the financial year.

**OBJECTIVES 2016**

- Improve liquidity in 2016 both through increased operational cash generation and improved ability to leverage financing facilities when required. Finalize a solution for recapitalization near-term, in order to be able to participate in non-organic opportunities.

## STRONG BALANCE SHEET

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**OBJECTIVES 2015** • Maintain an adequate equity ratio above 30%.

**RESULTS 2015** • Achieved 39.8 % equity ratio.

**OBJECTIVES 2016** • Ensure our balance sheet can support both organic and potential non-organic activities, as well as growth by a significant strengthening of equity and cash.

## OPERATIONS

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**OBJECTIVES 2015** • Complete Phase 2 of expansion program within budget.  
• Continue focus on manufacturing process productivity across all areas.

**RESULTS 2015** • The expansion program has been slowed down during the year, and is currently well within budget.  
• Both CNG Automotive plant in the US and LPG cylinder plant in Norway have focused on capital expenditure to deliver higher returns in the future, through increased product innovation, and support of higher volumes.

**OBJECTIVES 2016** • Realize cost-efficiency potential, especially in North American High-Pressure Cylinders operations.  
• Increase capability to efficiently produce a wider portfolio of customer-driven product variants.

## ORGANIZATION AND SKILLS DEVELOPMENT

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**OBJECTIVES 2015** • Organize and implement Centers of Excellence.

**RESULTS 2015** • Center of Excellence implemented for R&D in Lincoln USA, including effective prioritization of R&D initiatives.  
• Strengthened R&D function in Low-Pressure Cylinders division.

**OBJECTIVES 2016** • Further strengthen the new Hydrogen business unit.  
• Strengthen sales and marketing in the Mobile Pipeline™ unit  
• Implement internal leadership development training.

## INNOVATION

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**OBJECTIVES 2015** Further enhance our competitive positions.  
• Combine product know-how with complementary new technology to enhance our product offerings.  
• Invest more resources into opportunity development.  
• Structure our innovation, research, product development, and engineering around Centers of Excellence in core areas.

**RESULTS 2015** • Launched next-generation all-carbon cylinders.  
• Introduced finance-assisted sales concepts.  
• Implemented Center of Excellence.

**OBJECTIVES 2016** • Further develop flexibility within LPG product design.  
• Develop a Hydrogen transport solution.  
• Develop and launch Hydrogen bus systems.  
• Continue to structure our innovation process through Center of Excellence.  
• Targeted cooperation with major partners in order to leverage innovation in a faster manner.

# SUSTAINABLE PROFITABLE GROWTH

## VISION AND PURPOSE

Hexagon Composites shall become the world's leading supplier of innovative and customer-valued composite solutions that positively impacts the environment and contributes to a better life for the global community.

## WE AIM TO ENHANCE OUR COMPETITIVE POSITION BY FOCUSING ON

### MARKET ORIENTATION

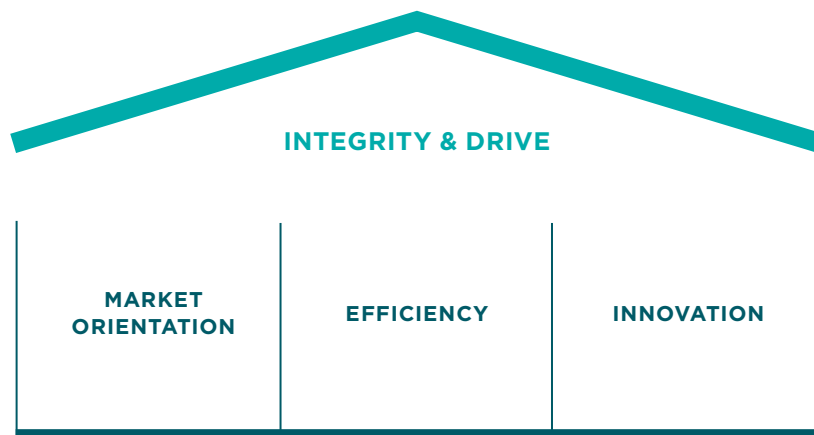
We shall provide high-quality products, systems and services with clearly understood and communicated customer values.

### EFFICIENCY

We shall build a world class, cost-effective, value chain.

### INNOVATION

We shall develop innovative products, systems and solutions with unique customer values.



HEXAGON COMPOSITES VISION & PURPOSE

## OUR VALUES

### INTEGRITY

The integrity of our processes is essential to maintain the highest safety standards of our products. Integrity needs to prevail throughout the organization and in all functions. We will maintain and defend high ethical standards.

### DRIVE

We are privileged to have major long-term growth opportunities. As an organization, we need to drive these with rigor and intensity.

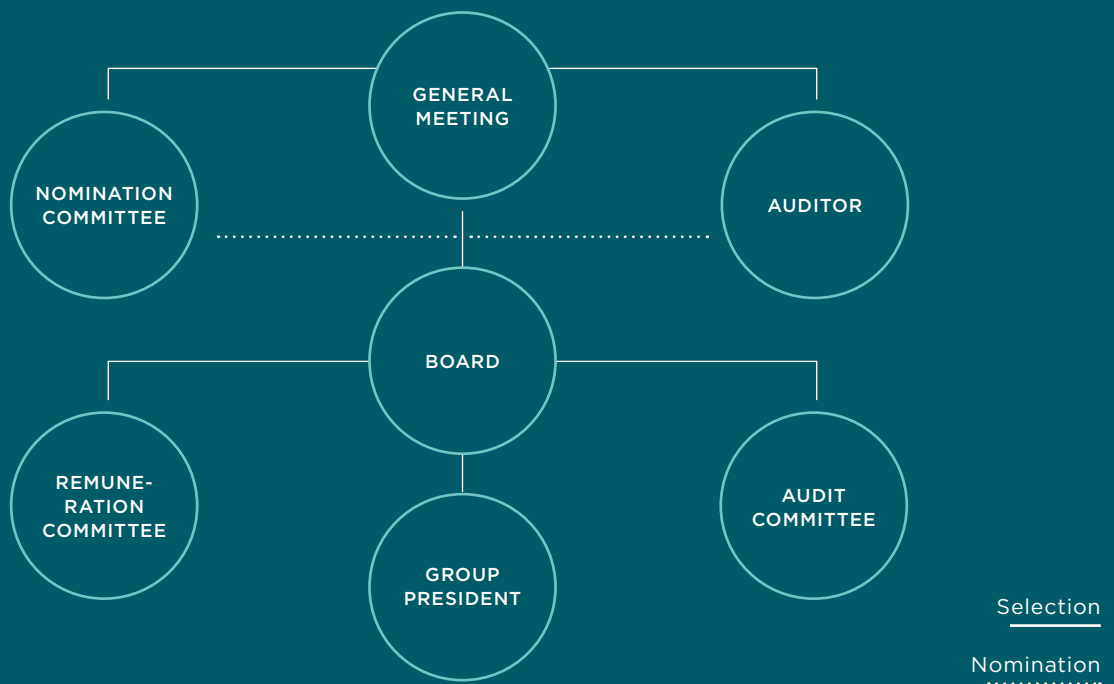
## SHAREHOLDER VALUE

Hexagon Composites will deliver shareholder value through growth and increased profitability.

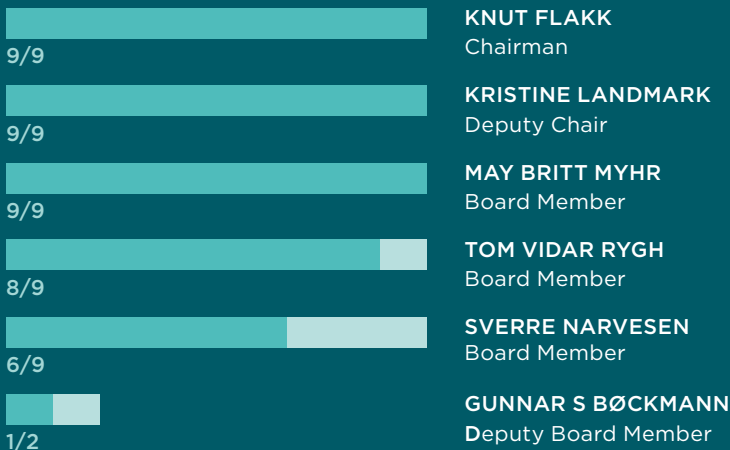


# CREATING VALUE FOR OUR STAKEHOLDERS

## CORPORATE GOVERNANCE



## ATTENDANCE AT BOARD MEETINGS IN 2015



*“ Good corporate governance will contribute to the greatest possible value creation over time for all interest groups.”*

Hexagon Composites follows the Norwegian Code of Practice for Corporate Governance. We aim to secure a clear division of roles and responsibilities between shareholders, the Board of Directors and day-to-day management to ensure good corporate management. We believe that this contributes to the greatest possible value creation for all interest groups and strengthens the trust in the Company among shareholders, in the capital markets and with other key stakeholders.

### 1. DESCRIPTION OF CORPORATE GOVERNANCE

Hexagon Composites ASA's principles for corporate governance were last revised at the Board meeting of 10 February 2016. The principles can be found on the Group's website.

We follow the Code of Practice established by the Norwegian Corporate Governance Committee (NUES). This is available at [www.nues.no](http://www.nues.no). We continue to update our principles for corporate governance in accordance with the Code of Practice of 30 October 2014. Unless otherwise indicated in the text below, there are no deviations to the Norwegian Code of Practice for Corporate Governance.

Hexagon Composites requires that all work and activities are performed in accordance with high ethical standards and that all employees and business partners refrain from corrupt practices. We operate within a framework of common values including formal ethical requirements governing our business practices as approved by the Board. The Board believes that the organization is characterized by strong ethical standards and a high level of integrity.

Social responsibility is an integral part of Hexagon Composites' corporate governance process. Formal guidelines for corporate social responsibility have been approved by the Board and integrated into the Group's management systems. In the opinion of the Board, good results have been achieved in integrating social responsibility considerations into the Company's business strategies.

### 2. NATURE OF BUSINESS

Hexagon Composites develops and commercializes competitive, innovative products based on advanced composite technology. Our goal is to remain the international leader in selected niches of the composites industry. We aim to take market share from products based on traditional materials by offering cost effective and innovative solutions.

The scope and objectives of our business are defined in the Company's articles of association which can be found on our website. A more comprehensive discussion and analysis of our business activity and operating results are included in this annual report.

### 3. COMPANY CAPITAL AND DIVIDENDS

Hexagon Composites' equity is considered to be at a level appropriate to the Group's objectives, strategies and risk profile. Our main objective is to focus on high-growth areas, and we intend to make the necessary investments to develop our business in these markets.

Authorization to the Board for capital transactions are normally restricted to defined objectives and time limitations that do not exceed the next ordinary general meeting. This applies to the issuance of new shares as well as the purchase of own shares. The Board is authorized to approve the purchase of own shares in one or more tranches up to a combined nominal value of NOK 1,332,948 (or 10% of current issued share capital).

Share option programs for employees are approved by special authorization. Authorizations for increases in share capital relating to multiple purposes are considered separately.

Our main objective is to provide competitive returns to shareholders primarily through increasing the intrinsic value of our business. Dividend payments are dependent on financial performance and investment requirements. For the year 2014 Hexagon Composites proposed a dividend of NOK 0.62 per share which was paid in 2015. The Board does not propose a dividend for 2015.

### 4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Hexagon Composites ASA has one class of shares and our policy is to treat all shareholders equally in capital transactions. In the event where circumstances require preferential treatment for certain shareholders, subsequent measures will be implemented to restore the interest of the other shareholders as far as possible unless the impact is justifiable. Reasons for any deviation from equal treatment of all shareholders in capital transactions are included in the notice to the stock exchange made in connection with the transaction.

The Group normally conducts transactions in its own shares through the stock exchange or at equivalent market rates. Particular prudence is applied in direct share transactions with the Group's shareholders, board members, management or related parties that have a financial or personal interest in the Company. Any assessments of material transactions are performed by an independent party.

## Corporate Governance

### 5. FREELY NEGOTIABLE SHARES

All shares in Hexagon Composites ASA are freely negotiable. No form of sales limit has been stipulated in the articles of association.

### 6. ANNUAL GENERAL MEETING

We have well established procedures for publicly announcing and issuing information regarding the general meeting, and our website is an important source of information.

Notice of the general meeting and supporting documents, including the recommendations from the nomination committee, are published on our website 21 days in advance of the meeting date. Sufficient information is included to enable shareholders to evaluate the items to be addressed in the meeting. Minutes from the meetings are published on the Group's website.

Deviations from the Norwegian Code of Practice for Corporate Governance:

In connection with the ordinary general meeting for 2015, only Knut Flakk was in attendance from the Board and nomination committee. The general meeting was chaired by Knut Flakk.

### 7. NOMINATION COMMITTEE

The Company has a nomination committee to propose candidates for election to the Board. The committee is currently comprised of three members, one of which is a Board member. The composition of the committee is intended to reflect the interests of all shareholders and the majority of the members are normally independent of the Board and other executive management. Members are elected at the annual general meeting. In 2015 the nomination committee was comprised of Bjørn Gjerde, Chairman, Odd Gjørtz and Knut Flakk.

The nomination committee's requirements are stipulated in the Articles of Association. The nomination committee's main responsibility is to evaluate the work and expertise profile of the Board of Directors and to propose suitable candidates. The nomination committee also proposes the fees to be paid to members of the Board. Proposals for candidates, including the reasons for selection and other relevant information are distributed with other documentation related to the annual general meeting.

Deviations from the Norwegian Code of Practice for Corporate Governance:

The Chairman of the Board is the Board's representative on the nomination committee and has also been a member of the nomination committee since it was established.

### 8. BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The Board is composed of individuals with sufficient competence and expertise to enable independent evaluations of the Group's operations and to ensure the effective function as a governing body. The majority of the shareholder elected Board members are independent of the Company's day-to-day management, important business connections and the Company's major shareholders.

### 9. THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors works with the Chief Executive Officer and external auditors to ensure that the Group is managed in accordance with its corporate objectives, values and ethical guidelines. The Board has an annual plan with particular emphasis on objectives, strategy and implementation and submits an evaluation of its work to the nomination committee.

Clear guidelines require Board members and executive management to notify the Board of any significant direct or indirect interest in transactions executed by the Company. These guidelines are incorporated into the Board's instructions and instructions for the Chief Executive Officer. In the event that the Board Chairman has been actively engaged in important matters, the Deputy Chair assumes responsibility for the matter.

The Board has an audit committee comprised of members that are independent of the Company's day-to-day management, important business connections and the major shareholders. Instructions are established for the audit committee which was comprised of Board member Sverre Narvesen and Deputy Chair Kristine Landmark in 2015.

The Board has a compensation committee which was comprised of the Board Chairman, Knut Flakk and Deputy Chair, Kristine Landmark. Knut Flakk is also the largest shareholder of the Company.

### 10. RISK MANAGEMENT AND INTERNAL CONTROLS

Hexagon Composites works systematically to identify and manage the specific risks facing its business. Risk management is executed by Group management including management in subsidiary companies. The corporate finance department is responsible for ensuring that the Group has an adequate system of internal controls including controls over financial reporting. This unit reports to the CEO and has overall responsibility for ensuring compliance with the Group's accounting principles and financial controls. We believe that our overall strategy, management principles and organizational structure provide a good control environment. The Group's ethical guidelines also contribute to a culture and values that support this environment.

The Board ensures that the Group has good internal controls and appropriate systems for risk management in relation to the scope and type of our business operation. This includes ensuring that the Group's risk management and internal controls are adequate and systematic and that processes are established in accordance with laws and regulations, articles of association, instructions and external and internal guidelines. The Board regularly and systematically assesses strategies and guidelines for risk management.

The Board's audit committee reviews the overall risk management policy and procedures and the Group's internal control routines. The committee functions as a preparatory and advisory committee for the Group's Board and provides support for exercising its responsibilities relating to risk management, financial reporting, financial information and auditing.

Please see Risk Management section of the Board of Directors' report for further information on the Group's main risks.

### 11. REMUNERATION OF THE BOARD

The remuneration of the Board of directors is intended to reflect the Board's responsibility, expertise, time commitment and the complexity of the Company's activities.

On 21 April 2015 the annual general meeting established the Board fees for 2014 in connection with the approval of the annual accounts.

POSITION	FEES
Chairman	NOK 700 000 (150 000)
Deputy Chair	NOK 200 000 (125 000)
Ordinary Board Members	NOK 150 000 (100 000)
Deputy Member	NOK 25 000 per meeting (25 000)

Members of the Board committees are paid additional fees per positions of NOK 20 000 (20 000). Fees are fixed and are not linked to the Company's performance. Board members are not eligible for share option programs.

Business transactions between companies owned by Board Chairman, Knut Flakk and Hexagon Composites ASA are separately described in note 28 to the consolidated financial statements - transactions with related parties.

### 12. REMUNERATION OF THE EXECUTIVE MANAGEMENT

The Board has established guidelines for the remuneration of the executive management which include the main principles for the Company's management remuneration policy. Executive management remuneration is partly based on performance, and both the method and the amount are intended to promote long-term value creation for the Company. We believe that this can be achieved through the prudent use of share options and/or other equivalent financial instruments and/or bonus schemes. The ceiling for capital increases required to satisfy option agreements and other agreements regarding the allocation of shares are approved by the annual general meeting. Remuneration guidelines for the CEO and other executive management is established by the Board and presented to the general meeting for approval.

### 13. INFORMATION AND COMMUNICATION

The Group follows the Oslo Stock Exchange's recommendations for reporting investor information. The Group's information policy is based on openness and equal treatment of all shareholders and participants in the securities market. Our policy is to provide all shareholders with correct, clear, relevant and prompt information. Efforts are being directed towards developing disclosures on major value drivers and risk factors. We believe it is important that employees, shareholders and investors have equal opportunities to monitor the Company's performance, and receive sufficient information to value the Company correctly. The Group seeks to communicate information about its products and markets to central target groups while ensuring that all stakeholders have equal access to information provided by the Company.

### 14. COMPANY ACQUISITION

The Board acknowledges that it should not prevent or obstruct offers for the purchase of the Company's business operation or shares. Agreements that restrict the possibility of obtaining other offers for the Company's shares should only be entered into when clearly justified as being in the joint interests of the Company and its shareholders. This also applies to agreements for compensation if an offer is not implemented by the Company. In such instances, compensation will be limited to the costs incurred in making the offer. Agreements between the Company and an offeror that are important to the market's assessment of the offer are made public before or at the same time as notice is given that an offer will be made.

### 15. AUDITOR

Each year, the Company's external auditor provides an annual written confirmation of his/her independence and objectivity. The auditor attends Board meetings that address the annual accounts and presents to the audit committee the main features of a plan for implementing the auditing work. Annually the auditor presents to the Board an opinion on the Company's accounting principles, asset management and internal control procedures. EY are the Group's auditors, appointed by the general meeting of shareholders. The auditors have no engagements with the Company that could impair their independence. See note 28 to the consolidated financial statements for information about remuneration to the auditor, including statutory audit and other services.

# CORPORATE RESPONSIBILITY

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Hexagon Composites conducts its business in an economically, socially and environmentally responsible manner. We focus on reducing our impact on the environment and providing innovative products enabling our customers to do the same. Good working conditions for our employees and relationships with the communities where we operate are key objectives. We prioritize ethical conduct within our organization and our supply chain including no tolerance for corruption, leadership in product safety, and respect for human rights.

Social responsibility is an integral part of Hexagon Composites' corporate governance process. Formal guidelines for corporate social responsibility are approved by the Board and integrated into the Group's management systems. Compliance is assured through comprehensive internal communication and systematic training activities. The Board believes that the organization is characterized by strong ethical standards and a high level of integrity.

In the opinion of the Board, good results have been achieved in integrating social responsibility considerations into the Company's business strategies. Further initiatives are targeted, and the Board expects that improvements will continue.

The following discussion on corporate social responsibility has been developed pursuant to section 3-3 c of the Norwegian Accounting Act. Information is presented for our wholly-owned subsidiaries, Hexagon Lincoln (Lincoln, Nebraska, USA), Hexagon Bus Systems (Raufoss, Norway) and Hexagon Raufoss (Raufoss, Norway), which comprise our High-Pressure Cylinders business area and for Hexagon Ragasco, our operating unit within the Low-Pressure Cylinders business area. Operations for Hexagon Ragasco are located primarily in Raufoss, Norway.

## THE ENVIRONMENT

### Innovation

Increased global focus on vehicle particulate matter (PM), NOx emissions and greenhouse gases (GHG) – attracts customers and investments toward adopting natural gas, biogas and hydrogen.

Overall, compressed natural gas is one of the cleanest burning fuels available today, producing 20–30 percent less greenhouse gas than conventional fuels. Hydrogen is one of the cleanest fuels available as it emits no greenhouse gases during use. Hexagon Composites is well positioned across the hydrogen value chain. We believe we can contribute to lower emissions by supporting the development of fuel cell technology.

At Hexagon Composites, we believe that innovative storage and distribution solutions are key enablers to help our customers capture the cost savings available while reducing their impact on the environment. Our CNG composite cylinders are 30% of the weight and enable 70–150 percent more transport capacity compared to traditional steel cylinders. Weight is an important driver of fuel efficiency, which generates lower cost and emissions.

In developing countries, many people rely on biomass such as firewood, charcoal and waste to meet their energy needs for cooking. This often results in unsustainable harvesting practices, as well as illness and premature death from indoor pollution. The United Nations Millennium Project has recommended halving the number of households using traditional biomass fuels, which would involve 1.3 billion people switching to other fuels. We believe that the lightweight, user friendliness and enhanced safety features of our LPG cylinders are important attributes to facilitate such a transition.

#### Environmental reporting

The Group does not emit any regulated substances into the environment without permit, and there are no health hazards associated with the Group's products. All waste from operations and production are sorted and delivered to approved sites for disposal or centers for recycling and reuse.

#### Emissions and recycling

Our operations in Lincoln, Nebraska, comply with increasing environmental regulations at the state and federal levels, including reporting on the storage, use and emission of environmentally hazardous chemicals.

The Resource Conservation and Recovery Act (RCRA<sup>1)</sup>), requires that hazardous waste is monitored from the generation to disposal. Further regulations<sup>2)</sup> require reporting of hazardous chemicals above a certain quantity to the Environmental Protection Agency (EPA), local fire departments, local emergency planning committees and the state emergency response commissions. This includes information about the type, quantity and location of hazardous chemicals at each location. Hexagon Lincoln's facility has a designated emergency point-of-contact.

We currently hold a Special Hazardous Materials and Spray Paint Permit as well as Special Waste Disposal Permits from the Lincoln-Lancaster County Health Department. These permits authorize the controlled disposal of paint related materials, adhesives, sealants, cured epoxy resins and related materials. We report regularly on the exposure of our employees to several materials and chemicals. Emissions from our operations are controlled and are well under permitted limits. Scrapped tanks from production, product testing and quality control are recycled by donation to a local farmer for use on his land.

Hexagon Lincoln performs annual air quality sampling which were found to be in accordance with federal regulated permissible exposure limits<sup>3)</sup>. Air quality was last tested on 22 July 2015 with good results.

Hexagon Bus Systems complies with national environmental regulations and customer environmental requirements. Hazardous chemicals are filed, stored and disposed according to legal regulations. Production waste is recycled. The company holds an ISO 14001 certificate as part of its environmental management system.

#### Improvement initiatives

Hexagon Ragasco works continually with assessing risk and taking initiatives to reduce its impact on the environment. For example, we reduce both the amount of waste produced and our raw material costs by dismantling defective cylinders and recycling inner liners, composite fibers and brass valves. To improve the workplace environment, we have adopted new, safer materials and chemicals in the production process.

Hexagon Ragasco has been working closely with the Norwegian Environmental Agency (NEA) to identify solutions to reduce the total Volatile Organic Compounds (VOC) emissions relative to production volumes. In the end of 2014, Hexagon Ragasco installed a substantially larger incinerator to double the capacity to capture VOC emissions. Further, in the first quarter of 2015 the company installed a concentrator which increases the incineration capacity substantially. These measures have reduced the VOC emissions well within permitted limits and capture 90% of the previous emission level.

Production of high-pressure cylinders for passenger cars is included in the emissions permit for Hexagon Ragasco.

In cooperation with SINTEF, an independent, Norwegian, research organization, Hexagon Ragasco has developed a process to recycle used composite cylinders as raw material for the production of cement. This procedure has been in operation in Norway since 2012 with good results, despite the environmental impact of transporting the cylinders for processing. The methodology has the advantage of being applicable on a global basis.

<sup>1)</sup> Federal level 40 of the Code of Federal Regulations (CFR) Part 261 and 262.

<sup>2)</sup> Part 370 of level 40 CFR and the Nebraska Emergency Planning and Community Right to Know Act (EPCRA), also known as SARA title III.

<sup>3)</sup> Z- Tables, level 28 CFR, 1910.1000 Permissible Exposure Limits.

Corporate Social Responsibility

During 2015 Hexagon Ragasco has made improvements in the production process to reduce loss of heat, improve the control of the temperature in the production hall and reduce the consumption of electricity. In the first quarter of 2016 Hexagon Ragasco installed new containers for waste to compress carton and paper in order to reduce refuse collections from daily to weekly.

Hexagon Bus Systems has implemented risk assessing and initiatives to reduce environmental impact as part of its environmental management systems. As part of the company's product development procedure, low product weight and recyclable materials are factors of high importance. Reusable and recycled packing material optimized for high packing density are used to minimize environmental impact.

Hexagon Lincoln has introduced a number of environmental improvement measures in recent years to reduce emissions and waste from its own vehicles and production processes. We recycle several potential waste materials and have introduced initiatives to improve material utilization in order to reduce the waste output.

We conduct annual training relating to the Hazardous Communication<sup>4)</sup> standard and the Globally Harmonized System<sup>5)</sup> for classifying and labeling chemicals to increase awareness and improve the safety of our employees.

**PEOPLE**

**Working conditions**

Innovation, ambition and expertise are critical success factors for our business. We strive to create a safe and appealing work environment to attract competent, motivated people. We emphasize involvement to empower individuals to influence their own work situation. We believe a flat organizational structure ensures visibility and enables employees to develop and thrive.

Good internal communication regarding plans and ongoing development is prioritized to facilitate an open, positive working environment. When possible, we promote internal recruitment to provide motivation and advancement opportunities to existing employees.

**Gender equality and non-discrimination**

We believe that people with different approaches and experience contribute to an innovative and dynamic work environment. We encourage diversity in our hiring practices with a goal to hire men and women with different backgrounds and the expertise necessary to develop our business. Preferential treatment or discrimination in working conditions due to gender, religion or ethnic background is strictly prohibited. However, we have prioritized the

recruitment of highly qualified women, notwithstanding the challenges we face in connection with a traditionally male-dominated, industrial operating environment where legally allowed to do so.

**Percentage of women in Hexagon Composites**

SEGMENT	2014	2015
<b>High-Pressure Cylinders CNG &amp; CHG</b>		
Norway	13%	11%
USA	16%	12%
<b>Low-Pressure Cylinders LPG</b>		
Norway	24%	21%
<b>Hexagon Composites ASA</b>	20%	20%
<b>Board of Directors</b>	40%	40%

The changes in the percentages of women employees were largely due to regular appointments, natural departures and restructuring in the High-Pressure Cylinders area. No instances of discrimination were registered at Hexagon Composites in 2015.

**Health, safety and environment (HSE)**

Our production sites are comprised of industrial processes that involve, among other things, complex machinery and processes, rapidly moving parts and equipment, high heat, caustic chemicals and pressurized gas. We have established secure operating routines to manage these processes in a responsible manner and to ensure a safe and healthy work environment. We believe that this promotes efficiency and lower operating costs. We have targeted no work-related accidents or injuries that result in employee absence. All business areas have established organizations and routines related to industrial safety. Although there have been few serious injuries within the company, the total number of incidents is not satisfactory. As a result, we are working systematically to reduce the number of injuries and improve our safety performance.

In 2015, Hexagon Lincoln registered six work-related injuries that resulted in absence and 25 other minor injuries. 15 instances of skin irritation were registered related to the use of resin in production. Hexagon Lincoln is focusing on improvements in the production process to improve operational efficiency and fewer injuries. Further, the company is working on reducing minor injuries and incidents of skin irritation, and measures have been taken to further improve safety performance. In addition to work-related injuries, 62 instances of material damage were reported in 2015.

<sup>4)</sup> Hazardous Communication is a standard established by OSHA. (Occupational Health and Safety Administration) to ensure that workers are aware of the hazards associated with the materials they are working with.

<sup>5)</sup> Globally Harmonized System (GHS) is an approach to standardize the classification and labeling of chemicals that improve safety and health of workers through more effective communication.

**Sickness absence**

<b>SEGMENT</b>	<b>2014</b>	<b>2015</b>	<b>TARGET 2016</b>	<b>INITIATIVES</b>
<b>High-Pressure Cylinders CNG &amp; CHG</b>				
Norway	6.6%	3.6%	3.5%	Targeted measures to reduce and prevent sickness absence. Close contact and monitoring of employees with regard to well-being and working environment.
USA	0.7%	0.4%	0.6%	Wellness initiatives will help to continue to reduce absenteeism.
<b>Low-Pressure Cylinders LPG</b>				
Norway	3.7%	5.4%	3.0%	Targeted measures to reduce and prevent absence due to illness, guidance and facilitation for physical activity.

Hexagon Lincoln has an HSE manager, training personnel and a health committee, all with a special focus on reducing minor work-related injuries and skin irritation. In 2015, we have initiated quarterly HSE executive management reviews that are targeted to identify and put in place the needed focus. A shared company performance metric of reducing our overall injuries has also been established to create additional visibility of this important area of our business.

Hexagon Lincoln strengthened its wellness program in 2015 by implementing tobacco cessation classes and also establishing a tobacco-free campus effective from 2016. These efforts have reduced the percentage of tobacco users. We also introduced health screening for our employees and health coaching to promote healthy behaviors.

Hexagon Bus Systems anchors its HSE focus in the company's environmental management system. The management system incorporates periodic safety inspections in the company focusing on health and safety topics. The company is an IA<sup>6)</sup> (Inclusive Working Environment) company, with associated working tasks, targets and action plans. No work-related injuries occurred in 2015.

Hexagon Raufoss has a strong HSE profile with an annual plan including daily reporting in management meetings. Hexagon Raufoss is an IA company. The company has implemented action plans including conducting two specific IA meetings per year.

No work-related accidents that resulted in absence from work were registered at Hexagon Raufoss in 2015 and there were no instances of material damage. Hexagon Raufoss has invested in improved working environment in the filament winding process. This implies minimized exposure to styrene to the employees working in this production cell.

A minimum of six safety and fire inspections in the bus operations (Hexagon Bus Systems) and nine in the passenger car operations (Hexagon Raufoss) are held each year. From 2016 all operators in Hexagon Raufoss were transferred to Hexagon Ragasco and are servicing the Light-Duty Vehicle operations in Hexagon Raufoss as hired personnel.

Hexagon Ragasco did not have any work related injuries with absence from work during 2015. The previous work related injury was registered in January 2014.

Hexagon Ragasco also has a strong HSE profile, with a well-functioning reporting system to identify incidents that could result in accidents or injuries. The company has an annual HSE plan including daily reporting in management meetings. Hexagon Ragasco is also an IA (Inclusive Working Environment) registered company and conducted four dedicated IA meetings in 2015. The company has procedures for safety inspection focusing on risks related to chemicals, fire, electrical installations, noise as well as order and cleanliness. Ten safety inspections were carried out in 2015. In general, the work environment and employee well-being are considered satisfactory.

<sup>6)</sup> IA is a letter of intent with the Norwegian government to foster a more inclusive working environment in order to reduce sick leave, enable employment of individuals with reduced functional abilities and support individuals who wish to work beyond legal retirement age.

## Corporate Social Responsibility

### SOCIETY

#### Local community

In addition to providing employment possibilities, we contribute to the local communities where we operate by supporting non-profit organizations that focus on sports and education opportunities for children and youth in particular, as well as humanitarian aid. We also cooperate with various educational institutions to provide work experience for students.

#### Ethical conduct

Hexagon Composites has no tolerance for any form of corruption including bribery or extortion. Formal ethical requirements governing our business practices were established and approved by the Board in 2009. These provide guidance for our employees and, indirectly, throughout our supply chain.

To strengthen awareness, training courses focused on combating corruption were completed for Group management, including the managing directors of the subsidiaries in 2013. Implementation of guidelines and training of all personnel continued during 2015. The focus of the training courses includes anti-corruption principles and procedures relating to our own operations and in collaboration with suppliers, customers and other business partners.

Complying with regulations is part of the Hexagon Composites way of conducting business and a condition to maintain our leading position in the market. For this reason, we have created a compliance management system to support our organization in abiding by the applicable regulations.

#### PRODUCT SAFETY

Because our products are used to transport and store highly flammable, pressurized gas, product safety is a fundamental requirement underlying our right to operate. All of our products are tested and approved in accordance with established safety standards. Production and related processes are regularly monitored and controlled.

For several years, product design and quality have qualified our low-pressure cylinders for the same inspection parameters equivalent to steel cylinders. This means that all customers in all countries excluding Denmark are subject to a 10-year testing interval, the same requirement for steel cylinders. In Denmark we are the only company that has achieved 15 year interval for the first inspection of cylinders.

Hexagon Ragasco focuses on the continuous improvement of its critical production processes to ensure the quality and safety of its products. Several new initiatives to further improve our processes and products were implemented in 2015.

All storage modules designed and supplied by Hexagon Bus Systems fully incorporate components approved and certified according to relevant safety standards and regulations. To verify the performance of the storage modules also when installed in vehicles, the interaction between the storage module and the vehicle is analyzed and evaluated to achieve the best product safety.

Hexagon Lincoln participates and supports international standards with the primary purpose of ensuring product safety is adequately preserved.

All four subsidiaries, Hexagon Lincoln, Hexagon Raufoss, Hexagon Bus Systems and Hexagon Ragasco are certified in accordance with ISO 9001.

#### SUPPLY CHAIN

Hexagon Composites' international scope entails a responsibility for promoting Corporate Social Responsibility (CSR) in our supply chain. We place a strong emphasis on encouraging our suppliers to act in accordance with our values and ethical guidelines. We intend to strengthen our compliance efforts going forward.

Identifying and qualifying efficient and cost effective suppliers are critical to improve our competitive position. We work continuously to strengthen our supplier base to reduce cost, improve quality and minimize the risk of delays in our manufacturing cycle. Corporate responsibility forms an integral part of all stages of the procurement process. Qualifying new suppliers will continue to have high priority in 2016.

We expect continued growth to drive the need for developing further expertise within our organization. During 2015, we have increased competence and capacity in project implementation and procurement processes, including addressing corporate responsibility issues throughout our supply chain. In 2015 the Company initiated a cost management program, which will continue during 2016.

#### HUMAN RIGHTS

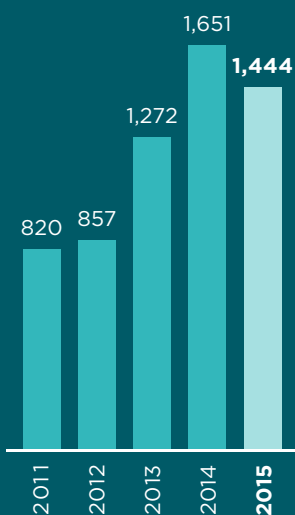
Hexagon Composites respects and supports the protection of internationally recognized human rights. We work systematically to avoid contributing to any breach of human rights. Our commitment to promoting human rights is described in the Group's ethical requirements and guidelines for corporate social responsibility. Hexagon Composites supports freedom of association and the right to collective bargaining. We strongly object to any form of forced labor, child labor and discrimination in the work environment.



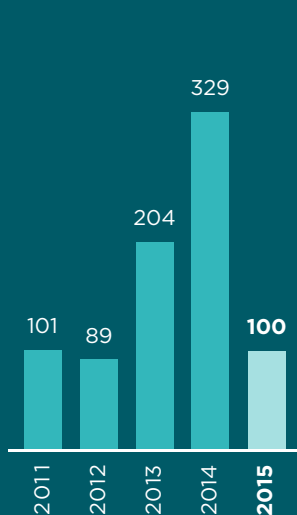
# BOARD OF DIRECTORS' REPORT

Adjusting for short-term challenges while still on course for long-term growth.

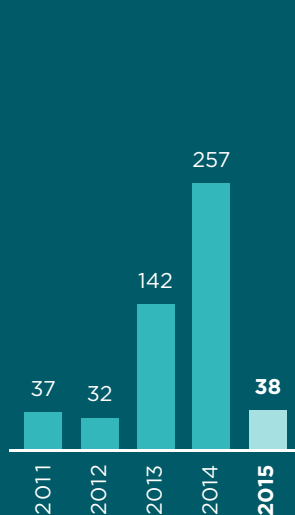
**OPERATING INCOME**  
MNOK



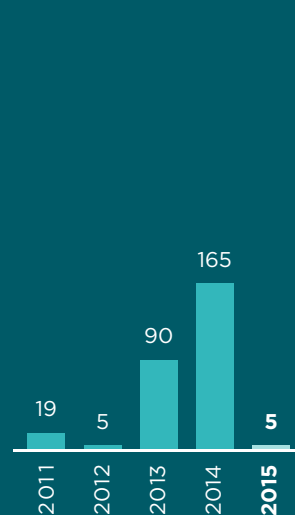
**EBITDA**  
MNOK



**EBIT**  
MNOK



**PROFIT FOR THE YEAR**  
MNOK



Key figures from continuing operations

**KEY FIGURES**

(NOK)	2015	2014
Operating income	1 443.9	1 650.8
EBITDA	100.1	329.2
EBIT	37.5	256.8
EBITDA %	6.9 %	19.9 %
EBIT %	2.6 %	15.6 %

*“ The initiatives taken by the Group, repositions the business correctly in the current more challenging market conditions and ensures that it continues to be well positioned to maintain and grow its established market positions. ”*

For the year 2015 Group operating income decreased to NOK 1,443.9 (1,650.8) million. Operating profit before depreciation (EBITDA) was NOK 100.1 (329.2) million. Operating profit (EBIT) was NOK 37.5 (256.8) million. Profit before tax was NOK 0.3 (237.4) million.

## RESULTS AND KEY DEVELOPMENTS

Towards the end of the year the Group adjusted its cost base in order to secure profitability after a sudden and challenging downturn in the Mobile Pipeline™ market, driven by negative sentiment from global macro turbulence and oil price volatility. Despite heavily impacted underlying sales volumes in that business unit, the Group still generated positive net cash flow from operations of NOK 41 million and retained a strong balance sheet ending the year with an equity ratio of 39.8%.

Aside from the Mobile Pipeline™ downturn, CNG heavy-duty, refuse and transit bus markets delivered good growth in spite of lower spreads between CNG and diesel prices. These markets, in the most part, continue to be driven by environmental considerations as well as positive economics. Customers already invested in natural gas vehicle (NGV) fleet conversion are continuing to demand our product applications, and we have secured increased market share. We have also experienced a record year for demand and sales of transit bus systems especially to markets outside the US.

Our Light-Duty Vehicles sales declined in the year, precipitating a restructuring of the operating model towards the end of the year. New emphasis on pricing, cost base and new customer order intake should give a good platform for a return to profitability and growth in 2016.

Our Hydrogen activities were stepped up in 2015, and a separate business unit, within the High-Pressure segment, has been established for 2016. The unit recorded external sales in the Hydrogen Refueling Stations (HRS) sector and continues to source development funding as a platform to further growth and commercialization within other sectors, most notably in light-duty vehicles.

The Low-Pressure Cylinders business area made good progress in increasing recurring sales accounts year-over-year, whilst not servicing any large one-time orders. In 2014 two such orders accounted for between 30 and 40% of volumes. Profitability was solid while a more targeted focus on customer and market requirements has already returned benefits in opening up further markets to composites. The investments into the production line in 2015 will help service further product variation and sales.

In 2015 the Group had to respond swiftly to deteriorating sales volumes in Mobile Pipeline™ whilst maintaining an agile organization for short-term market recovery and long-term growth in our diverse business units. This was achieved by additional cost initiatives totaling in excess of NOK 70 million, employed in the fourth quarter, which will realize full benefits in 2016. Production capacity expansions in Lincoln, Nebraska continued though somewhat reduced.

In research and development (R&D), the Group reorganized its efforts in a center of excellence and has continued to in-

vest in innovation in products and manufacturing processes. The Group launched two key next-generation all-carbon CNG cylinders in the year which were well received in the market, targeted towards heavy-duty truck and transit bus applications.

The Board is of the opinion that the initiatives taken by the Group, repositions the business correctly in the current more challenging market conditions and ensures that it continues to be well positioned to maintain and grow its established market positions.

### KEY DEVELOPMENTS

- Decrease in operating income of 13% and operating profit of 85%.
- Profitable year for the Group, but relatively weaker margins.
- Record delivery performance for Heavy-Duty Vehicle operations.
- Soft Mobile Pipeline™ sales due to order postponements.
- Reasonable capacity utilization in the Low-Pressure Cylinders segment, but down from 2014.
- Restructuring of European Light-Duty Vehicles business unit.
- Implemented a program of cost saving initiatives to enhance weak short-term profitability.
- Executed early redemption of NOK 300 million bond and secured financing facilities in a "club-deal" which extended financing capacity from NOK 685 million to NOK 1 billion on an unsecured basis.

#### After balance sheet date

- Established a separate business unit for Hydrogen storage and transportation systems.
- Acquisition of 67% of a Brazilian entity to pursue fuel systems opportunities for transit buses and heavy-duty trucks.
- The Group announced proposed private placement of new shares and strategic cooperation agreement with Mitsui & Co., Ltd.

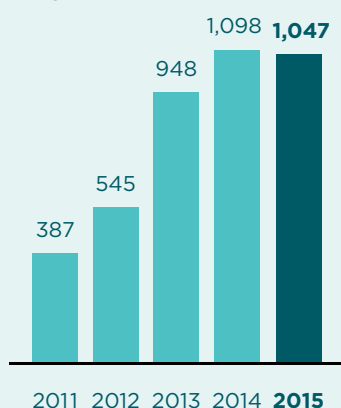
SEGMENT RESULTS

# HIGH-PRESSURE CYLINDERS CNG AND CHG

HEXAGON LINCOLN AND HEXAGON RAUFOSS

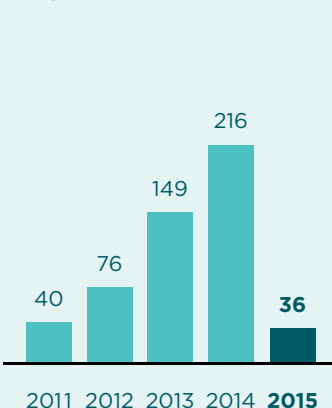
**OPERATING INCOME**

MNOK



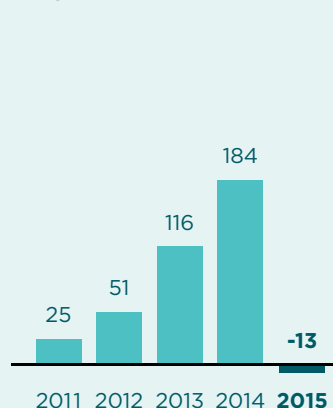
**EBITDA**

MNOK



**EBIT**

MNOK



**KEY FIGURES**

(NOK)	2015	2014
Operating income	1 047.4	1 098.3
EBITDA	35.8	216.3
EBIT	-13.4	183.9
EBITDA %	3.4 %	19.7 %
EBIT %	-1.3 %	16.7 %

**KEY DEVELOPMENTS**

The business area achieved the following:

- Solid sales to the heavy-duty truck and transit bus markets.
- Weak sales volumes for Mobile Pipeline™ solutions due to order postponements.
- Restructured operating model in the Light-Duty Vehicle unit at Raufoss, Norway.
- 8.5% sales growth within the North American CNG Automotive market compared with 2014.
- Increased number of projects and market opportunities in its Hydrogen operations.
- Released two key next-generation all-carbon CNG high-pressure cylinders.
- The re-scoped expansion program continued during the year to optimize capacity requirements.
- Executed program of cost saving initiatives to enhance weak short-term profitability.

“The environmental value proposition of CNG continues to stimulate demand especially within larger fleets and urban applications.”

## SALES AND MARKET

The High-Pressure Cylinders segment achieved operating income in 2015 amounting to NOK 1,047.4 million (1,098.3).

Developments in operating results were primarily driven by solid sales to the heavy-duty truck and transit bus markets, being offset by lower sales volumes for Mobile Pipeline™ solutions in the period. Operating results were impacted by positive currency effects from the USD.

Sales revenues grew 8.5% within the North American CNG Automotive market in the year with improved efficiencies progressively impacting positively to contribution margin as the year went by. Order backlog continued to be at satisfactory levels. The environmental value proposition of CNG continues to stimulate demand especially within larger fleets and urban applications. In the rest of the world transit bus markets, underlying revenue growth was 70% marking a record year in that sector.

While orders for the European light-duty vehicle market remained weak in the year, this business unit was able to report an operating profit in the fourth quarter, following completion of the restructured operating model at the Raufoss, Norway site. The business unit secured a new customer for deliveries starting in late 2016 which should contribute to profitability going forward.

Sales volumes for Mobile Pipeline™ in 2015 were substantially lower than in 2014, mainly due to factors impacting the North and Latin American markets. There were significantly lower investments in the oil and gas sector in North America where demand is driven by the large energy requirements of high horse power applications such as fuel for fracking installations and drilling rigs. In Latin America, general macro related uncertainties have delayed project investment decisions. These conditions persist, however, new opportunities both inside and outside North America continue to be sourced and developed. For example, we are actively engaged in two projects aimed at developing the use of CNG within the US locomotive industry as an alternative to mainly diesel powered engines. In addition, the organization will promote opportunities to reduce pollution in cities using diesel fuel aggregates to power local industries, where the environmental considerations are perhaps greater than the pure economic value proposition.

The High-Pressure Cylinders organization will begin re-reporting its hydrogen related operations within a separate business unit from the start of 2016. This is being done to further strengthen our capability to lead the development of a new high-growth market niche. Whilst the majority of income in this business unit in 2015 related to grants and funded development, there was approximately NOK 11.7 million of product sales.

Hexagon Composites is well positioned across the hydrogen value chain including tanks for fuel-cell vehicles, ground storage, transportation and backup power solutions.

Our type 4 pressure cylinder technology is more suitable than steel alternatives due to its advantageous pressure-cycling fatigue properties. The Company is experiencing high development activity and expects further increased momentum throughout 2016 in this high-growth market niche.

## PRODUCTION

Capacity utilization and on-time delivery within the Hexagon Lincoln CNG Automotive business unit has progressively improved through 2016. Production manning has been adjusted in the Mobile Pipeline™ operations in line with the near-term demand outlook.

The re-scoped expansion program, comprised of leading automated technology, will continue into 2016 and is optimized to meet expected capacity requirements.

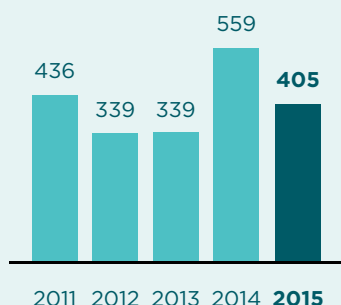
## PROFIT/LOSS

High-Pressure Cylinders made an operating profit (EBIT) of NOK -13.4 million (183.9 profit) in 2015. This was principally driven by the weak results within Mobile Pipeline™ and recently restructured European Light-Duty Vehicles business unit.

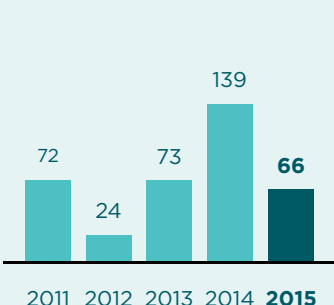
# LOW-PRESSURE CYLINDERS LPG

HEXAGON RAGASCO

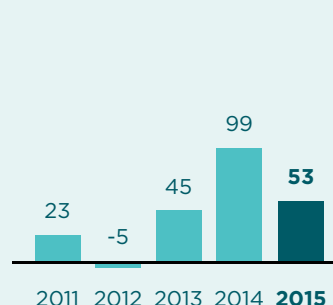
**OPERATING INCOME**  
MNOK



**EBITDA**  
MNOK



**EBIT**  
MNOK



**KEY FIGURES**

(NOK)	2015	2014
Operating income	405.1	559.1
EBITDA	65.9	138.5
EBIT	53.4	99.1
EBITDA %	16.3 %	24.8 %
EBIT %	13.2 %	17.7 %

**KEY DEVELOPMENTS**

The business area achieved the following:

- Reasonable capacity utilization in the Low-Pressure Cylinders segment, but down from 2014.
- Secured new long-term Low-Pressure Cylinders distribution agreement with Gasco in Saudi Arabia.
- Celebrated 10 million cylinders sold worldwide.
- Awarded "Norway's smartest industrial company" in competition with 58 Norwegian companies.

*“ There is increasing momentum in the Company’s strategic efforts to take market share from steel cylinders with a premium product which offers considerable advantages over steel cylinders.”*

**SALES AND MARKET**

Sales revenues for 2015 as a whole were NOK 405.1 (559.1) million. While the Company did not achieve the sales volumes of 2014, including two large orders delivered in that year, it still represents satisfactory underlying growth in recurring customer accounts.

There is increasing momentum in the Company's strategic efforts to take market share from steel cylinders with a premium product which offers considerable advantages over steel cylinders in terms of weight, safety and design. The long-term distribution agreement with Gasco in Saudi Arabia, following the successes in Qatar and Iraq in the previous year, show increasing market penetration in the Middle East. European and African market penetration continues to gain traction, whilst our product has also been introduced in new markets in the Asia-Pacific region and in South America. In 2015 as a whole the Company extended its sales footprint into Italy, Taiwan, Kenya, Mauritius, Japan and Uruguay. The organization is also making in-roads into selected South American markets which should realize additional sales in 2016.

Hexagon Ragasco has initiated several investments that will enhance the Company's ability to offer unique and customized designs, dimensions and branding possibilities. Furthermore, Hexagon Ragasco is leveraging financing available through export credit agencies that will provide new opportunities to its customers. Both of these strategic measures are contributing to further sales growth in the Low-Pressure Cylinders segment.

**PRODUCTION**

Production uptime was generally well balanced in 2015 with optimized manning levels.

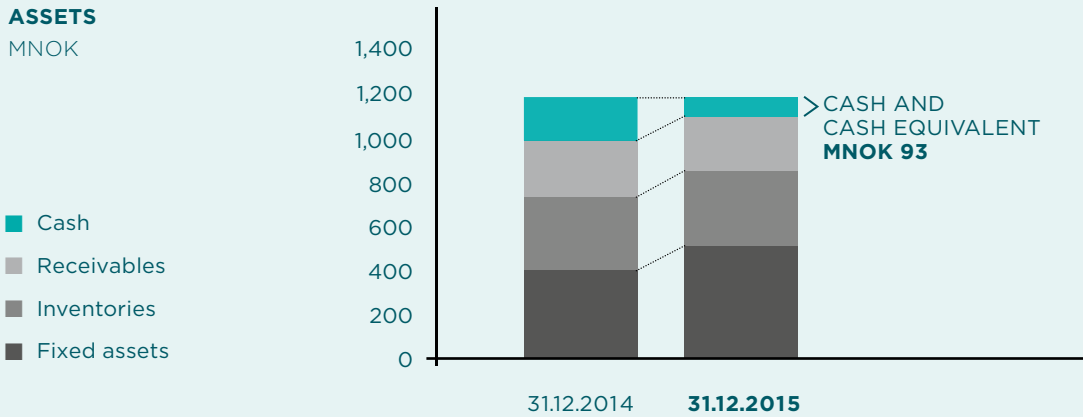
**PROFIT/LOSS**

Low-Pressure Cylinders achieved an operating profit (EBIT) in 2015 of NOK 53.4 million (99.1). Operating margins were 13.2% (17.7%).

# GROUP

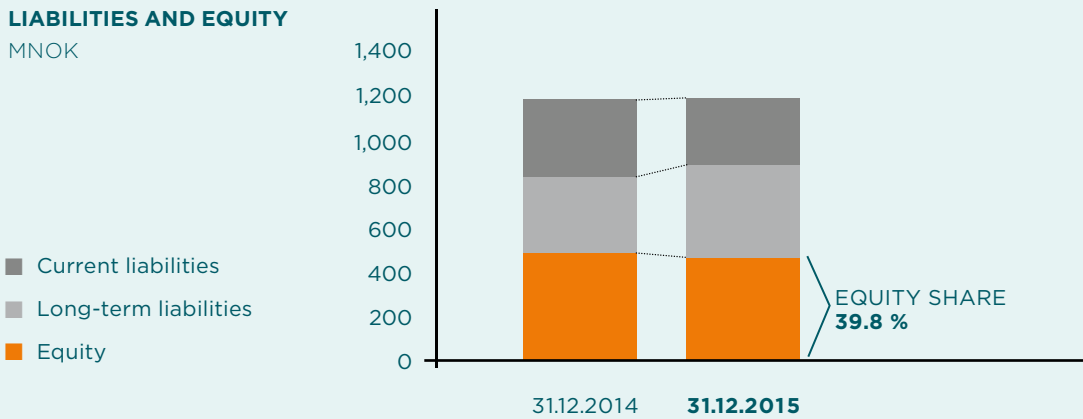
## ASSETS

MNOK



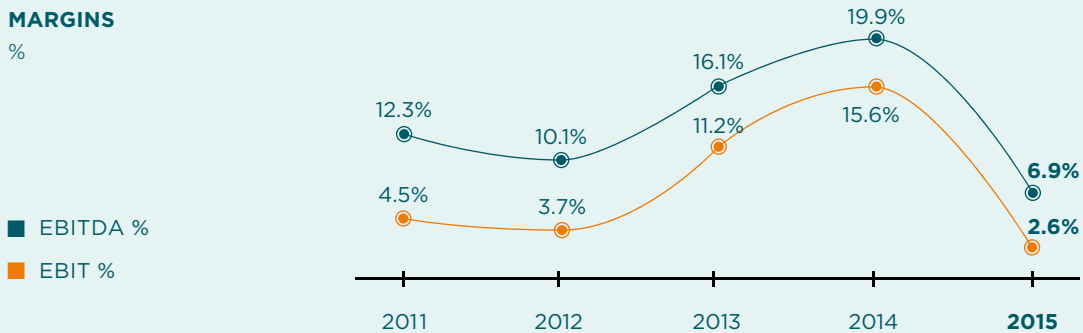
## LIABILITIES AND EQUITY

MNOK



## MARGINS

%



Hexagon Composites' headquarters are located in Aalesund, Norway. At the end of 2015, the Group's administration consisted of eleven employees, responsible for general administration, finance, procurement, strategy, business development, investor relations and communications. In addition, some bookkeeping and payroll services were purchased from the Flakk Group.

### FINANCIAL POSITION

In 2015, the Group had to respond swiftly to deteriorating profitability and the impacts of this to its leverage, however, its financial position remained strong with positive core operating cash generation and a robust equity ratio of 39.8% (41.3%). Cost initiatives were executed in the fourth quarter. Long-term debt that was refinanced in the year to a more flexible and cheaper facility, increased as a result of lower profitability and higher than normal capital expenditure on both the expansion program in Lincoln and the flexibility/productivity program at Hexagon Ragasco.

Cash and cash equivalents declined by NOK 109 million to NOK 93 million at the end of the year. The main factors influencing developments for the year included NOK 147 million in capital expenditures, payments of dividends of NOK 82 million and a re-financing premium of NOK 21 million.

At the end of 2015, the Group's total assets increased 0.1% to NOK 1,180.8 million (1,179.6). Intangible assets and property, plant and equipment were NOK 91.2 million (83.9) and NOK 410.0 million (294.5) respectively. The increase in property, plant and equipment was primarily due to capital expenditure in the Hexagon Lincoln and Hexagon Ragasco production sites. Inventory was NOK 332.4 million (320.5). Inventories increased mainly due to the impact of the increased dollar versus the NOK on balances held in the US. Outstanding receivables were NOK 164.5 million (206.6).

Long-term interest bearing debt increased to NOK 382.9 million (297.2). Equity was robust at NOK 470.1 million (487.1) despite the dividend payment of NOK 82 million. The Group's equity ratio was 39.8% (41.3%) at the end of 2015.

### CASH FLOW AND LIQUIDITY

Total cash amounted to 93.2 million (202.2) at the end of 2015. Unused credit and overdraft facilities amounted to NOK 601.5 million (390.8). The Group expects that cash and available credit facilities will be sufficient to cover planned capital expenditures, operational requirements and financing activities in 2016.

Net cash flow from operating activities was NOK 41.3 million (175.9). Depreciation and write-downs totaled NOK 62.6 million (72.4). The difference between the operating profit and cash flow from operating activities was primarily due to changes in working capital and depreciation. Net cash flow from investment activities was NOK -146.7 million (4.7). Net cash flow from financing activities was NOK -24.5 million (-246.1). Net currency differences presented separately totaled NOK 21.0 (19.4).

### LONG TERM BORROWING

The Group's financing requirement is covered by unsecured bank facilities as stated in Note 20 to the Annual Report and Accounts 2015. Interest rate hedging agreements cover a total of NOK 100 million which is 26% of the outstanding long-term loans balance. The applicable fixed interest rates amount to 2.47% for NOK 100 million maturing in July 2018. The net interest margin on our financing investments is charged in addition to these swap rates. See Note 24 for more information.

### SHARE PRICE DEVELOPMENT AND DIVIDENDS

At the end of 2015 Hexagon Composites' share value was NOK 22.90, relatively unchanged compared to the beginning of the year. This represents a market value at the end of the year of NOK 3.05 billion. By comparison, the Oslo Stock Exchange Industrial index increased by 19.3% while the OBX increased by about 3%.

At the end of the year the Group had 1,166,075 own shares.

A dividend of NOK 81.9 million was paid in 2015 relating to the previous year. The Board proposes to the annual General Meeting on 20 April 2016 that no dividend will be paid.

### RISK MANAGEMENT

Hexagon Composites works systematically to identify and manage risks. Risk management is executed by Group management and management in our subsidiary companies. The Board's audit committee reviews the overall risk management policy and procedures and the Group's internal control routines. The committee functions as a preparatory and advisory committee for the Group's Board and provides support for exercising its responsibilities relating to risk management, financial reporting, financial information and auditing.

### FINANCIAL RISK

The Group has a centralized finance function with overall responsibility for accounting, cash management, capital management, financing arrangements and management of the Group's financial risk factors. In addition, the business areas have financial controllers that perform similar tasks on the subsidiary level.

The most significant financial risks for the Group include interest rate risk, liquidity risk, currency risk and credit risk. The Group uses financial instruments to hedge risks associated with interest rate and foreign currency fluctuations. In addition to the discussion below, please see Note 24 to the consolidated financial statements for more information related to financial risk factors and mitigating actions.

Unexpected events and potential fluctuation in cash generation from operations could result in the Group being unable to meet its financial obligations. To mitigate this risk, the Group targets a sufficient liquidity position and adequate level of credit facilities. At the end of the year, the Group had unused credit overdraft facilities totaling NOK 601.5 million (390.8). See also discussion above on cash flow and liquidity.

## Board of Directors' report

The Group is mainly exposed to credit risk related to counterparty default on contractual agreements and trade, and other current receivables. The Group has policies and procedures in place to secure that sales are made to customers with appropriate credit profiles within defined limits. Actual losses on outstanding receivables in 2015 were NOK 0.6 million (0.5). Trade receivables at the end of the year amounted to NOK 164.5 million (206.6)

The Group is exposed to changes in currency rates which can impact our competitive position, and have a significant effect on our reported results. The most important foreign currencies to the Group are the US Dollar and Euro. According to our finance policy we enter into forward exchange contracts to reduce this risk.

Certain of our interest-bearing liabilities have variable interest rates, which expose the Group to volatility in future interest payment amounts. The aim of the Group's interest rate management is to reduce interest expense while keeping this volatility within acceptable limits. See discussion above under Long-term borrowing for information relating to interest rate hedging agreements maintained by the Group.

### OPERATIONAL RISK

#### Business risk

Business risk relates to the risk of loss and reduced profitability due to changes in our competitive position. Factors which can impact our competitive position include new players in the industry, pressure on market prices and future demand and supply factors, including the price of natural gas and the relative price of gas compared with diesel. Depending on developments, these factors can have a negative impact on our results and financial positions.

#### Operational and technological risk

Hexagon Composites currently has a strong position in the market, in particular due to leading technologies in its niches markets. The Company uses its expertise to develop and commercialize new products, processes and technologies. The Company has protected its products, technologies and production processes with patents where possible and deemed appropriate. However, the Company is exposed to competing technologies and processes that could have a negative effect on our competitive positions and, in turn our profitability and financial position. Our Type 4 composite pressure vessel technology is seen as industry leading however, typically competes with existing Type 1 all-steel and Type 3 metal inner-lined composite over-wrapped pressure vessels. Hexagon Composites operates in markets with strict standards for quality and delivery. Deviations from these standards could result in significant additional costs, lost sales revenues and damage to the Company's reputation. In order to mitigate these risks, the Company has procedures and controls in place to identify and prevent deviations.

#### Raw materials risk

The Group is exposed to developments in the price of its raw material and in particular the cost of carbon fiber. The price of carbon fiber is primarily linked to the prevailing market balance where supply is dependent on a limited

number of manufactures. To mitigate this risk the Group has a procurement policy which requires periodic fixed price agreements with its most important suppliers. The policy requires a minimum of two suppliers for the purchases of principal materials.

### CORPORATE GOVERNANCE

The Group's principles for corporate governance were last revised at the board meeting of 10 February 2016 and follow the Norwegian recommendations in NUES (Norwegian Code of Practice for Corporate Governance) updated as of 30 October 2014. The Group's principles are referred to in a separate chapter in the annual report.

### CORPORATE SOCIAL RESPONSIBILITY

Hexagon Composites strives to conduct its business in an economically, socially and environmentally responsible manner. The description of corporate social responsibility (CSR) has been provided in accordance with the provision in section 3-3 (c) of the Norwegian Accounting Act. The Group's CSR principles and practices are referred to in a separate chapter in the annual report.

### RESEARCH & DEVELOPMENT

In order to maintain Hexagon Composites' leading position within its niche markets, the Group invests in technological and process development. Several R&D projects are carried out in cooperation with major customers.

The Group expensed R&D costs amounting to NOK 34.2 million (12.1) in 2015. The Group has received government contributions of NOK 17.6 million (5.8) towards research and development activities for 2015. The total amount of deferred costs related to R&D amounted to NOK 37.8 million as of 31.12.2015. Costs capitalized for the year amounted to NOK 10.4 million (1.8), while amortization of deferred costs amounted to NOK 6.2 million (8.3). In addition to the directly expensed R&D costs, the Group has around 31 fulltime equivalents involved in development activities.

### AFTER BALANCE SHEET DATE

On 27 February 2016 Hexagon Composites and Mitsui & Co., Ltd. entered into an investment agreement where Mitsui undertakes to subscribe for 33,333,000 new ordinary shares of the Company at a price of NOK 20.00 per new share. The subscription price represents a premium of 3.0% over the volume weighted average share price for the three month period ended on 26 February 2016, and a premium of 2.6% over the closing price of the shares on 26 February 2016.

Completion of the investment agreement is subject to approval by the extraordinary general meeting (EGM) of the Company. The EGM will be held on 21 March 2016.

## FUTURE PROSPECTS

After the sharply deteriorating profitability trend, including the disappointing third quarter results, the improvement in EBITDA at the end of 2015 was well received. The Board is satisfied with the strategic direction taken for the LPG business, and expects continued market penetration in established markets as well as introducing sales to several new markets in the coming quarters. The Mobile Pipeline™ remains challenging, with low visibility in the short term, due to the oil price levels and volatility. The Board expects, however, that redirection of sales resources to new market segments and applications, in particular industrial users of diesel or oil fuelled generators causing severe local pollution, will reestablish growth also under a low oil price scenario. The Heavy-Duty Vehicles segments remains robust, and the environmental benefits of running on natural gas appear to have gained more weight in many decision makers' calculations. The market prospects for CNG Light-Duty Vehicles are improving, and with a rationalized cost base this business is expected to improve significantly. The positive momentum around our Hydrogen business unit, while not currently on a scale to realize profit, will lay the path towards generating significant value in the future, and justify the continued focus on development of our products and activities in that future high-growth market niche. In addition, the Company is continuing to monitor non-organic business opportunities to support its long term growth ambitions.

The Group's financial position shall be strengthened considerably after the post balance sheet event transaction referred to above. The Board is pleased to have Mitsui as a strategic partner and large investor. Hexagon Composites has had commercial relations with Mitsui for decades, and we fully appreciate the professionalism and integrity that characterize their way of operating. With its Japanese base, Mitsui has extensive experience pertaining to carbon fiber related industries. Japan has taken the lead in developing the Hydrogen society, and we look forward to drawing on Mitsui's capabilities in executing our Hydrogen strategy. With the capital to be contributed by Mitsui, we will significantly strengthen our balance sheet and thus our capacity to pursue organic as well as non-organic growth initiatives.

## GOING CONCERN

According to section 3-3a of the Norwegian Accounting Act, the Board confirms that the financial statements have been prepared on the assumption of a going concern. This assumption is based on profit forecasts for 2016 as well as the Group's long-term strategic forecasts. The Group's financial position is strong with sufficient liquidity and a robust equity ratio.

## THE PARENT COMPANY

The Parent Company Hexagon Composites ASA incurred an operating loss of NOK -17.4 million (-28.1) in 2015 and a loss of NOK -1.6 million (profit 72.1).

**The Board of Hexagon Composites ASA proposes that the profit for the year is allocated as follows:**

Allocated to dividends	0.0
Transferred from/to other equity	-1.6
<b>Total allocations</b>	<b>-1.6</b>

## STATEMENT FROM THE BOARD OF DIRECTORS AND GROUP PRESIDENT

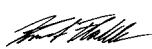
We confirm to the best of our knowledge;

- that the consolidated financial statements for 2015 have been prepared in accordance with IFRS as adopted by the European Union, as well as additional information requirements in accordance with the Norwegian Accounting Act,
- that the financial statements for the Parent Company for 2015 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and
- that the information presented in the financial statements gives a true and fair view of the assets, liabilities, financial position and result of Hexagon Composites ASA and the Hexagon Composites Group for the period.

We also confirm to the best of our knowledge that the Board of Directors' Report includes a true and fair view of the development, performance and financial position of Hexagon Composites ASA and the Hexagon Composites Group, together with a description of the principal risks and uncertainties that they face.

Aalesund, 15 March 2016

The Board of Directors of Hexagon Composites ASA



**KNUT FLAKK**  
Chairman of the Board



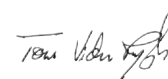
**KRISTINE LANDMARK**  
Deputy Chair



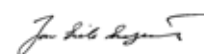
**SVERRE NARVESEN**  
Board Member



**MAY BRITT MYHR**  
Board Member



**TOM VIDAR RYGH**  
Board Member



**JON ERIK ENGESET**  
Group President

# FINANCIAL STATEMENTS 2015



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## INCOME STATEMENT GROUP

01.01 – 31.12

(NOK 1 000)	NOTE	2015	2014
<b>OPERATING INCOME</b>			
Sales revenue	4	1 443 873	1 650 829
<b>Total operating income</b>		<b>1 443 873</b>	<b>1 650 829</b>
<b>OPERATING EXPENSES</b>			
Cost of materials	13	803 695	812 026
Payroll & social security expenses	9,18,27,28	377 630	321 407
Depreciation and impairment	10,11	62 607	72 363
Other operating expenses	5,14,19,23	162 428	188 245
<b>Total operating expenses</b>		<b>1 406 360</b>	<b>1 394 041</b>
<b>Operating profit</b>	<b>4</b>	<b>37 513</b>	<b>256 788</b>
<b>FINANCE INCOME AND EXPENSES</b>			
Finance income	6,24	73 209	44 181
Finance expense	6,20,21	110 120	53 996
<b>Net financial items</b>		<b>-36 911</b>	<b>-9 815</b>
Profit/loss from associates and joint ventures	2,5,26	-311	-9 554
<b>Profit before tax</b>		<b>291</b>	<b>237 419</b>
Tax expense	7	-4 272	77 072
<b>Profit/loss for the year from continuing operations</b>		<b>4 563</b>	<b>160 347</b>
Profit/loss for discontinued operations	5	0	4 325
<b>Profit/loss for the year</b>	<b>24,26</b>	<b>4 563</b>	<b>164 672</b>
<b>Earnings per share (NOK)</b>			
Ordinary	8	0.03	1.24
Diluted	8	0.05	1.24
<b>Earnings per share for continuing operations (NOK)</b>			
Ordinary	8	0.03	1.21
Diluted	8	0.05	1.21

## STATEMENT OF COMPREHENSIVE INCOME

(NOK 1 000)	NOTE	2015	2014
Profit/loss after tax		4 563	164 672
<b>ITEMS THAT WILL BE RECLASSIFIED THROUGH PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>			
Translation differences when translating overseas activities		53 867	46 581
Actual gains or losses on instruments used for cash flow hedging	24	4 629	-382
Tax on actual gains or losses on instruments used for cash flow hedging	7	- 1 250	103
<b>Net total of items that will be reclassified through profit and loss in subsequent periods</b>		<b>57 247</b>	<b>46 302</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED THROUGH PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>			
Actuarial gains/losses for the period	18	1 628	-2 314
Tax on actuarial gains/losses for pensions for the period	7	-407	625
<b>Net total of items that will not be reclassified through profit and loss in subsequent periods</b>		<b>1 221</b>	<b>-1 689</b>
<b>Comprehensive income for the period</b>		<b>63 031</b>	<b>209 285</b>

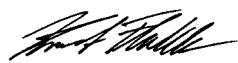
## FINANCIAL POSITION OF THE GROUP

(NOK 1 000)	NOTE	2015	2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	10	409 994	294 462
Intangible assets	11	91 229	83 922
Net pension assets	18	635	255
Investments in associates and joint ventures	2,26	0	0
Other non-current assets	12	3 202	4 597
Deferred tax asset	7	7 779	23 163
<b>Total non-current assets</b>		<b>512 839</b>	<b>406 398</b>
<b>CURRENT ASSETS</b>			
Inventories	13	332 358	320 468
Trade receivables	14	164 458	206 577
Other current assets	15	77 958	43 993
Bank deposits, cash and cash equivalents	16	93 177	202 179
<b>Total current assets</b>		<b>667 950</b>	<b>773 216</b>
<b>Total assets</b>	<b>4,24,26</b>	<b>1 180 789</b>	<b>1 179 615</b>

## FINANCIAL POSITION OF THE GROUP

(NOK 1 000)	NOTE	2015	2014
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	17	13 329	13 329
Share premium	17	82 955	82 955
Own shares	17	-117	-117
Other paid-in capital		9 520	7 602
<b>Total paid-in capital</b>		<b>105 688</b>	<b>103 770</b>
Other equity		364 449	383 338
<b>Total other equity</b>		<b>364 449</b>	<b>383 338</b>
<b>Total equity</b>		<b>470 138</b>	<b>487 109</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current interest-bearing liabilities	6,20,23	382 868	297 243
Interest and currency derivatives	24	4 173	7 334
Pension liabilities	18	1 441	3 374
Deferred tax liabilities	7	18 925	25 863
<b>Total non-current liabilities</b>		<b>407 408</b>	<b>333 815</b>
<b>CURRENT LIABILITIES</b>			
Short-term loans	6,16,21,23	10 719	0
Trade payables and other current liabilities	22,24,26	249 034	301 941
Income tax payable	7	0	29 551
Provisions	19	43 491	27 200
<b>Total current liabilities</b>		<b>303 244</b>	<b>358 691</b>
<b>Total liabilities</b>	<b>4,24,26</b>	<b>710 652</b>	<b>692 506</b>
<b>Total equity and liabilities</b>		<b>1 180 789</b>	<b>1 179 615</b>

Ålesund, 15 March 2016  
The Board of Directors of Hexagon Composites ASA



Knut Flakk  
Chairman




Kristine Landmark  
Deputy Chair



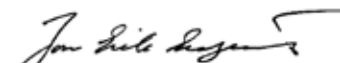
Sverre Narvesen  
Board Member



May Britt Myhr  
Board Member



Tom Vidar Rygh  
Board Member



Jon Erik Engeset  
Group President

## CASH FLOW STATEMENT GROUP

(NOK 1 000)	NOTE	2015	2014
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax		291	237 419
Tax paid for the period	7	-46 823	-52 069
Gains/losses on sale of property, plant & equipment	10	1 369	0
Depreciation/amortisation	10,11	55 216	72 363
Impairment loss	10	7 391	0
Interest income	6	-3 582	-3 227
Interest expenses and buyback premium on bond loan	6	41 457	26 244
Profit/loss from associates and joint ventures	26	311	9 554
Changes in inventories, trade receivables and payables		13 093	-154 345
Changes in pension liabilities	18	-681	-839
Changes in other accrual accounting entries		-26 764	40 808
<b>Net cash flow from operating activities</b>		<b>41 276</b>	<b>175 908</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
Sale of property, plant & equipment	10	0	1 212
Purchase of property, plant & equipment	10	-139 699	-105 341
Purchase of intangible assets	11	-10 424	-1 849
Net proceeds sale of subsidiary		0	118 016
Interest received	6	3 582	3 227
Other investments		-187	-10 595
<b>Net cash flow from investing activities</b>		<b>-146 728</b>	<b>4 670</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
New non-current liabilities	20,23	387 818	0
Repayment of non-current liabilities	20,23	-300 000	-150 000
Bank overdraft payments	21	10 719	0
Interest payments and buyback premium on bond loan	6	-41 126	-25 321
Payments of dividends		-81 920	-43 967
Purchase of own shares		0	-26 773
<b>Net cash flow from financing activities</b>		<b>-24 509</b>	<b>-246 060</b>
Net change in cash & cash equivalents		-129 961	-65 482
Net currency exchange differences		20 959	19 358
Cash & cash equivalents at beginning of period		202 179	248 303
<b>Cash &amp; cash equivalents for continuing operations at end of period</b>	<b>16</b>	<b>93 177</b>	<b>202 179</b>
Undrawn Group overdraft facilities	16,20	601 463	390 783
Restricted funds, included in cash & cash equivalents	16	5 372	6 359

## STATEMENT OF CHANGES IN EQUITY

(NOK 1 000)	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM	HEDGING RESERVE	OTHER PAID-IN EQUITY	TRANS- LATION DIFFER- ENCES	OTHER EQUITY	TOTAL
Balance 01.01.2014	13 329	-106	82 955	-3 100	7 602	-10 910	236 973	348 564
Dividends to shareholders							-43 967	-43 967
Movement in own shares etc.		-11					-26 762	-26 773
Profit/loss for the year							164 672	164 672
<b>OTHER COMPREHENSIVE INCOME</b>								
Translation differences when translating foreign activities						46 581		46 581
Actuarial gains/losses for the period							-1 689	-1 689
Actual gains or losses on instruments used for cash flow hedging				-279				-279
<b>Total other comprehensive income</b>				<b>-279</b>		<b>46 581</b>	<b>-1 689</b>	<b>44 613</b>
<b>Balance as of 31.12.2014</b>	<b>13 329</b>	<b>-117</b>	<b>82 955</b>	<b>-3 379</b>	<b>7 602</b>	<b>57 491</b>	<b>329 227</b>	<b>487 109</b>
(NOK 1 000)	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM	HEDGING RESERVE	OTHER PAID-IN EQUITY	TRANS- LATION DIFFER- ENCES	OTHER EQUITY	TOTAL
Balance 01.01.2015	13 329	-117	82 955	-3 379	7 602	57 491	329 227	487 109
Dividends to shareholders							-81 920	-81 920
Movement in own shares etc.								0
Share-based payment etc.					1 918			1 918
Profit/loss for the year							4 563	4 563
<b>OTHER COMPREHENSIVE INCOME</b>								
Translation differences when translating foreign activities						53 867		53 867
Actuarial gains/losses for the period							1 221	1 221
Actual gains or losses on instruments used for cash flow hedging				3 379				3 379
<b>Total other comprehensive income</b>				<b>3 379</b>		<b>53 867</b>	<b>1 221</b>	<b>58 468</b>
<b>Balance as of 31.12.2015</b>	<b>13 329</b>	<b>-117</b>	<b>82 955</b>	<b>0</b>	<b>9 520</b>	<b>111 358</b>	<b>253 091</b>	<b>470 138</b>

Own shares comprise cost of acquisition for the Company's shares owned by the Group. As of 31 December 2015, the Group owned 1 166 075 (1 166 075) own shares.

Other equity includes accumulated actuarial gains/losses for pensions after tax of NOK -18 077 thousand (change of NOK 1 221 thousand from NOK -19 298 thousand as of 31.12.2014).

## NOTES

### NOTE 1 GENERAL

Hexagon Composites ASA is a public limited Company with its registered office in Norway. The Company's headquarters is at Korsegata 4B, 6002 Ålesund, Norway.

The Board of Directors authorised the annual report for publication on 15 March 2016.

The Group's operations are described in note 4.

### NOTE 2 ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the EU as of 31.12.2015, and Norwegian disclose requirements listed in the Norwegian Accounting Act as of 31.12.2015.

The measurement basis used is historical cost, with the exception of financial derivatives at fair value through profit or loss and financial derivatives used as cash flow hedges that are recognised at fair value.

The consolidated financial statements have been prepared using uniform accounting policies for equivalent transactions and events under otherwise identical circumstances.

#### 2.2. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The Group's presentation currency is NOK. This is also the Parent Company's functional currency. Subsidiaries with different functional currencies are translated at the balance sheet date exchange rate for balance sheet items and at the weighted average exchange rate during the period for income statement items. Translation differences are recognised in the statement of total comprehensive income.

#### 2.3 BASIS OF CONSOLIDATION

The Group's consolidated financial statements comprise Hexagon Composites ASA and its subsidiaries as of December 31, 2015. An entity has been assessed as being controlled by the Group when the Group is exposed for or have the rights to variable returns from its involvement with the entity, and has the ability to use its power over the entity to affect the amount of the Group's returns.

Thus, the Group controls an entity if and only if the Group has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect the amount of the Group's returns.

There is a presumption that if the Group has the majority of the voting rights in an entity, the entity is considered as a subsidiary. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over the entity. Including ownership interests, voting rights, ownership structure and relative power, as well as options controlled by the Group and shareholder's agreement or other contractual agreements. Reference is made to note 31 which contains a list of the subsidiaries and associates, note 25 and 26 which lists joint operations and joint ventures respectively.

The assessments are done for each individual investment. The Group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Business combinations are accounted for by using the acquisition method, see note 5. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting

policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Non-controlling interests is presented separately under equity in the Group's balance sheet.

#### **2.4 INVESTMENT IN ASSOCIATES AND JOINT VENTURES**

Associates are entities where the Group has significant influence, but not control, over financial and operating policies (normally a holding of between 20% and 50%).

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining whether the Group has joint control or significant influence over an entity are similar to those necessary to determine control over subsidiaries. For more detailed description of the Group's considerations regarding level of influence and joint control as well as classification of joint arrangement, see note 26.

Associates and joint ventures are accounted for using the equity method from the date when significant influence or joint control is achieved until such influence ceases.

Investments in an associates or joint ventures are initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

If there is an indication that the investment in the associate or joint venture is impaired, the Group will perform an impairment test of the carrying amount of the investment. Any impairment losses are recognised as share of profit of an associate and a joint venture in the statement of profit or loss.

If the Group's share of the loss equals or exceeds the carrying amount of the associate or joint venture, the carrying amount is set to zero and further loss is not recognised unless the Group has incurred a legal or constructive obligation on behalf of the associate or joint venture.

Upon loss of significant influence over the associate or joint control over the joint venture, and as such the equity method ceases, the Group measures and recognises any retained investment at its fair value.

#### **2.5 JOINT OPERATIONS**

A joint operation is a joint arrangement whereby the Group and the other parties that have joint control over the arrangement, have contractual rights to the assets and obligation for the liabilities relating to the arrangement. All decisions about the relevant activities require unanimous consent.

When assessing if a joint arrangement is a joint operation, the Group assesses the structure of the arrangement, the legal form, the contractual agreement and other facts and circumstances. For a detailed description of the Group's assessment regarding joint operation, see note 25.

The Group recognises its assets, liabilities, revenue and expenses and its relative share of assets, liabilities, revenue and expenses of the joint operation.

When the Group enters into transactions with a joint operation in which it is a joint operator, the Group recognises gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

#### **2.6 CASH AND CASH EQUIVALENTS**

Cash & cash equivalents consist of cash in hand and at bank. Any positive balances against bank overdrafts are included as a component of cash and cash equivalents in the cash flow statement. The cash flow statement has been prepared using the indirect method. Bank overdrafts are reported under short-term loans in the balance sheet. Received interest income is classified as investment activities and interest payments is classified as investment activities in the cash flow statement.

#### **2.7 TRADE RECEIVABLES**

Trade receivables are recognised at fair value less impairment losses. Nominal value does not normally differ significantly from amortised cost.

## 2.8 INVENTORIES

Inventories are recognised at the lower of historical cost and net realisable value. Net realisable value is the estimated selling price (in the normal course of business) less the estimated costs of completion, marketing and distribution. Cost is based on the average cost price, and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Goods produced by the Company itself include variable and fixed costs that can be allocated based on normal capacity utilisation.

## 2.9 PROPERTY, PLANT & EQUIPMENT

Items of property, plant and equipment are carried at cost, less accumulated depreciation and impairment. An asset is removed from the balance sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is recognised in the income statement.

The cost of an item of property, plant and equipment includes its original purchase price and all costs necessary to bring the asset to working condition for its intended use. Subsequent expenditure on repair and maintenance of assets is recognised as an expense in the income statement, while expenses that are expected to generate future economic benefits are capitalised.

The cost of a non-current asset is depreciated to the residual value over the asset's useful life. The following depreciation periods apply:

- Buildings 10-20 years
- Machinery and equipment 3-15 years
- Fixtures & fittings, motor vehicles 3-10 years

If an item of property, plant and equipment has different parts with different useful lives, the parts are depreciated separately if the cost is significant in relation to the total cost of the item.

Depreciation is calculated on a straight-line basis (straight-line basis and unit of production in 2014).

The depreciation period and method are assessed annually. The same applies to residual value. When the carrying amount of property, plant and equipment exceeds the estimated recoverable amount, the value is written down to the recoverable amount.

Assets under construction are classified as property, plant and equipment and are carried at cost until its manufacture or development is completed. Assets under construction are not subject to depreciation until the assets are taken into use.

## 2.10 LEASING - GROUP AS A LESSEE

### Finance leases

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership of a leased asset. At the inception of the lease term, finance leases are recognised at the lower of the fair value and the present value of the minimum lease payments. The discount rate used to calculate the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine. If not, the Company's incremental borrowing rate is used. Direct costs in connection with the establishment of a lease are included in the cost of the asset.

The same depreciation period is used as for the Company's other depreciable assets. If there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, the asset is depreciated over the shorter of the lease term and the useful life of the asset.

### Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the asset. Lease payments are classified as an operating expense and are recognised as an expense over the lease term.

## 2.11 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the date the Group becomes a party to the instruments' contractual terms. A financial asset is derecognised when the contractual rights to the cash-flow expires or when the Group transfers substantially all the risk and rewards of the ownership of the financial asset. Financial liabilities are derecognised on the date the obligation specified in the contract are discharged, cancelled or expire.

In accordance with IAS 39, Financial instruments: Recognition and measurement, financial instruments within the scope of IAS 39 are classified in the following categories: at fair value with changes in value through profit or loss, held to maturity, loans and receivables and other liabilities.

**Financial assets and liabilities measured at fair value through profit or loss**

The Group has forward exchange contracts that are measured at fair value with gains or losses through profit or loss. Interest rate derivatives that do not qualify as hedges are measured at fair value with gains or losses through profit or loss. The financial instruments are classified as current assets or liabilities or non-current assets or liabilities based on the maturity of the financial instrument.

Gains or losses are recognised on an ongoing basis in the period they arise and are recognised in finance income or finance expense in the income statement.

**Financial assets and liabilities measured at amortised cost**

Trade receivables, other non-current and current receivables and bank deposits, cash and cash equivalents are valued at amortised cost based on expected cash flows. They are measured at fair value when measured for the first time, with the addition of any transaction costs.

Interest-bearing liabilities and other liabilities are measured at their fair value less associated transaction costs on the establishment date. In subsequent periods, financial liabilities are recognised at their amortised cost calculated using the effective interest rate.

Receivables and liabilities are non-derivative financial assets and liabilities with fixed or determinable payments that are not traded in one active market. They are classified as current assets or current liabilities, unless they fall due more than 12 months after the balance sheet date, in which case they are classified as non-current assets or non-current liabilities.

**2.12 HEDGING**

The Group uses forward currency contracts to reduce currency exposure, but does not use hedge accounting associated with the currency instruments.

**Cash flow hedges**

The Group uses hedge accounting of hedging instruments entered into to reduce its interest exposure. Interest rate hedging instruments classified as cash flow hedging are recognised at fair value on the establishment date. Subsequent changes in value are recognised in other income and expenses in the statement of comprehensive income.

The portion of gain or loss on a hedging instrument that is determined to be effective is recognised in total comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

If the hedging instrument is sold, the accounting treatment differs according to whether the forecast transaction (the hedged item) is expected to occur. If the forecast transaction is expected to occur, the cumulative gain or loss on the hedging instrument shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. If the forecast transaction is not expected to occur, gains and losses accumulated in equity shall be reclassified from equity to profit or loss.

If the hedging instrument is no longer effective, but the forecast transaction is still expected to occur, the cumulative gain or loss on the hedging instrument shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. Subsequent gains or losses on the hedging instrument are recognised immediately in profit or loss.

If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss on the hedging instrument that was recognised in total comprehensive income is reversed and recognised in profit or loss.

**2.13 INTANGIBLE ASSETS**

Intangible assets acquired independently are recognised at cost. The cost of intangible assets acquired as part of acquisitions is recognised at fair value in the Group's opening balance. Capitalised intangible assets are recognised at cost less any amortisation and impairment.

Internally generated intangible assets, with the exception of capitalised development expenses, are not capitalised, but expensed as incurred.

The useful life is determined and intangible assets are depreciated over their useful life and tested for impairment if there is an indication that they are impaired. The amortisation method and period are assessed at least annually. Changes to the amortisation method and/or period are accounted for as a change in estimate.

**Goodwill**

Assets and liabilities acquired in a business combination are recognised at fair value in the Group's opening balance. Non-controlling interests in the acquiree are measured at fair value or as the non-controlling interest's proportionate share of the acquiree's identifiable assets and liabilities. A choice of method is made for each individual business combination. The difference between the consideration transferred and the fair value of the net identifiable assets at the time of acquisition is classified as goodwill. It is allocated to cash-generating units or groups of cash generating units which are expected to achieve synergies from the business combination.

Goodwill is recognised in the balance sheet at cost, less any accumulated impairment. Goodwill is not amortised, but is tested annually for impairment. Cash generating units are measured at a higher level than other assets, with 'operating segment' being the highest level. An impairment loss is recognised when the recoverable amount is lower than the carrying amount.

#### Patents and licences

Amounts paid for patents and licences are recognised in the balance sheet and are amortised on a straight-line basis over their useful life. The expected useful life of patents and licences varies between 6 and 17 years.

#### Technology development

Research costs are expensed as incurred. The development costs of projects (relating to the design and testing of new or improved products) are capitalised as intangible assets if all the following criteria are met:

- a) it is technically feasible to complete the asset for future use or sale;
- b) it is the management's intention to complete the asset and use or sell it;
- c) it is possible to use or sell the asset;
- d) it can be demonstrated how the asset will generate future economic benefits;
- e) technological and financial resources are available to complete the asset; and
- f) the costs can be reliably measured.

Other development costs are recognised as incurred. Development costs that have previously been expensed are not recognised in subsequent periods. Capitalised development costs are amortised on a straight line basis over the estimated useful life of the asset or using the unit of production method, when the use of time is closely linked to production equipment that is depreciated according to the unit of production method.

Capitalised development costs with an indefinite useful life or related to projects under development are tested annually for impairment in accordance with IAS 36.

#### Customer relationships

Purchased customer contracts have a finite useful life, and are recognised at cost less amortisation. Customer contracts and technology are amortised using the straight line method over their estimated useful lives.

### 2.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets with an indefinite useful life are not amortised, but are tested annually for impairment. Items of property, plant and equipment and intangible assets are tested for impairment if there is reason to believe that future earnings do not justify the asset's carrying amount. The difference between the carrying amount and the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

When testing for impairment, non-current assets are grouped at the lowest level at which it is possible to distinguish independent cash inflows (cash generating units). A cash generating unit is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets. At each reporting date, the Group considers the possibility of reversing previous impairment losses on non-financial assets (except goodwill and other intangible assets with an indefinite useful life).

### 2.15 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is significant, the provision is calculated by discounting anticipated future cash flow using a discount rate before tax that reflects the market's pricing of the time value of money and, if relevant, risks specifically associated with the obligation.

A provision for guarantees is recognised when the underlying products or services are supplied. The provision is based on historical information about guarantees and a weighting of all possible outcomes by their associated probabilities. A provision for onerous contracts is recognised when the Group's expected economic benefits under the contract are lower than the unavoidable costs of meeting the obligations under the contract.

### 2.16 EQUITY

#### (I) Own shares

In the event of a share buy-back, the purchase price and any directly associated costs are recognised as a change in equity. Own shares are reported as a reduction in equity. Gains or losses on share buy-back transactions are not recognised.

#### (II) Costs arising from equity transactions

Transaction costs directly linked to an equity transaction are recognised directly in equity.

**(III) Other equity****(a) Translation differences**

Translation differences arise in connection with exchange differences on consolidation of foreign operations, and are recognised in other comprehensive income.

On disposal of a foreign operation, cumulative translation differences are reversed and recognised in profit or loss in the same period in which the gain or loss on the disposal is recognised.

**(b) Change in actuarial gains/losses (pension commitments)**

Actuarial gains or losses resulting from changes in assumptions and basic data are recognised directly in other comprehensive income.

**(c) Dividends**

Proposed dividends are classified as other equity until they are approved by the general assembly of Hexagon Composites ASA.

**(IV) Other paid-in capital – Share-based payments**

The Group has a share based program for the senior executives. The fair value of the share options is calculated at fair value and recognised as an employee cost with a corresponding increase in paid in capital, over the period in which the performance and/or service conditions are fulfilled. The fair value is calculated on the grant date using the Black & Scholes model.

**(V) Hedging reserve**

Forward exchange contracts and interest rate derivatives that qualify as hedging instruments (cash flow hedges) are recognised at fair value, with a corresponding entry in total comprehensive income, and transferred to the revaluation reserve (net of tax). Realised gains or losses are recognised in profit or loss to offset gains or losses on the items that were hedged.

**2.17 REVENUE RECOGNITION**

The Group's main revenues come from the sale of its own products in the different segments:

- Low-Pressure Cylinders
- High-Pressure Cylinders

Revenue is recognised to the extent that it is probable that transactions will generate future economic benefits for the Group and the revenue can be reliably measured. Sales revenue is stated net of VAT and discounts.

Revenue from the sale of goods and services is recognised when delivery has taken place and the significant risks incidental to ownership of the goods have passed to the buyer. Royalties are recognised when earned in accordance with the substance of the relevant royalty agreement. Interest income is recognised as interest accrues.

Dividends are recognised when the shareholders' right to receive the payment is established by the annual general assembly.

**2.18 FOREIGN CURRENCY****Transactions in foreign currency**

Foreign currency transactions are translated at the exchange rates existing at the date of the transactions. Monetary items denominated in foreign currencies are translated to functional currency using the exchange rates ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to functional currency using the exchange rates at the dates of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences are recognised in profit or loss in the period in which they arise.

**Foreign operations**

Assets and liabilities of foreign operations with a functional currency that differs from the presentation currency are translated to reporting currency using the exchange rate on the balance sheet date. Income and expense from foreign operations is translated to reporting currency using the weighted average exchange rate (if the average does not provide a reasonable estimate of the cumulative effects of using the transaction rate, the transaction rate is used). Translation differences are recognised in other comprehensive income.

Translation differences arising from the translation of net investments in foreign operations, and from related hedged items, are classified as translation differences in total comprehensive income. Translation differences in total comprehensive income are transferred to the income statement on the disposal of a foreign operation.

## 2.19 EMPLOYEE BENEFITS

### Defined benefit pension plans

Defined benefit plans are valued at the present value of accrued future pension benefits at the end of the reporting period. Pension plan assets are valued at their fair value.

The current service cost and net interest income/costs are recognised immediately and is presented as a payroll & social security expense in the income statement. Net interest income/costs is calculated by using the discount rate of the liability at the beginning of the period on the net liability. Changes in net pension liabilities as a result of payments of premiums and pension payments have been taken into consideration. The difference between the actual return and the accounted return is recognised continuously through other comprehensive income. The pension costs is affecting the payroll & social security costs in the income statement. Actuarial gains and losses, including changes in value, both for assets and liabilities, are recognised through other comprehensive income. Actuarial gains and losses are not reclassified over profit and loss.

### Multi-employer plans

Some of the Norwegian employees participate in a new AFP pension scheme. The scheme is a defined benefit multi-employer pension plan, funded through premiums that are defined as a percentage of salary. The scheme's retirement benefit obligation and plan assets cannot be reliably measured and allocated at present. For accounting purposes, the scheme is treated as a defined contribution plan, with premium payments expensed as incurred, and no pension liability recognised.

### Defined contribution pension plans

Pension premiums relating to defined contribution plans are recognised as an expense as they are incurred.

### Share-based payment

The Group has a share based program for the senior executives. The share option program for the senior executives is settled in stocks. The fair value of the issued options is expensed over the vesting period which is over the agreed-upon future service period. The fair value of the share options is measured at grant date and calculated using the Black & Scholes model.

The cost of the employee share-based transaction is expensed over the average vesting period. The value of the issued options of the transactions that are settled with equity instruments (settled with the company's own shares) is recognised as salary and personnel cost in profit and loss and in other paid-in capital.

Social security tax on options is recorded as a liability and is recognised over the estimated vesting period.

## 2.20 GOVERNMENT GRANTS

Government grants, including the Skattefunn tax incentive scheme, are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them, and that the grants will be received. Grants are entered as deductions against the cost that they are intended to compensate. Grants are deducted from the cost which the grant is meant to cover. Investment grants are capitalised and recognised systematically over the asset's useful life. Investment grants are recognised either as deferred income or as a deduction of the asset's carrying amount. The Group currently has grants with the United States Department of Energy which is recognised as grant income.

## 2.21 INCOME TAXES

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities, with the exception of:

- temporary differences linked to goodwill that are not tax deductible
- temporary differences related to investments in subsidiaries, associates or joint ventures when the Group controls when the temporary differences are to be reversed and this is not expected to take place in the foreseeable future.

Deferred tax assets are recognised when it is probable that the Group will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. The Group recognise previously unrecognised deferred tax assets to the extent it has become probable that the Group can utilise the deferred tax asset. Similarly, the Group will reduce a deferred tax asset to the extent that the Group no longer regards it as probable that it can utilise the deferred tax asset.

Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the companies in the Group where temporary differences have arisen.

Deferred tax assets and liabilities are recognised at nominal value and are classified as non-current assets and non-current liabilities in the balance sheet. Deferred tax is presented as a gross amount for the geographical countries in which the Group operates.

Deferred tax is recognised directly in total comprehensive income if the tax items relate to items recognised in total comprehensive income. Deferred tax is recognised directly in equity if the tax items relate to items recognised directly in equity.

## 2.22 SEGMENTS

For management purposes, the Group is organised into different business areas according to product/service range. The Group's segment reporting format is business areas. Financial information relating to segments and geographical areas is presented in note 4.

In segment reporting, internal gains on sales between segments are eliminated.

## 2.23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities that are unlikely to be incurred.

Contingent assets are not recognised in the annual accounts but are disclosed if there is a certain probability that a benefit will be added to the Group.

## 2.24 EVENTS AFTER THE BALANCE SHEET DATE

The amounts recognised in the financial statements are adjusted to reflect new information received after the balance sheet date that provide evidence of conditions that existed at the balance sheet date ("adjusting events"). The amounts recognised in the financial statements are not adjusted to reflect new information that are indicative of conditions that arose after the reporting period ("non-adjusting events"), but non-adjusting events are disclosed if material.

## 2.25 NEW ACCOUNTING STANDARDS

The accounting policies adopted are consistent with those of the previous financial year. There is no new accounting standards or amendments in IFRS in 2015 which has had any effect for the Group's financial statements.

## 2.26 NEW AND AMENDED IFRS AND IFRICS WITH FUTURE EFFECTIVE DATES

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective, are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

### IFRS 9 Financial Instruments

In July 2014 the IASB published the final element in IFRS 9 and the standard is now complete. IFRS 9 results in amendments to classification and measurement, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial Instrument: Recognition and Measurement. The parts of IAS 39 that have not been amended as part of this project has been transferred and included in IFRS 9. The standard shall be implemented retrospectively, with the exception of hedge accounting, but it is not a requirement to prepare comparative figures. The rules for hedge accounting shall mainly be implemented prospectively, with certain few exceptions. The group has no plans regarding early implementation of the standard. The standard is not yet approved by the EU. For enterprises outside the EU/EEA with a statutory obligation to keep accounts, the amendments will be effective for accounting periods beginning on or after 1 January 2018.

### IFRS 15 Revenue from Contracts with Customers

The IASB and FASB has published a new converged standard for revenue recognition; IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets (e.g. sale of property, plant and equipment). IFRS 15 shall be implemented using either the fully retrospective or modified method. The standard is not yet approved by the EU. For entities outside the EU/EEA with a statutory obligation to keep accounts, the amendments will be effective for accounting periods beginning on or after 1 January 2018.

### IFRS 16 Leasing

In January 2016 the IASB published the new leasing standard. For enterprises outside the EU/EEA with a statutory obligation to keep accounts, the standard will be effective for accounting periods beginning on or after 1 January 2019.

The group has not yet considered if IFRS 9 Financial Instrument, IFRS 15 Revenue from contracts with customers or IFRS 16 Leasing will impact the financial statements.

Other issued standards and interpretations, that are not yet effective, are not applicable for the Group, and will not have an impact on the financial statements.

## NOTE 3 ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies in accordance with IFRS, management has made several judgements and estimates. All estimates are assessed to the most probable outcome based on the managements best knowledge. Estimates and assumptions are regularly reassessed and are based on historical experience and other factors, including forecast events that are considered probable under current circumstances.

The Group prepares estimates and makes assumptions about the future. The accounting estimates based on this process are, by definition, rarely completely in line with the final outcome. Estimates and assumptions represent a risk of material changes in the carrying amounts of assets and liabilities over the next financial year.

The Group's most significant accounting estimates are related to the following items:

- Depreciation and impairment of property, plant & equipment and intangible assets.
- Recognition of intangible assets.
- Impairment of goodwill
- Fair value of assets and liabilities acquired in a business combination.
- Product warranty provisions

### Depreciation and impairment of property, plant & equipment and intangible assets

Group management determines the useful lives and depreciation rates for items of property, plant & equipment and intangible assets. The expected useful life of the Group's production equipment is largely dependent on technological development. The present depreciation period is 3-20 years, but an uncertainty exist for the interval between 10-20 years.

The Group has at the beginning of 2015 reassessed the useful lifetime of their production lines and concluded that the lifetime is longer than the previous depreciation rate implied for some equipment. The new estimated residual lifetime affected the depreciation cost as from the beginning of 2015. Without this correction the depreciation cost YTD 31 December would have been approximately NOK 8.3 million higher. Previously we assumed that technological developments would reduce the useful life of our production lines. In practice, however, the production equipment is expected to be used for a longer period. This is also based on the fact that the Group has increased the production capacity and efficiency through new investments in the production lines. The total remaining book value of the production lines reassessed as of 31.12.15 is NOK 56.9 million.

Depreciation for capitalized development costs associated with TITAN® cylinders is based on the unit of production method, i.e. in accordance with the number of cylinders produced at Hexagon Lincoln. The useful life is estimated on the basis of 5 000 TITAN® cylinders, and depreciation is applied on the basis of the annual number of units produced. The remaining value of the capitalized TITAN® cylinders development costs as of 31.12.15 is NOK 22.8 million. An uncertainty exists for the production in excess of 5 000 cylinders. See also note 11.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The Group has recognised an impairment of NOK 7.4 million, principally related to one specific piece of equipment. The impairment was recorded as a part of the annual impairment review as of December 2015. The productivity of this new, innovative machine is deemed not to be as high as originally anticipated and therefore an impairment was recognised. The remaining value of this machine as of December 2015 was NOK 15.7 million, and there is still uncertainty related to the future productivity of this machine.

### Recognition of intangible assets

There is uncertainty about the date for when the criteria for recognition of intangible assets are satisfied. The management uses the starting point that the Group first commences capitalisation when there is an identifiable intangible asset that is controlled by the Group and is expected to create future earnings.

There is uncertainty associated with the valuation and allocation of the cost of acquisition for intangible assets.

The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to project plan. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2015, the carrying amount of capitalised development costs was NOK 37 773 (33 474) thousand. For criteria for recognition, see note 2.13 and note 11.

### Impairment of goodwill

Recognised goodwill is assessed annually for impairment. Recoverable amounts from cash-generating units are calculated based on their value in use. There is uncertainty associated with the assumptions used as a basis in the preparation of budgets for the calculation of value in use. These calculations require the use of estimates and assumptions about future income and expense trends. See also note 11 for further information on impairment testing of goodwill.

**Fair value of assets and liabilities at the time of acquisition**

The Group must allocate the cost of a business combination by recognising the assets acquired and liabilities assumed based on their estimated fair values. The fair value measurement requires management to make significant judgements in the choice of method, estimates and assumptions. Significant acquired intangible assets which the Group recognises include the customer base and deferred tax assets. Assumptions used for the valuation of intangible assets include, but are not limited to, the estimated useful life of the customer relationship based on customer attrition.

Significant acquired assets that the Group recognises include land and buildings and machines and equipment. Methods for the valuation of property, plant & equipment include, but are not limited to, the replacement cost of the assets. Management's fair value estimates are based on reasonable, but not entirely certain, assumptions. See also note 5.

**Deferred tax asset**

The group's deferred tax assets are reviewed regularly and recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. See also note 7.

**Product warranty provisions**

Management estimates the warranty provision using information on historical warranty costs and other relevant information relevant to future warranty claims. Factors that can influence estimated liabilities include the results of productivity and quality initiatives, as well as prices of parts and labour costs. See also note 19.

## NOTE 4 SEGMENT INFORMATION

The Group's operations are divided into strategic business areas, which are organised and managed separately. The different business areas sell different products, address different customer groups and have different risk profiles.

### THE HEXAGON COMPOSITES GROUP IS DIVIDED INTO THE FOLLOWING BUSINESS SEGMENTS

- a) Low-Pressure Cylinders - Hexagon Ragasco  
 b) High-Pressure Cylinders- Hexagon Lincoln / Hexagon Bus Systems / Hexagon Raufoss / Hexagon Technology

Hexagon Ragasco manufactures low-pressure cylinders, i.e. cylinders for propane gas.

Hexagon Lincoln / Hexagon Bus Systems / Hexagon Raufoss develop and supply complete storage and transport systems for natural gas and hydrogen to the bus and automotive industry and for bulk transport of compressed gas.

Transactions between the segments are based on arm's-length basis.

### Other information

In 2015 the High-Pressure Cylinders business segment had one customer group with sales that constituted more than 10% of the Group's annual sales. Sales to the customer totalled NOK 359 873 thousand in 2015 and NOK 196 288 thousand in 2014. Otherwise the Group's customer base is relatively fragmented in terms of size and concentration such that it is not dependent upon any one single customer.

### GEOGRAPHICAL SEGMENTS

The Group's activities are divided into the following regions: Europe, North America, South-East Asia, Middle East, South America and Other.

Transactions in the different segments have been eliminated.

### BUSINESS SEGMENT DATA 2015

(NOK 1 000)	HIGH-PRESSURE CYLINDERS	LOW-PRESSURE CYLINDERS	UNALLOCATED	ELIMINATION	CONSOLIDATED 2015
<b>OPERATING INCOME FROM EXTERNAL CUSTOMERS:</b>					
Sale of goods	1 044 975	398 898	0	0	1 443 873
<b>Total operating income from external customers</b>	<b>1 044 975</b>	<b>398 898</b>	<b>0</b>		<b>1 443 873</b>
Internal transactions	2 375	6 192	43 568	-52 135	0
<b>Total operating income</b>	<b>1 047 350</b>	<b>405 090</b>	<b>43 568</b>	<b>-52 135</b>	<b>1 443 873</b>
<b>Operating profit for segment before depreciation/amortisation (EBITDA)</b>	<b>35 776</b>	<b>65 862</b>	<b>-1 519</b>		<b>100 119</b>
<b>Operating profit for segment (EBIT)</b>	<b>-13 398</b>	<b>53 411</b>	<b>-2 501</b>		<b>37 513</b>
Profit/loss from associates and joint ventures		-311			-311
Net financial items					36 911
Tax expense					-4 272
<b>Profit/loss for the year</b>					<b>4 563</b>
<b>Segment assets</b>	<b>933 394</b>	<b>345 901</b>	<b>13 369</b>	<b>-111 875</b>	<b>1 180 789</b>
<b>Segment liabilities</b>	<b>518 877</b>	<b>253 184</b>	<b>49 140</b>	<b>-110 549</b>	<b>710 652</b>
Investments in assets for the year	97 052	50 599	2 473		150 123
Depreciation/amortisation/impairment	49 174	12 451	982		62 607

### GEOGRAPHICAL SEGMENT DATA 2015

(NOK 1 000)	EUROPE	NORTH AMERICA	SOUTH-EAST ASIA	MIDDLE EAST	SOUTH AMERICA	OTHER	CONSOLIDATED 2015
Income divided among customer locations from external customers	537 543	791 857	52 468	18 905	26 987	16 113	1 443 873
Segment assets	366 422	814 367					1 180 789
Investments in assets for the year	64 258	85 866					150 123

**BUSINESS SEGMENT DATA 2014**

(NOK 1 000)	HIGH-PRESSURE CYLINDERS	LOW-PRESSURE CYLINDERS	UNALLOCATED	ELIMINATION	CONSOLIDATED 2014
<b>OPERATING INCOME FROM EXTERNAL CUSTOMERS:</b>					
Sale of goods	1 097 625	551 082	2 122	0	1 650 829
<b>Total operating income from external customers</b>	<b>1 097 625</b>	<b>551 082</b>	<b>2 122</b>		<b>1 650 829</b>
Internal transactions	712	8 009	19 510	-28 232	0
<b>Total operating income</b>	<b>1 098 337</b>	<b>559 092</b>	<b>21 632</b>	<b>-28 232</b>	<b>1 650 829</b>
<b>Operating profit for segment before depreciation/amortisation (EBITDA)</b>	<b>216 295</b>	<b>138 537</b>	<b>-25 681</b>		<b>329 151</b>
<b>Operating profit for segment (EBIT)</b>	<b>183 940</b>	<b>99 133</b>	<b>-26 285</b>		<b>256 788</b>
Profit/loss from associates and joint ventures		-9 554			-9 554
Net financial items					9 815
Tax expense					77 072
Profit/loss from discontinued operations (Note 5)					4 325
<b>Profit/loss for the year</b>					<b>164 672</b>
<b>Segment assets</b>	<b>886 975</b>	<b>436 156</b>	<b>18 692</b>	<b>-162 209</b>	<b>1 179 615</b>
<b>Segment liabilities</b>	<b>508 060</b>	<b>345 044</b>	<b>168 903</b>	<b>-329 501</b>	<b>692 506</b>
Investments in assets for the year	81 890	24 709	591		107 190
Depreciation/amortisation/impairment	32 355	39 403	604		72 363

**GEOGRAPHICAL SEGMENT DATA 2014**

(NOK 1 000)	EUROPE	NORTH AMERICA	SOUTH-EAST ASIA	MIDDLE EAST	SOUTH AMERICA	OTHER	CONSOLIDATED 2014
Income divided among customer locations from external customers	449 005	875 932	22 680	236 086	29 361	37 765	1 650 829
Segment assets	476 914	702 701					1 179 615
Investments in assets for the year	29 857	77 334					107 190

## NOTE 5 CHANGES IN THE GROUP'S STRUCTURE / DISCONTINUED OPERATIONS

### PURCHASE OF MASTERWORKS IN 2014

With effect from 10 October 2014 Hexagon Lincoln acquired the main assets of MasterWorks Machining, Inc and Helman Tensioners, Inc.. MasterWorks and Helman Tensioners specialize in providing innovative design and manufacturing solutions for the composites industry.

The business operates under the formed entity, MasterWorks, Inc, as a wholly owned subsidiary of Hexagon Lincoln, and will continue its offering of services and products to the composites industry.

The net assets acquired in the acquisition are as follows:

### MASTERWORKS

(NOK 1 000)	FAIR VALUE RECOGNISED ON ACQUISITION
<b>ASSETS</b>	
Property, plant and equipment	8 194
Inventories	1 498
Trade accounts receivable	1 416
<b>Total assets</b>	<b>11 108</b>
<b>LIABILITIES</b>	
Deferred consideration	1 307
Provisions	441
Deferred tax liabilities	0
<b>Total equity and liabilities</b>	<b>1 748</b>
<b>Net identifiable assets and liabilities at fair value</b>	<b>9 360</b>
Goodwill	0
<b>Purchase consideration transferred / Paid in cash</b>	<b>9 360</b>

The deferred consideration was to be paid to the sellers within 31 October 2015 based on certain criteria. The Group expected that these criteria would be met and thus recognised the deferred consideration in 2014. The deferred consideration was paid in October 2015.

In 2014 MasterWorks Inc. contributed from the date of acquisition to the Group's revenues and profit before tax by NOK 4.2 million and -0.2 million respectively.

If the acquisition had occurred at the beginning of 2014, revenues for 2014 and profit before taxes for 2014 for the Group would have been NOK 1 669 million and NOK 236 million respectively.

In the Group's profit for 2014, MasterWorks, Inc is included from the acquisition date.

## DISCONTINUED OPERATIONS

On 16 January 2014 an agreement was entered into to sell the shares in the subsidiary Hexagon Devold AS to the German company Saertex GmbH & Co. KG. The transaction was completed on 30 January 2014. At the end of 2013 it was considered probable that the transaction would occur and the business area was therefore treated as "held for sale" in the accounts as of 31.12.2013.

Specification of the profit for discontinued operations in 2014 is presented below:

(NOK 1 000)	<b>30.01.2014</b>
<b>Operating income</b>	<b>25 060</b>
Cost of materials	17 552
Payroll & social security expenses	2 001
Depreciation/amortisation	1 093
Other operating expenses	2 502
<b>Total operating expenses</b>	<b>23 148</b>
<b>Operating profit</b>	<b>1 912</b>
Net financial items	-1 429
<b>Profit before tax</b>	<b>483</b>
Tax expense	47
<b>Annual profit/loss for discontinued operations</b>	<b>436</b>
Recognised gain sale of Hexagon Devold	3 889
<b>Total profit discontinued operations</b>	<b>4 325</b>
Earnings per share for discontinued operations (NOK)	0.03
Diluted EPS for discontinued operations (NOK)	0.03

## NOTE 6 NET FINANCIAL ITEMS

(NOK 1 000)	<b>2015</b>	<b>2014</b>
Interest income	3 582	3 227
Unrealised gains on forward exchange contracts and interest rate swaps with actual gains or losses through profit and loss	4 036	0
Foreign exchange items	65 590	40 954
<b>Total finance income</b>	<b>73 209</b>	<b>44 181</b>
Loss on exchange items	54 743	9 844
Unrealised loss on forward exchange contracts and interest rate swaps with actual gains or losses through profit and loss	4 557	12 837
Buyback premium on bond loan	21 000	0
Cost of interest on loans etc.	20 456	26 183
Other finance expense	9 364	5 131
<b>Total finance expense</b>	<b>110 120</b>	<b>53 996</b>
<b>Net financial items</b>	<b>-36 911</b>	<b>-9 815</b>

## NOTE 7 TAX

## TAX EXPENSE

(NOK 1 000)	NOTE	2015	2014
Income tax payable in the income statement		-14 375	67 359
Change in deferred tax in income statement		10 102	9 713
<b>Tax expense</b>		<b>-4 272</b>	<b>77 072</b>
Income tax payable in the balance sheet for continuing operations.		0	29 551
Prepaid tax overseas	15	-28 329	-6 257
Settled tax overseas		13 955	44 066
<b>Total income tax payable in the income statement</b>		<b>-14 375</b>	<b>67 359</b>
<b>Nominal tax rates in Norway</b>		<b>27 %</b>	<b>27 %</b>
Profit before tax		291	237 419
Tax based on nominal tax rate in Norway		79	64 103
Other differences relating to foreign subsidiaries		-8 642	11 602
Share of profit/loss from associates		84	2 580
Other non-taxable income and non-deductible expenses		3 548	-1 213
Effect of change in tax rate in Norway		660	0
<b>Tax expense</b>		<b>-4 272</b>	<b>77 072</b>

## DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

(NOK 1 000)	BALANCE SHEET		CHANGE IN DEFERRED TAX IN INCOME STATEMENT	
	2015	2014	2015	2014
<b>DEFERRED TAX ASSET</b>				
Pension	-201	-842	1 048	227
Loss carryforwards	-5 796	-1 287	-4 509	-9
Inventories and trade receivables	-12 072	-5 405	-6 667	-155
Derivatives	- 5 314	-6 848	2 784	-3 466
Provisions for liabilities/other current liabilities	-1 787	-1 377	-409	-318
Other	-13 214	-7 126	-6 088	-1 850
<b>Deferred tax asset - gross</b>	<b>-38 383</b>	<b>-22 885</b>	<b>-13 841</b>	<b>-5 571</b>
<b>DEFERRED TAX LIABILITIES</b>				
Property, plant & equipment	31 655	17 241	14 414	6 939
Provisions for liabilities/other current liabilities	17 874	8 345	9 529	8 345
<b>Deferred tax liabilities - gross</b>	<b>49 529</b>	<b>25 586</b>	<b>23 943</b>	<b>15 284</b>
<b>Net recognised deferred tax liabilities/assets (-)</b>	<b>11 146</b>	<b>2 701</b>	<b>10 102</b>	<b>9 713</b>
<b>CARRYING AMOUNTS</b>				
Deferred tax asset	-7 779	-23 163		
Deferred tax liabilities	18 925	25 863		
<b>Net recognised deferred tax assets/deferred tax liabilities</b>	<b>11 146</b>	<b>2 701</b>		

The Group has a total loss carried forward of NOK 22.8 million (4.6 million) as of 31 December 2015, of which NOK 4.4 million (4.6 million) is related to overseas activities.

Deferred tax assets are recognised when it is probable that the Group will have taxable profit available against which the tax assets can be utilised.

**DEFERRED TAX RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME ARE AS FOLLOWS**

(NOK 1 000)	2015	2014
Actuarial gains/losses, pensions	407	-625
Derivatives	1 250	-103
<b>Total</b>	<b>1 657</b>	<b>-728</b>

**NOTE 8 EARNINGS PER SHARE**

Earnings per share is calculated by dividing profit for the year by the weighted average number of shares outstanding.

To calculate diluted earnings per share, the profit and weighted average number of shares outstanding is adjusted to accommodate all dilution effects associated with share options. All share options are taken into consideration in the "denominator", and adjustments are made for recognised option expenses in the numerator. In the calculations, share options are considered to have been converted at the grant date. Redeemed options are included from the date of issue.

(NOK 1 000)	NOTE	2015	2014
<b>PROFIT/LOSS FOR THE YEAR FLOWING TO HOLDERS OF ORDINARY SHARES</b>			
Profit/loss for the year from continuing operations		4 563	160 347
Profit/loss for activities held for sale		0	4 325
<b>Profit/loss for the year</b>		<b>4 563</b>	<b>164 672</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING 31.12</b>			
	17		
Ordinary shares issued 01.01		133 294 868	133 294 868
Own shares		-1 166 075	-1 166 075
<b>Outstanding number of shares 31.12</b>		<b>132 128 793</b>	<b>132 128 793</b>
<b>Weighted average number of shares outstanding 31.12</b>		<b>132 128 793</b>	<b>132 701 467</b>
Profit/loss per share for continuing operations		0,03	1.21
Profit/loss per share		0,03	1.24
<b>DILUTED NUMBER OF SHARES OUTSTANDING 31.12</b>			
	17		
Ordinary shares issued 01.01		133 294 868	133 294 868
Own shares		-1 166 075	-1 166 075
Effect of employee options issued		975 000	0
<b>Outstanding shares 31.12 adjusted for dilution effects</b>		<b>133 103 793</b>	<b>132 128 793</b>
<b>Weighted average number of shares outstanding 31.12 adjusted for dilution effects</b>		<b>132 616 293</b>	<b>132 701 467</b>
Diluted profit/loss per share for continuing operations		0,03	1.21
Diluted profit/loss per share		0,05	1.24

## NOTE 9 PAYROLL COSTS AND NUMBER OF EMPLOYEES

(NOK 1 000)	NOTE	2015	2014
Salaries/fees <sup>1)</sup>		323 142	262 439
Bonus/profit-sharing		1 842	15 284
Pension expense, defined-benefit plans	18	856	619
Pension expense, defined-contribution plans	18	17 735	15 708
Other social security costs		34 055	27 356
<b>Payroll costs for continuing operations</b>		<b>377 630</b>	<b>321 407</b>
<b>Average number of full-time equivalents<sup>2)</sup></b>		<b>502</b>	<b>435</b>
<b>GROUP MANAGEMENT</b>		11	10
<b>LOW-PRESSURE CYLINDERS</b>			
Norway		115	106
Sweden		3	3
USA		3	3
<b>HIGH-PRESSURE CYLINDERS</b>			
Norway		41	52
USA		329	261
<b>Total of</b>		<b>502</b>	<b>435</b>

1) Capitalised payroll costs related to technology development projects amounted to NOK 10.6 million in 2015 and NOK 1.8 million in 2014.

2) Number of employees as at 31.12.2015 is 428 (550).

## NOTE 10 PROPERTY, PLANT & EQUIPMENT

(NOK 1 000)	LAND AND BUILDINGS	PLANT AND EQUIPMENT	FIXTURES & FITTINGS, VEHICLES	ASSETS UNDER CONSTRUCTION	2015 TOTAL
<b>COST OF ACQUISITION</b>					
Cost of acquisition 01.01.2015	45 170	596 954	29 598	56 785	728 508
Additions	4 663	40 136	17 051	77 878	139 699
Transfer from assets under construction	1 164	13 334	31	-14 528	0
Disposals/scrap	0	-7 625	-826	0	-8 451
Translation differences	2 037	43 753	1 541	7 434	54 765
<b>Cost of acquisition 31.12.2015</b>	<b>53 004</b>	<b>686 552</b>	<b>47 394</b>	<b>127 570</b>	<b>914 520</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>					
Accumulated depreciation 01.01.2015	20 239	395 815	17 992	0	434 046
Depreciation for the year	3 273	41 174	4 535	0	48 982
Impairment	0	7 391	0	0	7 391
Disposals/scrap	0	-4 077	-64	0	-4 141
Translation differences	702	16 779	769	0	18 249
<b>Accumulated depreciation and impairment 31.12.2015</b>	<b>24 213</b>	<b>457 081</b>	<b>23 232</b>	<b>0</b>	<b>504 527</b>
<b>Net carrying amount as of 31.12.2015</b>	<b>28 791</b>	<b>229 472</b>	<b>24 162</b>	<b>127 570</b>	<b>409 994</b>
Of which pledged					0
Amortisation rate	5-10%	7-33%	10-33%	None	
Useful life	10-20 years	3-15 years	3-10 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

(NOK 1 000)	LAND AND BUILDINGS	PLANT AND EQUIPMENT	FIXTURES & FITTINGS, VEHICLES	ASSETS UNDER CONSTRUCTION	2014 TOTAL
<b>COST OF ACQUISITION</b>					
Cost of acquisition 01.01.2014	40 585	483 907	19 818	40 120	584 430
Additions	2 648	39 698	8 679	54 317	105 341
Transfer from assets under construction	0	44 526	0	-44 526	0
Disposals/scrap	0	-926	0	0	-926
Translation differences	1 937	29 749	1 101	6 875	39 663
<b>Cost of acquisition 31.12.2014</b>	<b>45 170</b>	<b>596 954</b>	<b>29 598</b>	<b>56 785</b>	<b>728 508</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>					
Accumulated depreciation 01.01.2014	16 656	323 033	15 772	0	355 462
Depreciation for the year	2 990	59 405	1 589	0	63 984
Disposals/scrap	0	291	0	0	291
Translation differences	593	13 085	631	0	14 310
<b>Accumulated depreciation and impairment 31.12.2014</b>	<b>20 239</b>	<b>395 815</b>	<b>17 992</b>	<b>0</b>	<b>434 046</b>
<b>Net carrying amount as of 31.12.2014</b>	<b>24 932</b>	<b>201 139</b>	<b>11 606</b>	<b>56 785</b>	<b>294 462</b>
Of which pledged					294 462

1) Assets under construction. Hexagon Lincoln Inc., Hexagon Ragasco AS and Hexagon Raufoss AS have assets under construction totalling NOK 127 570 thousand (56 785 thousand).

2) Construction loan interest expenses. No construction loan interest expenses were recognised in 2014 or 2015.

3) Hexagon Ragasco has reassessed the useful lifetime of their production line and concluded that the lifetime is longer than the previous depreciation rate implied. The new estimated residual lifetime affects the depreciation cost as from the beginning of 2015. Without this correction the depreciation cost YTD 31 December would have been approximately NOK 8.0 million higher.

4) Hexagon Lincoln has reassessed the useful lifetime of their production line and concluded that the lifetime is longer than the previous depreciation rate implied. The new estimated residual lifetime affects the depreciation cost as from the beginning of 2015. Without this correction the depreciation cost YTD 31 December would have been approximately NOK 0.3 million higher.

5) The calculated residual value on property, plant & equipment totalled NOK 6 000 thousand as of 31.12.2015 and NOK 6 000 thousand as of 31.12.2014.

6) Impairment

Hexagon Lincoln Inc. has recognised an impairment of NOK 7.4 million, principally related to one specific piece of equipment, was recorded as a part of the annual impairment review. The productivity of this new, innovative machine is deemed not to be as high as originally anticipated and therefore an impairment was recognised.

## NOTE 11 INTANGIBLE ASSETS

### HEXAGON COMPOSITES ASA HAS THE FOLLOWING PURCHASED AND OWN-DEVELOPED INTANGIBLE ASSETS

(NOK 1 000)	GOODWILL	PATENTS AND LICENCES	TECHNOLOGY DEVELOPMENT <sup>1)</sup>	CUSTOMER RELATION- SHIPS	2015 TOTAL
<b>COST PRICE</b>					
Opening balance 01.01.2015	65 962	11 041	71 003	18 483	166 489
Additions	0	47	10 378	0	10 425
Translation differences	3 096	0	322	0	3 418
<b>Cost of acquisition 31.12.2015</b>	<b>69 058</b>	<b>11 088</b>	<b>81 703</b>	<b>18 483</b>	<b>180 332</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>					
Opening balance 01.01.2015	16 530	10 026	37 529	18 483	82 567
Depreciation for the year	0	134	6 100	0	6 234
Translation differences	0	0	301	0	301
<b>Accumulated depreciation and impairment 31.12.2015</b>	<b>16 530</b>	<b>10 159</b>	<b>43 930</b>	<b>18 483</b>	<b>89 102</b>
<b>Net carrying amount 31.12.2015</b>	<b>52 528</b>	<b>928</b>	<b>37 773</b>	<b>0</b>	<b>91 229</b>
Amortisation rate	None	6-17 %	5-20%	50 %	
Useful life	Indefinite	6-17 years	5-20 years	2 years	
Depreciation method	None	Straight-line	Straight-line/unit production method	Straight-line	

1) Technology development of own resources.

(NOK 1 000)	GOODWILL	PATENTS AND LICENCES	TECHNOLOGY DEVELOPMENT <sup>1)</sup>	CUSTOMER RELATION- SHIPS	2014 TOTAL
<b>COST PRICE</b>					
Opening balance 01.01.2014	62 926	11 041	68 859	18 483	161 308
Additions	0	0	1 849	0	1 849
Translation differences	3 037	0	296	0	3 332
<b>Cost of acquisition 31.12.2014</b>	<b>65 962</b>	<b>11 041</b>	<b>71 003</b>	<b>18 483</b>	<b>166 489</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>					
Opening balance 01.01.2014	16 530	9 891	28 989	18 483	73 893
Depreciation for the year	0	134	8 245	0	8 379
Translation differences	0	0	295	0	295
<b>Accumulated depreciation and impairment 31.12.2014</b>	<b>16 530</b>	<b>10 025</b>	<b>37 529</b>	<b>18 483</b>	<b>82 566</b>
<b>Net carrying amount 31.12.2014</b>	<b>49 432</b>	<b>1 016</b>	<b>33 474</b>	<b>0</b>	<b>83 922</b>

1) Technology development of own resources.

Additions for this year and the previous year primarily relate to technological developments in the High-Pressure Cylinders segment.

Research & development costs totalling NOK 34.2 (12.1) million were expensed in 2015. The Group has received government grants of NOK 17.6 million (5.8) in 2015. NOK 6.6 million has been offset against research and development costs while 11.0 million is presented as income.

The Group has recognised goodwill as a result of three acquisitions of business enterprises. Each goodwill item is linked to a cash generating unit (CGU). When the acquired business enterprise is maintained as an independent business enterprise it is, as a starting point, the CGU. Entities that have considerable synergies and for which the type of activity is the same, are considered to be a unified CGU. This applies when acquired business enterprises are integrated with an existing Hexagon Composites company or the acquired business enterprise is, in operative terms, closely linked together with

existing Hexagon Composites businesses. In these instances, it is the linking enterprise that is the level of the CGU where goodwill is measured and followed up. In the Group, three CGU's have been identified which capitalised goodwill has been linked to.

### IMPAIRMENT TESTING

Goodwill is not depreciated but is subject to impairment testing in the fourth quarter each year. If there are particular indications of possible impairment, the impairment test is carried out on a quarterly basis. The impairment test is carried out by the calculated recoverable amount being compared with invested capital for the unit in question. When the recoverable amount exceeds invested capital, capitalised goodwill is maintained. When the recoverable amount is lower than invested capital, capitalized goodwill is written down to its recoverable amount. Invested capital consists of the units' total assets less interest-free current liabilities and interest-free non-current liabilities. The recoverable amount is based on expected future cash flows for the relevant unit based on the management's approved budget and strategy figures for the next four years. These are estimated based on current sales and margins and the expected market development. For subsequent periods it is assumed that there will be an increase in the cash flows equivalent to expected general growth within the various business areas.

The expected future investment requirements for the units are reflected in the calculations. These are in accordance with the management's approved budget and strategy. For the period beyond the next three years, it is assumed that the re-investment requirement will be equivalent to expected depreciation. Changes in working capital have been assessed and adjusted in accordance with expected developments.

When there are indications that a company's assets (including goodwill) may be impaired, an impairment test is conducted using the company's weighted average capital cost (WACC) as an estimate for the discount rate (= return on assets ratio). Correspondingly, WACC is also used for annual impairment testing. The WACC rate which is used to discount future cash flows is based on 10-year risk-free interest rates in the market, the company's borrowing interest, beta factor, equity ratio and market risk premium, adjusted for the liquidity risk and size of the company.

Value in use is calculated by discounting future cash flows. Present value calculations are based on expected future cash flows for the different cash-generating units, which are all separate subsidiaries. Estimates of future cash flows are made on the basis of board-approved budgets and market plans for 2016, as well as forecasts up to and including 2020. Cash flow projections for subsequent years will be the same as the cash flow for 2020, as the units are not expected to have a finite useful life. The projections do not take into account price increases or other forms of growth in the cash flows.

The most important assumptions relate to estimates for operating income, operating margin and rates of return. A WACC of 10.4% before tax has been used for all companies.

### THE GOODWILL ITEMS OF THE FOLLOWING CASH FLOW GENERATING UNITS ARE SUBJECT TO IMPAIRMENT TESTING

(NOK 1 000)	2015	2014
Hexagon Ragasco – Low-Pressure Cylinders	32 350	32 350
Hexagon Lincoln – High-Pressure Cylinders	20 178	17 082
<b>Total goodwill</b>	<b>52 528</b>	<b>49 432</b>

The assumptions that were used as a basis for the calculations made at the end of 2015 were met by good margins.

### ASSUMPTIONS FOR THE OTHER GOODWILL ITEMS

The recoverable amount is calculated based on the general assumptions referred to above. The calculations do not assume major changes in the level of activity or operating margins compared with the results achieved in 2015. In the prognosis period, an increase in the operating profit equal to the general growth in the economy is expected.

### SENSITIVITY ANALYSES

In connection with the impairment testing of goodwill, the Group has carried out sensitivity analyses. These sensitivity analyses are carried out for each cash-generating unit. The present value of the cash flow in the calculations made is, among other things, sensitive to changes in the discount rate. The sensitivity analysis uses the economic assumptions referred to above as its starting point. Calculations have been made based on one of the estimated economic assumptions being changed and in which the other economic assumptions remain unchanged.

The sensitivity analyses for the CGU demonstrate that recoverable amounts of goodwill exceed the recognised value by a good margin, and a reasonable change in key assumption would not cause the carrying amount to exceed value in use.

## NOTE 12 OTHER NON-CURRENT ASSETS

(NOK 1 000)	2015	2014
Loans to employees	999	1 364
Other non-current assets	2 202	3 233
<b>Total other non-current assets</b>	<b>3 202</b>	<b>4 597</b>

More information relating to loans to employees can be found in note 28.

## NOTE 13 INVENTORIES

(NOK 1 000)	2015	2014
Raw materials and consumables	191 513	201 072
Work in progress	73 011	56 360
Finished goods	67 834	63 036
<b>Total inventories</b>	<b>332 358</b>	<b>320 468</b>
<b>Recognised impairment cost</b>	<b>12 008</b>	<b>1 925</b>
<b>Carrying amount of holdings used as pledged assets</b>	<b>0</b>	<b>91 868</b>

## NOTE 14 TRADE RECEIVABLES

(NOK 1 000)	2015	2014
Trade receivables	171 692	212 203
Provisions for loss	-7 234	-5 626
<b>Trade receivables after provision for losses</b>	<b>164 458</b>	<b>206 577</b>
<b>Carrying amount of trade receivables used as pledged assets</b>	<b>0</b>	<b>105 029</b>

Losses on trade receivables are classified as other operating expenses in the income statement. Provision for losses are made on the basis of the individual assessments of each claim. In the assessment, consideration is made to guaranteed and insured amounts (see note 24 concerning credit risk).

### CHANGES IN THE PROVISION FOR LOSSES ARE AS FOLLOWS

(NOK 1 000)	2015	2014
Opening balance 1 January	5 626	4 202
Provision for losses for the year	1 577	1 827
Actual losses during the year	-564	-548
Change in provisions for activities held for sale	0	0
Translation differences	595	145
<b>Closing balance 31 December</b>	<b>7 234</b>	<b>5 626</b>

Credit risk and currency risk regarding trade receivables are described in more detail in note 24.

### AS OF 31 DECEMBER THE COMPANY HAD THE FOLLOWING AGEING OF TRADE RECEIVABLES

	TOTAL	NOT DUE	<30 DAYS	30-60 DAYS	60-90 DAYS	>90DAYS
2015	171 692	119 952	37 442	6 315	3 125	4 857
2014	212 203	101 209	94 920	10 360	588	5 126

## NOTE 15 OTHER CURRENT ASSETS

(NOK 1 000)	2015	2014
Earned, not invoiced income	1	12
Prepaid expenses	18 917	12 489
VAT due	9 955	16 978
Prepaid tax overseas	28 329	6 257
Other <sup>1)</sup>	20 756	8 257
<b>Total other current assets</b>	<b>77 958</b>	<b>43 993</b>

1) Other in 2015 included receivables from the Skattefunn tax incentive scheme and other grants of NOK 11 135 thousand (1 916).

## NOTE 16 BANK DEPOSITS, CASH AND CASH EQUIVALENTS

(NOK 1 000)	2015	2014
Cash at bank and in hand	93 177	202 179
<b>Bank deposits, cash and cash equivalents</b>	<b>93 177</b>	<b>202 179</b>
Bank overdrafts	10 719	0
Cash & cash equivalents in the cash flow analysis	93 177	202 179
Undrawn Group overdraft facility	74 281	90 783
Undrawn loan facility	527 183	300 000
Restricted funds included in cash & cash equivalents <sup>1)</sup>	5 372	6 359

1) Restricted tax withholdings

## NOTE 17 SHARE CAPITAL AND SHARE PREMIUM

(NOK 1 000)	2015	2014
Ordinary shares of NOK 0.10 each	133 294 868	133 294 868
<b>Total number of shares</b>	<b>133 294 868</b>	<b>133 294 868</b>

The Company's share capital consists of one class of shares and is fully paid-up.

### CHANGES IN SHARE CAPITAL AND SHARE PREMIUM

	NUMBER OF SHARES		SHARE CAPITAL (NOK 1 000)		SHARE PREMIUM (NOK 1 000)	
	2015	2014	2015	2014	2015	2014
<b>ORDINARY SHARES</b>						
Issued and paid 1 January	133 294 868	133 294 868	13 329	13 329	82 955	82 955
<b>Issued and paid 31 December</b>	<b>133 294 868</b>	<b>133 294 868</b>	<b>13 329</b>	<b>13 329</b>	<b>82 955</b>	<b>82 955</b>
<b>OWN SHARES</b>						
1 January	1 166 075	20 727	117	2		
Change during period	0	1 145 348	0	115		
<b>31 December</b>	<b>1 166 075</b>	<b>1 166 075</b>	<b>117</b>	<b>117</b>		

As of 31.12.2015 the Company had 1 166 075 own shares (1 166 075). The cost of acquisition of NOK 26 773 thousand is entered as a deduction in equity. The shares are held as "own shares", and the Company is entitled to sell them in the future.

**20 LARGEST SHAREHOLDERS AS OF 31.12.2015**

	NUMBER OF SHARES	SHAREHOLDING
Flakk Investment AS <sup>1)</sup>	42 615 988	31.97 %
MP Pensjon PK	12 267 614	9.20 %
Bøckmann Holding AS	10 000 000	7.50 %
Odin Norge	7 329 090	5.50 %
Nødingen AS	6 940 045	5.21 %
Swedbank Robur Smabolagsfond Norden	5 624 346	4.22 %
JP Morgan Chase Bank, SA Escrow Accoun	2 297 155	1.72 %
JP Morgan Chase Bank, Handelsbanken Nordic	2 271 022	1.70 %
Skandinaviska Enskilda Banken AB	2 069 253	1.55 %
JP Morgan Chase Bank, NA (Nominee)	1 435 960	1.08 %
Invesco Perp Eur Small Comp.	1 411 469	1.06 %
TR European Growth Trust Plc HSBC Bank Plc	1 400 000	1.05 %
Societe Generale Paris	1 305 356	0.98 %
Hexagon Composites ASA	1 166 075	0.87 %
Storebrand Norge JP Morgan Europe Ltd.	1 131 025	0.85 %
Verdipapirfondet DNB	1 090 000	0.82 %
Flakk Invest AS <sup>1)</sup>	1 000 000	0.75 %
Eika Norge	907 925	0.68 %
Tore Johan Fjell	775 131	0.58 %
Verdipapirfondet Alf	727 264	0.55 %
<b>Total 20 largest shareholders</b>	<b>103 764 718</b>	<b>77.85%</b>
Remainder	29 530 150	22.15%
<b>Total</b>	<b>133 294 868</b>	<b>100.00%</b>

1) These shareholdings are controlled by the Chairman of the Board, Knut Flakk.

**OWNERSHIP STRUCTURE**

The total number of shareholders as of 31.12.2015 was 2 663 of whom 186 were foreign shareholders. The number of shares held by foreign shareholders was 22 066 331 or 16.6%.

The Board has a mandate to increase share capital by up to NOK 1 332 948 by issuing up to 13 329 480 shares (par value) NOK 0.10). This authorisation is valid until the next ordinary general assembly.

The Board proposes to the general assembly that there will be no dividend to be paid for the 2015 financial year. A dividend of NOK 0.62 per share, NOK 81 920 thousand in total, was paid for the 2014 financial year.

Dividends are included as allocations to the owners in the period in which they are paid.

## NOTE 18 PENSIONS AND OTHER NON-CURRENT EMPLOYEE BENEFITS

The Norwegian companies in the group are legally obliged to have occupational pension arrangements under the Norwegian Mandatory Occupational Pension Act. The Norwegian pension arrangements satisfy the requirements of this act. Below is a summary table of the pension cost in the Group for the various pension plans. Further details on the various plans is provided below:

### SUMMARY OF PENSION COST IN THE GROUP

(NOK 1 000)	2015	2014
Defined contribution pension plan	16 402	14 266
Defined benefit pension plan in Norway	856	619
Mult-employer pension plan in Norway (new AFP)	1 333	1 442
<b>Total</b>	<b>18 591</b>	<b>16 327</b>

### DEFINED CONTRIBUTION PENSION PLANS IN NORWAY AND OVERSEAS

The defined contribution pension plan in the Norwegian companies has contribution rates from 5% for salaries in the range of up to 7,1 times the national insurance base rate (G) and from 8% for salaries in the range 6 to 12 G. As of 31.12.2015 the Norwegian defined contribution pension plans had 153 members.

Hexagon Lincoln Inc and MasterWorks Inc. in USA, has a defined contribution plan which is operated in accordance with local laws. The defined contribution plan covers full-time employees and represents 4% to 5% of pay for employees paid hourly and 4% to 6% for those paid monthly. An additional payment is also made at the end of the year in accordance with the terms of the defined contribution plan. As of 31.12.2015, 264 members were covered by the plan.

Composite Scandinavia AB in Sweden has a defined contribution plan which is operated according to local laws. Average contributions are 9% of the salaries of those of are members of the plan. As of 31.12.2015, 3 members were covered by the plan.

The table below provides the expensed contributions in the defined contribution plans:

### DEFINED CONTRIBUTION PLANS EXPENSES

(NOK 1 000)	2015	2014
Defined contribution pension plans - Norway	8 019	5 844
Defined contribution pension plans - USA	7 947	8 007
Defined contribution pension plans - Sweden	436	415
<b>Total</b>	<b>16 402</b>	<b>14 266</b>

### LIABILITIES FROM DEFINED BENEFIT PENSION PLAN IN NORWAY

In December 2008, the Group terminated the defined benefit pension plan in Norway for employees under 52 years of age on the date of transfer. The employees joined a defined contribution pension plan with effect from 1 January 2009. Employees over the age of 52 on the date of transfer continued to be members of the defined benefit plan. The terms are 60% and 66% of final salary and 30 years of service. The plans include disability benefits. Some companies also have spouse's benefits.

The obligation for the defined benefit pension plans is calculated on a straight-line basis. Unrealised gains and losses resulting from changes in actuarial assumptions are recognised directly in other revenues and expenses in the statement of comprehensive income. Net accumulated actuarial gains/losses after tax as of 31.12.2015 amounted to NOK -18 077 thousand, compared with NOK -19 298 thousand as of 31.12.2014. As of 31.12.2015 the Norwegian defined benefit plans had 14 members (15 members in 2014).

### PENSION EXPENSES FOR THE YEAR RELATING TO THE DEFINED BENEFIT PENSION PLANS ARE CALCULATED AS FOLLOWS

(NOK 1 000)	2015	2014
Current service cost	664	465
Interest cost on benefit obligation	406	596
Expected return on plan assets	-358	-568
Administrative costs	39	35
Employer's contribution	106	91
<b>Total pension expenses</b>	<b>856</b>	<b>619</b>

**PENSION LIABILITIES AND PLAN ASSETS**

(NOK 1 000)	2015	2014
Present value of funded obligations	17 078	17 819
Fair value of plan assets	-16 372	-15 085
Employer's contributions on net pension liabilities	100	385
<b>Net liability recognised in balance sheet 31 December</b>	<b>806</b>	<b>3 119</b>

(NOK 1 000)	2015	2014
Net liability recognised in balance sheet 1 January	3 119	1 644
Recognised benefit expense	856	603
Benefits paid	-1 538	-1 473
Actuarial gains and losses arising from changes in financial assumptions	-1 455	2 634
Actuarial gains and losses arising from changes in demographic assumptions	-176	-290
<b>Net liability recognised in balance sheet 31 December</b>	<b>806</b>	<b>3 119</b>
<b>Retirement benefit obligation</b>	<b>1 441</b>	<b>3 374</b>
<b>Plan assets</b>	<b>635</b>	<b>255</b>

**CHANGE IN BENEFIT LIABILITY DURING YEAR**

(NOK 1 000)	2015	2014
Benefit obligation 1 January	17 819	15 188
Current service cost	664	465
Interest expense	406	596
Actuarial gains/losses (-)	-1 454	1 929
Pension payments	-356	-359
<b>Retirement benefit obligation 31 December</b>	<b>17 078</b>	<b>17 819</b>

Expected premium payment next year is NOK 1 735 thousand.

**CHANGE IN FAIR VALUE OF PLAN ASSETS DURING THE YEAR**

(NOK 1 000)	2015	2014
Plan assets 1 January	15 085	13 747
Return on plan assets	358	568
Actuarial gains/losses (-)	-25	-126
Administrative costs	-39	-35
Pension premiums	1 348	1 291
Unpaid pensions	-356	-359
<b>Plan assets 31 December</b>	<b>16 372</b>	<b>15 085</b>

**AVERAGE DISTRIBUTION OF PLAN ASSETS BY INVESTMENT CATEGORY AS OF 31 DECEMBER**

(NOK 1 000)	2015		2014	
	ALLOCATION	AMOUNT	ALLOCATION	AMOUNT
Shares	6 %	999	7 %	1 012
Bonds/certificates	73 %	11 902	72 %	10 845
Property	15 %	2 407	14 %	2 142
Other	7 %	1 064	7 %	1 086
<b>Total</b>	<b>100 %</b>	<b>16 372</b>	<b>100 %</b>	<b>15 085</b>

The actual return on plan assets in 2015 was NOK 333 thousand (442 thousand), allowing for previous years' actuarial gains/losses.

**CALCULATION OF PENSION EXPENSES AND NET PENSION LIABILITIES IS BASED ON THE FOLLOWING ASSUMPTIONS**

(NOK 1 000)	2015	2014
Discount rate	2.70 %	2.30%
Return on plan assets	2.70 %	2.30%
Salary increases	2.50 %	2.75%
Pension increases	0.00 %	0.00%
Adjustment of national insurance base rate	2.25 %	2.50%
Mortality table	K2013 BE	K2013 BE

The Group has used the Norwegian covered bonds (OMF - Obligasjoner med fortrinnsrett) as basis for the discount rate as of 31 December for both 2015 and 2014 for the Norwegian plans.

**MULTI-EMPLOYER PENSION PLAN IN NORWAY**

168 (159) of the Norwegian employees is a member of a new "agreement-based early retirement plan" (new AFP). The AFP plan is a lifelong supplement to the regular pension. Employees can take the new AFP scheme from the age of 62 or remain in employment and earn further benefits until the standard retirement age of 67. The AFP pension scheme is a defined benefit multi-employer pension plan, funded through premiums that are defined as a percentage of salary. The scheme's retirement benefit obligation and plan assets cannot be reliably measured and allocated at present. For accounting purposes, the scheme is treated as a defined contribution plan, with premium payments expensed as incurred, and no obligation recognized in the balance sheet. Premiums is 2,4% (2,2% in 2014) for salaries in the range 1.0 - 7.1 times the national insurance base rate (G), and is expected to increase in the coming years. Total contribution for the arrangement were NOK 1 333 thousand in 2015 and NOK 1 442 thousand in 2014. Expected premium for 2016 is NOK 1 373 thousand.

**NOTE 19 PROVISIONS**

(NOK 1 000)	2015	2014
Balance 1 January	27 200	21 943
Provisions for year	25 172	18 182
Translation differences	2 860	2 973
Provisions used during year	-11 742	-15 898
<b>Balance 31 December</b>	<b>43 491</b>	<b>27 200</b>

Provisions are made for general levels of warranty claims on low-pressure and high-pressure cylinders. Provisions are based on historical warranty costs for equivalent products and services.

## NOTE 20 NON-CURRENT INTEREST-BEARING LIABILITIES

(NOK 1 000)	INTEREST RATE CONDITIONS	CURRENCY	MATURITY	CARRYING AMOUNT	
				2015	2014
<b>UNSECURED</b>					
Bank loan (bullet)	Nibor 3 month + margin	NOK	24.04.20	382 868	0
<b>Total unsecured non-current liabilities</b>				<b>382 868</b>	<b>0</b>
<b>UNSECURED</b>					
Bond issue	Nibor 3 month + 5.0%	NOK	02.07.18	0	297 243
<b>Total unsecured non-current liabilities</b>				<b>0</b>	<b>297 243</b>
Total non-current liabilities				382 868	297 243
<b>Total non-current liabilities, not including 1st year's</b>				<b>382 686</b>	<b>297 243</b>

### ESTIMATED REPAYMENT STRUCTURE FOR NON-CURRENT LIABILITIES (NOK 1 000) AS OF 31.12.2015

2016	2017	2018	2019	2020	THEREAFTER
0	0	0	0	387 818	0

On the 24 April 2015 the company settled the NOK 300 million bond loan ISIN NO 0010683717 2013/2018. The buyback premium was 21 million and is recognised in the profit and loss (as a finance cost). The Company has secured the extended financing facilities from Skandinaviska Enskilda Banken AB and DNB Bank ASA in a club deal which extended financing capacity from NOK 685 million to NOK 1 billion on an unsecured basis. The new five year facility incorporates a revolving credit facility for up to NOK 685 million as well as a term-loan facility for up to NOK 315 million. Costs associated with the loans are amortised over the duration of the loans using the effective interest method and are included in the carrying amount of the loans. Balance as of 31.12.2015 was NOK 4 949.

### THE FOLLOWING CONDITIONS APPLY TO THE BANK LOANS

	31.12.15	COVENANT
NIBD/EBITDA <sup>1)</sup>	3.0	< 3.0
Equity ratio <sup>2)</sup>	39.8%	> 30%

1) Net interest Bearing Debt / Rolling Earnings Before Interest Tax, Depreciation and Amortization for the last 12 months. The requirement to meet this has been waived as at 31 December 2015.

2) Total Equity / Total Assets

In addition to the financial covenant mentioned above the Group has given a negative pledge for the credit facilities.

## NOTE 21 SHORT-TERM INTEREST-BEARING LOANS

(NOK 1 000)	2015	2014
<b>UNSECURED</b>		
Current interest-bearing liabilities	10 719	0
<b>Total</b>	<b>10 719</b>	<b>0</b>

Current bank debt is subject to the same financial terms as non-current bank debt. See note 20. The overdraft facility in Norway is subject to NIBOR + margin. In addition to this is the limit provision.

As at 31.12.2014 the Group had not drawn on these facilities.

## NOTE 22 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

(NOK 1 000)	2015	2014
Trade payables	170 890	188 027
Amounts due to related parties	0	0
Forward exchange contracts	17 081	18 029
Public duties payable	8 796	10 164
Accrued expenses and other current liabilities	52 267	75 281
Current liabilities to closely-related parties	0	10 440
<b>Total</b>	<b>249 034</b>	<b>301 941</b>

## NOTE 23 LEASES

### THE GROUP AS LESSEE / FINANCIAL LEASES

As of 31.12.2015 and 31.12.2014 The Group has no financial leases.

### THE GROUP AS LESSEE - OPERATIONAL LEASES

The Group has entered into various operating leases for items of machinery, plant and other facilities. Most of these leases have a renewal option. Other have fixed terms. The majority of the leases are associated with the renting of premises. The leases have terms ranging from 3 to 20 years. The leases normally allow revision to accommodate factors such as changes in the CPI, increases in public duties and interest rates. None of the leases includes contingent rents. There is no legal right to acquire title to any leased asset.

### LEASE RENTALS PAYABLE ARE AS FOLLOWS

(NOK 1 000)	2015	2014
Ordinary lease payments	25 737	17 562
<b>Total</b>	<b>25 737</b>	<b>17 562</b>

### FUTURE MINIMUM LEASE PAYMENTS RELATING TO FIXED TERM LEASES FALL DUE AS FOLLOWS

	27 806
1 to 5 years	97 316
Later than 5 years	133 595
<b>Total</b>	<b>258 717</b>

## NOTE 24 FINANCIAL INSTRUMENTS

### FINANCIAL RISK

The Group uses financial instruments such as bank loans and loans from other financial institutions. The purpose of the financial instruments is to raise capital for investments necessary for the group's operations. The group also has financial instruments such as trade receivables and payables which are directly linked to day-to-day operations. The Group can use some financial derivatives for hedging purposes.

Procedures for risk management are adopted by the board and carried out by the chief financial officer in close cooperation with the subsidiaries.

The most significant financial risks to which the group is exposed are interest rate risk, liquidity risk, currency risk and credit risk. The Group's management regularly evaluates these risks and defines guidelines on their management.

The Group uses financial instruments to hedge risks associated with interest rate and foreign currency fluctuations. The Group uses derivative financial instruments to minimise these risks under its strategy for interest and currency exposure. The accounting treatment of financial derivatives is described in note 2.

### THE GROUP HAS THE FOLLOWING FINANCIAL ASSETS AND LIABILITIES DIVIDED INTO DIFFERENT CATEGORIES FOR ACCOUNTING TREATMENT AND RECONCILED AGAINST THE BALANCE SHEET ITEMS 31.12.15

(NOK 1 000)	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	INTEREST RATE SWAPS USED AS CASH FLOW HEDGING <sup>1)</sup>	LOANS/RECEIVABLES/ FINANCIAL OBLIGATION AT AMORTISED COSTS	NON FINANCIAL ASSETS/ LIABILITIES	TOTAL
<b>ASSETS</b>					
Other non-current assets			3 202		3 202
Trade receivables			164 458		164 458
Other current assets				77 958	77 958
Bank deposits, cash and cash equivalents			93 177		93 177
<b>Total financial assets</b>	<b>0</b>	<b>0</b>	<b>260 836</b>	<b>77 958</b>	<b>338 794</b>
<b>LIABILITIES</b>					
Non-current interest-bearing liabilities			382 868		382 868
Derivatives	4 173				4 173
Short-term loans			10 719		10 719
Forward exchange contracts	17 081				17 081
Trade payables and other current liabilities			170 890	61 063	231 953
<b>Total financial liabilities</b>	<b>21 255</b>	<b>0</b>	<b>564 478</b>	<b>61 063</b>	<b>646 795</b>

1) Changes in value are recognised in other income and expenses in the statement of comprehensive income.

### THE GROUP HAS THE FOLLOWING FINANCIAL ASSETS AND LIABILITIES DIVIDED INTO DIFFERENT CATEGORIES FOR ACCOUNTING TREATMENT AND RECONCILED AGAINST THE BALANCE SHEET ITEMS 31.12.14

(NOK 1 000)	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	INTEREST RATE SWAPS USED AS CASH FLOW HEDGING <sup>1)</sup>	LOANS/RECEIVABLES/ FINANCIAL OBLIGATIONS AT AMORTISED COSTS	NON FINANCIAL ASSETS/ LIABILITIES	TOTAL
<b>ASSETS</b>					
Other non-current assets			4 597		4 597
Trade receivables			206 577		206 577
Other current assets				43 993	43 993
Bank deposits, cash and cash equivalents			202 179		202 179
<b>Total financial assets</b>	<b>0</b>	<b>0</b>	<b>413 353</b>	<b>43 993</b>	<b>457 346</b>
<b>LIABILITIES</b>					
Non-current interest-bearing liabilities			297 243		297 243
Derivatives	2 705	4 629			7 334
Forward exchange contracts	18 029				18 029
Trade payables and other current liabilities			188 027	95 885	283 912
<b>Total financial liabilities</b>	<b>20 734</b>	<b>4 629</b>	<b>485 270</b>	<b>95 885</b>	<b>606 518</b>

1) Changes in value are recognised in other income and expenses in the statement of comprehensive income.

**(I) CREDIT RISK**

The Group is mainly exposed to credit risk associated with trade payables and other current receivables. The Group minimises its exposure to credit risk by ensuring that all parties requiring credit (customers, for example) are approved and undergo a credit check.

The Group has a small number of large customers or counterparties who could be considered to be a Group due to similarities in credit risk. The risk associated with these counterparties is regularly reviewed and is minimised by measures such as use of credit insurance. The Norwegian subsidiaries Hexagon Ragasco AS, Hexagon Bus Systems AS and Hexagon Raufoss AS have taken out credit insurance which covers parts of the companies' receivables.

Trade receivables in foreign subsidiaries amounted to NOK 91 219 thousand (101 981 thousand). These do not have credit insurance, however these are partly covered through Letter of Credits.

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and that outstanding amounts do not exceed the defined credit limits. Credit information is also used in the group's regular appraisal of new and existing customers.

The Group has not issued guarantees for third party obligations.

The carrying amount of the financial assets, including derivatives, in the balance sheet represents the maximum risk exposure. As counterparties in derivative transactions are normally banks, the credit risk associated with derivatives is considered to be negligible. The Group considers its maximum risk exposure to be the carrying amount of its trade receivables (see note 14) and other current assets (see note 15).

**(II) INTEREST RATE RISK**

The Group is exposed to interest rate risk from its financing activities (see notes 20 and 21). Some of the Group's interest-bearing liabilities have variable interest rates, which means it is affected by changes in interest rates.

The aim of the Group's interest rate risk management is to reduce interest expenses, while also keeping the volatility of future interest payments within acceptable limits. The Group's strategy is for its finance departments to regularly evaluate the interest rate exposure of Hexagon Composites liabilities based on a total assessment of interest expectations and risk profile. The total fixed-interest term must be not be below 0 years and must not exceed 10 years. The Group use derivatives to adjust its effective interest rate exposure. As a starting point, all interest rate derivatives are adapted to the duration and other conditions of individual loans. At 31.12.2015 the Group has no longer interest rate derivatives that is considered as effective hedging. Taking into account an interest rate derivative related to NOK 100 million of the loan which do not meet all criteria to be effective and thus is classified as ineffective hedging according to IAS 39, NOK 100 million or 26% of the Group's interest-bearing liabilities had fixed interest rates at 31.12.2015.

**FORWARD RATE AGREEMENTS 31.12.2015**

	CURRENCY	AMOUNT (NOK 1 000)	MATURITY	FIXED RATE	FAIR VALUE
Interest rate swap	NOK	NOK 100 000	02.07.2018	2.47% + margin	-4 173
<b>Total</b>					<b>-4 173</b>

**FORWARD RATE AGREEMENTS 31.12.2014**

	CURRENCY	AMOUNT (NOK 1 000)	MATURITY	FIXED RATE	FAIR VALUE
Interest rate swap	NOK	NOK 150 000	23.12.15	3.01% + margin	-2 705
Interest rate swap	NOK	NOK 100 000	02.07.18	2.47% + margin	-4 629
<b>Total</b>					<b>-7 334</b>

Fixed rate contracts are classified as hedging instruments, with the underlying hedged item being a long-term variable rate loan. The entire fair value of the interest rate swap is classified as a non-current asset or non-current liability (derivatives), as the underlying risk being hedged is the long-term financing.

The interest rate swap is the hedging of the cash flow and is recognised at fair value. Gains or losses from interest rate swaps are included in other income and expenses in total comprehensive income provided that all hedging criteria have been satisfied.

The following table shows the group's sensitivity to potential changes in interest rates. The calculations take into account all interest-bearing instruments and associated interest rate derivatives as of 31.12.

	CHANGE IN INTEREST RATES IN BASE POINTS	EFFECT ON PROFIT/LOSS AFTER TAX (NOK 1 000)	GAINS OR LOSSES ON INTEREST RATE DERIVATIVES IN COMPREHENSIVE INCOME AFTER TAX (NOK 1 000)
2015	+50	-390	891
	- 50	390	-891
2014	+50	-182	1 907
	- 50	182	-1 907

Based on the financial instruments which existed as of 31 December 2015, an interest rate increase of 1% would reduce profit after tax by NOK 780 thousand (365 thousand).

#### THE AVERAGE EFFECTIVE INTEREST RATE ON FINANCIAL INSTRUMENTS WAS AS FOLLOWS

	2015	2014
Bank overdrafts	2.7 %	3.1 %
Bank loan NOK	3.4 %	3.3 %
Bond issue	6.7 %	7.0 %
Bank loan EUR	N/A	N/A

#### (III) LIQUIDITY RISK

Liquidity risk is the risk of the group not being in a position to fulfil its financial obligations when they fall due. The group's strategy for managing liquidity risk is to set a level of available liquidity to enable it to discharge its financial obligations when they fall due, both under normal and unexpected circumstances, without risking unacceptable losses or damaging the group's reputation. Undrawn credit facilities are dealt with in note 16.

The majority of excess liquidity is invested in bank deposits

The following table provides an overview of the maturity structure of the group's financial obligations based on undiscounted contractual payments. In cases where the counterparty is entitled to ask for early settlement, the amount is included in the earliest period in which the payment may be demanded. If the counterparty is entitled to ask for on-demand settlement, the amount is included in the first column (under 1 month):

#### 31.12.2015 REMAINING PERIOD

(NOK 1 000)	LESS THAN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS	TOTAL
Bank overdrafts				10 719		10 719
Repayment of bank loan				387 818		387 818
Interest on bank loan		4 557	13 671	82 023		100 251
Derivatives				4 173		4 173
Forward exchange contracts		4 096	9 470	3 515		17 081
Trade payables	111 079	59 812				170 890
<b>Total</b>	<b>111 079</b>	<b>68 465</b>	<b>23 141</b>	<b>488 248</b>	<b>0</b>	<b>690 932</b>

#### 31.12.2014 REMAINING PERIOD

(NOK 1 000)	LESS THAN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS	TOTAL
Bank overdrafts						0
Repayment of bond loan				300 000		300 000
Interest on bond loan		4 853	14 558	48 525		67 935
Derivatives			2 705	4 629		7 334
Forward exchange contracts		3 727	8 821	5 482		18 029
Trade payables	122 218	65 809				188 027
<b>Total</b>	<b>122 218</b>	<b>74 389</b>	<b>26 083</b>	<b>358 635</b>	<b>0</b>	<b>581 325</b>

See note 20 for information on long-term loans, notes 21 and 22 for short-term liabilities and note 23 for finance lease obligations.

**(IV) FOREIGN EXCHANGE RISK**

As the Group has production and sales in different countries with different functional currencies, it is exposed to currency risk associated with movements of the Norwegian krone against other currencies, while the Group's presentation currency is NOK. The carrying amount of the Group's net investments in foreign companies fluctuates as the Norwegian krone moves in relation to other relevant currencies. The Group's profit after tax is also affected by currency movements, as the results of foreign companies are translated to the Norwegian currency using the weighted average exchange rate for the period. The Group uses forward contracts to reduce its currency risk from cash flows denominated in foreign currencies. Currency risk is calculated for each currency and takes into consideration assets and liabilities, off-balance sheet obligations and highly probable purchases and sales in the relevant currency.

The following table shows the group's sensitivity to potential changes in the Norwegian krone, with all other conditions remaining constant. The calculation is based on the same movement of the krone against the relevant currencies. The effect on the profit/loss is caused by changes in the value of monetary items and currency derivatives. The effect on equity is caused by currency effects of net investments in foreign currencies.

	MOVEMENT OF NOK AGAINST USD	EFFECT ON PROFIT/LOSS AFTER TAX	EFFECT ON OTHER INCOME AND EXPENSES AFTER TAX (NOK 1 000)
2015	+5 %	-740	-12 098
	-5 %	740	12 098
2014	+5 %	-7 645	-10 867
	-5 %	7 645	10 867

	MOVEMENT OF NOK AGAINST EUR	EFFECT ON PROFIT/LOSS AFTER TAX	EFFECT ON OTHER INCOME AND EXPENSES AFTER TAX (NOK 1 000)
2015	+5 %	2 200	0
	-5 %	-2 200	0
2014	+5 %	6 187	0
	-5 %	-6 187	0

The fair values of derivatives classified as hedging instruments are reported under other current assets/liabilities or other non-current assets/liabilities depending on the recovery or settlement date for the associated hedged item.

As of 31.12.2015, the group had the following forward contracts to hedge forecast sales to customers. Forward contracts are used to reduce currency risk associated with expected future sales. The terms of the contracts are as follows:

**FORWARD EXCHANGE CONTRACTS**

	CURRENCY SELL/BUY	AMOUNT (NOK 1 000)	MATURITY	EXCHANGE RATE	FAIR VALUE 31.12.2015
Forward contracts to hedge expected future sales <sup>1)</sup>	EUR/NOK	14 500/126 417	2016	8.37 - 9.57	-13 567
Forward contracts to hedge expected future sales <sup>1)</sup>	EUR/NOK	5 800/53 090	2017	8.68 - 9.66	-3 515
<b>Total</b>					<b>-17 081</b>

1) The forward contracts do not qualify for hedge accounting under IAS 39.

As of 31.12.2014, the Group had the following forward contracts to hedge future sales to customers.

	CURRENCY SELL/BUY	AMOUNT (NOK 1 000)	MATURITY	EXCHANGE RATE	FAIR VALUE 31.12.2014
Forward contracts to hedge expected future sales <sup>1)</sup>	EUR/NOK	21 000/177 080	2015	7.73 - 8.80	-12 548
Forward contracts to hedge expected future sales <sup>1)</sup>	EUR/NOK	10 500/90 201	2016	8.37 - 8.89	-5 481
<b>Total</b>					<b>-18 029</b>

1) The forward contracts do not qualify for hedge accounting under IAS 39.

**(V) MEASUREMENT OF FAIR VALUE**

The fair value of forward exchange contracts is calculated by comparing the agreed forward rate and the estimated equivalent forward rate prevailing on the balance sheet date with the same maturity multiplied by the fixed volume specified in the contract. The fair value of the interest rate/currency swaps is determined by comparing with observable market data (pricing of financial instruments in the finance markets). For all the above derivatives, the fair value is confirmed by the financial institution with which the Company has entered into the contract. The fair value of the issued bond loan (HEX02) is measured according to the market value on Oslo Stock Exchange.

The following financial instruments are not measured at fair value: Cash & cash equivalents, trade payables, other current receivables and bank overdrafts. These items are recognised at nominal value in the balance sheet as of 31 December, without taking into account the discount rate which relates to future inflows and outflows. Loans to employees and non-current interest bearing liabilities are recognised in accordance with amortised cost.

Nominal amounts are assumed to reflect the fair value of receivables and liabilities which have a duration of less than 1 year. The fair value of non-current liabilities is based on future interest rates and instalment payments.

**ENTERING OF INCOME AND EXPENSES AGAINST TOTAL OTHER COMPREHENSIVE INCOME AND TRANSFERRED TO REVALUATION RESERVE**

(NOK 1 000)	2015	2014
Fair value of cash flow hedges 1 January	-4 629	-4 247
Change over total comprehensive income	4 629	-382
<b>Fair value of cash flow hedges 31 December</b>	<b>0</b>	<b>-4 629</b>

**FAIR VALUE HIERARCHY**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

(NOK 1 000)	LEVEL	2015		2014	
		BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
<b>FINANCIAL ASSETS</b>					
Other non-current assets		3 202	3 202	4 597	4 597
Trade receivables		164 458	164 458	206 577	206 577
Bank deposits, cash and cash equivalents		93 177	93 177	202 179	202 179
<b>FINANCIAL LIABILITIES</b>					
Bank loans		382 868	387 818	0	0
Bond issue		0	0	297 243	306 000
Interest rate swaps	2	4 173	4 173	7 334	7 334
Short-term loans		10 719	10 719	0	0
Forward exchange contracts	2	17 081	17 081	18 029	18 029
Trade payables and other current liabilities		170 890	170 890	188 027	188 027

**FINANCIAL INSTRUMENTS APPRAISED AT FAIR VAUE WITH GAINS AND LOSSES IN THE INCOME STATEMENT**

(NOK 1 000)	2015	2014
Level 1: Based on prices in an active market	0	0
Level 2: Observable market data	-21 255	-20 734
Level 3: Other than observable market data	0	0
<b>Total financial instruments at fair value</b>	<b>-21 255</b>	<b>-20 734</b>

**FINANCIAL INSTRUMENTS APPRAISED AT FAIR VALUE WITH GAINS AND LOSSES OVER OTHER INCOME AND EXPENSES IN TOTAL COMPREHENSIVE INCOME**

(NOK 1 000)	2015	2014
Level 1: Based on prices in an active market	0	0
Level 2: Observable market data	0	-4 629
Level 3: Other than observable market data	0	0
<b>Total financial instruments at fair value</b>	<b>0</b>	<b>-4 629</b>

**OTHER INFORMATION RELATING TO FINANCIAL INSTRUMENTS**

No financial assets were reclassified by changing the measurement method from amortised cost to fair value or vice versa.

**(VI) CAPITAL STRUCTURE AND EQUITY**

The main goal of the Group's capital structure management is to ensure it maintains a good credit rating (and therefore reasonable borrowing terms from lenders) and a level of equity which is reasonable in relation to the Group's operations.

By achieving a good debt/equity ratio, the Group will be able to support its operations and in doing so maximise the value of its shares. The Group's shareholders shall receive a competitive return on their shares, mainly through price increases in the Group's shares, but also in the form of dividends based on financial performance/investment needs.

The Group manages and makes necessary changes to its capital structure by regularly assessing prevailing economic conditions and prospects of short and medium-term growth.

Capital structure management is largely dealt with by means of new share issues. No changes to guidelines in this area were made in 2014 or 2015.

**NOTE 25 INTEREST IN JOINT OPERATIONS**

Hexagon Composites Group recognizes their assets, liabilities, revenues and expenses and their relative share of assets, liabilities, income and expenses.

**HEXAGON COMPOSITES ASA HAS THE FOLLOWING INVESTMENTS IN JOINT OPERATIONS**

JOINT VENTURE	COUNTRY	BUSINESS ACTIVITY	OWNERSHIP SHARE	VOTES
Agility Hexagon LLC	USA	High-Pressure Cylinders	50%	50%

In May 2014 Hexagon Lincoln Inc. entered into an agreement with Agility Fuel Systems to establish a 50/50 joint operations to supply CNG high-pressure cylinders for fuel systems to support the growing heavy duty natural gas market in North America. The agreement gives Hexagon Composites and Agility joint control over the business as decisions about the relevant activities requires unanimous consent of both parties. The parties receive substantially all of the economic benefits from the arrangement and it is therefore considered to be a joint operation.

## NOTE 26 INVESTMENTS IN JOINT VENTURES

The Group has classified the investment in Rugasco LLC as a joint venture. The entity is organised as a limited liability company with its own management in charge of day-to-day business. However, the composition of the board and guidelines for operation of the company are based on a shareholder agreement. Under the shareholder agreement, It is required unanimity between the parties for making decisions about relevant activities. Accordingly, the venturers have joint control over the company's operations. Thus, the group as a participant is entitled to the arrangements net assets. The Group's responsibility as a participant in Rugasco LLC is limited to the capital contribution, and the return equals the Group's share of profit/loss. The investments in joint ventures are accounted for according to the equity method.

### HEXAGON COMPOSITES ASA HAS THE FOLLOWING INVESTMENTS IN JOINT OPERATIONS

JOINT VENTURE	COUNTRY	BUSINESS ACTIVITY	OWNERSHIP SHARE	VOTES
Rugasco LLC	Russia	Low-Pressure Cylinders	49%	50%

### HEXAGON COMPOSITES GROUP'S SHARE OF PROFIT/LOSS

(NOK 1 000)

Book value as at 31.12.2014	-10 440
Share of loss after tax 2015 (reported as share of profit/loss from associates)	-646
Reversed impairment of loan (reported as share of profit/loss from associates)	335
Reversed obligations	10 751
<b>Book value as at 31.12.2015</b>	<b>0</b>

The Group does not have an obligation to pay additional equity in Rugasco LLC. Rugasco LLC does not have an observable market value in form of market price or similar. Both partners in the Hexagon Rugasco joint venture are in agreement to stop the activity of the company and are planning and performing actions regarding its closure. Hexagon Composites ASA has incorporated a new wholly owned subsidiary in Russia which will continue only the sales, marketing and distribution of products for the Russian market through 2016 and beyond.

### THE TABLE BELOW SHOWS THE CONDENSED FINANCIAL INFORMATION OF RUGASCO LLC, BASED ON 100%

(NOK 1 000)	RUGASCO, LLC	
	2015	2014
Operating income	18 131	24 126
Operating expenses	18 636	40 830
Net financial items	1 359	2 202
Profit before tax	-1 865	-18 907
Tax	-573	201
<b>Profit/loss after tax from joint venture</b>	<b>-1 291</b>	<b>-19 108</b>
Group's share of profit/loss after tax	-646	-9 554
<b>ASSETS</b>		
Current assets	2 077	8 497
Cash and cash equivalents	156	45
Non-current assets	0	289
<b>LIABILITIES</b>		
Current liabilities	9 763	20 567
Current financial liabilities	7 970	45
Long-term financials liabilities	544	7 274
<b>Equity</b>	<b>-16 044</b>	<b>-19 056</b>
<b>Group's carrying amount of the equity</b>	<b>-8 022</b>	<b>-9 528</b>
<b>Extra committed contribution</b>	<b>0</b>	<b>-912</b>
<b>Group's carrying amount of the investment</b>	<b>0</b>	<b>-10 440</b>

The Group has no excess values in relation to the investment in Rugasco LLC. Rugasco LLC have the same reporting period as the Parent Company.

## NOTE 27 SHARE-BASED PAYMENT

On 3 March 2015 Hexagon Composites ASA issued 975,000 call options to senior executives and managers in the Group.

The share options give rights to buy shares in Hexagon Composites ASA at NOK 25 per share. The options may be exercised in part or in full within three weeks following the official announcement of the financial results for the fourth quarter of 2017, first quarter of 2018 or second quarter of 2018. The fair value of the options was calculated on the grant date, based on the Black-Scholes model, and the cost is recognized over the service period. The cost in 2015 associated with the share option scheme were NOK 1 918 thousand. The fair value of all options granted is estimated to NOK 5,3 million per 31 December 2015.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for outstanding share options.

### OVERVIEW OF NUMBER OF OUTSTANDING OPTIONS

(NOK 1 000)	2015
Outstanding options 1. January	0
Options granted	975 000
Options exercised	0
Options lapsed	0
<b>Share options outstanding 31.12.2015</b>	<b>975 000</b>
Exercisable at 31 December	0

### THE FOLLOWING TABLE LIST THE INPUT TO THE MODEL USED FOR THE PLAN FOR YEAR ENDED 31 DECEMBER

(NOK 1 000)	2015
Weighted average fair values at the measurement date per share (NOK)	7.42
Dividend yield (%)	0
Expected volatility (%)	54.6 %
Risk-free interest rate (%)	0.85 %
Expected life of share options (years)	3.51
Weighted average share price (NOK)	21.2
Model used	Black-Scholes

## NOTE 28 TRANSACTIONS WITH RELATED PARTIES

The Group's related parties consist of main shareholders, members of the Board and management.

The Hexagon Composites Group has entered into agreements with companies in Flakk Group. All the transactions were carried out as part of normal business and at arm's length prices. The term Flakk Group refers to companies controlled by Flakk Investment AS. The Chairman of the Board, Knut Flakk, has ownership interests and managerial roles in these companies.

### THE MAIN AGREEMENTS ARE AS FOLLOWS

The purchase of administrative services from Flakk International AS, NOK 232 thousand (1 598 thousand) in 2015.

In 2015 this agreement covers primarily accounting services.

In 2014 this agreement covers accounting services, secretarial and computer services, and premises.

### THE BALANCE SHEET INCLUDES THE FOLLOWING AMOUNTS RESULTING FROM TRANSACTIONS WITH COMPANIES IN THE FLAKK GROUP

(NOK 1 000)	2015	2014
Trade payables	0	0

### REMUNERATION OF THE BOARD AND MANAGEMENT

(NOK 1 000)	SALARIES AND FEES TO BOARD MEMBERS	BONUSES PAID <sup>2)</sup>	BENEFITS IN KIND	PAID PENSION PREMIUM	VALUE OF AWARDED SHARE OPTIONS	TOTAL REMUN- ERATION 2015	TOTAL REMUN- ERATION 2014
<b>EXECUTIVE MANAGEMENT</b>							
Jon Erik Engeset, Group President	2 890	1 450	12	110	1 114	5 576	3 094
Tore J. Fjell, Senior Vice President	1 506	300	52	37	0	1 895	2 213
David Bandele, Chief Financial Officer	1 594	600	11	110	742	3 058	1 560
<b>BOARD OF DIRECTORS</b>							
Knut Flakk, Chairman	740					740	190
Kristine Landmark, Deputy Chair	240					240	100
Sverre Narvesen	170					170	120
Tom Vidar Rygh	150					150	0
May Britt Myhr	150					150	0
Gunnar Bøckmann, Deputy Board member	50					50	0
<b>FORMER BOARD MEMBERS</b>							
Kristin Krohn Devold	0					0	145
Jan Magne Galåen <sup>1)</sup>	0					0	120
<b>Total remuneration</b>	<b>7 489</b>	<b>2 350</b>	<b>75</b>	<b>258</b>	<b>1 856</b>	<b>12 029</b>	<b>7 541</b>

1) Board remuneration to J. M. Galåen was paid to the employer, Rasmussengruppen AS.

2) Bonuses paid in the year relate to the year 2014.

The Chairman of the Board has no agreement relating to termination benefits. In his employment agreement, the Group President has a period of notice of 6 months. He has an agreement for up to 12 months' severance pay. The management of the Group have a target-based bonus agreement. At the end of the year, the following bonuses were allocated: NOK 614 thousand to the Group President and NOK 202 thousand to the CFO.

Group management participates in the Company's general pension arrangements, which are described in Note 18, Pensions. The Group President and CFO participate in the Group's defined contribution plan and the Senior Vice President participate in the Group's defined benefit plan. Group management participates in the Company's options scheme, which are described in Note 27 Share-based payment.

No loans have been made, or security provided for loans, to any member of Group management, the Board or other elected standing committees or any of their related parties.

**SHARES OWNED BY BOARD MEMBERS OR RELATED PARTIES**

	2015	2014
Knut Flakk, (Chairman) <sup>1)</sup>	44 429 038	45 729 038
Kristine Landmark (Deputy Chair) <sup>2)</sup>	10 000	10 000
Tom Vidar Rygh (Board Member) <sup>3)</sup>	50 000	50 000
Gunnar S. Bøckmann (Deputy Board Member) <sup>4)</sup>	10 339 400	10 339 400

1) Of the shares owned by Knut Flakk, 131 248 are privately owned, 681 802 are owned by his wife, 42 615 988 are owned through Flakk Investment AS and 1 000 000 are owned through Flakk Invest AS.

2) The shares are owned by Kristine Landmarks husband.

3) Shares owned by Tom Vidar Rygh is owned through a limited liability company.

4) Of the shares owned by Gunnar S. Bøckmann, 339 400 are privately owned and 10 000 000 are owned through a limited liability company.

**SHARES HELD BY KEY MANAGEMENT PERSONNEL**

	2015	2014
Jon Erik Engeset, Group President <sup>1)</sup>	420 867	420 867
Tore Fjell, Senior Vice President	775 131	775 131
David Bande, Chief Financial Officer	32 745	29 545

1) The shares owned by Jon Erik Engeset 1 867 are privately owned and 419 000 are owned by related limited liability companies.

Car loans have been given to two employees in subsidiaries. The remaining balance was NOK 999 thousand. The loans were given on market terms.

Pursuant to Section 6-16a of the Norwegian Public Limited Liabilities Companies Act, the board must prepare a declaration regarding the determination of pay and benefits to the managing director and other key management personnel. Reference is made to the separate management declaration.

**EXPENSED AUDITOR FEES WERE DIVIDED AMONG THE FOLLOWING SERVICES (EXCL. VAT)**

(NOK 1 000)	2015	2014
Statutory audit and auditing-related services	2 548	1 941
Other attestation services	65	22
Tax advice	908	346
Other non-auditing services	780	1 059
<b>Total</b>	<b>4 301</b>	<b>3 368</b>

## NOTE 29 PURCHASING COMMITMENTS

### THE GROUP HAS THE FOLLOWING COMMITMENTS RESULTING FROM CONTRACTS FOR INVESTMENTS IN PRODUCTION FACILITIES/MACHINES

(NOK 1 000)	2015	2014
2015		17 798
2016	28 737	0
Thereafter	0	0
<b>Total</b>	<b>28 737</b>	<b>17 798</b>

### THE GROUP HAS THE FOLLOWING COMMITMENTS RESULTING FROM PURCHASING MATERIALS

The Group has no purchasing commitments per 31 December 2015

## NOTE 30 EVENTS AFTER THE BALANCE SHEET DATE

On 15 February 2016, Hexagon Composites ASA acquired 67 % of Hexagon Composites Brazil Ltda. The Brazilian entity will pursue fuel systems opportunities for transit and heavy-duty trucks primarily in South America and Africa. The initial purchase price is USD 1 million (approx. NOK 8.5 million), and Hexagon Composites will increase its ownership to 100 % according to an earn-out model at a later stage.

On 27 February 2016, Hexagon Composites ASA and Mitsui & Co., Ltd. entered into an agreement where Mitsui will invest NOK 667 million in the Company. Further, Hexagon Composites and Mitsui have entered into a five year strategic co-operation agreement. After the transaction, Mitsui will hold 25.01% of the shares in the Company. Flakk Investment will hold 20.57% of shares, and the total holding of Knut Flakk and his close associates will be 21.66%. Completion of the investment agreement is subject to approval by the extraordinary general meeting (EGM) of the Company. The EGM is will be held on 21 March 2016.

## NOTE 31 LIST OF SUBSIDIARIES AND ASSOCIATES

### THE FOLLOWING COMPANIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY	HOME COUNTRY	REGISTERED OFFICE	NATURE OF BUSINESS	OWNERSHIP SHARE	VOTES
<b>SUBSIDIARIES</b>					
Hexagon Ragasco AS	Norway	Raufoss	Low-Pressure Cylinders	100 %	100 %
Composite Scandinavia AB	Sweden	Piteå	Low-Pressure Cylinders	100 %	100 %
Hexagon Raufoss AS	Norway	Raufoss	High-Pressure Cylinders	100 %	100 %
Hexagon Bus Systems AS	Norway	Raufoss	High-Pressure Cylinders	100 %	100 %
Hexagon Lincoln Inc.	USA	Lincoln, NE	High-Pressure Cylinders	100 %	100 %
MasterWorks, Inc.	USA	Nebraska	High-Pressure Cylinders	100 %	100 %
Hexagon Technology AS	Norway	Ålesund	High-Pressure Cylinders	100 %	100 %
<b>JOINT VENTURES / JOINT OPERATIONS</b>					
Agility Hexagon, LLC	USA	Delaware	High-Pressure Cylinders	50 %	50 %
Rugasco, LLC	Russia	Nizhny Novgorod	Low-Pressure Cylinders	49 %	50 %

## NOTE 32 EXCHANGE RATES

	EXCHANGE RATE 01.01.2015	AVERAGE EXCHANGE RATE 2015	EXCHANGE RATE 31.12.2015
USD	7,433	8,074	8,809
EUR	9,037	8,953	9,619
GBP	11,57	12,34	13,07
RUB	12,84	13,24	11,98
CHF	751,32	838,41	889,87
SEK	95,97	95,71	104,75

## INCOME STATEMENT - PARENT COMPANY

### HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	2015	2014
Sales revenue	6	43 568	21 632
<b>Total operating income</b>		<b>43 568</b>	<b>21 632</b>
Payroll & social security expenses	9,11,14	21 683	25 544
Depreciation and impairment	2,3	15 975	2 381
Other operating expenses	11	23 404	21 769
<b>Operating profit</b>		<b>-17 494</b>	<b>-28 062</b>
Income from investment in subsidiaries	10	53 049	128 221
Finance income	4,12,13	100 423	77 695
Finance expense	4,5,12,13	133 237	78 875
<b>Profit on ordinary activities before tax</b>		<b>2 741</b>	<b>98 978</b>
Tax on profit on ordinary activities	10	4 376	26 872
<b>Profit on ordinary activities</b>		<b>-1 635</b>	<b>72 106</b>
<b>Profit/loss for the year</b>		<b>- 1 635</b>	<b>72 106</b>
Allocated to dividends	1	0	81 920
Transferred equity	1	-1 635	-9 813
<b>Total transferred</b>		<b>-1 635</b>	<b>72 106</b>

## BALANCE SHEET - PARENT COMPANY

### HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	2015	2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>INTANGIBLE ASSETS</b>			
Research & development	3	5 000	19 994
<b>Total intangible assets</b>		<b>5 000</b>	<b>19 994</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land, buildings and other real estate	2	6 000	6 362
Fixtures/fittings, equipment and tools	2	2 604	751
<b>Total property, plant &amp; equipment</b>		<b>8 604</b>	<b>7 113</b>
<b>FINANCIAL ASSETS</b>			
Investments in subsidiaries	4	120 966	120 966
Loans to group companies	5,6	391 124	364 485
Other non-current receivables	5	1 901	2 932
Investments in shares	4	301	4 150
Excess financing of pension liabilities	9	373	255
<b>Total financial assets</b>		<b>514 665</b>	<b>492 788</b>
<b>Total non-current assets</b>		<b>528 269</b>	<b>519 894</b>
<b>CURRENT ASSETS</b>			
<b>RECEIVABLES</b>			
Trade receivables	6	0	127
Other receivables	6	54 212	137 104
<b>Total receivables</b>		<b>54 212</b>	<b>137 230</b>
Bank deposits, cash and cash equivalents	7	670	654
<b>Total current assets</b>		<b>54 882</b>	<b>137 885</b>
<b>Total assets</b>		<b>583 151</b>	<b>657 778</b>

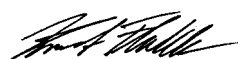
## BALANCE SHEET - PARENT COMPANY

### HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	2015	2014
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>PAID-IN CAPITAL</b>			
Share capital	1,8	13 329	13 329
Own shares	1	-117	-117
Share premium	1	75 273	76 816
Other paid-in capital	1	1 918	0
<b>Total paid-in capital</b>		<b>90 404</b>	<b>90 028</b>
Other equity	1	0	0
<b>Total other equity</b>		<b>0</b>	<b>0</b>
<b>Total equity</b>		<b>90 404</b>	<b>90 028</b>
<b>LIABILITIES</b>			
<b>OTHER NON-CURRENT LIABILITIES</b>			
Non-current interest-bearing liabilities	5,12	382 868	297 243
Liabilities to group companies	6	53 789	30 743
Deferred tax liabilities	10	11 124	6 714
<b>Total other non-current liabilities</b>		<b>447 781</b>	<b>334 700</b>
<b>CURRENT LIABILITIES</b>			
Liabilities to credit institutions	5,13	24 031	101 773
Trade payables		1 746	3 891
Income tax payable	10	0	19 656
Public duties payable		1 210	1 142
Allocated dividends	1	0	81 920
Other current liabilities	6	17 979	24 669
<b>Total current liabilities</b>		<b>44 966</b>	<b>233 050</b>
<b>Total liabilities</b>		<b>492 747</b>	<b>567 750</b>
<b>Total equity and liabilities</b>		<b>583 151</b>	<b>657 778</b>

Ålesund, 15 March 2016

The Board of Directors of Hexagon Composites ASA



Knut Flakk  
Chairman



Kristine Landmark  
Deputy Chair



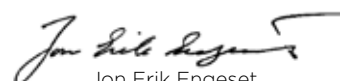
Sverre Narvesen  
Board Member



May Britt Myhr  
Board Member



Tom Vidar Rygh  
Board Member



Jon Erik Engeset  
Group President

## CASH FLOW STATEMENT - PARENT COMPANY

### HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	2015	2014
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax		2 741	98 978
Tax paid for the period		-19 656	-6 062
Depreciation and impairment		15 975	2 381
Gains and losses on shares		3 849	-13
Impairment loan associates		10 751	0
Recognised group contribution and dividend		-53 049	-128 221
Changes in trade payables		-2 144	2 949
Changes in pension provisions		8	-70
Changes in other accrual accounting entries		-7 425	5 741
<b>Net cash flow from operating activities</b>		<b>-48 950</b>	<b>-24 315</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
Purchase of property, plant & equipment and intangible assets		-2 473	-591
Sales of shares		0	16 901
Purchase of shares		0	-100
Other investments		-241	-26
Net payments on loans to/from subsidiaries		123 524	65 913
<b>Net cash flow from investing activities</b>		<b>120 810</b>	<b>82 097</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
New non-current liabilities		387 818	0
Repayment of non-current liabilities		-300 000	-150 000
Net change in bank overdraft		-77 741	101 773
Dividend payments		-81 920	-43 967
Purchase of own shares		0	-26 773
<b>Net cash flow from financing activities</b>		<b>-71 844</b>	<b>-118 967</b>
Net change in cash & cash equivalents		16	-61 186
Cash & cash equivalents at beginning of period		654	61 840
<b>Cash &amp; cash equivalents at end of period</b>	<b>7</b>	<b>670</b>	<b>654</b>
<b>Undrawn Group overdraft facilities</b>	<b>5,7</b>	<b>601 463</b>	<b>385 000</b>

## NOTES – PARENT COMPANY

(NOK 1 000)

### ACCOUNTING PRINCIPLES

The annual accounts have been prepared in accordance with the provisions of the Norwegian Accounting Act and generally accepted accounting principles in Norway.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the international IFRS standards.

### SALES REVENUE

Revenue from services is recognised as services are rendered. The portion of sales revenue relating to future rendering of services is capitalised as unearned revenue on the sale and recognised thereafter as the service is rendered.

### CLASSIFICATION AND VALUATION OF BALANCE SHEET ITEMS

Current assets and liabilities include items due for payment within one year of the date of acquisition. Other items are classified as non-current assets/liabilities.

Current assets are valued at the lower of cost of acquisition and fair value. Current liabilities are recognised at nominal value on the date of commencement.

Non-current assets are measured at the cost of acquisition, but are written down to fair value if impairment is identified which is not considered to be of a temporary nature. Non-current liabilities are recognised at nominal value on the date of commencement. Costs associated with non-current liabilities are amortised over the duration of the loan using the effective interest method.

### RECEIVABLES

Trade and other receivables are recognised in the balance sheet at their nominal value, following deductions for provisions for expected losses. Provisions for losses are made on the basis of the individual claims.

### ASSETS AND LIABILITIES IN FOREIGN CURRENCY

Foreign currency transactions are recognised at the exchange rate prevailing at the transaction date. Foreign currency monetary items are valued using the exchange rate prevailing at the balance sheet date. Currency gains/losses on receivables/liabilities are classified as financial items.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised and depreciated over the asset's expected useful life. Direct maintenance of property, plant and equipment is recognised under operating expenses as it is incurred, while overheads or improvement costs are added to the cost price of the asset and depreciated in pace with the asset's own depreciation. If the recoverable amount of the asset is lower than its carrying amount, this is written down to its recoverable amount. The recoverable amount is the higher of net realisable value and value in use. Value in use is the present value of future cash flows the asset will generate.

### FINANCIAL INSTRUMENTS

In addition to traditional financial instruments such as trade receivables, trade payables and interest-bearing liabilities, the Company also uses forward exchange contracts and interest rate swaps to limit the Company's currency and interest rate exposure. The effects of these instruments are recognised as they arise, together with the hedged objects. The interest rate instruments are not measured at the fair value on the balance sheet date because the Company uses hedge accounting. The currency instruments are valued at fair value and converted to the exchange rate specified on the balance sheet date.

### SHARES

In the company accounts, the cost method of accounting is used for all shares.

### SHARE-BASED PAYMENT

Share based payment are accounted for in accordance with NRS 15A, applying IFRS 2 under Norwegian Legislation. Senior executives in the Group have previously received options to subscribe for shares in the Parent Company. The fair value of the share options is measured at the grant date and the cost was recognised, together with a corresponding increase in other paid-in capital, over the period in which the performance and/or service conditions were fulfilled. The fair value is calculated using the Black & Scholes model. The employer's contribution was accrued over the period in which the service conditions were fulfilled, based on the intrinsic value.

**PENSION EXPENSES**

Pensions are accounted for in accordance with NRS 6A, applying IAS 19 under Norwegian Legislation. Pension costs and benefit obligation are calculated using the straight-line method, based on the expected final salary. The calculations are based on a number of assumptions, including discount rate, future changes in salary, pensions and national insurance contributions, the expected return on plan assets and actuarial assumptions on mortality and early retirement. The discount rate is based on corporate bonds with a high credit rating. The Norwegian market for bonds with preferential rights is considered to have the features that would indicate that it can be used as a basis in the calculation of the discount rate. Plan assets are measured at fair value and deducted from net pension liabilities in the balance sheet. Changes in the benefit obligation arising from changes in plan assets are distributed over the expected remaining service period. Changes in the benefit obligation and plan assets due to the effects of changes and deviations in actuarial assumptions (actuarial gains and losses) are recognised in equity (net after tax).

**TAX**

Tax expense in the income statement includes income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 25% (27% in 2014) based on the temporary differences between accounting and fiscal values and loss carryforwards at the end of the financial year.

Tax-increasing and tax-reducing temporary differences which reverse or may reverse in the same period are offset. Net deferred tax asset is recognised to the extent that it is probable that it can be utilised.

**INTEREST-BEARING LOANS AND BORROWING COSTS**

Loans are recognised at the initial amount received less directly related transaction costs. In subsequent periods, interest-bearing loans are measured at amortised cost using the effective interest method. Profit and loss is entered in the income statement when liabilities are deducted from the balance and via amortisation. Borrowing costs are expensed as they arise.

**CASH FLOW STATEMENT**

The cash flow statement has been prepared using the indirect method. Cash & cash equivalents include cash and bank deposits.

**USE OF ESTIMATES**

Preparation of the annual financial statements in accordance with good accounting practice requires the use of estimates and assumptions by management which influence the income statement and the valuation of assets and liabilities, and disclosures on uncertain assets and obligations at the balance sheet date.

Contingent losses which are probable and quantifiable, are expensed as incurred.

## NOTE 1 EQUITY

(NOK 1 000)	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM	OTHER PAID-IN CAPITAL	OTHER EQUITY	TOTAL EQUITY
Equity as of 01.01.2015	13 329	-117	76 816	0	0	90 028
Profit/loss for the year					-1635	-1 635
Shared-based payment				1 918		1 918
Actuarial gains/losses for the year					92	92
Transfer			-1 543		1 543	0
<b>Equity at 31.12.2015</b>	<b>13 329</b>	<b>-117</b>	<b>75 273</b>	<b>1 918</b>	<b>0</b>	<b>90 404</b>

## NOTE 2 PROPERTY, PLANT & EQUIPMENT

(NOK 1 000)	LAND/ BUILDINGS AND OTHER PROPERTY	FIXTURES/ FITTINGS, EQUIPMENT AND SIMILAR	TOTAL
Cost of acquisition as of 01.01.2015	8 345	1 117	9 462
Property, plant & equipment purchased	0	2 473	2 473
<b>Cost of acquisition 31.12.2015</b>	<b>8 345</b>	<b>3 589</b>	<b>11 934</b>
Accumulated depreciation and impairment 31.12.2015	2 345	986	3 331
<b>Carrying amount at 31.12.2015</b>	<b>6 000</b>	<b>2 604</b>	<b>8 604</b>
Depreciation for the year	362	620	982
Useful life	20 years - perpetual	4-10 years - perpetual	

## NOTE 3 INTANGIBLE ASSETS

(NOK 1 000)	RIGHTS TO TECHNOLOGY	TOTAL
Cost of acquisition as of 01.01.2015	22 215	22 215
<b>Cost of acquisition 31.12.2015</b>	<b>22 215</b>	<b>22 215</b>
Accumulated depreciation and impairment 31.12.2015	17 215	17 215
<b>Carrying amount at 31.12.2015</b>	<b>5 000</b>	<b>5 000</b>
Depreciation for the year	1 777	1 777
Impairment for the year	13 216	13 216
Useful life	12.5 years	

## NOTE 4 SHARES IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

### SUBSIDIARIES

(NOK 1 000)	REGISTERED OFFICE	OWNERSHIP SHARE	VOTING SHARE	CARRYING AMOUNT
Hexagon Ragasco AS	Raufoss	100 %	100 %	64 905
Hexagon Raufoss AS	Raufoss	100 %	100 %	21 398
Hexagon Bus Systems AS	Raufoss	100 %	100 %	9 444
Hexagon Technology AS	Ålesund	100 %	100 %	6 200
Hexagon Lincoln Inc.	Nebraska, USA	100 %	100 %	19 020
				<b>120 966</b>

1 January 2015 Hexagon Raufoss AS was demerged into 2 companies Hexagon Raufoss AS and Hexagon Bus Systems AS.

### EQUITY AND PROFIT/LOSS AS REPORTED IN MOST RECENT ANNUAL ACCOUNTS (COMPANY)

(NOK 1 000)	HEXAGON RAGASCO AS	HEXAGON BUS SYSTEMS AS	HEXAGON RAUFOSS AS	HEXAGON TECHNOLOGY AS	HEXAGON LINCOLN INC.
Cost of acquisition	64 905	9 444	21 398	6 200	19 020
Equity at 31.12.2015	61 587	19 671	6 277	63 097	331 447
Profit 2015	44 690	3 455	-30 101	32 477	-20 153

### ASSOCIATES AND JOINT VENTURES

(NOK 1 000)	REGISTERED OFFICE	OWNERSHIP SHARE	VOTES	CARRYING AMOUNT
Rugasco LLC	Nizhny Novgorod, Russia	49.0 %	50.0 %	0

### EQUITY AND PROFIT/LOSS AS REPORTED IN MOST RECENT ANNUAL ACCOUNTS

(NOK 1 000)	RUGASCO LLC
Cost of acquisition	3 849
Equity at 31.12.2015	-14 792
Profit/loss 2015	87

The shares NOK 3 849 thousand and loan NOK 10 751 thousand towards Rugasco LLC was impaired as of 31 December 2015. The total impairment is recognised as a finance expense.

Both partners in the Hexagon Rugasco joint venture are in agreement to stop the activity of the company and are planning and performing actions regarding its closure. Hexagon Composites ASA has incorporated a new wholly owned subsidiary in Russia which will continue only the sales, marketing and distribution of products for the Russian market through 2016 and beyond.

## NOTE 5 RECEIVABLES AND LIABILITIES

(NOK 1 000)	2015	2014
<b>RECEIVABLES DUE FOR PAYMENT AFTER 1 YEAR</b>		
Other non-current receivables	241	2 932
Loans to group companies	291 124	364 485
<b>Total</b>	<b>391 365</b>	<b>367 416</b>
<b>SHORT-TERM LIABILITIES</b>		
Liabilities to credit institutions	24 031	0
<b>Total</b>	<b>24 031</b>	<b>0</b>
<b>Liabilities secured with collateral</b>	<b>0</b>	<b>0</b>

The bank loans are unsecured credit facilities.

### LONG-TERM FINANCING

(NOK 1 000)	CURRENCY AMOUNT	CARRYING AMOUNT	INTEREST	DURATION	MATURITY
Unsecured bank loans	387 818	382 868	Nibor 3 mth + margin	5 years	24.04.2020

On the 24<sup>th</sup> April 2015 the Company settled the NOK 300 million bond loan ISIN NO 0010683717 2013/2018. The buyback premium was 21 million and is recognised in the profit and loss (as a finance cost).

The Company has secured the extended financing facilities from Skandinaviska Enskilda Banken AB and DNB Bank ASA in a club deal which extended financing capacity from 685 million to NOK 1 billion on a unsecured basis. The new five year facility incorporates a revolving credit facility for up to 685 million as well as a term-loan facility for up to 315 million. Costs associated with the loans are amortised over the duration of the loans using the effective interest method and are included in the carrying amount of the loans. Balance as of 31.12.2015 were TNOK 4 949.

Financial covenants related to the loans from Skandinaviska Enskilda Banken AB and DNB Bank are:

- NIBD/EBITDA<sup>1)</sup> < 3.0.
- Equity ratio<sup>2)</sup> at least 30%
- The Company has given a negative pledge for the credit facilities.
- Other than maintaining the above covenant requirements, there are no covenants restricting the level of dividend payment.

<sup>1)</sup> Net interest bearing debt / Rolling earnings before interest tax, depreciation and amortization for the least 12 months. The requirement to meet this has been waived as at 31 December 2015.

<sup>2)</sup> Total Equity / Total Assets

(NOK 1 000)	31.12.15
Fair value of interest rate swaps	4 173
<b>Net fair value of unrecognised interest rate swaps</b>	<b>4 173</b>

Unrealised loss on interest rate swaps of NOK 4 173 thousand has not been recognised due to the Company using hedge accounting.

## NOTE 6 INTRA-GROUP TRANSACTIONS AND BALANCES

(NOK 1 000)	2015	2014
<b>INCOME</b>		
Administrative services to subsidiaries	43 568	19 447
<b>Total</b>	<b>43 568</b>	<b>19 447</b>
<b>RECEIVABLES</b>		
Loans to group companies	391 124	364 485
Trade receivables	0	127
Other current receivables	53 735	130 184
<b>Total</b>	<b>444 859</b>	<b>494 795</b>
<b>LIABILITIES</b>		
Liabilities to group companies - long-term	53 789	30 743
Liabilities to group companies - current	7 703	7 802
<b>Total</b>	<b>61 492</b>	<b>38 545</b>

## NOTE 7 BANK DEPOSITS

(NOK 1 000)	2015	2014
Restricted tax withholdings	670	654

The Group's liquidity in Norway is organised in a Group overdraft facility. This means that the Norwegian subsidiaries' cash in hand is formally considered a receivable from the Parent Company and that the companies are jointly responsible for withdrawals made by the Group under this arrangement.

## NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION

### SHARE CAPITAL CONSISTS OF

(NOK 1 000)	NUMBER	NOMINAL	CARRYING AMOUNT
A shares	133 294 868	0.10	13 329 487

The Company's share capital consists of one class of shares and is fully paid-up.

### 20 LARGEST SHAREHOLDERS AS OF 31.12.2015

	NUMBER OF SHARES	SHAREHOLDING
Flakk Investment AS <sup>1)</sup>	42 615 988	31.97%
MP Pensjon PK	12 267 614	9.20%
Bøckmann Holding AS	10 000 000	7.50%
Odin Norge	7 329 090	5.50%
Nødingen AS	6 940 045	5.21%
Swedbank Robur Smabolagsfond Norden	5 624 346	4.22%
JP Morgan Chase Bank, SA Escrow Account	2 297 155	1.72%
JP Morgan Chase Bank, Handelsbanken Nordic	2 271 022	1.70%
Skandinaviska Enskilda Banken AB	2 069 253	1.55%
JP Morgan Chase Bank, NA (Nominee)	1 435 960	1.08%
Invesco Perp Eur Small Comp.	1 411 469	1.06%
TR European Growth Trust Plc HSBC Bank Plc	1 400 000	1.05%
Societe Generale Paris	1 305 356	0.98%
Hexagon Composites ASA	1 166 075	0.87%
Storebrand Norge JP Morgan Europe Ltd.	1 131 025	0.85%
Verdipapirfondet DNB	1 090 000	0.82%
Flakk Invest AS <sup>1)</sup>	1 000 000	0.75%
Eika Norge	907 925	0.68%
Tore Johan Fjell	775 131	0.58%
Verdipapirfondet Alf	727 264	0.55%
<b>Total 20 largest shareholders</b>	<b>103 764 718</b>	<b>77.85%</b>
Remainder	29 530 150	22.15%
<b>Total</b>	<b>133 294 868</b>	<b>100.00%</b>

1) These shareholdings are controlled by the Chairman of the Board, Knut Flakk.

### OWNERSHIP STRUCTURE

The total number of shareholders as of 31.12.2015 was 2 663 of whom 186 were foreign shareholders. The number of shares held by foreign shareholders was 22 066 331 or 16.6%.

The Board has a mandate to increase share capital by up to NOK 1 332 948 by issuing up to 13 329 480 shares (par value) NOK 0.10). This authorisation is valid until the next ordinary general assembly.

The Board proposes to the general assembly that there will be no dividend to be paid for the 2015 financial year.

## NOTE 9 PENSIONS AND BENEFIT OBLIGATIONS

The Company is legally obliged to have occupational pension arrangements under the Norwegian Mandatory Occupational Pension Act. The Company's pension arrangements satisfy the requirements of this Act.

The parent Company's pension arrangements cover 11 people in total - ten employed and one retired. Pension arrangements are dealt with according to the Norwegian Accounting Standard NRS 6A for pension costs.

In December 2008, the Group decided to terminate the defined benefit pension plan for employees under 52 years of age on the date of transfer. These employees joined a defined contribution pension plan with effect from 1 January 2009. Employees over the age of 52 on the date of transfer continued to be members of the defined benefit plan.

The defined benefit pension plans give an entitlement to defined future returns on plan assets. These largely depend on years of service, salary level on retirement and the amount of national insurance contributions. The Company's benefit obligation is covered by an insurance plan.

As a part of the wage settlement in October 2014 the contribution rates increased from 5% to 7% for salaries in the range of up to 7.1 times the national insurance base rate (G) and from 8% to 15% for salaries in the range 7.1 to 12 G.

Contributions for the year were expensed at NOK 1 969 thousand (797), excluding employer's contributions.

### NET PENSION EXPENSES FOR THE YEAR IN THE DEFINED BENEFIT PENSION PLAN ARE CALCULATED AS FOLLOWS

(NOK 1 000)	2015	2014
Current service cost	41	40
Interest cost on benefit obligation	42	69
Expected return on plan assets	-47	-80
Administrative costs	9	8
Employer's contribution	6	5
<b>Total</b>	<b>51</b>	<b>41</b>

### PENSION LIABILITIES AND PLAN ASSETS

(NOK 1 000)	2015	2014
Present value of funded obligations	1 788	1 886
Fair value of plan assets	-2 116	-2 110
Employer's contributions on net pension liabilities	-46	-32
<b>Net pension liabilities/plan assets recognised in balance sheet 31.12</b>	<b>-373</b>	<b>-255</b>
Net liability recognised in balance sheet 1 January	-255	-288
Recognised benefit expense	51	41
Premium payments/contributions paid	-43	-111
Actuarial gains/losses recognised directly in equity	-126	103
<b>Net liability recognised in balance sheet 31.12</b>	<b>-373</b>	<b>-255</b>
<b>Retirement benefit obligation</b>	<b>0</b>	<b>0</b>
<b>Plan assets</b>	<b>373</b>	<b>255</b>
Accumulated actuarial gains/losses are recognised directly in equity (net after tax).	70	162

### FINANCIAL ASSUMPTIONS

(NOK 1 000)	2015	2014
Discount rate	2.70%	2.30%
Expected salary adjustment	2.50%	2.75%
Expected pension adjustment	0.00%	0.00%
Adjustment of national insurance base rate	2.25%	2.50%
Expected return on plan assets	2.70%	2.30%
Mortality table	K2013 BE	K2013 BE

## NOTE 10 TAX

### TAX EXPENSE FOR THE YEAR CONSISTS OF

(NOK 1 000)	2015	2014
Income tax payable	0	19 656
Change in deferred tax	4 376	7 216
<b>Total tax expense</b>	<b>4 376</b>	<b>26 872</b>

### CALCULATION OF TAX BASE FOR THE YEAR

(NOK 1 000)	2015	2014
Profit before tax	2 741	98 978
Permanent differences	16 762	220
Gains and losses on/sale of financial assets (27%)	0	327
Change in temporary differences	-25 599	-26 725
Use of loss carryforwards	0	0
<b>Tax base for the year</b>	<b>-6 096</b>	<b>72 801</b>

Received group contributions of NOK 53 049 thousand (128 221 thousand in 2014) have been entered as income on investments in subsidiaries and included in the pre-tax profit.

### OVERVIEW OF TEMPORARY DIFFERENCES

(NOK 1 000)	2015	2014
Receivables	51 879	25 268
Non-current assets	-801	-658
Provisions	-861	0
Pensions	373	255
Loss carryforwards	-6 096	0
<b>Total</b>	<b>44 494</b>	<b>24 865</b>
<b>25% DEFERRED TAX (27% IN 2014)</b>	<b>11 124</b>	<b>6 714</b>

### WHY TAX EXPENSE FOR THE YEAR DOES NOT AMOUNT TO 27% OF PROFIT BEFORE TAX

(NOK 1 000)	2015	2014
27% of profit before tax	740	26 724
Permanent differences 27%	4 526	59
Gains and losses/sale of financial assets 27% (28% in 2013)	0	88
Correction for previous year	0	0
Effect of change in tax rate	-890	0
<b>Calculated tax expense</b>	<b>4 376</b>	<b>26 872</b>
Effective tax rate <sup>1)</sup>	159.7%	27.1 %

1) Tax expense in relation to profit before tax.

From the 2016 financial year, the tax rate on general income in Norway has been reduced from 27% to 25%. Deferred tax and deferred tax assets as of 31 December 2015 are calculated using a tax rate of 25%. The effect of changing rates on tax expense for the year was NOK -890 thousand.

## NOTE 11 PAYROLL, NUMBER OF EMPLOYEES, REMUNERATION, LOANS TO EMPLOYEES ETC.

### PAYROLL COSTS

(NOK 1 000)

	2015	2014
Wages/salaries and fees	14 794	21 952
Employer's contribution	4 024	2 548
Pension expense	1 015	506
Other contributions	1 850	538
<b>Total</b>	<b>21 683</b>	<b>25 544</b>

There were 11 (10 in 2014) employees in the Company during the financial year.

(NOK 1 000)	SALARIES AND FEES	BONUSES PAID <sup>1)</sup>	BENEFITS IN KIND	PAID PENSION PREMIUM	VALUE OF AWARDED SHARE OPTIONS	TOTAL REMUNERATION
<b>EXECUTIVE MANAGEMENT</b>						
Jon Erik Engeset, Group President	2 890	1 450	12	110	1 114	5 576
Tore J. Fjell, Senior Vice President	1 506	300	52	37	0	1 895
David Bandele, CFO	1 594	600	11	110	742	3 058
<b>BOARD OF DIRECTORS</b>						
Knut Flakk, Chairman	740					740
Kristine Landmark, Deputy Chair	240					240
Sverre Narvesen	170					170
Tom Vidar Rygh	150					150
May Britt Myhr	150					150
Gunnar Bøckmann, Deputy Board member	50					50
<b>Total remuneration</b>	<b>7 489</b>	<b>2 350</b>	<b>75</b>	<b>258</b>	<b>1 856</b>	<b>12 029</b>

1) Bonuses paid in the year relate to the year 2014.

The Chairman of the Board has no agreement relating to termination benefits. In his employment agreement, the Group President has a period of notice of 6 months. He has an agreement for up to 12 months' severance pay. The management of the Group have a target-based bonus agreement. At the end of the year, the following bonuses were allocated: NOK 614 thousand to the Group President and NOK 202 thousand to the CFO.

Group management participate in the Company's general pension arrangements, which are described in Note 8, Pensions.

No loans have been made, or security provided for loans, to any member of Group management, the Board or other elected standing committees.

Group management participate in the Companies option scheme, which are described in Note 14, Share-based Payment.

**SHARES OWNED BY BOARD MEMBERS OR RELATED PARTIES**

	2015	2014
Knut Flakk, (Chairman) <sup>1)</sup>	44 429 038	45 729 038
Kristine Landmark (Deputy chair) <sup>2)</sup>	10 000	10 000
Tom Vidar Rygh (Board Member) <sup>3)</sup>	50 000	50 000
Gunnar S. Bøckmann (Deputy Board Member) <sup>4)</sup>	10 339 400	10 339 400

1) Of the shares owned by Knut Flakk, 131 248 are privately owned, 681 802 are owned by his wife, 42 615 988 are owned through Flakk Investment AS and 1 000 000 are owned through Flakk Invest AS.

2) The shares are owned by Kristine Landmarks husband.

3) Shares owned by Tom Vidar Rygh is owned through a limited liability company.

4) Of the shares owned by Gunnar S. Bøckmann, 339 400 are privately owned and 10 000 000 are owned through a limited liability company.

**SHARES HELD BY KEY MANAGEMENT PERSONNEL**

	2015	2014
Jon Erik Engeset, Group President <sup>1)</sup>	420 867	420 867
Tore Fjell, Senior Vice President	775 131	775 131
David Bandele, Chief Financial Officer	32 745	29 545

1) The shares owned by Jon Erik Engeset 1 867 are privately owned and 419 000 are owned by related limited liability companies.

**EXPENSED AUDITORS' FEES AND COMPRISED OF THE FOLLOWING SERVICES (NOT INCLUDING VAT)**

(NOK 1 000)	2015	2014
Statutory audit and auditing-related services	929	837
Other attestation services	0	18
Tax advice	379	7
Other non-auditing services	19	0
<b>Total</b>	<b>1 326</b>	<b>862</b>

**NOTE 12 MERGED ITEMS IN THE ACCOUNTS****FINANCE INCOME**

(NOK 1 000)	2015	2014
Interest income from group companies	21 956	25 222
Other interest income	1 265	1 900
Other finance income (currency gains)	77 203	50 561
Profit on sale of shares	0	13
<b>Total finance income</b>	<b>100 423</b>	<b>77 695</b>

**FINANCE INCOME**

(NOK 1 000)	2015	2014
Interest expenses to group companies	1 827	2 137
Other interest expenses	19 033	25 976
Buyback premium bond loan	21 000	0
Accrued provisions for non-current liabilities	8 143	2 486
Currency losses	67 804	47 556
Impairment of financial assets	14 600	0
Other finance expense	831	721
<b>Total finance expense</b>	<b>133 237</b>	<b>78 875</b>

## NOTE 13 FINANCIAL MARKET RISK

The Company's international activities expose it to currency risk and interest risk. Derivative financial instruments are used to minimise these risks under the Group's strategy for interest and currency exposure.

### INTEREST RATE RISK

Interest rate risk arises in the short and medium term from the Company's floating rate liabilities. The Company uses interest rate swaps to minimise the risk.

### CURRENCY RISK

Fluctuations in exchange rates represent a financial risk to the Company, both directly and indirectly. The Company uses currency swaps and borrows in foreign currency to minimise the risk.

## NOTE 14 SHARE-BASED PAYMENT

On the 3<sup>rd</sup> of March 2015 Hexagon Composites ASA issued 975 000 call options to senior executives and managers in the Group.

The share options give rights to buy shares in Hexagon Composites ASA at NOK 25 per share. The options may be exercised in part or in full within three weeks following the official announcement of the financial results for the fourth quarter of 2017, first quarter of 2018 or second quarter of 2018. The fair value of the options was calculated on the grant date, based on the Black-Scholes model, and the cost is recognized over the period. The cost in 2015 associated with the share option scheme were TNOK 1 928. The fair value of all options granted is estimated to NOK 5.3 million per 31 December 2015.

### OVERVIEW OF NUMBER OF OUTSTANDING OPTIONS

(NOK 1 000)	2015
Outstanding options 1. January	0
Options granted	975 000
Options exercised	0
Options lapsed	0
<b>Share options outstanding 31.12.2015</b>	<b>975 000</b>
Exercisable at 31 December	0

## NOTE 15 EVENTS AFTER THE BALANCE SHEET DATE

On 15 February 2016, Hexagon Composites ASA acquired 67 % of Hexagon Composites Brazil Ltda. The Brazilian entity will pursue fuel systems opportunities for transit and heavy-duty trucks primarily in South America and Africa. The initial purchase price is USD 1 million (approx. NOK 8.5 million), and Hexagon Composites will increase its ownership to 100 % according to an earn-out model at a later stage.

On 27 February 2016, Hexagon Composites ASA and Mitsui & Co., Ltd. entered into an agreement where Mitsui will invest NOK 667 million in the Company. Further, Hexagon Composites and Mitsui have entered into a five year strategic co-operation agreement. After the transaction, Mitsui will hold 25.01% of the shares in the Company. Flakk Investment will hold 20.57% of shares, and the total holding of Knut Flakk and his close associates will be 21.66%.

Completion of the investment agreement is subject to approval by the extraordinary general meeting (EGM) of the Company. The EGM is will be held on 21 March 2016.





State Authorised Public Accountant  
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Members of the Norwegian Institute of Public  
Accountants

To the Annual Shareholders' Meeting of  
Hexagon Composites ASA

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of Hexagon Composites ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2015, the income statement and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2015, the income statement, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors' and Group President's responsibility for the financial statements*

The Board of Directors and Group President are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as the Board of Directors and Group President determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

*Opinion on the financial statements of the Parent Company*

In our opinion, the financial statements of Hexagon Composites ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements of the Group*

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on other legal and regulatory requirements**

*Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

*Opinion on registration and documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Group President have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Ålesund, 15 March 2016

ERNST & YOUNG AS

Amund Frøysa

State Authorised Public Accountant (Norway)

## GLOSSARY

<b>ASA</b>	Public Limited Company in Norway
<b>BAR</b>	Unit of pressure. 1 millibar = 100 N/m <sup>2</sup>
<b>CHG</b>	Compressed Hydrogen Gas
<b>CNG</b>	Compressed Natural Gas
<b>TYPE 1</b>	Steel cylinder
<b>TYPE 2</b>	Steel cylinder, composite-reinforced
<b>TYPE 3</b>	Composite cylinder with metal liner
<b>TYPE 4</b>	Composite cylinder with polymer liner
<b>EBIT</b>	Earnings before interests and taxes
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortisation
<b>HEX</b>	Hexagon Composites ticker on Oslo Børs
<b>HMS</b>	Health, Safety & Environment. Collective term for activities relating to health protection, environmental protection, working environment and employee safety.
<b>HYDROGEN</b>	Light, colourless gas (Symbol H), produced on an industrial scale
<b>IA</b>	Inclusive Workplace
<b>ISO</b>	International Organization for Standardization - publishes standards in a large number of areas
<b>JOINT VENTURE</b>	Legally signed contractual agreement whereby two or more parties undertake an economic activity
<b>COMPOSITE</b>	Combination of glass/carbon fibre and thermosetting plastic, exploiting the malleability of the plastic and the stiffness and strength of the glass/carbon fibre
<b>LNG</b>	Liquefied Natural Gas
<b>LPG</b>	Liquefied Petroleum Gas (propane gas)
<b>MATCH</b>	Equity segment on Oslo Børs
<b>MOBILE PIPELINE™</b>	Gas distribution products
<b>NGV</b>	Natural Gas Vehicle
<b>OEM</b>	Original Equipment Manufacturer
<b>OSE</b>	Oslo Stock Exchange (Oslo Børs)
<b>RESIN</b>	Chemical adhesives for strengthening glass and/or carbon fibre
<b>SMARTSTORE®</b>	High-pressure composite cylinder for bulk transportation and storage of CNG
<b>SCM<sup>3</sup></b>	Standard cubic metres. Unit for volumetric measurement of oil, natural gas and natural gas condensate at standard conditions defined in the ISO standard ISO 13443
<b>STYREN</b>	Organic hydrocarbon used in the production of rubber and plastic components
<b>TITAN®</b>	High-pressure composite cylinder for bulk transportation and storage of CNG
<b>TUFFSHELL®</b>	High-pressure CNG cylinder for heavy-duty vehicles
<b>5S</b>	Philosophy and way of organising and managing the workplace and workflow for the purpose of improving efficiency



# FINANCIAL CALENDAR 2016

## GENERAL MEETING

20 April 2016

## 1<sup>ST</sup> QUARTER 2016

12 May 2016

## 2<sup>ND</sup> QUARTER AND HALF YEAR REPORT 2016

18 August 2016

## 3<sup>RD</sup> QUARTER 2016

27 October 2016

## 4<sup>TH</sup> QUARTER 2016

16 February 2017

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HEXAGON  
COMPOSITES

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