HEXAGON

ANNUAL REPORT

2016

CONTENTS

HEXAGON COMPOSITES ASA
OSE:HEX

Hexagon Composites ASA is a globally leading supplier of composite pressure cylinders and systems 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 strong global momentum towards low-carbon economies is stimulating demand for the Hexagon's solutions."

WORKFORCE

820

MODERN AND AUTOMATED PLANTS

NORWAY

USA

GERMANY

BRAZIL

OPERATING INCOME

1,221

MNOK

NET PROFIT

208.3

MNOK

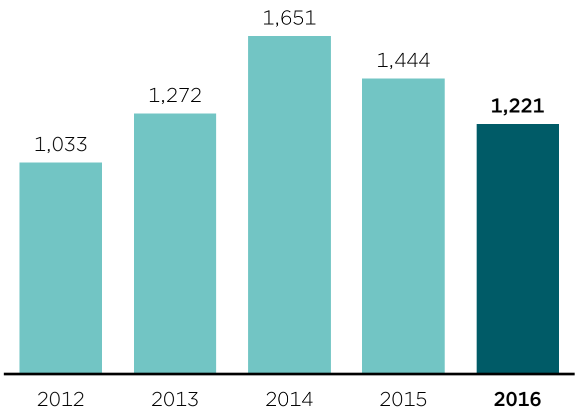
EQUITY RATIO

55.0

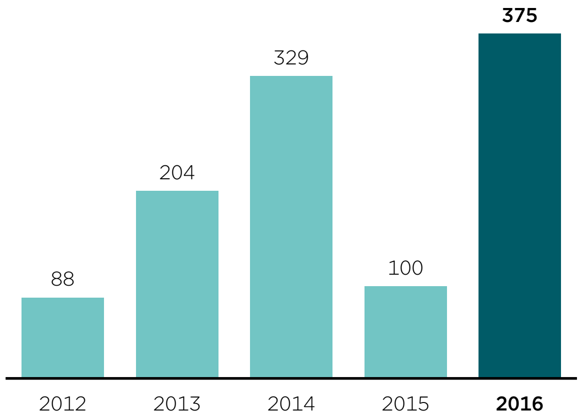
%

KEY FIGURES

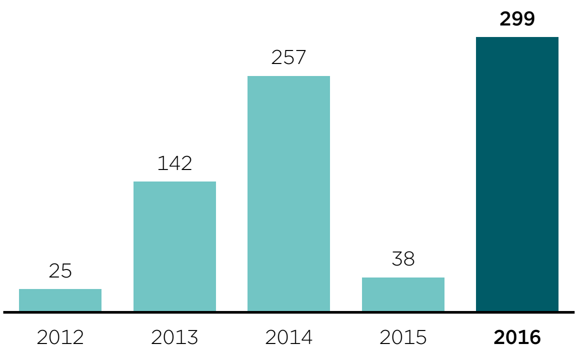
OPERATING INCOME MNOK



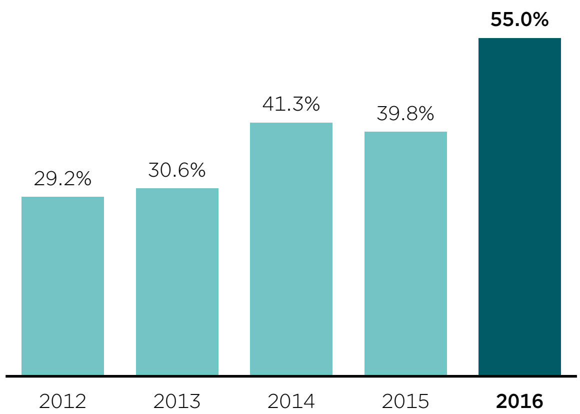
EBITDA MNOK



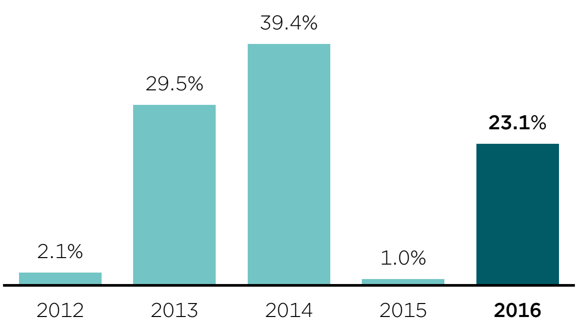
EBIT MNOK



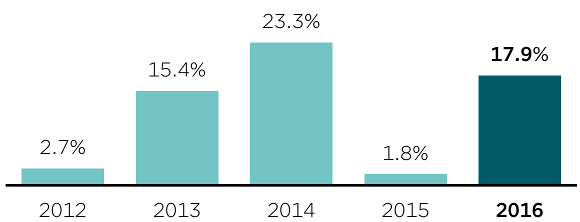
EQUITY RATIO %



RETURN ON EQUITY %



TOTAL RATE OF RETURN %



Consolidated figures for 2013-2016 from continuing operations.
Consolidated figures for 2012 as previously reported.

(NOK 1 000)

REVENUES AND PROFIT	2016	2015	2014	2013	2012
Operating income	1 220 511	1 443 873	1 650 829	1 271 621	1 032 984
Operating profit before depreciation (EBITDA)	374 877	100 119	329 151	204 362	87 799
Operating profit (EBIT)	299 266	37 513	256 788	142 064	24 587
Profit before tax	311 866	291	237 419	128 443	8 241
Profit after tax	208 303	4 563	164 672	89 643	5 447
CAPITAL 31.12					
Total assets	2 424 847	1 180 789	1 179 615	1 137 346	887 971
Equity	1 333 170	470 138	487 109	348 564	259 488
Equity ratio 1)	55.0 %	39.8 %	41.3 %	30.6 %	29.2 %
PROFITABILITY AND RATE OF RETURN					
Cash flow from operations	–4 034	41 276	175 908	158 575	116 295
Operating margin 2)	24.5 %	2.6 %	15.6 %	11.2 %	2.4 %
Return on equity 3)	23.1 %	1.0 %	39.4 %	29.5 %	2.1 %
Total rate of return 4)	17.9 %	1.8 %	23.3 %	15.4 %	2.7 %
NIBD/EBITDA 5)	0.6	3.0	0.3	1.0	3.2
SHARES					
Share capital	16 663	13 329	13 329	13 329	13 329
Total number of shares per 31.12	166 627 868	133 294 868	133 294 868	133 294 868	133 294 868
Earnings per share 6) (NOK)	1.40	0.03	1.24	0.67	0.04
Cash flow per share 7) (NOK)	-0.03	0.31	1.33	1.19	0.87
Equity per share 8) (NOK)	8.00	3.56	3.67	2.62	1.95

Consolidated figures for 2013-2016 from continuing operations.
Consolidated figures for 2012 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.

EVOLVING FROM PRODUCT SUPPLIER TO SOLUTIONS PROVIDER

Through the development of our partnerships with leading players in target markets, Hexagon Composites has further extended its geographic footprint to facilitate organic growth. Having made significant strategic moves in 2016, our priority is to ensure the optimal integration of the new businesses, with an emphasis on the realization of synergies.

DELIVERED ON STRATEGIC AGENDA

2016 has been a year of major strategic changes in our Group. We have consolidated our position while successfully implementing our merger and acquisition ambitions.

The partnership with Mitsui & Co. has significantly enhanced the Group's potential for organic and non-organic growth. Through the merger of our Heavy- and Medium-Duty CNG businesses with our largest customer, Agility Fuel Systems, we have established a global, integrated player for NGV fuel systems and solutions. Our most recent acquisition of xperion Energy & Environment in Germany has combined the two leading composite tank manufacturers. These transactions, combined with the establishment of Hexagon Composites India and Hexagon RailGas, have considerably strengthened our position as the global leader in our field.

Oil prices have nearly doubled since the beginning of 2016, and natural gas markets appear to be close to achieving balance. These positive signs bode well for our businesses in 2017.

2016 AT A GLANCE

Mobile Pipeline® has experienced a challenging year. Sales volumes were weak, primarily due to factors impacting the North and Latin American markets. The market potential is encouraging, especially in North America and Africa, however sales will continue to fluctuate reflecting the project-based nature of demand.

Our hydrogen business segment is working on several hydrogen projects with passenger car OEMs, transportation, ground storage, marine, rail and backup power applications across the globe. During the year we brought several new products to market. The acquisition of xperion has significantly strengthened the hydrogen segment, especially in the fields of rail and gas transportation.

The Light-Duty Vehicle business was profitable, despite continued low volumes, as a result of the restructuring initiated at end of 2015. The production start-up of fuel tanks for two new car models in the second half of 2016 and 2017 has resulted in increased volumes.

The North American transit bus market was strong during 2016, while sales of heavy-duty trucks sales and the transit bus market for the rest of the world were relatively weak. The merger with Agility Fuel Systems demonstrates our increased commitment to the CNG sector in North America and beyond. The environmental value proposition of CNG continues to stimulate demand, especially within larger fleets and urban applications.

Our Low-Pressure LPG business area is experiencing strong underlying growth. The business area has secured several new agreements which represent important steps in our strategy of securing growth and improved capacity utilization, especially in the second half of the year. We are excited to see that our cylinders are, to an increasing degree, seen as the preferred alternative to traditional cylinders.

KEY TO THE ENERGY TRANSITION

The strong global momentum towards low-carbon economies is stimulating demand for the Company's solutions. Hydrogen is a clean and safe energy carrier that can be used as fuel for power in a wide range of applications, and can be easily stored on large scale.

Gasoline and diesel account for 96% of total fuel consumption and 21% of global carbon emissions. Fuel cell electric vehicles (FCEV) and battery electric vehicles (BEVs) will play an important role in reducing carbon emissions from road transport. While both vehicle technologies emit no greenhouse gases during use, it remains too early to conclude which is the most environmentally-friendly, considering the entire well-to-wheel efficiency.

A new global energy mix is taking shape, in which natural gas will supplement a range of forms of renewable energy. We believe that the combination of compressed natural gas (CNG) and biogas represents the most favorable combination for reducing greenhouse gases in the short and medium term. With combustion releasing up to 50% less pollution than coal and heavy fuel oil, natural gas is an ideal choice for the transition towards more environmentally-friendly energy application.

Countries which are not currently energy self-sufficient need independent, clean and renewable energy sources. Biogas fulfils all of these requirements. Biogas is produced from locally-available organic waste. Biogas can be purified, and the resulting high quality biomethane used as a clean, carbon-negative biofuel for vehicles and high-horsepower applications.

FROM PRODUCT SUPPLIER TO SOLUTIONS PROVIDER

Now it is time to integrate and realize synergies. Going forward, we will primarily focus on growing our businesses and further improving our operations. We will develop customer values by adding services which complement our core products and technology. Hexagon Composites is evolving from being a product supplier to a solutions provider. The strategic advances we implemented in 2016 have put us in a stronger position to make this transition.

To mention a few examples, Hexagon Ragasco is further advancing its technology to facilitate communication between products and users. The Mobile Pipeline® leasing and aftermarket solutions are other attractive opportunities for our company.

PREPARING FOR THE FUTURE

I am grateful for the hard work and dedication exhibited by our employees during what has been a challenging year. I am truly proud of our organization's integrity and drive, and our willingness to shoulder responsibility. As we look forward to repositioning the Company for 2017 and beyond, I express my sincere gratitude for the cooperation and support from our shareholders and other key stakeholders during 2016.

Jon Erik Engeset

JON ERIK ENGESET
Group President

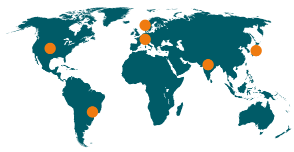
IMPORTANT EVENTS IN 2016

Extended geographic footprint facilitating organic growth.

MITSUI & CO. INVESTMENT AND STRATEGIC ALLIANCE
The Group received MNOK 667 from a private placement of new shares and entered into a strategic alliance agreement with Mitsui & Co.

MERGER WITH AGILITY FUEL SYSTEMS
Agility Fuel Systems and Hexagon Composites' medium and heavy duty CNG automotive businesses merged to create Agility Fuel Solutions (50% owned).

ACQUISITION OF XPERION
Hexagon Composites acquired xperion Energy & Environment and strengthened its position in the composite pressure cylinder market.



PARTNERSHIPS
- Acquisition of Brazilian systems integrator
- Joint venture in India
- CNG-for-rail joint venture

1,221

MNOK

OPERATING INCOME
- Decrease in operating income within High-Pressure
- 24% growth in Low-Pressure

299

EBIT MNOK

PROFITABILITY
- EBITDA impacted positively by one-off gain from the Agility transaction of MNOK 348.2
- A challenging year for Mobile Pipeline®, US CNG heavy-duty and RoW transit bus markets
- Hydrogen unit is dilutive to profit in the early growth phase
- EBIT margins for Low-Pressure were above 15%

FINANCE
The receipts from the private placement in the first quarter solidified the financial position and enabled significant M&A in the year.

Further modifications to terms on the financing facility allow greater flexibility going forward.

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: 30,715,717
Includes shares owned by related parties

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
Includes shares owned by related parties

KATHRINE DUUN MOEN
Board Member

MSc (NTNU), Senior Vice President in Statkraft. Kathrine Duun Moen has extensive experience from various management positions within the fields of energy and consultancy. She has hold board positions in several energy and innovation companies. Independent board member.

Number of shares: 0

SVERRE NARVESEN
Board Member

Civil Engineer, has been Head of Norwegian Centres of Expertise, Raufoss Industrial Cluster for the last 12 years. He has 15 years' experience from 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

KATSUNORI MORI
Board Member

Bachelor Degree in aeronautical engineering (Kyoto University), General Manager of Planning & Administrative Division (Chemicals) of Mitsui & Co. Has held various management positons in Mitsui & Co. within the fields of advanced composite materials and renewable energy related materials. Mori has been a member of the Board of Advanced Composites Products. and Sunwize Technologies.

Number of shares: 41,666,321
Shares owned by Mitsui & Co., represented in the board by Katsunori Mori

The Board of Hexagon Composites from the left: Kristine Landmark, Katsunori Mori, Knut Flakk, Kathrine Duun Moen and Sverre Narvesen

EXECUTIVE MANAGEMENT

JON ERIK ENGESET

CEO & President

M.Sc. and MBA (NHH), CEO & President since 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: 300,000

DAVID BANDELE

CFO

Bachelor of Economics (University of Sheffield), qualified Chartered Accountant (ACA), CFO since 2014. David 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: 200,000

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 at Oslo Stock Exchange with responsibility for listed companies. He has previously been a board member of Hexagon Composites.

Number of shares: 775,131

SKJALG SYLTE STAVHEIM

President
Low-Pressure Area LPG

M.Sc. in Economics and Business Administration (BI Norwegian Business School). Skjalg Sylte Stavheim has been employed at Hexagon Ragasco since the beginning of 1996 and as Managing Director since 2013. He has experience from Delta Consult, Norbok and Raufoss ASA.

Number of shares: 24,715
Number of options: 150,000

JACK SCHIMENTI

President
High-Pressure Area CNG & CHG

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

Number of shares: 60,341
Number of options: 200,000

MICHAEL KLESCHINSKI

Executive Vice President
High-Pressure Area CNG & CHG

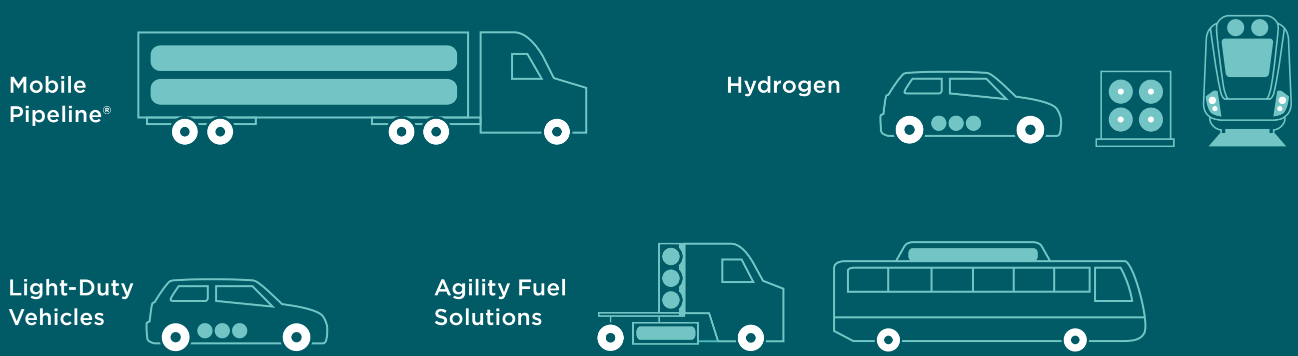
Ph.D. and B.Sc. in mechanical engineering (respectively Darmstadt University and Glasgow University), CEO of xperion Energy & Environment since 2016. Has previously held different management position within production and engineering and has extensive experience with design and manufacturing of composites.

Number of shares: 0

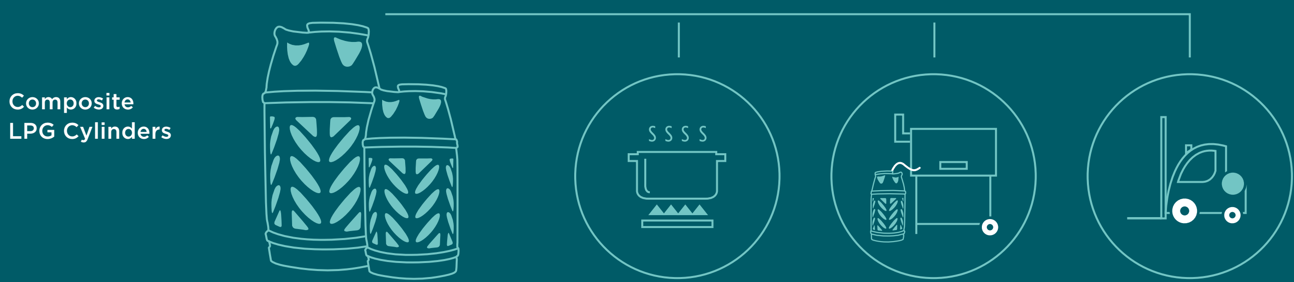
EXPANDING THE GEOGRAPHICAL FOOTPRINT

The technology group Hexagon Composites is a leading global supplier of composite pressure cylinders and systems for gas applications. The value-added features are light weight, high capacity, long lifetime and a high level of safety. Hexagon is working with leading gas distributors, vehicle manufacturers and system and component suppliers to be at the forefront of its industry. The Group's 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 CNG & CHG



LOW-PRESSURE LPG



Hexagon Composites ASA is listed on the Oslo Stock Exchange (OSE:HEX). Based in Aalesund, Norway, the extended Group has 820 employees and generated NOK 1,221 million in operating income in 2016. Production is carried out in modern, automated plants in Norway, Germany, Brazil and the US.

2016 has been a year of major strategic changes. The partnership with Mitsui & Co. significantly enhances the Group's potential for organic and non-organic growth over the course of the alliance. Through the merger of Medium- and Heavy-Duty CNG businesses with its largest customer Agility Fuel Systems, Hexagon Composites is building a global integrated player for NGV fuel systems and solutions. The most recent acquisition of xperion Energy & Environment in Germany has combined the two leading composite tank manufacturers. These transactions, combined with the establishment of Hexagon Composites India and Hexagon RailGas, have considerably strengthened Hexagon Composites' position as the global leader in our field.

BUSINESS SEGMENTS

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

LOW-PRESSURE LPG

Hexagon Composites designs and manufactures 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, Hexagon Composites has sold around 12 million units to over 75 countries in the last 16 years. Its state-of-the-art production facilities deliver products with value-added advantages over traditional steel cylinders including light weight, durability, safety and user-friendliness.

HIGH-PRESSURE CNG & CHG

Mobile Pipeline®

Hexagon Composites designs and manufacturers high-pressure composite cylinders and systems for the transportation and storage of Compressed Natural Gas (CNG), compressed biogas and Compressed Hydrogen (CHG). The TITAN® and X-STORE® solutions are designed for bulk transportation of compressed 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 down to 30% the weight of steel tubes, Hexagon Composites' cylinders are more economical in use under most conditions. This enables a faster return on investment.

Light-Duty Vehicles

Hexagon Composites' cylinders are the ideal fuel tanks for light-duty vehicles because of their combination of safety, efficiency and durability. They are around 50% of the weight of steel, which reduces fuel consumption, extends vehicle range and provides better stability and handling. The Group mainly delivers cylinders to major passenger car manufacturers in Europe, with additional deliveries to North America, Southeast Asia and South America.

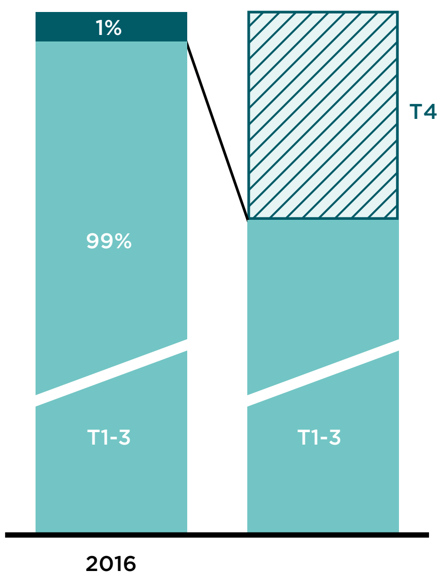
Hydrogen

The strong momentum towards global low-carbon economies stimulates demand for the Group's hydrogen solutions. Hydrogen is a clean and safe energy carrier that can be used as fuel in a wide range of applications. Hexagon Composites is well positioned across the hydrogen value chain with vehicle tanks for cars and buses, ground storage, transportation, marine and rail applications, and backup power solutions. Type 4 tanks are the best combination of safety, efficiency and durability available. Their lightweight construction improves vehicle range, payload and handling.

Medium and Heavy-Duty Vehicles

Through its 50%-owned affiliate, Agility Fuel Solutions, Hexagon Composites designs and manufactures high-pressure composite fuel cylinders for transit buses and medium- and heavy-duty trucks. The cylinders are mainly used for CNG and biogas. Light weight, compact size, and superior safety make our cylinders an attractive alternative for the Natural Gas Vehicle (NGV) market. The 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, give customers a competitive edge while reducing the environmental impact of their operations.

TYPE 4 CYLINDER FUTURE ADOPTION



PROVEN TYPE 4 TECHNOLOGY

A MARKET DRIVEN BY THE ENERGY TRANSITION AND ECONOMICS

The rapid increase worldwide in the use of natural gas for fuel over the last several years has resulted in strong, long-term growth trends in the Group's niche markets. Although recent volatility in oil prices and uncertain macro factors have influenced parts of the business near-term, the fundamental market drivers remain robust. Furthermore, the stability of CNG prices remains attractive compared to volatile oil-derived alternatives.

A new global energy mix is taking shape in which natural gas and biogas will supplement a range of means of production of renewable energy. The environmental value proposition of CNG stimulates demand, especially within large fleets and urban applications.

The strong momentum towards global low-carbon economies stimulates demand for the Group's hydrogen solutions. Hydrogen is a clean and safe energy carrier that can be used as fuel for power in a wide range of applications and can be easily stored on a large scale.

INNOVATION AND COST-EFFECTIVE PRODUCTION

Product and process innovation, along with highly automated and efficient production, are core competitive strengths underlying Hexagon Composites' global leadership. Differentiation through innovation is essential to growing market share and margin contribution. The Group works closely with customers and suppliers to excel in these areas.

EXPERTISE

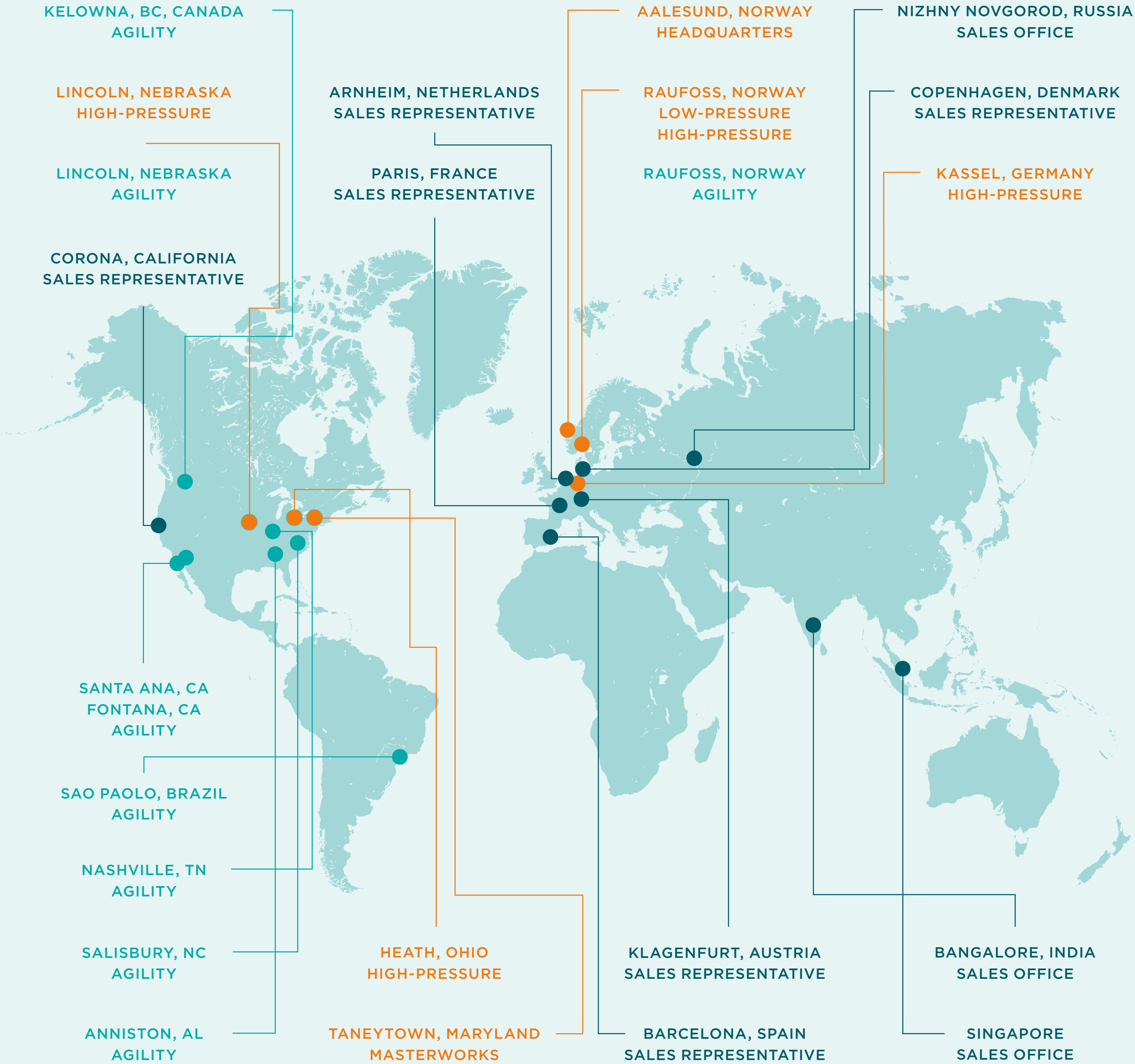
Innovation, ambition, and expertise are critical success factors for the business. Hexagon Composites encourages diversity in hiring practices with the aim of hiring people with different backgrounds and the expertise necessary to develop our business. The Group emphasizes empowerment, and a flat organizational structure that recognizes employee accomplishments and enables them to thrive.

THE EXTENDED HEXAGON COMPOSITES GROUP

31 DECEMBER 2016

820

The extended Hexagon Composites Group

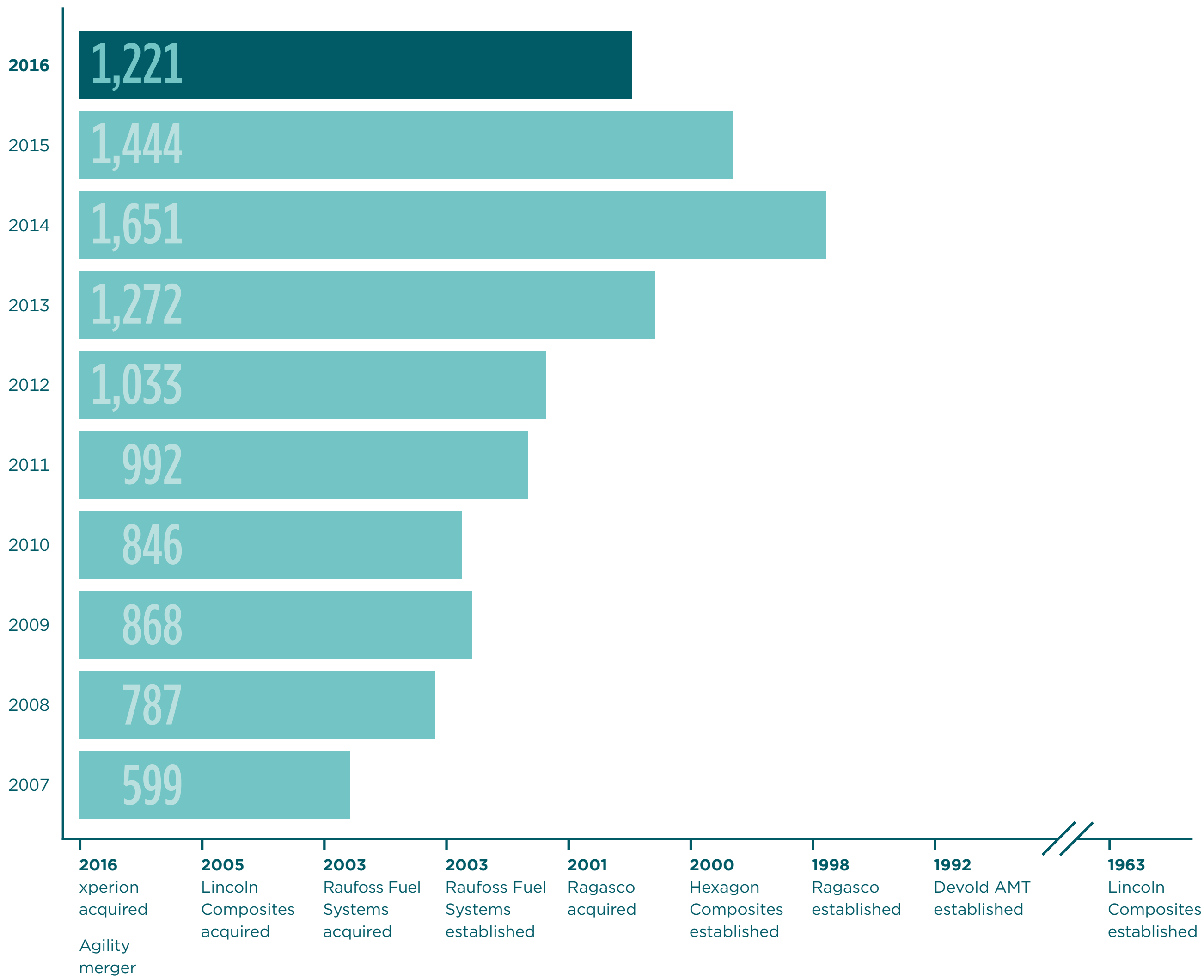


- Hexagon administration and production sites
- Hexagon sales offices and representatives
- Agility Fuel Solutions (50/50 owned)

History

EXPANDING OUR GEOGRAPHICAL FOOTPRINT

OPERATING INCOME
MNOK



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 Aalesund, 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, a leading supplier of 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 operated 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 facility 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 produced 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 Raufoss Fuel Systems. 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.

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.

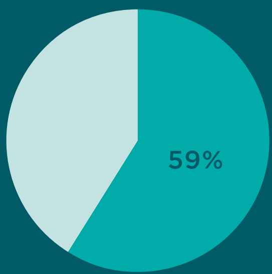
2015
Hexagon Raufoss restructured its operating model to achieve profitable operations. The company was operationally integrated with Hexagon Ragasco to take advantage of synergies between the two entities. Other initiatives on optimizing cost base were enacted to drive profitability in the challenging operating climate caused by uncertainty in the market following significant oil price volatility.

2016
Mitsui & Co., Ltd. acquired 25% and a strategic cooperation agreement was entered into. The CNG Automotive Products Division was merged with Agility Fuel Systems, to create Agility Fuel Solutions (50/50 owned). xperion Energy & Environment in Germany, one of the leading Type 4 cylinder manufacturers, was acquired.

ENGINEERING SOLUTIONS FOR THE WORLD'S ENERGY NEEDS

OPERATING INCOME
MNOK

728.3



EBIT
MNOK
248.4

KEY FIGURES

(MNOK)	2016	2015
Operating income	728.3	1 047.4
EBITDA	302.4	35.8
EBIT	248.4	-13.4
EBITDA %	41.5 %	3.4 %
EBIT %	34.1 %	-1.3 %

HEXAGON LINCOLN
LINCOLN, NE, USA
MOBILE PIPELINE®
HYDROGEN
94
6,000 m²

HEXAGON RAUFOSS
RAUFOSS, NORWAY
LIGHT-DUTY VEHICLES
7
3,000 m²

XPERION ENERGY & ENVIRONMENT
KASSEL, GERMANY
MOBILE PIPELINE®
HYDROGEN
LIGHT-DUTY VEHICLES
118
7,000 m²

Hexagon Composites is the global leader in Type 4 high-pressure composite cylinders and assembling systems for storage and transportation of compressed natural gas (CNG), biomethane and compressed hydrogen gas (CHG). The wholly-owned subsidiaries, Hexagon Lincoln, Hexagon Raufoss and xperion Energy & Environment, design and manufacture Type 4 cylinders and gas distribution systems at modern automated facilities in Lincoln (Nebraska, USA), Raufoss (Norway) and Kassel (Germany).

The 50% owned affiliate, Agility Fuel Solutions, a leading provider of natural gas fuel systems and Type 4 cylinders for medium- and heavy-duty commercial vehicles, operates modern facilities strategically located in the US, Norway, Canada and Brazil.

The products are typically around 30% the weight of steel cylinders. This – combined with lower emissions, reduced particulates and lower fuel costs of natural gas-powered engines – help the customers to be more competitive and reduces the environmental impact of their operations.

BENEFITS TO THE BOTTOM LINE AND THE ENVIRONMENT

Demand for Hexagon's products is driven principally by the delta between the price of natural gas and oil, 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. Increased global focus on vehicle emissions will continue to attract investments spurring further adoption of natural gas, biomethane (Renewable Natural Gas) and hydrogen.

OPERATING RESULTS

The High-Pressure Cylinders business area generated NOK 728.3 (1,047.4) million in operating income and made an operating profit (EBIT) of NOK 248.5 (-13.4) million in 2016. Results were impacted primarily by soft Mobile Pipeline® and Heavy-Duty Truck sales offset by a one-off gain from the Agility Fuel Solutions merger. As both the Agility Fuel Solutions and xperion Energy & Environment transactions were executed at the start of October 2016, the financial impacts for these transactions were recorded in the fourth quarter.

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

The merger of Medium- and Heavy-Duty CNG businesses with its largest customer Agility Fuel Systems to form a new jointly controlled entity, Agility Fuel Solutions, demonstrates Hexagon Composites' increased commitment to the CNG space both inside and outside North America. The investment into this vertically integrated business should ultimately increase competitiveness and shareholder value in the medium to long-term and is well timed given the current industry conditions.

In October 2016, the Group announced the acquisition of xperion Energy & Environment in Germany, to strengthen its position in the global composite pressure cylinder and systems market. xperion is a market leader in Type 4 high-pressure cylinders and includes cylinder manufacturing for light-duty vehicles, heavy-duty trucks, transit buses and gas transportation solutions at its modern production plants in Kassel, Germany and Ohio, USA. The two operations have 140 employees.

KEY DEVELOPMENTS AND IMPORTANT EVENTS 2016

- Profitability impacted by weak Mobile Pipeline® and Heavy-Duty Truck sales
- Profitable growth in the Light-Duty Vehicle business
- Agility Fuel Systems and Hexagon Composites' CNG Automotive Products Division merged to create Agility Fuel Solutions, equally owned by Hexagon Composites and Agility's previous investors
- xperion Energy & Environment in Germany, one of the leading Type 4 cylinder manufacturers, was acquired in October 2016
- Acquisition of 67% of a Brazilian entity to pursue fuel systems opportunities for transit buses and heavy-duty trucks in South America and Africa
- Announced joint venture agreement with Siddha Gas Technik in India to pursue opportunities in India's natural gas market
- Established a separate business unit for Hydrogen storage and transportation systems
- Received U.S. DOT permit for TITAN® XL
- Created a joint venture to pursue the CNG-for-rail market.

OBJECTIVES ACHIEVED IN 2016

- Strengthened market position through acquisition of xperion
- Merged with Agility Fuel Systems to build a global integrated player for NGV fuel solutions
- The Light-Duty Vehicle (LDV) business was considerably strengthened with the acquisition of the xperion LDV unit
- Secured Hydrogen business in several applications further strengthening the Group's leading position
- Received U.S. DOT permit for TITAN® XL

STRATEGY

Hexagon Composites intends to remain the market leader in design, development, production and sales of Type 4 high-pressure CNG and CHG cylinders and systems. The Group complies with applicable safety standards and strives to be at the forefront as regards sustainability and reliability. Hexagon aims to be the preferred partner for new technology and infrastructure, cooperating with key players who drive innovation in the industry. Highly-automated production enables the Group to provide customers with high-quality and cost-competitive solutions as the market grows. The formation of the jointly-owned affiliate Agility Fuel Solutions, demonstrates an increased commitment to the CNG space and is well positioned to lead the global commercial vehicle market's continued transition to natural gas.

Furthermore, Hexagon Composites intends to remain the global leader in distribution systems for road transportation of CNG beyond the pipeline. The Company sees great potential in this largely undeveloped market. Its TITAN® and X-STORE® products allow CNG, biomethane and hydrogen to compete against other fuels including pipeline natural gas, liquefied natural gas (LNG) and oil-derived fuels. Hexagon continues to promote CNG as the preferred energy for off-pipeline and high-horsepower consumers, as well as expanding CNG as a fuel into nascent applications including rail and marine markets.

Hydrogen is considered an essential part of the fuel mix required for the energy 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 cars and commercial vehicles, ground storage, transportation and backup power solutions. A separate business unit was established in 2016 to further strengthen the organizational capability to lead the development of this new high-growth market niche.

RESEARCH, DEVELOPMENT AND INNOVATION

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

A research & development (R&D) center of excellence (COE) is established in Lincoln, enabling effective prioritization of R&D initiatives. The COE is focused on improvement initiatives that will positively impact Hexagon Composites' competitive position in its markets. The R&D team continually evaluates new innovative materials, design, and processing and analysis techniques. Hexagon Composites is at the forefront of standards development throughout the world for Type 4 pressure vessels.

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

The Group 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 in enhanced transport efficiency. In 2016, the Company received U.S. DOT and Transport Canada permits for its TITAN® XL trailer as well as for its more compact 20-foot SMARTSTORE® solution.

Hexagon Composites is working with the world's leaders in the utilization of and distribution of hydrogen as a fuel source. The Group has applied new material and process technology to manufacture hydrogen qualification tanks. The tanks successfully passed the rigorous and most current global and European standards. These test results confirm that Hexagon's design philosophy and materials properties are well suited to meet future performance requirements.

Agility Fuel Solutions operates five manufacturing facilities in North America, South America and Europe and two research and development centers, designing and producing fuel systems and cylinders which are based on the company's core product and enhanced with unique technology jointly developed by the two companies.

PRODUCTION

Hexagon strives to achieve high-capacity utilization and stable production to ensure efficient, cost-effective operations.

Start-up of Mobile Pipeline® production in the new facility in Lincoln continued in the first months of 2016 and ramped into full 24-hour per day operation during the second half of 2016. The existing product line of TITAN® 4 modules was continued as well as the first production units of DOT certified TITAN® XL.

Production volumes of LDV cylinders at Raufoss were low during the first half of 2016. The commencement of volumes towards two new car models in the second half of 2016 and 2017 has resulted in increased production uptime.

Capacity utilization at xperion's facility in Germany was satisfactory during fourth quarter 2016. The unit has focused on improvements to optimize production layout, standardizing of Mobile Pipeline® assembly as well as improvements in the Light-Duty Vehicle workshop.

OBJECTIVES FOR 2017-2018

- Re-establish volumes in existing and new Mobile Pipeline® markets
- Return to profitability
- Obtain additional Hydrogen OEM business
- Strengthen market share positions in established markets for CNG vehicles
- Expand market reach geographically
- Continuously improve production efficiencies and reduce operational costs
- Realize synergies from the xperion transaction.

MOBILE PIPELINE® — SOLUTIONS FOR OFF PIPELINE ENERGY CONSUMERS

Hexagon Composites' Mobile Pipeline® solutions offer distribution of CNG and biomethane off the pipeline network. The Company's product portfolio is the widest in the market and comprises the brands TITAN® and X-STORE®. Their lightweight composite construction provides maximum payload within allowable gross vehicle road weight limitations.

TITAN® and X-STORE® are highly effective in areas without a pipeline network and with stringent road weight limitations, and are ideal for intermodal CNG distribution.

Market

Sales volume for the Hexagon Lincoln Mobile Pipeline® business was weaker than in 2015. This is despite an upturn in sales for the Lincoln division occurring in the fourth quarter and the inclusion of xperion's Mobile Pipeline® business. New market entrants in the US have put pressure on the profit margins.

In North America, CNG is a low-cost fuel alternative to diesel for high-horsepower drill rigs and fracking pumps. The activity in 2016 was still relatively weak, with the exception of the fourth quarter where the Group saw renewed interest following a sharp up-tick in drilling and fracking activity. The Mobile Pipeline® business model gained more traction in North America at the end of 2016, and major customers indicate that they will increase their fleet for diverse applications.

Hexagon Lincoln established a joint venture in 2016 to develop and manufacture compressed natural gas (CNG) fuel solutions for the rail industry. The joint venture's primary focus is the US market, but it will promote CNG rail solutions worldwide. While still in the incubation stage, CNG for rail represents an economic fuel alternative for locomotives and could significantly reduce engine exhaust emissions and improve air quality in their surrounding communities. Long-term competitive fuel pricing and meeting reduced emissions requirements, especially for railroads operating in metropolitan areas, are very important market drivers for the adoption of CNG in this segment.

In Latin America and other emerging markets, the strong US dollar made Mobile Pipeline® investments less competitive. Combined with political, financial and economic uncertainties, the company saw reduced orders from the second half of 2015 and throughout 2016.

The inclusion of xperion's Mobile Pipeline® business has considerably strengthened the business unit's market position. xperion's X-STORE® solutions have a strong foothold in Europe, Middle East and Southeast Asia. Over the last ten years xperion has succeeded in growing its product portfolio and gained a substantial market penetration. The X-STORE® design, with its vertically mounted cylinders, allows for high flexibility in terms of different module configurations ranging from 10 to 53 feet in length.

Combined, TITAN® and X-STORE® offer a large range of Mobile Pipeline® solutions. No other industry player has such a diverse product offering. Both product brands represent the benchmark with regard to quality, weight, safety and payload for composite transport solutions.

Despite the current market 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 in enhanced transport efficiency. In 2016, the Company received U.S. DOT and Transport Canada permits for its TITAN® XL trailer.

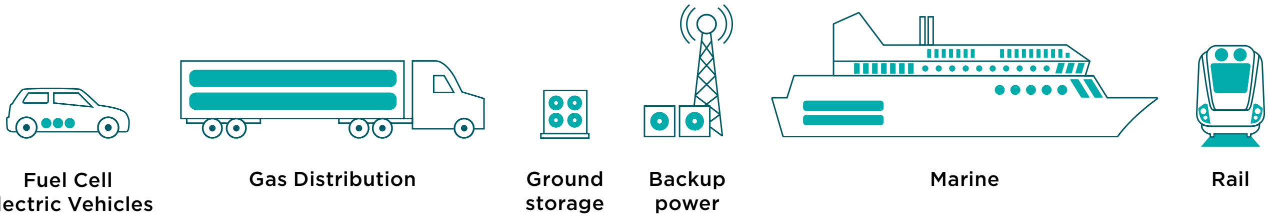
The Mobile Pipeline® turnover displays a non-linear trend, but the Company expects significant growth opportunities in this market. The project funnel is solid, but visibility on timelines to realization of these projects remains challenging. The improved market outlook for these products in the US has attracted new market entrants, and profit margins are under pressure. Hexagon has countered this development with cost reduction measures, and will continue to develop its technology and business model to differentiate itself from the competition.

The business unit focuses on continued awareness about the benefits of CNG and expects to retain its strong market position when the market recovers. In many instances, 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 within weeks.

The Mobile Pipeline® business model is gaining more traction in North America, and major customers indicate that they will increase the size of their fleets. The current order backlog supports the expectation of a healthy sales level in 2017.

Competition
Mobile Pipeline® products (TITAN® and X-STORE®) are unique within the gas transportation sector, because they enable greater load capacity at lower weight than competing solutions. In addition the simple and robust 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 initial investment cost. There are also a limited number of competitors delivering Type 3 cylinders (aluminum inner liners) and Type 4 cylinders (plastic inner liners). The improved market outlook for Mobile Pipeline® in the US has attracted new competition and it is expected to see more competition in the years to come.



HYDROGEN – KEY TO THE ENERGY TRANSITION

Hydrogen is a clean and safe energy carrier that can be used as fuel for power in a wide range of applications, and can be easily stored on a large scale. The low-fatigue cycling properties of Type 4 composite pressure cylinders make them more suitable for storage of hydrogen than steel alternatives.

Market
In the beginning of 2016, the Hydrogen business unit was established to further strengthen the company's organizational capability to lead the development of a new high-growth market niche.

Hexagon Composites is well positioned across the value chain and is working globally on several hydrogen projects with passenger car OEMs, transit bus, ground storage, transport, marine, rail and backup power applications. The inclusion of xperion's Hydrogen business unit fast-tracks the progress on rail and distribution opportunities.

Many exciting opportunities are presenting themselves, especially prospects in the automotive, transportation and storage applications, which make this segment a significant growth area in 2017. This, however, requires continued investment in resources and capital, and the business unit is not expected to return a profit in the short and medium term.

The High-Pressure organization began reporting hydrogen-related operations within a separate business unit from the start of 2016. Turnover recorded in this business unit this year amounted to approximately NOK 38 million.

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

In 2016 Hexagon was selected by Daimler AG to supply hydrogen cylinders for the new Mercedes-Benz GLC F-CELL. These are the new cylinders for next generation vehicles and are the result of years of research, development and testing, combining advanced pressure cylinder technology at Raufoss and Lincoln. The short refueling time, which is equal to conventional vehicles, is one of the biggest assets of a fuel cell vehicle.

Ground storage
The introduction of fuel cell vehicles drives 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.

Players in Germany, Japan, the US and Scandinavia are currently leading the development of FCEVs and related refueling infrastructure.

Gas distribution
Demand for Hydrogen distribution solutions will grow strongly as a function of the demand for fuel and especially for distribution of Hydrogen from renewable sources like hydro, wind and solar. Hexagon's Mobile Pipeline® solutions are certified for hydrogen distribution, and the Company has received several orders for its X-STORE® solution for the European market.

Marine and Rail
Hexagon Composites is at the forefront of developing hydrogen solutions for the marine and rail industry. These markets are perceived as emerging market opportunities for the Company.

In 2016, Alstom awarded xperion a contract to supply hydrogen cylinders to its first prototype trains. The cooperation between xperion and Alstom is an important strategic step for Hexagon to extend its hydrogen application portfolio to include the rail sector.

In January 2017 Hexagon signed a Letter of Intent with Nel ASA and PowerCell Sweden AB to establish an equally owned joint venture to pursue hydrogen opportunities. The joint venture will initially focus on opportunities in the maritime and marine segments as well as projects to leverage renewable energy resources.

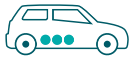
Backup power

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

Competition

Hexagon Composites has achieved a leading position in the hydrogen industry and its high-pressure cylinders are at the forefront of hydrogen and fuel-cell vehicle technology. Type 4 tanks are the best combination of safety, efficiency and durability that are currently available. Their lightweight construction improves vehicle range, payload and handling. The low-fatigue cycling properties of composite pressure cylinders make them more suitable for storage than steel alternatives. Furthermore, Type 4 cylinders are widely accepted as the optimal solution for 700 bar hydrogen storage systems. Global regulations require that newly designed tank prototypes undergo extreme pressure, temperature and fatigue tests, regardless of size.

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



Light-Duty Vehicles

LIGHT-DUTY VEHICLES – FUEL CYLINDERS FOR PASSENGER CARS

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.

Market

The Light-Duty Vehicle business was profitable during 2016, despite continued low volumes, as a result of the restructured operating model in force since the end of 2015. Continuous improvement of manufacturing processes has contributed to a significantly better cost efficiency. The commencement of volumes towards two new car models in the second half of 2016 and 2017 have resulted in increased volumes.

The Company mainly delivers cylinders to major passenger car manufacturers in Europe, with additional deliveries to Southeast Asia.

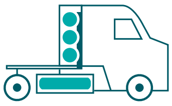
In Europe, the number of natural gas vehicles is steadily increasing for two reasons. Firstly, some governments such as Italy and Sweden are subsidizing the purchase of natural gas vehicles to foster this cleaner and more economical fuel. Secondly, the overall number of refueling stations is increasing. Natural gas produced from renewable sources, like biomethane, will play a more important role in the future and be a further incentive to switch to this non-polluting technology ("power-to-gas"). New models continue to be launched by several car manufacturers.

In 2016 Hexagon won a tender for conversion of more than 1,000 taxis and government vehicles in Jakarta. Indonesia is quickly adopting CNG as an alternative to diesel and gasoline as a result of a government campaign to convert from oil-to-gas. The program's goal is to reduce pollution and diversify fuel in the public transportation sector. Hexagon Composites' cylinders are ideal for these applications because they are 30% the weight of steel, which reduces fuel consumption and extends range between refueling.

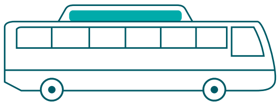
The Light-Duty Vehicle (LDV) business has significantly increased its market presence with the inclusion of the LDV unit of xperion. The demand for CNG Light-Duty Vehicles is promising, and the combination of the Hexagon Composites and xperion businesses has created a global market leader within this market segment.

Competition

Steel cylinders have been the predominant solution in the European light-duty market. However, increased global focus on vehicle emissions (WLTP – Worldwide harmonized Light vehicles Test Procedure) and incentives, as well as vehicle taxes and duties on traditional vehicles, are expected to further drive demand for lighter NGVs. Hexagon's lightweight cylinders, combined with its extensive systems knowledge, give the Company a competitive edge in this market.



Heavy-Duty Trucks



Transit Buses

AGILITY FUEL SOLUTIONS – FUEL SYSTEMS FOR HEAVY-DUTY VEHICLES

Agility Fuel Solutions' alternative fuel systems and tanks for medium and heavy-duty trucks and transit buses are designed and engineered for durability, performance, safety and reliability, providing value and improved uptime. This translates to a lower total cost of ownership and higher profitability.

The merger of the Group's Medium and Heavy-Duty Vehicles CNG Automotive businesses with its largest customer, Agility Fuel Systems, forming the jointly controlled entity Agility Fuel Solutions in beginning of fourth quarter 2016, demonstrated Hexagon's increased commitment to the CNG space both inside and outside North America. The formation of this vertically integrated business should ultimately increase competitiveness and shareholder value in the medium to long-term and is well-timed given the current challenging industry conditions.

Market
Sales volumes in 2016 in the North American heavy-duty and refuse trucks sales were relatively soft.

The US is Agility's primary market, with fuel systems and cylinders installed in Class 7 and 8 tractor-trailers, refuse collection trucks, transit buses and other heavy-duty truck platforms. While oil prices have increased significantly since the beginning of 2016, this has not yet materialized in a significantly improved price spread between CNG and diesel. The environmental value proposition of CNG continues to stimulate demand especially within larger fleets and urban applications. Although still in a stagnant phase, there are good indications in favor of a market pick-up towards the end of 2017.

Biogas is stimulating demand in several countries, especially in Europe. In 2016 Agility had its first refuse orders delivered in the United Kingdom.

The primary transit bus markets are in North America and Europe, where more than 80% and 85% of gas-powered transit buses use its products, respectively. The North American transit bus market was strong in 2016 while the rest of the world transit bus market has been softer than in 2015. There has been steady growth in the North American market for a number of years due to an increased focus on environmentally-friendly public transportation. Continued growth is expected in the overall global transit bus market for its solutions however, this will also follow market specific trends for bus projects.

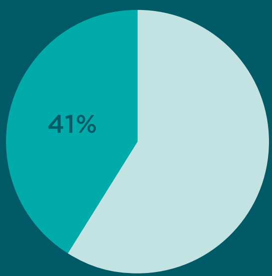
Agility's product range also include LNG fuel systems providing customer flexibility. This represents the company's deep commitment to its customers and to the development and adoption of natural gas as a transportation fuel.

Competition
Agility Fuel Solutions is the global market leader for fuel systems and Type 4 CNG cylinders in the heavy-duty truck and transit bus segments. The competitors are fuel system suppliers as well as Type 3 and Type 4 cylinder manufacturers.

CONTINUED STRONG MOMENTUM IN THE LPG MARKET

OPERATING INCOME
MNOK

502.2



EBIT
MNOK

77.9

KEY FIGURES

(MNOK)	2016	2015
Operating income	502.2	405.1
EBITDA	98.4	65.9
EBIT	77.9	53.4
EBITDA %	19.6 %	16.3 %
EBIT %	15.5 %	13.2 %

HEXAGON RAGASCO
RAUFOSS, NORWAY

133

5,000 m^2

"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 expansion into new markets outside of Europe.

Hexagon Ragasco, the major operating unit within the Low-Pressure business area, is the world's leading producer of composite LPG cylinders. A pioneer in the industry, it has sold around 12 million cylinders worldwide in the last 16 years, including 1.4 million in 2016. The unit started operations in 2000 and has since developed a customer base composed mainly of LPG distributors in over 75 countries. The Company continues to build partnerships in new regions to help gas businesses increase customer loyalty without compromising on safety.

The company's 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, highly automated facilities located in Raufoss, Norway.

OPERATING RESULTS

The Low-Pressure business area generated NOK 502.2 (405.1) million in operating income and made an operating profit (EBIT) of NOK 77.9 (53.4) in 2016. The business area experienced solid growth and continued market penetration in markets outside Europe. Sales to Europe were solid during the year with continued high volumes from Scandinavia, France and Switzerland. Hexagon Ragasco also received orders from new markets in Europe and the rest of the world. Underlying growth is strong and the company's position has been strengthened in 2016. A stable volume enabled high capacity utilization during first half of the year. The capacity utilization during the second half of the year, which traditionally has been seasonally low, was satisfactory.

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.

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

KEY DEVELOPMENTS AND IMPORTANT EVENTS 2016

- 24% growth in revenues within the Low-Pressure segment versus 2015
- Solid growth and continued market penetration in the segment
- Secured a four-year frame agreement with Beximco Group for sales of composite LPG cylinders into the fast growing Bangladeshi market. The parties are targeting a volume of 1.4 million cylinders over the four-year period.
- Entered the Chilean market through strategic partnership with Lipigas, a leading LPG distributor for the residential, industrial and leisure sectors
- Secured two new significant orders from Woqod in Qatar at a total value of EUR 13.5 million (approx. NOK 121 million)
- Strong momentum and continued market penetration to markets outside Europe.
- Achieved high capacity utilization during the first half of the year, and satisfactory capacity utilization during second half of the year

OBJECTIVES ACHIEVED IN 2016

- Achieved initial sales to new markets outside of Europe
- Increased sales and capacity utilization for the second half of the year to offset seasonally low volumes
- Implemented new product features including custom designs, dimensions and branding possibilities to enhance production and increased customer values
- Continued focus on business development resources to support further growth strategies
- Implemented significant capital expenditure projects to improve productivity and manufacturing flexibility

MARKET

In 2016, Hexagon Ragasco pursued increased market share by offering considerable advantages over steel cylinders in terms of weight, safety and design. The first half of the year is traditionally strong in its core European markets, but sales for the two first quarters also included targeted new European, African and South American markets. A strong focus on opening new markets or new customers in existing markets has allowed for a stronger year-over-year performance in the second half of the year, which traditionally has seasonally low sales volume quarters.

Hexagon Ragasco has implemented several investments that greatly enhance the company's ability to offer unique

Low-Pressure LPG

Cooking, heating, recreation and fork-lift trucks

customized designs, dimensions and branding possibilities. Furthermore, Hexagon Ragasco is leveraging financing available through export credit agencies. Both of these strategic measures are contributing to further sales growth in the Low-Pressure segment.

Europe
The company's 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 proved to be successful and the positive growth has continued in 2016 with new customers and increased volume. This is a major LPG market for cooking and heating, and the company expects increased momentum in the years to come.

The market development in the domestic market in United Kingdom was strong in 2016. Hexagon Ragasco observes positive developments in other European markets and continues its focus on opening new markets in Europe.

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. The products have the competitive advantage in these markets with superior safety and durability.

Hexagon Ragasco 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. The efforts have generated several new orders in these markets. Although periodic in nature, these orders have enhanced the marketing and commercial expertise, and strengthened the company's competitive positions. Increasing the market penetration in these regions is a priority going forward.

Middle East
In fourth quarter, Hexagon Ragasco was awarded two new orders from Woqod in Qatar at a total value of EUR 13.5 million (approx. NOK 121 million). Woqod, which is the leading LPG distributor in Qatar, has previously announced that they will be phasing out LPG steel cylinders and replacing them with composite cylinders. The bottled LPG infrastructure in Qatar is highly efficient with an extensive network of service stations, retailers and private LPG delivery trucks. The new orders from Qatar are a confirmation that our cylinders, to an increasing degree, are the preferred alternative to traditional steel cylinders in the Middle East.

Asia and Africa
Hexagon Ragasco secured a four-year frame agreement with Beximco Group for sales of composite LPG cylinders in the fast growing Bangladeshi market. Piped natural gas for households is planned to be replaced with bottled LPG, and it is therefore anticipated that the demand for LPG cylinders will be significant in the coming years. The parties are targeting a volume of 1.4 million cylinders over the four-year period of the frame agreement. The first delivery under the frame agreement was shipped in the fourth quarter of 2016. With a premium product offering considerable advantages over steel cylinders, Hexagon Ragasco is confident that the composite LPG cylinders will help to make domestic use of LPG in Bangladesh safer and more user-friendly.

Several new Asian and African markets are showing promise. The company has received several smaller orders during 2016 and is working with further opportunities in select markets. Among several benefits, the distributor focuses on its corrosion-free feature, as humidity is an issue in the region.

South America
There is an increasing momentum in South America. In fourth quarter Hexagon Ragasco entered the Chilean market through strategic partnership with Lipigas, one of the leading LPG marketers in South America. Chile is a well-established LPG market, with strong focus on secure handling and safety. Bottled LPG is the primary energy source for Chilean homes. The launch of the LPG cylinder in Uruguay earlier in 2016 and recently in Chile, represent new milestones in the growth strategy for South America.

CYCLE TIME

North America
During 2016 Hexagon Ragasco focused on select segments of the North American market, specifically consumer-focused retail businesses specializing in BBQ accessories. So far the company has 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.

APPROVALS
Hexagon Ragasco's cylinders have been approved and sold in more than 75 countries globally. Fuel cylinders for forklift trucks require separate approvals.

COMPETITIVE POSITION
In 2016, Hexagon Ragasco solidified its position as the leading global supplier of composite LPG cylinders. The company´s position was strengthened relative to both steel and other composite cylinder alternatives. The primary substitute is the traditional steel cylinder (Type 1) due to its low purchase price, but it is significantly heavier and subject to corrosion. Hexagon Ragasco's lightweight cylinders are less costly to transport, and the translucence and superior design makes the composite LPG cylinders easier to monitor and use. In addition, the cylinders are safer with lower risk of explosion.

There are other composite cylinder alternatives in most markets, however the company expects that competition will increase over time.

BUSINESS DEVELOPMENT
Hexagon Ragasco continues to strengthen its position as a global supplier of composite LPG cylinders. The company has allocated dedicated resources toward business development, securing and improving existing market positions and identifying opportunities for further expansion.

PRODUCTION & PRODUCT DEVELOPMENT
Production uptime continued to be good during 2016. The recent program of investments has effectively increased capacity within the plant by allowing for faster cycle production times when required.

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

Continuous improvements are essential to remain competitive in the global market. Over a period of 16 years, Hexagon Ragasco has reduced the cycle time per composite LPG cylinder from 74 seconds to 12 seconds. As a result of production investments implemented in 2016 the cycle time was reduced from 14 to 12 seconds.

Operations
From mid first quarter, Hexagon Ragasco operated "24/7" to meet customer demand. Production stability and volumes were satisfactory during 2016. Volumes in the first and second quarter remained at similar levels. Seasonally low volumes for the third and fourth quarter were not avoided in 2016, however significantly improved over 2015.

MARKET OUTLOOK
The outlook for composite LPG cylinders is good. In established markets, Hexagon Ragasco is acquiring market share from steel cylinders. Outside Europe the company expects demand to increase in the medium and long term. Increasing wealth in developing countries should generate demand for high-quality products. In particular, increased focus on health, safety and environmental impact of traditional cooking fuels is expected to increase domestic demand for LPG.

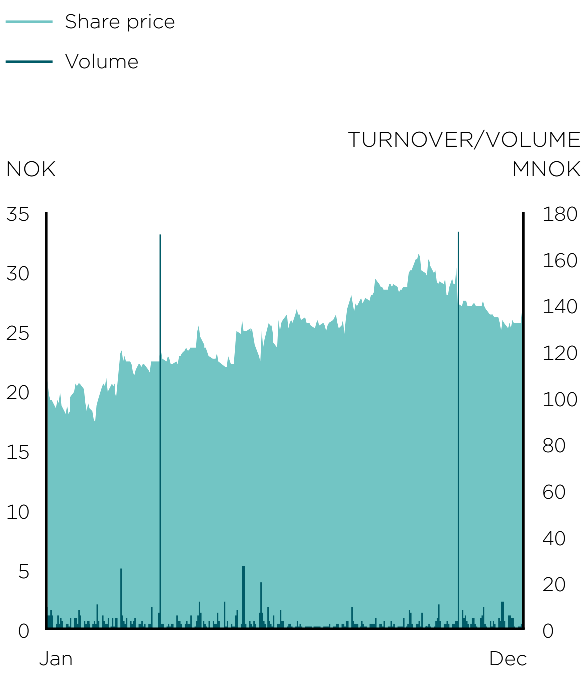
Objectives for 2017 – 2018
- Continued double digit growth
- Increase sales and capacity utilization for the second half of 2017
- Leverage new technology to enhance production and increase customer value
- Improve productivity and manufacturing flexibility
- Increase market penetration outside Europe

Shareholder Information

A YEAR OF STRATEGIC INITIATIVES

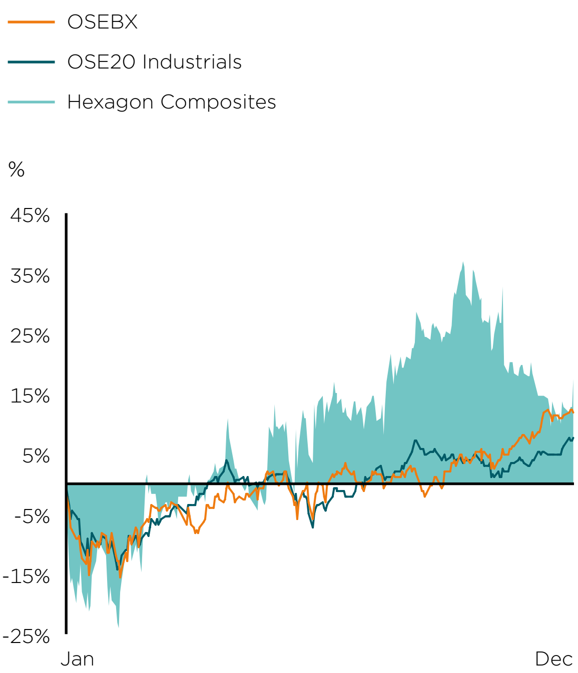
Hexagon Composites' share price increased sharply above OSEBX Index from the second quarter onwards before eventually ending the year in line with the Index. The share price ended the year 17.5% above the closing price 31 December 2015. The Company completed several value accretive strategic initiatives in 2016, most notably cementing a five-year strategic cooperation with Mitsui & Co., merging the CNG Automotive Products division with Agility Fuel Systems to form Agility Fuel Solutions, and, acquiring xperion Energy & Environment. Furthermore, the LPG segment showed positive development through the year, and the fourth quarter witnessed early signs of improved sentiment within Mobile Pipeline®.

HEXAGON SHARE VOLUME 2016



Source: Oslo Stock Exchange

OSE PRICE TRENDS IN 2016



Source: Oslo Stock Exchange

10 LARGEST SHAREHOLDERS AS OF 21 MARCH 2017

SHAREHOLDER	NUMBER OF SHARES	SHARE OF TOTAL	COUNTRY
Mitsui & Co., Ltd	41 666 321	25.01 %	JPN
Flakk Composites AS	28 902 667	17.35 %	NOR
MP Pensjon PK	11 867 614	7.12 %	NOR
Bøckmann Holding AS	10 000 000	6.00 %	NOR
Odin Norge	7 438 064	4.46 %	NOR
Nødingen AS	6 000 000	3.60 %	NOR
Swedbank Robur Smabolagsfond Norden	5 597 415	3.36 %	SWE
SEB STO, Skandinaviska Enskilda Banken	3 419 854	2.05 %	SWE
Storebrand Norge	3 245 236	1.95 %	NOR
JP Morgan Chase Bank, N.A, S/A Escrow Account	3 162 379	1.90 %	GBR
Total 10 largest shareholders	**121 299 550**	**72.80 %**	
Remaining	45 328 318		
Total number of shares	**166 627 868**		

A detailed overview of the largest shareholders at 31.12.2016 is disclosed in Note 17 in the Financial Statements.

Hexagon Composites ASA is listed on the Oslo Stock Exchange (OSE:HEX). The share capital was NOK 16.7 million (13.3 million) at the end of 2016, divided into 166.6 (133.3) million shares with a nominal value of NOK 0.10. Hexagon Composites has one class of shares. Please refer to the Corporate Governance section in this report for more information on the Group's policies and procedures relating to shareholders and shares.

As of 31 December 2016, the market value of the Group's shares was NOK 4,482 (3,052) million, based on a price per share of NOK 26.90 (NOK 22.90) per 31 December 2016. The price per share appreciated by 17.5% during the year, whereas the growth in market value was further increased by a private placement of 33.3 million shares at directed at Mitsui & Co., Ltd. at the end of the first quarter. The highest daily closing price during the year was NOK 31.40 and the lowest recorded closing price was 17.40. By comparison, the Oslo Stock Exchange Industrial Index (OSE20GI) increased by 7.8%, while the OBX Total Return Index (OBX) gained 14.6%. The Group remains well positioned for significant growth both 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 2016, 51.6 million (98.4) shares were traded with a turnover rate of 32.8% (73.8%) computed on the average number of shares outstanding. Shares were traded daily, while liquidity developed adversely compared to 2015.

SHARE DISTRIBUTION AND MAJOR SHAREHOLDERS

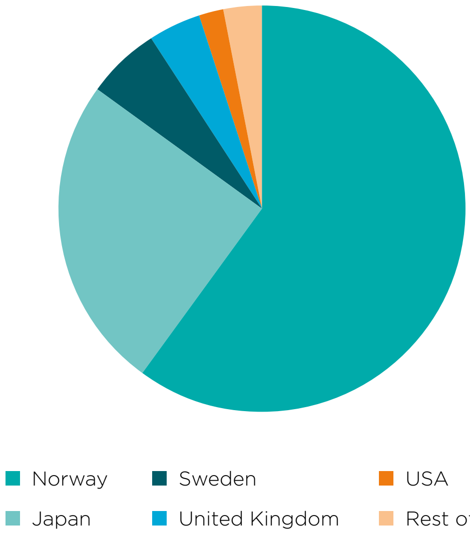
The number of shareholders decreased by 10.8% to 2,390 (2,663) in 2016. The number of foreign shareholders was 182 (186) representing 39.81% (16.51%) ownership in the Group. The majority of the foreign shareholders are from Japan, USA, the United Kingdom, Sweden and Denmark.

Following a private placement at the end of the first quarter 2016, Hexagon Composites' largest shareholder is Mitsui & Co., Ltd., with an ownership interest of 25.0% (0.0%).

The second largest shareholder is Flakk Composites AS which, including related parties, controls 18.4% (33.3%) of the shares. The shares currently held by Flakk Composites AS were transferred from the related party Flakk Investment AS in 2016. In November 2016, Flakk Investment sold 5,380,000 shares (3.23%). Following the completion of the secondary placement, Flakk Investment, closely related persons and affiliated companies hold 30,715,717 shares, corresponding to 18.43% of the Group.

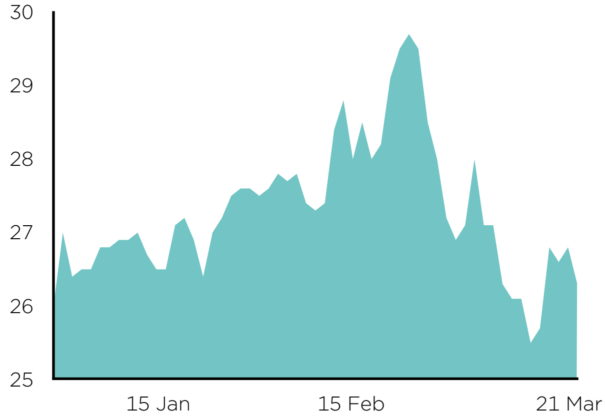
Shareholder Information

OWNERSHIP DISTRIBUTIONS OF SHARES 2016



HEX SHARE PRICE 2017 YTD

NOK



Both Flakk Composites AS and Flakk Investment AS are wholly owned subsidiaries of Flakk Gruppen AS. Knut Flakk, who is Chairman of Hexagon Composites, owns 98.7% of Flakk Gruppen AS.

Mitsui & Co., Ltd. and Flakk Gruppen AS represent a combined ownership interest of 43.4% in Hexagon Composites. The 20 largest shareholders own 79.5% (78.5%) of the Group. Other shareholders are primarily private individuals, and small- and medium-sized companies.

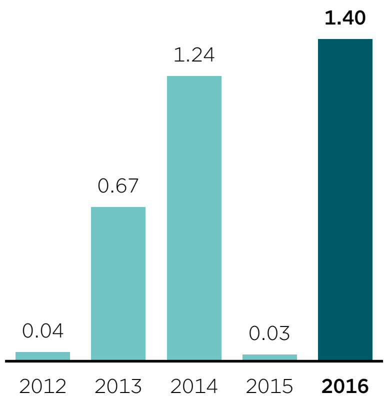
Several employees including key management personnel of Hexagon Composites hold shares and share options in the Group.

DIVIDEND POLICY

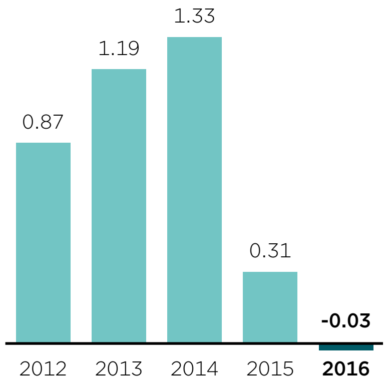
Hexagon Composites is focusing on developing its business in high-growth markets and intends to make the investments necessary to realize its growth ambitions. Our main objective is to provide competitive returns to shareholders primarily through increasing the intrinsic value of our business. Dividend payments are dependent on financial performance and excess cash after key investment requirements. For the year 2015 Hexagon Composites paid no dividends, and the Board proposes to the annual General Meeting on 20 April 2017 that no dividends will be paid for the year 2016.

The ordinary General Meeting was held on 20 April 2016. The General Meeting granted the authority to the Board to buy back shares in the Group up to a combined nominal value of NOK 1.7 million, or 10% of the current issued share capital. This authority pertains to a buy-back of shares in connection with either: i.) acquisitions, mergers, demergers or other transfers of business, ii.) share options programs for employees, iii.) subsequent deletion of shares. These proxies are valid until the Group's ordinary General Meeting in 2017.

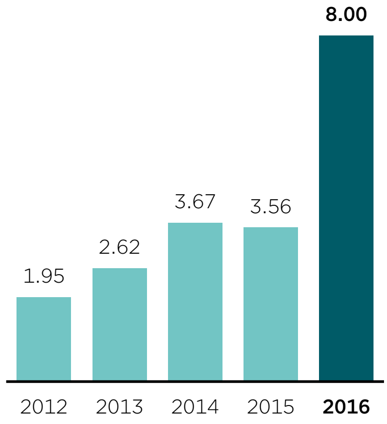
EARNINGS PER SHARE
NOK



CASH FLOW FROM OPERATIONS PER SHARE NOK



EQUITY PER SHARE
NOK



KEY FIGURES SHARES

	2016	2015	2014	2013	2012
Closing Price NOK	26.90	22.90	22.80	32.30	4.47
Assessment value Price NOK	26.70	22.45	23.60	31.30	4.40
High NOK	31.40	27.00	39.10	32.30	4.47
Low NOK	17.40	12.60	18.90	4.32	2.55
Total return %	17.5	3.0	-28.8	622.6	81.7
Market capitalization (NOK 1 000)	4 482 290	3 052 452	3 039 123	305 424	595 828
Turnover by value (NOK 1 000)	1 221 416	2 015 203	4 172 911	463 559	61 731
Turnover by no. of shares (1 000)	51 607	98 372	140 065	91 008	16 837
Number of transactions	50 684	89 285	146 914	33 603	4 738
Number of days traded	253	251	250	248	247
Turnover rate	32.8 %	73.8 %	105.1 %	69.3 %	12.6 %
Beta	0.75	1.80	1.02	0.66	0.61
P/E	21.52	668.98	18.46	48.03	109.39
P/B [1)]	3.36	6.49	6.24	12.35	2.30
Earnings per share	1.40	0.03	1.24	0.67	0.04
Cash flow from operations per share	-0.03	0.31	1.33	1.19	0.87
Dividend per share [2)]	0.00	0.00	0.62	0.33	0.15
Equity per share	8.00	3.56	3.67	2.62	1.95
Share capital (NOK 1 000)	16 663	13 329	13 329	13 329	13 329
Closing number of shares (1 000)	166 627	133 295	133 295	133 295	133 295
Number of shareholders, Norwegian	2 208	2 663	2 558	2 240	1 330
Number of shareholders, foreign	182	186	197	132	50
Ownership share, foreign	39.80 %	16.55 %	17.40 %	17.30 %	3.60 %

1) Exclusive goodwill.
2) The Board proposes to the annual general meeting on 20 April 2017 that no dividend be paid.

DELIVERED ON STRATEGIC AGENDA

STRATEGIC MOVES	STRATEGIC RATIONALE
MITSUI & CO. INVESTMENT AND STRATEGIC ALLIANCE	Drive organic growth opportunities
MERGER WITH AGILITY FUEL SYSTEMS	Build a global integrated player for NGV fuel systems and solutions
ACQUISITION OF XPERION	Combine the two leading composite tank manufacturers
PARTNERSHIPS AND OTHER • Acquisition of Brazilian systems integrator • Joint venture in India • CNG-for-rail joint venture	• Develop new applications for Mobile Pipeline® technologies • Enhance geographical foot-print and capability beyond US and Europe

WAY FORWARD

- Extend geographic footprint to facilitate organic growth
- Partner with leading players in target markets and segments
- Offer services and total solutions to compliment Hexagon's core products and technology

Agility® fuel solutions

xperion ENERGY & ENVIRONMENT

MITSUI & CO.

SUSTAINABLE PROFITABLE GROWTH

VISION AND PURPOSE

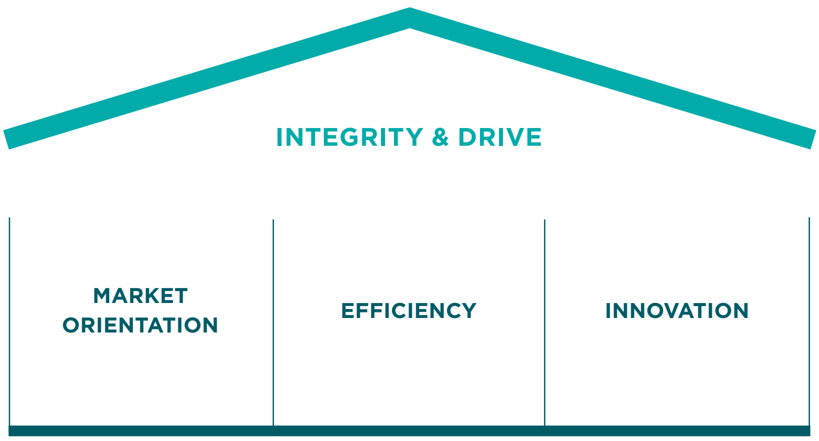
Hexagon Composites shall become the world's leading supplier of innovative and customer-valued composite solutions that positively impacts the environment and contributes to a better life for the global community.

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.

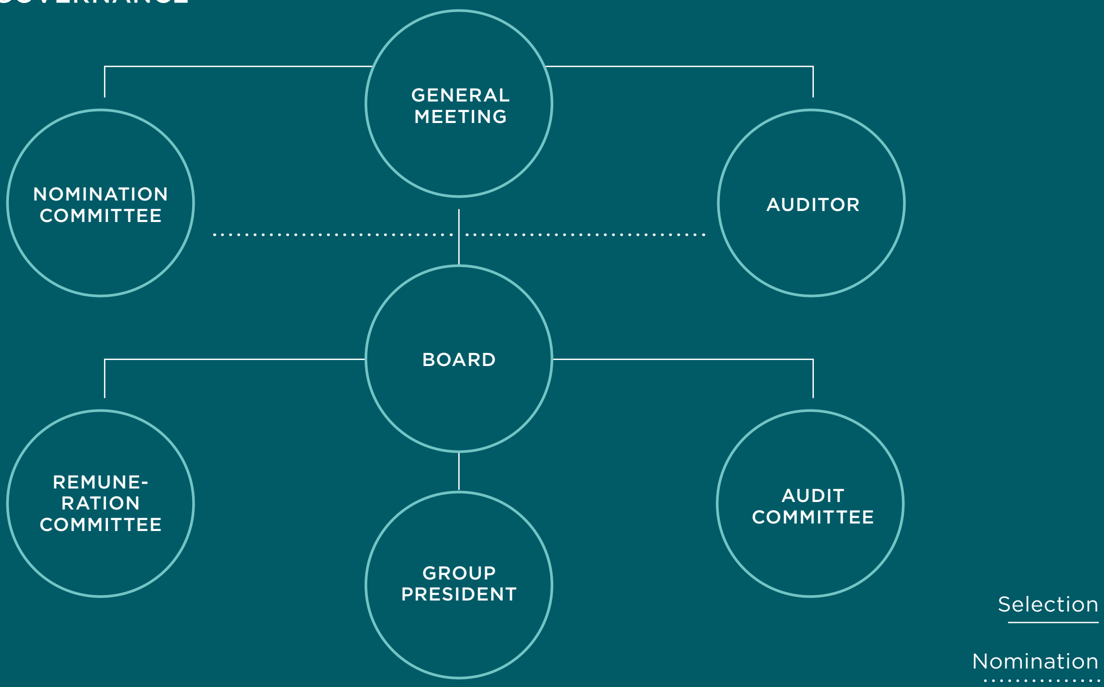
DRIVE
We are privileged to have majo long-term growth opportunities. As an organization, we need to drive these with rigor and intensity.

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 2016

10/10	**KNUT FLAKK**	Chairman
9/10	**KRISTINE LANDMARK**	Deputy Chair
9/10	**SVERRE NARVESEN**	Board Member
5/6	**KATHRINE DUUN MOEN**	Board Member
1/1	**KATSUNORI MORI**	Board Member
2/2	**GUNNAR S BØCKMANN**	Deputy Board Member
8/9	**TOM VIDAR RYGH**	former Board Member
4/4	**MAY BRITT MYHR**	former Board Member

"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.

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1. DESCRIPTION OF CORPORATE GOVERNANCE

Hexagon Composites ASA's principles for corporate governance were last revised at the Board meeting of 21 February 2017. 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. 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 and solutions 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 1,666,278 (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 2015 Hexagon Composites did not propose a dividend. The Board does not propose a dividend for 2016.

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.

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 2016, 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 2016 the nomination committee was comprised of Bjørn Gjerde, Chairman, Leif Arne Langøy 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 2016. 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 second 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 20 April 2016 the annual general meeting established the Board fees for 2015 in connection with the approval of the annual accounts.

POSITION	FEES
Chairman	NOK 700 000 (750 000)
Deputy Chair	NOK 200 000 (200 000)
Other Board Members	NOK 150 000 (150 000)
Deputy Board Member	NOK 25 000 per meeting

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 are 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 SOCIAL RESPONSIBILITY

Hexagon Composites conducts its business in an economically, socially and environmentally responsible manner. The Group focuses on reducing its impact on the environment and providing innovative products enabling the customers to do the same. Good working conditions for employees and relationships with the communities where the Group operates are key objectives. Hexagon prioritizes ethical conduct within its organization and supply chain including anti-corruption, 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 internal communication and periodic 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.

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 the wholly-owned subsidiaries, Hexagon Lincoln (Lincoln, Nebraska, USA), Hexagon Raufoss (Raufoss, Norway) and xperion Energy & Environment, which comprise the High-Pressure business area and for Hexagon Ragasco, the operating unit within the Low-Pressure 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 towards 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 a clean and safe energy carrier that can be used as fuel for power in a wide range of applications, and can be stored on a large scale. Hexagon Composites is well positioned across the hydrogen value chain. Hexagon Composites believes that innovative storage and distribution solutions are key enablers to help its customers capture the cost savings available while reducing their impact on the environment. The Company's high-pressure composite cylinders are typically around 30% of the weight and enable 70-150 % more transport capacity compared with 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. Hexagon Composites believes that the lightweight, user-friendliness and enhanced safety features of its LPG cylinders are important attributes to facilitate such a transition.

Environmental reporting

Hexagon Composites 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

The 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[1]), requires that hazardous waste is monitored from generation to disposal. Further regulations [2] 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.

Hexagon Lincoln currently holds 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. The company reports regularly on the exposure of employees to several materials and chemicals. Emissions from 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 [3]. Air quality was last tested on 10 June 2016 with good results.

xperion Energy & Environment complies with the national environmental regulations for emissions (TA Luft) in Germany. By using a low-pollutant resin system, the exhaust systems are outside the scope of the relevant approval criteria (BImSchG –Act to protect against harmful environmental effects caused by air pollution).

Through a distiller, the reprocessing of acetone significantly reduces pollutant emissions. Furthermore, various improvements in the production and warehouse layout have allowed considerable reductions in transports.

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

Emissions of Volatile Organic Compounds (VOC) at the Raufoss plant are well within permitted limits. Production of high-pressure cylinders for passenger cars is included in the emissions permit for Hexagon Ragasco.

Over the last couple of years Hexagon Ragasco has implemented several measures to reduce the energy consumption in the production facility. Results show a relative reduction in energy consumption by more than 5% from 2015 to 2016. In the beginning of 2016 Hexagon Ragasco installed new containers for waste to compress carton and paper to reduce refuse collections from daily to weekly.

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. The company recycles several potential waste materials and has introduced initiatives to improve material utilization in order to reduce the waste output.

xperion's operations in Kassel has continuously reduced the scrap rate of the produced goods due to various process improvements. In 2016 the company initiated a project to move the warehouse close to the production facility to reduce internal transportation and local emissions.

The packaging of raw materials has been significantly reduced. A recycling system for the packaging material of the finished goods is in operation with several customers. As a result of this improvement project pallets and materials can be re-used several times.

PEOPLE

Working conditions

Innovation, ambition and expertise are critical success factors for Hexagon Composites' business. The Group strives to create a safe and appealing work environment to attract competent, motivated people. Hexagon emphasizes involvement to empower individuals to influence their own work situation and believes 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, Hexagon promotes internal recruitment to provide motivation and advancement opportunities to existing employees.

Gender equality and non-discrimination

Hexagon Composites believes that people with different approaches and experience contribute to an innovative and dynamic work environment. The Group encourages

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

2) Part 370 of level 40 CFR and the Nebraska Emergency Planning and Community Right to Know Act, Tier II reporting. Section 312 of the Emergency Planning and Community Right to Know Act (EPCRA), also known as SARA title III.

3) Z- Tables, level 28 CFR, 1910.1000 Permissible Exposure Limits.

diversity in its hiring practices with a goal to hire men and women with different backgrounds and the expertise necessary to develop its business. Preferential treatment or discrimination in working conditions due to gender, religion or ethnic background is strictly prohibited. However, Hexagon Composites has prioritized the recruitment of highly qualified women, notwithstanding the challenges the Group faces in connection with a traditionally male-dominated, industrial operating environment.

Percentage of women in Hexagon Composites

SEGMENT	2016	2015
High-Pressure CNG & CHG		
Norway	0 %	11 %
USA	12 %	12 %
Germany	15 %	N/A
Low-Pressure LPG		
Norway	22 %	21 %
Hexagon Composites ASA	20 %	20 %
Board of Directors	40 %	40 %

The changes in the percentages of women employees were largely due to new appointments, natural departures and restructuring in the Medium and Heavy-Duty CNG Automotive business. No instances of discrimination were registered at Hexagon Composites in 2016.

Health, safety and environment (HSE)
The Group's 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. Hexagon Composites has established secure operating routines to manage these processes in a responsible manner and to ensure a safe and healthy work environment. The Group believes that this promotes efficiency and lower operating costs. Hexagon Composites has targeted no work-related accidents or injuries that result in employee absence. All business areas have established organizations and routines related to industrial safety. As a result, Hexagon is working systematically to reduce the number of injuries and improve safety performance.

In 2016, Hexagon Lincoln registered one work-related injury that resulted in absence and nine other recordable injuries. Five of those recordable injuries involved skin irritation related to the use of resin and carbon fiber 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, 40 instances of material damage were reported in 2016. Hexagon Lincoln began discussing the risk of skin irritation related to production with new employees in order to provide better education regarding prevention and recognition of this type of injury.

Hexagon Lincoln has an HSE Coordinator, training personnel and a safety committee, all with a special focus on reducing minor work-related injuries and skin irritation. The company has continued quarterly HSE executive management reviews that are targeted to identify and put in place the needed focus for current and future initiatives. A shared company performance metric of reducing overall injuries has also been established to create additional visibility of this important area of the business. In 2016, Hexagon Lincoln coordinated and managed an integration

Sickness absence

SEGMENT	2016	2015	TARGET 2017	INITIATIVES AND OBJECTIVES
High-Pressure CNG & CHG				
Norway	0.7 %	3.6 %	0.5 %	Targeted measures to reduce and prevent sickness absence. Close contact and monitoring of employees with regard to well-being and work environment.
USA	0.2 %	0.4 %	<0.5 %	Wellness initiatives will help to continue to reduce absenteeism.
Germany	5.4 % [1)]	N/A	4.0 %	Targeted measures to reduce and prevent sickness absence, conversations and guidance.
Low-Pressure LPG				
Norway	5.5 %	5.4 %	3.0 %	Targeted measures to reduce and prevent absence due to illness, guidance and facilitation for physical activity

1) Figure as per fourth quarter 2016

of safety metrics for the entire high pressure division of Hexagon Composites in order to better identify deficiencies and opportunities for improvement. During the year, Hexagon Lincoln implemented several health-promoting and wellness initiatives to which the employees have responded positively to.

xperion Energy & Environment in Kassel, Germany had no work-related injuries in fourth quarter 2016. The company's Safety Officer is working closely with Human Resources with a focus on avoiding any incidents in the facility.

Hexagon Raufoss has a strong HSE profile with an annual plan including daily reporting in management meetings. Hexagon Raufoss is an IA (Inclusive Workplace) 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 2016 and there were no instances of material damage. Hexagon Raufoss has invested in an improved work environment in the filament winding process. This implies minimized exposure to styrene to the employees working in this production cell.

A minimum of nine safety and fire inspections in the Light-Duty Vehicle 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 had no work-related injuries with absence from work during 2016. 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 registered company and conducted four dedicated IA meetings in 2016. The company has procedures for safety inspection focusing on risks related to chemicals, fire, electrical installations, noise as well as order and cleanliness. Fourteen safety inspections were carried out in 2016. In general, the work environment and employee well-being are considered satisfactory.

SOCIETY

Local community

In addition to providing employment possibilities, the Hexagon Group contributes to the local communities where it supports non-profit organizations that focus on sports and education opportunities for children and youth in particular, as well as humanitarian aid. The Group also cooperates with various educational institutions to provide work experience for students.

Ethical conduct

Hexagon Composites does not accept any form of corruption including bribery or extortion. Formal ethical requirements governing business practices were established and approved by the Board in 2009. These provide guidance for the employees and, indirectly, throughout the supply chain.

To strengthen awareness, training courses focused on combating corruption have been completed for Group management, including the managing directors of the subsidiaries followed by implementation of guidelines and training of personnel. The focus of the training courses includes anti-corruption principles and procedures relating to its 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 its leading position in the market. For this reason, the Group has created a compliance management system to support the organization in abiding by the applicable regulations.

PRODUCT SAFETY

Because the Group's products are used to transport and store highly flammable, pressurized gases, product safety is a fundamental requirement. All of Hexagon Composites' 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 Hexagon Composites' 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 Hexagon is the only company that has achieved a 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 processes and products were implemented in 2016.

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

xperion designs its products according to national and international standards. All relevant product and manufacturing process characteristics are monitored and recorded. The company's certified in-house inspection service permanently and independently controls the production processes and product quality. The quality system is additionally certified according to the automotive standard ISO/TS 16949. Internal audits guarantee a process of continuous improvements.

Hexagon Lincoln, Hexagon Raufoss, xperion Energy & Environment 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 its supply chain. The Group places a strong emphasis on encouraging its suppliers to act in accordance with its values and ethical guidelines.

Identifying and qualifying efficient and cost-effective suppliers are critical to improve the Group's competitive position. Hexagon Composites works continuously to strengthen its supplier base to reduce cost, improve quality and minimize the risk of delays in the 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 2017.

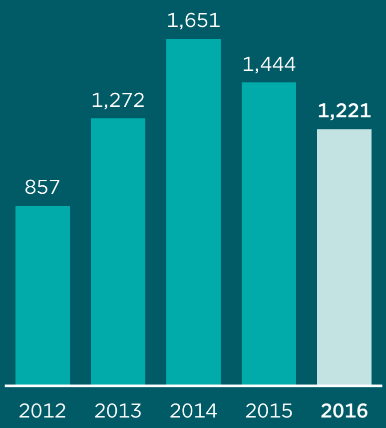
HUMAN RIGHTS

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

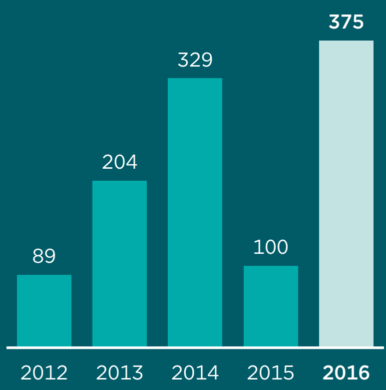
A YEAR OF SIGNIFICANT STRATEGIC DEVELOPMENT

For the year 2016 Group operating income decreased to NOK 1,220.5 (1,443.9) million. Operating profit before depreciation (EBITDA) was NOK 374.9 (100.1) million. Operating profit (EBIT) was NOK 299.3 (37.5) million. Profit before tax was NOK 311.9 (0.3) million.

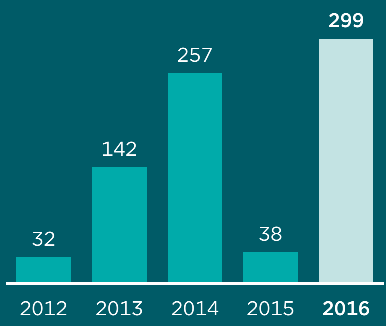
OPERATING INCOME
MNOK



EBITDA
MNOK



EBIT
MNOK



Key figures from continuing operations

KEY FIGURES

(MNOK)	2016	2015
Operating income	1 220.5	1 443.9
EBITDA	374.9	100.1
EBIT	299.3	37.5
EBITDA %	30.7 %	6.9 %
EBIT %	24.5 %	2.6 %

" The initiatives taken by the Group in 2016 were well timed and will contribute to increase the long-term value of the Group."

KEY DEVELOPMENTS

- Group received NOK 667 million from a private placement of new shares and entered a strategic cooperation agreement with Mitsui & Co., Ltd.
- Closed the Agility Fuel Solutions merger and xperion Energy & Environment acquisition at the start of the fourth quarter, with integration efforts per plan
- Modified the Group financing facility to a bilateral NOK 1 billion facility providing more flexibility on terms
- Financial results impacted significantly by new business combination from the fourth quarter
- Strong Low-Pressure segment performance but weak High-Pressure operational results
- Hexagon Ragasco entered into strategic partnership with customers in Bangladesh and Chile
- Hexagon Ragasco was also nominated by its customer in Qatar to supply LPG cylinders with a total value of NOK 121 million for delivery in 2017
- Recovery in Mobile Pipeline® sales in the fourth quarter and received new large order to North American Oil and Gas industry customer for delivery in 2017
- Established a separate business unit for Hydrogen storage and transportation systems
- Selected by Daimler AG to supply hydrogen cylinders for the new Mercedes-Benz GLC F-CELL
- Announced joint venture agreement with Siddha Gas Technik in India to pursue opportunities in India's natural gas market.

After balance sheet date

- Signed Letter of Intent with Nel ASA and PowerCell Sweden AB to establish a joint venture to pursue hydrogen opportunities.

INTRODUCTION

In the financial statements for the fourth quarter 2016, the Group included the impact of deconsolidating the previous Medium and Heavy-Duty CNG Automotive business unit results and instead accounted for Hexagon Composites' fifty-percent share of Agility Fuel Solutions ("Agility") results under the equity method for the first time. In addition, the fully consolidated financial results of the acquired xperion Energy & Environment ("xperion") and related group subsidiaries for the whole quarter was included for the first time. There are no restatements to previously reported figures as a result of the transactions.

The main impact to profit & loss was lower underlying revenue, EBITDA and EBIT levels versus immediately before the transaction, whereas the one-off gain as a result of the Agility transaction increased EBITDA and EBIT levels. The one-off gain was booked within EBITDA with a corresponding provision for deferred tax charges booked in the tax cost line. The net one-off gain booked in the fourth quarter was for NOK 348 million, with corresponding tax provision charges of NOK 122 million.

The main impacts to the statement of financial position were materially higher total assets after recognition of the relevant investment value of both transactions, an inclusion of the earn-out provision forming part of the booked investment cost of the xperion acquisition, and increased equity from recognition of the one-off gain from the Agility transaction.

RESULTS AND KEY DEVELOPMENTS

Aside from the effects listed in the introduction it was a challenging year through to the end of the third quarter both for Mobile Pipeline® and the US CNG heavy-duty and rest of the world transit bus markets within the High-Pressure segment. Sales for Mobile Pipeline® recovered solidly in the fourth quarter. The cost initiatives launched at the end of 2015 returned NOK 70 million in savings in the year and helped offset the shortfall in top line through to the end of the third quarter. The addition of the Light-Duty Vehicle, Mobile Pipeline® and Hydrogen related businesses from the xperion transaction have strengthened those business units. Integration synergies from the acquisition of xperion will begin to realize in 2017. Hydrogen will remain dilutive to profits as it is in an early growth phase.

The Low-Pressure segment grew by 24% year-over-year, whilst receiving orders and executing deliveries to various new market geographies. Hexagon Ragasco continues to invest in equipment and processes allowing faster cycle-times, a wider array of cylinder variants and capacity improvement.

There has been a strong management resource focus on supporting the strategic initiatives program throughout the year. In addition, M&A related costs of the xperion acquisition of NOK 16 million were expensed in 2016. In research and development (R&D), the center of excellence team has continued to explore innovation in products and processes for the future.

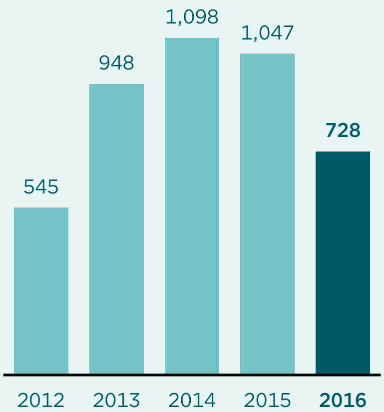
The Board believes the initiatives taken by the Group in 2016 were well timed and will contribute to increase the long-term value of the Group.

SEGMENT RESULTS

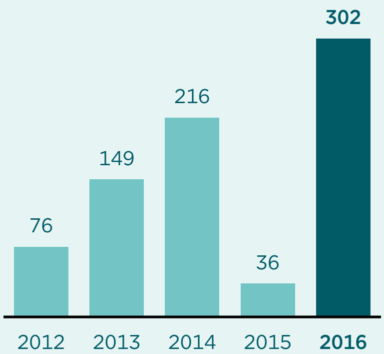
HIGH-PRESSURE CNG AND CHG

HEXAGON LINCOLN | HEXAGON RAUFOSS |
XPERION ENERGY & ENVIRONMENT | AGILITY FUEL SOLUTIONS

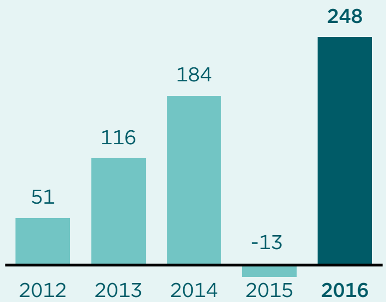
OPERATING INCOME
MNOK



EBITDA
MNOK



EBIT
MNOK



KEY FIGURES

(MNOK)	2016	2015
Operating income	728.3	1 047.4
EBITDA	302.4	35.8
EBIT	248.4	-13.4
EBITDA %	41.5 %	3.4 %
EBIT %	34.1 %	-1.3 %

" Integration synergies from the acquisition of xperion will begin to realize in 2017. "

KEY DEVELOPMENTS

- Profitability impacted by weak Mobile Pipeline® and Heavy-Duty Truck sales
- Profitable growth in the Light-Duty Vehicle business
- Agility Fuel Systems and Hexagon Composites' CNG Automotive Products Division merged to create Agility Fuel Solutions, equally owned by Hexagon Composites and Agility's previous investors
- xperion Energy & Environment in Germany, one of the leading Type 4 cylinder manufacturers, was acquired in October 2016
- Acquisition of 67 % of a Brazilian entity to pursue fuel systems opportunities for transit buses and heavy-duty trucks in South America and Africa, now a part of Agility
- Announced joint venture agreement with Siddha Gas Technik in India to pursue opportunities in India's natural gas market
- Established a separate business unit for Hydrogen storage and transportation systems
- Received U.S. DOT permit for TITAN® XL
- Created a joint venture to pursue the CNG-for-rail market.

SALES AND MARKET

The High-Pressure segment achieved operating income in 2016 amounting to NOK 728.3 million (1,047.4). The M&A transactions effects in the fourth quarter, detailed earlier in this report, were contained to the High-Pressure segment.

The Light-Duty Vehicle (LDV) business is considerably strengthened with the inclusion of the LDV unit of xperion but still recorded organic growth of approximately 67%.

Sales volumes for the Hexagon Lincoln Mobile Pipeline® business were weaker than in 2015. New market entrants in the US have put pressure on the profit margins.

The Hydrogen business unit is working globally on several hydrogen projects with passenger car OEMs, transit bus, ground storage, transport, back-up power, marine and rail applications. The inclusion of xperion's Hydrogen business unit fast-tracks the progress on rail and CHG distribution opportunities. As the Hydrogen business unit is still in the early growth stage, it will continue to be dilutive to results.

The fourth quarter delivered steady overall results for the Agility Fuel Solutions joint-venture, comprising the medium and heavy duty CNG automotive businesses, now reported below the line. Volumes have remained fairly flat since the previous quarter for the organic business within transit buses, heavy-duty and refuse trucks. Non-organic growth in sales from the previous quarter, now including the merged Hexagon businesses, was around 37%.

Revenues for Agility in the fourth quarter were USD 36.8 million (approximately NOK 309 million), reported EBITDA was USD 1.6 million (approximately NOK 13 million) and EBITDA adjusted for non-recurring or non-cash items was USD 3.3 million (approximately NOK 28 million). The net contribution realized in Hexagon Composites financial statements was NOK -1.5 million after all charges, including depreciation of intangibles of NOK -3.5 million. Although still in a stagnant phase, there are good indications for a market pick-up towards end of 2017.

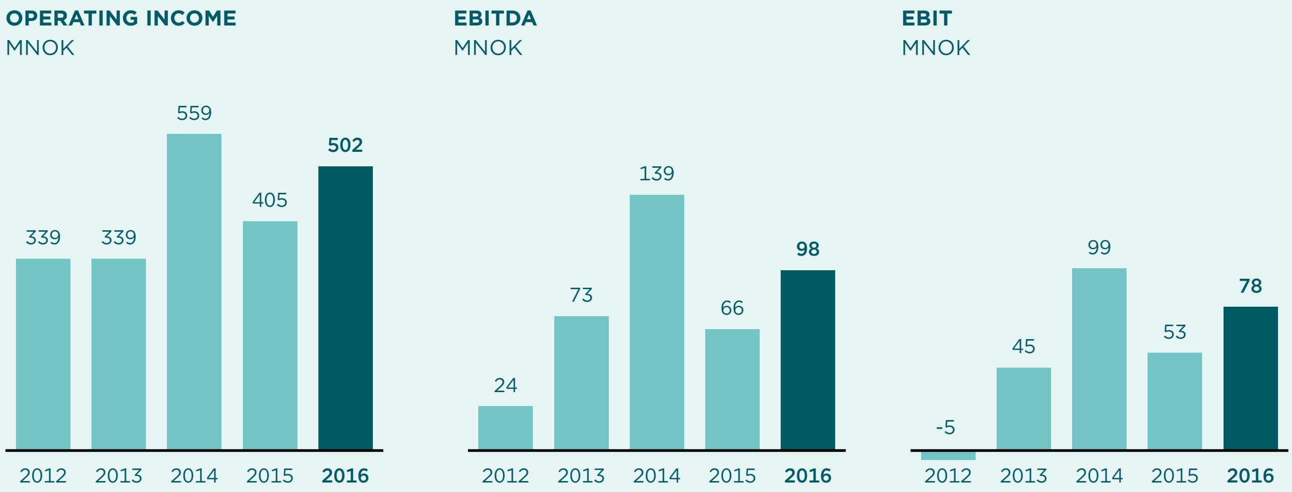
PROFIT/LOSS

High-Pressure made an operating profit (EBIT) of NOK 248.5 million (-13.4 million loss) in 2016. This was influenced by the one-off net gain of NOK 348.2 million and driven by the weak results within Mobile Pipeline® and Heavy-Duty CNG through to the third quarter 2016.

SEGMENT RESULTS

LOW-PRESSURE LPG

HEXAGON RAGASCO



KEY FIGURES

(MNOK)	2016	2015
Operating income	502.2	405.1
EBITDA	98.4	65.9
EBIT	77.9	53.4
EBITDA %	19.6 %	16.3 %
EBIT %	15.5 %	13.2 %

" The growth is attributed to greater flexibility within the product offering and penetration initiatives into new geographies."

KEY DEVELOPMENTS

- 24% growth in revenues within the Low-Pressure segment versus 2015
- Solid growth and continued market penetration in the segment
- Signed a four-year frame agreement with Beximco Group for sales of composite LPG cylinders in the fast-growing Bangladeshi market. The parties are targeting a volume of 1.4 million cylinders over the four-year period
- Entered the Chilean market through strategic partnership with Lipigas, a leading LPG distributor for the residential, industrial and leisure sectors
- Secured two new significant orders from Woqod in Qatar at a total value of EUR 13.5 million (approx. NOK 121 million)
- Strong momentum and continued market penetration to markets outside Europe
- Achieved high capacity utilization during the first half of the year, and satisfactory capacity utilization during the second half of the year.

SALES AND MARKET

Sales revenues for 2016 were NOK 502.2 million (405.1), an increase of 24%. The growth is attributed to greater flexibility within the product offering and penetration initiatives into new geographies. This has been in conjunction with productivity initiatives allowing faster cycle-times and capacity improvement.

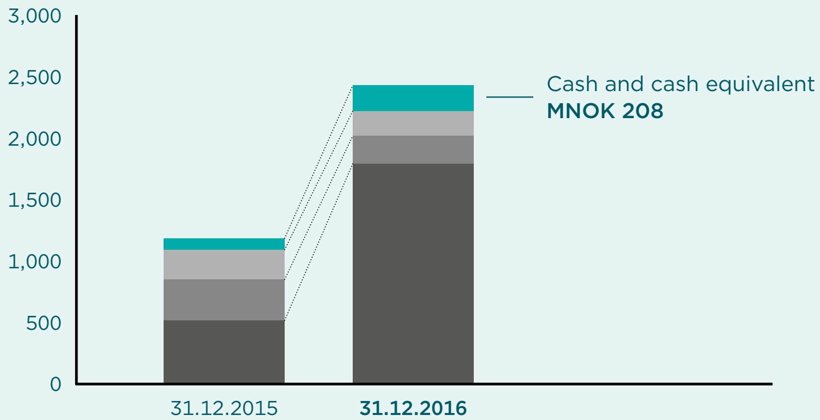
Production uptime was good for the year as a whole. The recent program of investments has effectively increased capacity within the plant by allowing for faster cycle production times when required. Hexagon Ragasco is expected to continue investments into processes and technologies that can further enhance manufacturing efficiency and product differentiation.

PROFIT/LOSS

Low-Pressure achieved an operating profit (EBIT) in 2016 of NOK 77.9 million (53.4), an increase of 46%. Operating margins were 15.5% (13.2%).

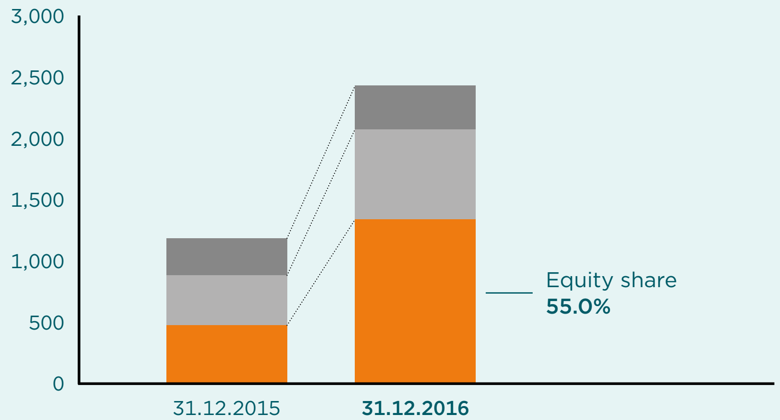
GROUP

ASSETS
MNOK



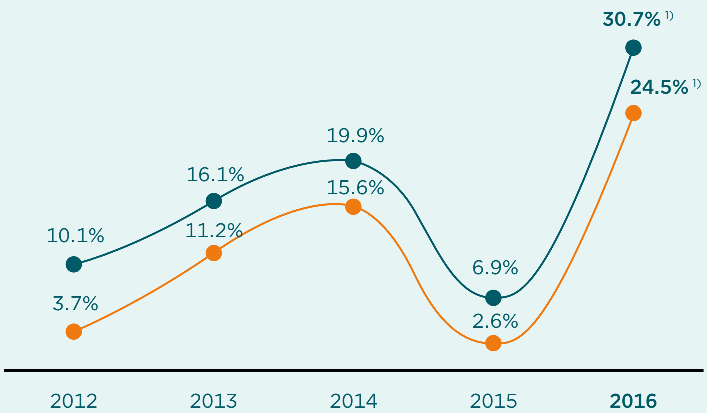
- Cash
- Receivables
- Inventories
- Fixed assets

LIABILITIES AND EQUITY
MNOK



- Current liabilities
- Long-term liabilities
- Equity

MARGINS
%



- EBITDA %
- EBIT %

1) Margins were positively impacted by the one-off gain recorded following the Agility transaction in the fourth quarter 2016.

Hexagon Composites' headquarters are located in Aalesund, Norway. At the end of 2016, the Group's administration consisted of ten employees, responsible for general administration, finance, procurement, strategy, business development, investor relations and communications.

FINANCIAL POSITION

At year-end the statement of financial position totaled NOK 2,424.8 (1,180.8) million and the Group's equity ratio was 55.0% (39.8%). This expansion is primarily a consequence of the private placement in the first quarter 2016 and the M&A transactions executed in the year.

Cash and cash equivalents increased by NOK 114.9 million to NOK 208.1 million at the end of the year. The main factors influencing developments for the year included the private placement receipts and the outgoings related to M&A transactions.

At the end of 2016, the Group's total assets increased 105% to NOK 2,424.8 million (1,180.8). Intangible assets and property, plant and equipment were NOK 530.8 million (91.2) and NOK 260.6 million (410.0) respectively. The decrease in property, plant and equipment was primarily due to the effect of the carve-out of assets related to the Agility merger being greater than the assets acquired from xperion. The increase in intangible assets is primarily driven by the recognition of assets in relation to the xperion acquisition. Inventory was NOK 227.5 million (332.4) and decreased due to the Agility transaction. Outstanding receivables were NOK 201.7 million (242.4).

Long-term interest bearing debt increased to NOK 431.7 million (382.9). Equity was strengthened to NOK 1,333.2 million (470.1) after the private placement and recognition of gain on the Agility transaction.

CASH FLOW AND LIQUIDITY

Total cash amounted to 208.1 million (93.2) at the end of 2016. Unused credit and overdraft facilities amounted to NOK 591.1 million (601.5). The Group expects that cash and available credit facilities will be sufficient to cover planned capital expenditures, operational requirements and financing activities in 2017.

Net cash flow from operating activities was NOK -4.0 million (41.3). Depreciation and write-downs totaled NOK 75.6 million (62.6). 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 -547.5 million (-146.7). Net cash flow from financing activities was NOK 644.1 million (-24.5). Net currency differences presented separately totaled NOK -1.7 (21.0) million.

LONG TERM BORROWING

The Group's financing requirement is covered by bank facilities as stated in note 20 to the Annual Report and Accounts 2016. See also note 24 for more information.

SHARE PRICE DEVELOPMENT AND DIVIDENDS

At the end of 2016 Hexagon Composites' share value was NOK 26.90, 17.5% above the closing price on 31 December 2015. This represents a market value at the end of the year of NOK 4.48 billion. By comparison, the Oslo Stock Exchange Industrial index increased by 7.8% while the OBX increased by about 14.6%.

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

No dividend was paid in 2016. The Board proposes to the annual General Meeting on 20 April 2017 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 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 fluctuations 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 591.1 million (601.5). See also discussion above on cash flow and liquidity.

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 to secure that sales are made to customers with appropriate credit profiles within defined limits. Actual losses on outstanding receivables in 2016 were NOK 0.0 million (0.6). Trade receivables at the end of the year amounted to NOK 84.7 million (164.5).

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

Certain of the Group's 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 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 the Group's competitive position. Factors which can impact the 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 results and financial positions.

Operational and technological risk

Hexagon Composites currently has a strong position in the market, 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 competitive positions and, in turn profitability and financial position. Hexagon's Type 4 composite pressure vessel technology is industry leading, however typically competes with existing Type 1 all-steel and Type 3 metal inner-lined composite over-wrapped pressure technologies. 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 21 February 2017 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 34.5 million (34.2) in 2016. The Group has received government contributions of NOK 14.6 million (17.6) towards research and development activities for 2016. The total amount of deferred costs related to R&D amounted to NOK 51.3 million as of 31.12.2016. Costs capitalized for the year amounted to NOK 20.4 million (10.4), while amortization of deferred costs amounted to NOK 6.2 million (6.2). In addition to the directly expensed R&D costs, the Group has around 30 fulltime equivalents involved in development activities.

AFTER BALANCE SHEET DATE

In January 2017 Hexagon signed a Letter of Intent (LoI) with Nel ASA and PowerCell Sweden AB to establish an equally owned joint venture to pursue hydrogen opportunities.

No other significant events have happened after the balance sheet date.

OUTLOOK

The Board views the continued market penetration in Low-Pressure very positively. This segment is unaffected by the oil price driven headwinds experienced in the High-Pressure segment, and continued double digit growth is expected.

The Mobile Pipeline® business displays a non-linear trend, but the Board expects a solid first quarter 2017. The project funnel is strong, but visibility on timelines to realization of these projects remains challenging. The improved market outlook for Mobile Pipeline® in the US has attracted new competition and profit margins are under pressure. Hexagon has countered this development by cost reduction measures, and will continue to develop its technology and business model to differentiate itself from the competition.

The demand for CNG Light-Duty Vehicles is promising and the combination of the Hexagon Composites and xperion businesses has created a global market leader within this market segment.

Many exciting opportunities are presenting themselves in the Hydrogen business unit, especially prospects in the automotive, transportation and storage applications make this a significant growth area in 2017. This involves continued investment in resources and capital however, and the business unit is not expected to return a profit in the short and medium term.

The outlook for Agility is that the Heavy-Duty market will remain relatively stagnant in 2017 with growth expected to resume towards the end of the year. Biogas is stimulating demand in several geographies and a tighter oil market would stimulate overall demand further. Optimization initiatives already taken, as well as the realized benefits of a vertically integrated business, should improve profitability and competitiveness despite a relatively flat market.

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 2017 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 -15.6 million (-17.4) in 2016 and a profit of NOK 49.6 million (loss -1.6).

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

(MNOK)	
Allocated to dividends	0.0
Transferred from/to other equity	49.6
Total allocations	**49.6**

STATEMENT FROM THE BOARD OF DIRECTORS AND GROUP PRESIDENT

We confirm to the best of our knowledge;

- that the consolidated financial statements for 2016 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 2016 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, Norway, 21 March 2017
The Board of Directors of Hexagon Composites ASA

Knut Flakk
Chairman of the Board

Kristine Landmark
Deputy Chair

Sverre Narvesen
Board Member

Kathrine Duun Moen
Board Member

Katsunori Mori
Board Member

Jon Erik Engeset
Group President

FINANCIAL STATEMENTS 2016

FINANCIAL STATEMENTS GROUP

FINANCIAL STATEMENTS PARENT COMPANY

AUDITOR'S REPORT

INCOME STATEMENT GROUP

01.01 – 31.12

(NOK 1 000)	NOTE	2016	2015
OPERATING INCOME			
Sales revenue	4	1 220 511	1 443 873
Total operating income		**1 220 511**	**1 443 873**
OPERATING EXPENSES			
Cost of materials	13	643 803	803 695
Payroll & social security expenses	9,18,27,28	365 622	377 630
Depreciation and impairment	10,11	75 611	62 607
Other operating expenses	5,14,19,23	184 404	162 428
Gain on carve-out	5	-348 196	0
Total operating expenses		**921 245**	**1 406 360**
Operating profit	**4**	**299 266**	**37 513**
FINANCE INCOME AND EXPENSES			
Finance income	6,24	99 800	73 209
Finance expense	6,20	85 750	110 120
Net financial items		**14 050**	**-36 911**
Profit/loss from associates and joint ventures	5,26	-1 450	-311
Profit before tax		**311 866**	**291**
Tax expense	7	103 563	-4 272
Profit/loss for the year		**208 303**	**4 563**
Earnings per share (NOK)			
Ordinary	8	1.40	0.03
Diluted	8	1.42	0.05

STATEMENT OF COMPREHENSIVE INCOME

(NOK 1 000)	NOTE	2016	2015
Profit/loss after tax		208 303	4 563
ITEMS THAT WILL BE RECLASSIFIED THROUGH PROFIT OR LOSS IN SUBSEQUENT PERIODS			
Translation differences when translating overseas activities		-5 391	53 867
Actual gains or losses on instruments used for cash flow hedging	24	0	4 629
Tax on actual gains or losses on instruments used for cash flow hedging	7	0	-1 250
Net total of items that will be reclassified through profit and loss in subsequent periods		**-5 391**	**57 247**
ITEMS THAT WILL NOT BE RECLASSIFIED THROUGH PROFIT OR LOSS IN SUBSEQUENT PERIODS			
Actuarial gains/losses for the period	18	-23	1 628
Tax on actuarial gains/losses for pensions for the period	7	6	-407
Net total of items that will not be reclassified through profit and loss in subsequent periods		**-17**	**1 221**
Comprehensive income for the period		**202 894**	**63 031**
Attributable to:			
Equity holders of the parent		202 722	63 031
Non-controlling interests		172	0

FINANCIAL POSITION OF THE GROUP

(NOK 1 000)	NOTE	31.12.2016	31.12.2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	10	260 550	409 994
Intangible assets	11	530 838	91 229
Net pension assets	18	912	635
Investments in associates and joint ventures	5,26	975 963	0
Other non-current assets	12	1 694	3 202
Deferred tax asset	7	17 644	7 779
Total non-current assets		**1 787 601**	**512 839**
CURRENT ASSETS			
Inventories	13	227 481	332 358
Trade receivables	14	84 705	164 458
Forward exchange contracts	24	5 209	0
Other current assets	15	111 777	77 958
Bank deposits, cash and cash equivalents	16	208 073	93 177
Total current assets		**637 245**	**667 950**
Total assets		**2 424 847**	**1 180 789**

FINANCIAL POSITION OF THE GROUP

(NOK 1 000)	NOTE	31.12.2016	31.12.2015
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	16 663	13 329
Share premium	17	727 639	82 955
Own shares	17	-117	-117
Other paid-in capital		6 752	9 520
Total paid-in capital		**750 937**	**105 688**
Other equity		582 233	364 449
Total other equity		**582 233**	**364 449**
Total equity		**1 333 170**	**470 138**
NON-CURRENT LIABILITIES			
Non-current interest-bearing liabilities	20,23	431 681	382 868
Interest and currency derivatives	24	0	4 173
Pension liabilities	18	1 367	1 441
Deferred tax liabilities	7	197 289	18 925
Non-current provisions	5	106 619	0
Total non-current liabilities		**736 956**	**407 408**
CURRENT LIABILITIES			
Short-term loans	16,21,23	14 095	10 719
Trade payables and other current liabilities	22,24,26	280 780	249 034
Income tax payable	7	12 677	0
Provisions	19	47 168	43 491
Total current liabilities		**354 721**	**303 244**
Total liabilities		**1 091 677**	**710 652**
Total equity and liabilities		**2 424 847**	**1 180 789**

Aalesund, Norway, 21 March 2017
The Board of Directors of Hexagon Composites ASA

Knut Flakk
Chairman of the Board

Kristine Landmark
Deputy Chair

Sverre Narvesen
Board Member

Kathrine Duun Moen
Board Member

Katsunori Mori
Board Member

Jon Erik Engeset
Group President

CASH FLOW STATEMENT GROUP

(NOK 1 000)	NOTE	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		311 866	291
Tax paid for the period		24 089	-46 823
Gains/losses on sale of property, plant & equipment	10	-450	1 369
Depreciation/amortisation	10,11	68 716	55 216
Impairment loss	10	6 895	7 391
Interest income	6	-2 609	-3 582
Interest expenses and buyback premium on bond loan	6	15 326	41 457
Profit/loss from associates and joint ventures	26	1 450	311
Gain on carve-out	5	-348 196	0
Changes in inventories, trade receivables and payables		47 465	13 093
Changes in pension liabilities	18	391	-681
Changes in other accrual accounting entries		-128 977	-26 764
Net cash flow from operating activities		**-4 034**	**41 276**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Purchase of property, plant & equipment	10	-67 511	-139 699
Purchase of intangible assets	11	-20 398	-10 424
Net proceedes sale of subsidiary		0	0
Interest received	6	2 609	3 582
Payment acqusition	5,26	-462 150	0
Other investments		0	-187
Net cash flow from investing activities		**-547 450**	**-146 728**
CASH FLOW FROM FINANCING ACTIVITIES			
New non-current liabilities	20,23	404 393	387 818
Repayment of non-current liabilities	20,23	-387 752	-300 000
Bank overdraft payments	21	-5 463	10 719
Interest payments and payment buyback premium on bond loan	6	-15 076	-41 126
Payments of dividends		0	-81 920
Increase in share capital		648 023	0
Net cash flow from financing activities		**644 125**	**-24 509**
Net change in cash & cash equivalents		92 641	-129 961
Net currency exchange differences		-1 728	20 959
Cash & cash equivalents at beginning of period		93 177	202 179
Cash and cash equivalents acqusition		23 983	0
Cash & cash equivalents at end of period	**16**	**208 073**	**93 177**
Undrawn Group overdraft facilities	16,20	591 117	601 463
Restricted funds, included in cash & cash equivalents	16	6 332	5 372

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 01.01.2015	13 329	-117	82 955	-3 379	7 602	57 491	329 227	487 109
Dividends to shareholders							-81 920	-81 920
Share-based payment etc.					1 918			1 918
Profit/loss for the year							4 563	4 563
OTHER COMPREHENSIVE INCOME								
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
Total other comprehensive income				**3 379**		**53 867**	**1 221**	**58 468**
Balance as of 31.12.2015	**13 329**	**-117**	**82 955**	**0**	**9 520**	**111 358**	**253 091**	**470 138**

(NOK 1 000)	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM	OTHER PAID-IN EQUITY	TRANS-LATION DIFFER-ENCES	OTHER EQUITY	NON-CON-TROLLING INTEREST	TOTAL
Balance 01.01.2016	13 329	-117	82 955	9 520	111 358	253 091	0	470 138
Dividends to shareholders								0
Share-based payment etc.				4 833		7 114		11 948
Profit/loss for the year						208 476	-172	208 303
Private placement / Capital increase	3 333		663 327				172	666 832
Transaction cost			-18 643					-18 643
Transfer/allocation				-7 602		7 602		0
OTHER COMPREHENSIVE INCOME								
Translation differences when translating foreign activities					-5 391			-5 391
Actuarial gains/losses for the period						-17		-17
Actual gains or losses on instruments used for cash flow hedging								0
Total other comprehensive income					**-5 391**	**-17**		**-5 408**
Balance as of 31.12.2016	**16 663**	**-117**	**727 639**	**6 752**	**105 967**	**476 266**	**0**	**1 333 170**

Own shares comprise cost of acquisition for the Company's shares owned by the Group. As of 31 December 2016, the Group owned 1 166 075 (1 166 075) own shares.

Other equity includes accumulated actuarial gains/losses for pensions after tax of NOK -18 094 thousand (change of NOK -17 thousand from NOK -18 077 thousand as of 31.12.2015).

On the 21 March the Company issued 33 333 000 new shares to Mitsui & Co. Ltd, at the price of NOK 20 per share.

Non-controlling interest
For the non-controlling interest there is an agreeement that Hexagon will fund (through a loan) the operation for 36 months. Based on this, the risk and rewards would be on Hexagon after the minority is reduced to 0, thus all negative results after this reduction are allocated to parent equity.

NOTES

NOTE 1 GENERAL

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

The Board of directors authorised the annual report for publication on 21 March 2017.

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 of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the EU as of 31.12.2016, and Norwegian disclose requirements listed in the Norwegian Accounting Act as of 31.12.2016.

The consolidated financial statements have been prepared on a historical cost basis, 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. The statement of financial position figures of entities with a different functional currency are translated at the exchange rate prevailing at the end of the reporting period for balance sheet items, including goodwill, and the exchange rate at the date of the transaction for profit and loss items. The monthly average exchange rates are used as an approximation of the transaction exchange rate. Exchange differences are recognised in other comprehensive income ("OCI").The functional currency is determined in each entity in the Group based on the currency within the entity's primary economic environment. Transactions in foreign currency are translated to functional currency using the exchange rate at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate, non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Changes in the exchange rate are recognised continuously in the accounting period.

2.3 BASIS OF CONSOLIDATION
The Group's consolidated financial statements comprise Hexagon Composites ASA and it's subsidiaries as of December 31, 2016. 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. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition related costs are expensed as incurred and included in administrative expense. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. 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.

Loss of control
In cases where changes in the ownership interest of a subsidiary leads to loss of control, the consideration is measured at fair value. Assets (including goodwill) and liabilities of the subsidiary and non-controlling interest at their carrying amounts are derecognized at the date when the control is lost.

The fair value of the consideration received is recognised and any investment retained is recognised at fair value. Gain or loss is recognised in profit and loss at the date when the control is lost. Hexagon has made a policy choice, when control is lost and the reminder of the interest is retained through a joint venture or associate, to partly recognise the gain or loss as to that attributable to the other party of which control is lost. The gain or loss is presented on a separate line included in operating expenses.

2.4 INVESTMENT IN ASSOSIATES AND JOINT VENTURES
Associates are entities where the Group has significant influence, but not control or joint control, over financial and operating management (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. A new measurement of remaining ownership interests will not be performed if the equity method is still applicable, for example by transition from an associate to a joint venture.

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 selling price. Net selling price 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 includes the costs incurred in acquiring the goods and the costs incurred in acquiring the goods and the costs of bringing the goods to their current state and location. Goods produced by the Group 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 valued at their cost, less accumulated depreciation and impairment losses. 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.

The depreciation period and method are assessed annually. A residual value is estimated at each year-end, and changes to the estimated residual value are recognised as a change in an estimate. 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

Finance leases are leases under which the Group assumes most of the risk and return associated with the ownership of the 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 this cannot be calculated, the Group'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 Group's other depreciable assets. If there is no reasonable certainty that the Group 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, available for sale 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 financial assets 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

Cash flow hedges

The effective part of changes in the fair value of a hedging instrument is recognised directly in equity. The ineffective part of the hedging instrument is recognised directly in the statement of comprehensive income.

Should the expected transaction later lead to the recognition of a non-financial asset or liability or an expected transaction relating to a non-financial asset or liability become a firm commitment that is hedged by a fair value hedge, the associated accumulated gain or loss is removed from equity and included in the initial measurement of the non-financial asset or liability or the firm commitment.

Should the hedging of an expected transaction later lead to the recognition of a financial asset or liability, the associated gain or loss is reclassified from equity to the statement of comprehensive income during the same period(s) as the asset or liability affects the profit or loss.

For cash-flow hedges other than those mentioned above, associated accumulated gains and losses are reclassified from equity to the statement of comprehensive income during the same period(s) as the hedged expected transaction affects the profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the enterprise cancels the hedging relationship despite the fact that the hedged transaction is still expected to take place, the accumulated gains or losses at that time remain in equity and are recognised in the statement of comprehensive income in accordance with the above guidelines when the transaction takes place.

Should the hedging relationship no longer meet the criteria for hedge accounting as specified above, accumulated gains and losses that are recognised in equity up to this date remain in equity and are recognised in the statement of comprehensive income in accordance with the above guidelines only when the transaction takes place.

If the hedged transaction is no longer expected to take place, accumulated unrealised gains or losses on the hedging instrument that have previously been recognised directly in equity are recognised in the statement of comprehensive income immediately.

Derivatives that are not hedging instruments
Financial derivatives that are not recognised as hedging instruments are assessed at their fair value. Changes in the fair value are recognised in the income statement as they arise.

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

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 economic life is either definite or indefinite. Intangible assets with a definite economic life are amortised over their economic life and tested for impairment if there are any indications. The amortisation method and period are assessed at least once a year. Changes to the amortisation method and/or period are accounted for as a change in estimate.

Intangible assets with an indefinite economic life are tested for impairment at least once a year, either individually or as a part of a cash-generating unit. Intangible assets with an indefinite economic life are not amortised. The economic life is assessed annually with regard to whether the assumption of an indefinite economic life can be justified. If it cannot, the change to a definite economic life is made prospectively.

Business combination and goodwill
Business combinations are accounted for using the acquisition method. For description of the measurement of non-controlling interest, see below. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received.

The consideration paid in a business combination is measured at fair value at the acquisition date and consist of cash and contingent consideration.

The contingent consideration is classified as a liability in accordance with IAS 39. Subsequent changes in the fair value are recognized in profit or loss. The assumptions for exercising the contingent contribution is described in note 5.

When acquiring a business are all financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions at the acquisition date. The acquired assets and liabilities are accounted for by using fair value in the opening group balance (unless other measurement principles should be applied in accordance to IFRS 3).

The initial accounting for a business combination can be changed if new information about the fair value at the acquisition date is present. The allocation can be amended within 12 months of the acquisition date. The non-controlling interest is set to the non-controlling interest's share of identifiable assets and liabilities. The measurement principle is done for each business combination separately.

Goodwill is recognised as the aggregate of the consideration transferred and the amount of any non-controlling interest, and deducted by the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but is tested at least annually for impairment. In connection with this, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from synergies from the business combination.

If the fair value of the equity exceeds the acquisition cost in a business combination, the difference is recognised as income immediately on the acquisition date.

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. 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 an obligation (legal or self-imposed) as a result of a past event, and it is probable (more likely than not) that a financial settlement will take place as a result of this obligation and the size of the amount can be measured reliably. If the effect is significant, the provision is calculated by discounting estimated 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 sold. The provision is based on historical information about guarantees and a weighting of possible outcomes according to the likelihood of their occurrence. 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 purchase of own shares, 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 related to own share transactions are recognised directly in equity.

(II) Costs arising from equity transactions
Transaction costs directly related to an equity transaction are recognised directly in equity.

(III) Other equity
(a) Translation differences
Translation differences arise in connection with exchange-rate differences on consolidation of foreign entities, and are recognised in other comprehensive income.

If a foreign entity is sold, the accumulated translation differences linked to the entity are reversed and recognised in profit or loss in the same period in which the gain or loss on sale 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 measured at the date of the grant using the Black & Scholes model. The fair value of the issued options is expensed as an employee cost with a corresponding increase in other paid in capital over the vesting period which is over the agreed-upon future service time.

(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 LPG
- High-Pressure CNG & CHG

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 value added taxes and discounts.

Revenue from the sale of goods and services is recognised when delivery has taken place and the significant risks and return has been transferred. Royalties are recognised as revenue in accordance with the terms and conditions of the various royalty agreements. 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 recognised 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
New information on the Group's financial position on the end of the reporting period which becomes known after the reporting period is recorded in the annual accounts. Events after the reporting period that do not affect the Group's financial position on the end of the reporting period but which will affect the Group's financial position in the future are disclosed if significant.

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 2016 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: Classification and Measurement
In July 2014, IASB published the last sub-project for IFRS 9 and the standard has now been completed. IFRS 9 constitutes amendments linked to the classification and valuation, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial Instruments - Recognition and Valuation. Those parts of IAS 39 which have not been changed as part of this project have been transferred and included in IFRS 9. 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 will be implemented retrospectively, except for hedge accounting, but preparing comparative figures is not a requirement. The rules for hedge accounting should mainly be implemented prospectively but with some exceptions. The group has no plans for implementing the standard early. It is expected that the standard will have accounting effect from 1 January 2018. The Group has performed a high-level impact assessment of possible effects of implementation IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further analysis. Overall, the Group expects no significant impact of implementing IFRS 9, this is primarily based on that the Group does not uses hedge accounting. The classification and measurement of the Group's balance sheet financial assets and liabilities is expected to not change and still be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of these instruments in more detail before concluding whether these instruments meet the criteria for amortised cost measurement under IFRS 9. The Group expects not a significant impact on new IFRS 9 requirements on impairment of trade receivables due to its history of not significant losses on trade receivables, but it will need to perform a more detailed analysis to determine the actual effect.

IFRS 15 Revenue from Contracts with Customers
IASB and FASB have published a new joint standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that revenue is recognised to reflect the transfer of contracted goods or services to customers, and then at an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services. With a few exceptions, the standard applies to all income-generating contracts with customers and provides a model for the recognition and valuation of the sale of certain non-financial assets (e.g. sale of property, plant and equipment). The group is also considering the clarifications in IFRS 15 issued by the IASB in April 2016 and will follow up any further changes to the standard.

IFRS 15 is to be implemented either by applying the fully retrospective method or the modified retrospective method. The standard has accounting effect from 1 January 2018.

The Group's main revenues come from the sale of its own produced products in the segments Low-pressure cylinders (LPG) and High-pressure cylinders (CNG and CHG). The cylinders is mainly sold in relation to separate identifiable contracts with customers.

For normal sale contracts with customers of cylinders it is expected that this will be the only performance obligation and it is not expected to have any impact on the Group's profit or loss for the implementation of IFRS 15. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint will not result in any significant changes in revenue recognition.

The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

To some extent the Group provides installation and guarantee services. These services are normally sold on their own. The Group recognises service revenue by reference to the stage of completion. Under IFRS 15, allocation will be made based on relative stand-alone selling prices. The Group expects no large implication on implementation of IFRS 15 on these type of services.

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. The Group believes it has the necessary systems and procedures to collect and disclose the required information but will perform a more detailed assessment of the need for changes in the underlying systems.

IFRS 16 Leasing
IASB has run a joint program with FASB with the aim of establishing a new leasing standard. IFRS 16 Lease replaces the existing IFRS standard for leases, IAS 17 Leases. IFRS 16 sets out principles for recognition, measurement, presentation and disclosure of leases for both parties in a lease, i.e. the customer (lessee) and provider (lessor). The new standard requires that the lessee includes assets and liabilities for most leases, which is a significant change from current policies. For lessors, IFRS 16 essentially continues existing principles from IAS 17. In line with this, a lessor shall continue to classify their leases as operating leases or finance leases and report these two types of leases separately.

The standard is expected to have accounting effect from 1 January 2019 and will be implemented using either the full retrospective or modified retrospective method. In note 20 the Group has a total of MNOK 235 related to future minimum lease payments relating to fixed term operational leases as of 31.12.2016. It is assumed that some of these operational leases will be classified as financial leases according to IFRS 16 at implementation.In 2017, the Group plans to start the assessment of the potential effect of IFRS 16 on its consolidated 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, equity over the next financial year.

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

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

Fair value of assets and liabilities at the time of acquisition
The Group are required to allocate the purchase price of acquired companies to the assets acquired and liabilities assumed based on their estimated fair values. The Group have engaged third-party appraisal firms to assist the Group in determining the fair values of the assets acquired and liabilities assumed. Such valuations require management to make significant judgments in selecting valuation methods, estimates and assumptions. The significant purchased intangible assets recorded by Hexagon Composites include customer relationships, trade name and technology. Critical estimates in the evaluations for such intangible assets include, but are not limited to, estimated average customer relationship based on customer attrition, applying a relief from royalty model using an appropriate royalty rate.

In relation to the purchase of xperion an earn-out payment is contingent future revenue developments through 2017 and 2018. This contingent consideration is valued at fair value at the acquisition date as part of the business combination. The value of the earn-out was estimated to be MNOK 103,4 as at 31.12.2016 based on 100% achievement. Future developments may require further revisions to the estimate.

Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Management's fair value estimates are based on reasonable, but not entirely certain, assumptions. See also note 5 and 26.

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.

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 recognized an impairment of MNOK 6.9, principally related to capitalization of ERP solutions. The benefit of the solutions is deemed not to be as high as originally anticipated due to organizational changes, and therefore an impairment was recognized in 2016.

Development costs
The Group capitalises development costs for a project in accordance with the Groups 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 2016, the carrying amount of capitalised development costs was NOK 51 288 (37 773) thousand. For criteria for recognition, see note 2.13 and note 11.

There is uncertainty about the date for when the criteria for recognition of intangible assets are satisfied and there is uncertainty associated with the valuation and allocation of the cost of acquisition for intangible assets

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. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate.

See also note 11 for further information on impairment testing of goodwill.

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.

Share-based payments
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of the Group's share option programme at the grant date, the Group uses the Black & Scholes model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

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 LPG - Hexagon Ragasco
b) High-Pressure CNG & CHG – Hexagon Lincoln / Hexagon Raufoss / xperion Energy & Environment / Agility Fuel Solutions / Hexagon Technology

Hexagon Ragasco manufactures low-pressure cylinders, i.e. cylinders for propane gas.
Hexagon Lincoln / Hexagon Raufoss / xperion Energy & Environment and Agility Fuel Solutions develop and supply complete storage and transport solutions for compresed natural gas (CNG) and compressed hydrogen gas (CHG) 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

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. In 2016 the High-Pressure 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 133 401 thousand. In 2015 the High-Pressure business segment had another customer group with sales that constituted more than 10% of the Group's annual sales. Sales to that customer totalled NOK 359 873 thousand in 2015. Sales to the customer totalled NOK 111 427 thousand in 2016.

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.

INTERNAL RESTRUCTURING

At 3 October 2016, Hexagon Composites ASA Group completed its merger transaction with Agility Fuel Systems Inc. Hexagon Composites ASA contributed its existing CNG Automotive heavy and medium duty business and Agility Fuel Systems contributed its natural gas fuel systems solutions business into a newly formed equally owned company Agility Fuel Solutions. In addition to the contribution of the CNG business, Hexagon Composites ASA Group also made a cash payment of MUSD 17.5 (approximately MNOK 151.0) for the 50% interest in Agility Fuel Solutions.

The merger resulted, at the date of loss of control 3 October 2016, in a de-recognition of the wholly owned CNG business. The fair value of the newly formed entity was MNOK 2 688 of which Hexagon Composites ASA Group's 50% share was MNOK 1 344. Hexagon Composites ASA Group made an accounting policy choice to recognize 50% of the excess value and presented this gain as a separate line in the financial statements included in operating profit. The de-recognition resulted in a net accounting gain of MNOK 348.

The investment in Agility Fuel Solutions are accounted for according to the equity method from 3 October 2016. At 31 December 2016, the investment in associates amounted to MNOK 976, including goodwill and other intangibles. (See note 5)

With effect from 4 October 2016 Hexagon Composites acquired xperion Energy & Environment GmbH and its subsidiary companies. xperion includes High-Pressure operations for light-duty vehicles, heavy-duty trucks, transit buses and gas transportation solutions at its modern production plants in Kassel, Germany and Ohio, USA. (See note 5)

BUSINESS SEGMENT DATA 2016

(NOK 1 000)	HIGH-PRESSURE CNG & CHG	LOW-PRESSURE LPG	UNALLOCATED	ELIMINATION	CONSOLIDATED 2016
OPERATING INCOME FROM EXTERNAL CUSTOMERS:					
Sale of goods	727 081	493 206	224	0	1 220 511
Total operating income from external customers	**727 081**	**493 206**	**224**		**1 220 511**
Internal transactions	1 219	8 964	34 361	-44 544	0
Total operating income	**728 300**	**502 170**	**34 585**	**-44 544**	**1 220 511**
Operating profit for segment before depreciation/amortisation (EBITDA) [1)]	**302 400**	**98 385**	**-25 908**		**374 877**
Operating profit for segment (EBIT)	**248 430**	**77 935**	**-27 098**		**299 266**
Profit/loss from associates and joint ventures	-1 450				-1 450
Net financial items					-14 050
Tax expense					103 563
Profit/loss for the year					**208 303**
Segment assets	**2 082 797**	**389 571**	**42 977**	**-90 498**	**2 424 847**
Segment liabilities	**1 533 370**	**274 883**	**38 246**	**-754 823**	**1 091 677**
Investments in assets for the year	577 865	20 918	87	0	598 871
Depreciation/amortisation/impairment	53 970	20 451	1 190		75 611

GEOGRAPHICAL SEGMENT DATA 2016

(NOK 1 000)	EUROPE	NORTH AMERICA	SOUTH-EAST ASIA	MIDDLE EAST	SOUTH AMERICA	OTHER	CONSOLIDATED 2016
Income divided among customer locations from external customers	577 008	545 774	27 311	10 157	42 702	17 561	1 220 511
Segment assets	1 059 529	1 365 318					2 424 847
Investments in assets for the year	526 509	72 361					598 871

1) Of the unallocated cost, MNOK 16.0 relates to acqusiton costs of the xperion group

BUSINESS SEGMENT DATA 2015

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

NOTE 5 CHANGES IN THE GROUP'S STRUCTURE

PURCHASE OF XPERION GROUP IN 2016
With effect from 4 October 2016 Hexagon Composites acquired xperion Energy & Environment GmbH and its subsidiary companies. xperion includes High-Pressure operations for light-duty vehicles, heavy-duty trucks, transit buses and gas transportation solutions at its modern production plants in Kessel, Germany and Ohio, USA.

The fair value of the identifiable assets and liabilities of xperion group as at the date of acqusition were:

XPERION GROUP

(NOK 1 000)	FAIR VALUE RECOGNISED ON ACQUISITION
ASSETS	
Property, plant and equipment	60 306
Intangible assets	118 055
Cash	23 651
Inventories	62 092
Deferred tax asset	7 990
Trade accounts receivable	18 172
Total assets	**290 266**
LIABILITIES	
Long term liabilities	30 975
Short term liabilites	168 646
Deferred tax liabilities	30 256
Total equity and liabilities	**229 877**
Net identifiable assets and liabilities at fair value	**60 389**
Goodwill 1)	335 800
Purchase consideration	**396 189**
Accrued for earn-out	-103 353
Purchase consideration transferred / Paid in cash	**292 836**
Analysis of cash flows on acqusition:	
Net cash acquried with the subsidiary	23 651
Cash paid	-292 836

1) Additional clarifications of the purchase price allocation may occur. Thus there might be subsiqential adjustment with corresponding adjustment to goodwill prior to 30 September 2017 (1 year after the transaction).

An earn-out payment is contingent on future revenue development through 2017 and 2018 and may become payable within 2019. The earn-out is designed to be mutually beneficial to both parties. The fair value of the earn-out was estimated to be MNOK 103.4 as at 31.12.2016 based on 100% achievement. Debt totalling MEUR 9.5 (approximately MNOK 85.9) was purchased as part of the transaction.

In 2016 xperion group contributed from the date of acqusition to the Group's revenues and profit before tax by MNOK 71.1 and MNOK -7.1 respectively. If the acquisition had occurred at the beginning of 2016, revenues for 2016 and profit before taxes for 2016 for the Group would have been MNOK 1 479 and MNOK 281 respectively.

In the Group's profit for 2016, xperion Group was included from the acquisition date.

The goodwill recognised is primarlily attributed to the expected synergies and other benefits from combining the assets and activities of the xperion group with the Hexagon Group. The goodwill is not deductible for income tax purposes.

Transaction costs of MNOK 16.0 have been expensed and are included in administrative expenses in the statement of profit and loss and are part of operating cash flows in the statement of cash flows.

MERGER OF HEXAGON COMPOSITES CNG AUTOMOTIVE PRODUCTS DIVISION AND AGILITY FUEL SYSTEMS:
At 3 October 2016, Hexagon Composites ASA Group completed its merger transaction with Agility Fuel Systems Inc. Hexagon Composites ASA contributed its existing CNG Automotive heavy and medium duty business and Agility Fuel Systems contributed its natural gas fuel systems solutions business into a newly formed equally owned company Agility Fuel Solutions. In addition to the contribution of the CNG business, Hexagon Composites ASA Group also made a cash payment of MUSD 17.5 (approximately MNOK 151) for the 50% interest in Agility Fuel Solutions.

The merger resulted, at the date of loss of control 3 October 2016, in a de-recognition of the wholly owned CNG business. The fair value of the newly formed entity was MNOK 2 688 of which Hexagon Composites ASA Group's 50% share was MNOK 1 344. Hexagon Composites ASA Group has made an accounting policy choice to only recognize a gain attributable to the other party, meaning only 50% of the gain is recognized. The gain is presented as a separate line in the financial statements included in operating profit. The de-recognition resulted in a net accounting gain of MNOK 348 after transaction cost on MNOK 32.

The investment in Agility Fuel Solutions is accounted for according to the equity method from 3 October 2016. Futher information about the investment can be found in note 26.

NOTE 6 NET FINANCIAL ITEMS

(NOK 1 000)	**2016**	**2015**
Interest income	5 109	3 582
Return on interest rate derivative with actual gains or losses through profit and loss	4 173	0
Unrealised gains from forward exchange contracts with actual gains or losses through profit and loss	23 238	4 036
Other finance income	649	0
Foreign exchange items	66 631	65 590
Total finance income	**99 800**	**73 209**
Loss on exchange items	61 250	54 743
Unrealised loss on forward exchange contracts and interest rate swaps with actual gains or losses through profit and loss	0	4 557
Buyback premium bond loan	0	21 000
Cost of interest on loans etc.	10 161	20 456
Other finance expense	14 339	9 364
Total finance expense	**85 750**	**110 120**
Net financial items	**14 050**	**-36 911**

NOTE 7 TAX

TAX EXPENSE

(NOK 1 000)	NOTE	2016	2015
Income tax payable in the income statement		-28 804	-14 375
Change in deferred tax in income statement		132 367	10 102
Tax expense		**103 563**	**-4 272**
Income tax payable in the balance sheet		12 677	0
Prepaid tax overseas in the balance sheet	15	-44 616	-28 329
Settled tax overseas		3 135	13 955
Total income tax payable in the income statement		**-28 804**	**-14 375**
Nominal tax rates in Norway		**25 %**	**27 %**
Profit before tax		311 866	291
Tax based on nominal tax rate in Norway		77 966	79
Other differences relating to foreign subsidiaries		29 675	-8 642
Share of profit/loss from associates		- 363	84
Other non-taxable income and non-deductible expenses		-3 958	3 548
Effect of change in tax rate in Norway		242	660
Tax expense		**103 563**	**-4 272**

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

	BALANCE SHEET		CHANGE IN DEFERRED TAX IN INCOME STATEMENT	
(NOK 1 000)	2016	2015	2016	2015
DEFERRED TAX ASSET				
Pension	-179	-201	28	1 048
Loss carryforwards	-5 805	-5 796	-9	-4 509
Inventories and trade receivables	-4 560	-12 072	7 511	-6 667
Derivatives	0	-5 314	5 314	2 784
Provisions for liabilities/other current liabilities	-20 830	-1 787	-19 044	-409
Other	-22 850	-13 214	-9 637	-6 088
Deferred tax asset– gross	**-54 225**	**-38 383**	**-15 837**	**-13 841**
DEFERRED TAX LIABILITIES				
Property, plant & equipment	16 483	31 655	15 172	14 414
Derivatives	1 250	0	1 250	0
Provisions for liabilities/other current liabilities	216 138	17 874	198 264	9 529
Deferred tax liabilities – gross	**233 871**	**49 529**	**184 342**	**23 943**
Net recognised deferred tax liabilities/assets (-)	**179 645**	**11 146**	**168 505**	**10 102**
Change in deferred tax from purchase of companies			-38 246	0
Change in deferred tax due to carved-out activities			2 108	0
Net change in deferred tax in income statement			**132 367**	**10 102**
CARRYING AMOUNTS				
Deferred tax asset	-17 644	-7 779		
Deferred tax liabilities	197 289	18 925		
Net recognised deferred tax assets/deferred tax liabilities	**179 645**	**11 146**		

The Group has a total loss carried forward of MNOK 33.1 (MNOK 22.8) as of 31 December 2016, of which MNOK 33.1 (MNOK 4.4) is related to foreign 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)	2016	2015
Actuarial gains/losses, pensions	6	407
Derivatives	0	1 250
Total	**6**	**1 657**

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	2016	2015
PROFIT/LOSS FOR THE YEAR FLOWING TO HOLDERS OF ORDINARY SHARES			
Profit/loss for the year		**208 303**	**4 563**
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING 31.12	17		
Ordinary shares issued 01.01		133 294 868	133 294 868
Own shares		-1 166 075	-1 166 075
Issued new shares		33 333 000	0
Outstanding number of shares 31.12		**165 461 793**	**132 128 793**
Weighted average number of shares outstanding 31.12		**148 795 293**	**132 128 793**
Profit/loss per share		**1.40**	**0.03**
DILUTED NUMBER OF SHARES OUTSTANDING 31.12	17		
Ordinary shares issued 01.01		133 294 868	133 294 868
Own shares		-1 166 075	-1 166 075
Issued new shares		33 333 000	0
Effect of employee options issued		1 850 000	975 000
Outstanding shares 31.12 adjusted for dilution effects		**167 311 793**	**133 103 793**
Weighted average number of shares outstanding 31.12 adjusted for dilution effects		**150 207 793**	**132 616 293**
Diluted profit/loss per share		**1.42**	**0.05**

NOTE 9 PAYROLL COSTS AND NUMBER OF EMPLOYEES

(NOK 1 000)	NOTE	2016	2015
Salaries/fees [1]		303 327	323 142
Bonus/profit-sharing		5 524	1 842
Pension expense, defined-benefit plans	18	572	856
Pension expense, defined-contribution plans	18	16 846	17 735
Other social security costs		39 353	34 055
Payroll costs		**365 622**	**377 630**
Average number of full-time equivalents:		**437**	**502**
GROUP MANAGEMENT		10	11
LOW-PRESSURE LPG			
Norway		126	115
Sweden		2	3
Russia		5	0
USA		3	3
HIGH-PRESSURE CNG & CHG			
Norway		21	41
USA		246	329
Germany		25	0
Total of		**437**	**502**

1) Capitalised payroll costs related to technology development projects amounted to MNOK 2.6 in 2016 and MNOK 10.6 in 2015.

2) The number of full-time equivalents was influenced by the carve-out of the CNG business 3 October 2016 and the acqusition of the xperion group 4 October 2016.

NOTE 10 PROPERTY, PLANT & EQUIPMENT

(NOK 1 000)	LAND AND BUILDINGS	PLANT AND EQUIPMENT	FIXTURES & FITTINGS, VEHICLES	ASSETS UNDER CONSTR-UCTION	2016 TOTAL
COST OF ACQUISITION					
Cost of acquisition 01.01.2016	53 004	686 552	47 394	127 570	914 520
Additions	1 223	12 447	1 334	52 508	67 511
Transfer from assets under construction	1 917	55 748	16 378	-74 043	0
Disposals/scrap	0	-43 074	-1 350	0	-44 424
Additions from purchase of companies	9 002	42 375	11 625	0	63 001
Disposals carved-out activities	-12 178	-213 263	-8 547	-80 940	-314 928
Translation differences	-350	-6 325	-367	-2 193	-9 236
Cost of acquisition 31.12.2016	**52 618**	**534 459**	**66 466**	**22 901**	**676 445**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Accumulated depreciation 01.01.2016	24 213	457 081	23 232	0	504 527
Depreciation for the year	4 053	48 744	6 705	0	59 503
Impairment	0	0	0	6 895	6 895
Disposals/scrap	0	-43 000	-1 350	0	-44 350
Disposals carved-out activities	-5 127	-98 092	-5 395	0	-108 614
Translation differences	-83	-2 071	-67	155	-2 065
Accumulated depreciation and impairment 31.12.2016	**23 056**	**362 661**	**23 126**	**7 051**	**415 895**
Net carrying amount as of 31.12.2016	**29 561**	**171 798**	**43 340**	**15 850**	**260 550**
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 CONSTR-UCTION	2015 TOTAL
COST OF ACQUISITION					
Cost of acquisition 01.01.2015	45 170	596 954	29 598	56 785	728 508
Additions	4 633	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
Cost of acquisition 31.12.2015	**53 004**	**686 552**	**47 394**	**127 570**	**914 520**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
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
Accumulated depreciation and impairment 31.12.2013	**24 213**	**457 081**	**23 232**	**0**	**504 527**
Net carrying amount as of 31.12.2015	**28 791**	**229 472**	**24 162**	**127 570**	**409 994**
Of which pledged					0

1) Assets under construction. Hexagon Lincoln, Hexagon Ragasco and xperion Energy & Environment have assets under construction totalling NOK 15 850 thousand (127 570 thousand).

2) Construction loan interest expenses
No construction loan interest expenses were recognised in 2015 or 2016.

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

4) In 2015 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 affected the depreciation cost as from the beginning of 2015. Without this correction the depreciation cost YTD 31 December 2015 would have been approximately MNOK 0.3 higher.

5) The calculated residual value on property, plant & equipment totalled NOK 6 000 thousand as of 31.12.2016 and NOK 6 000 thousand as of 31.12.2015.

6) Impairment
In 2016 Hexagon Lincoln has recognized an impairment of NOK 6 895 thousand, principally related to capitalization of ERP solutions. The benefit of the solutions is deemed not to be as high as originally anticipated due to organizational changes ,and therefore an impairment was recognized.

In 2015 Hexagon Lincoln recognized an impairment of NOK 7 391 thousand principally related to one specific piece of equipment. The impairment was recorded as a part of the annual impairment review. The productivity of the new, innovative machine was deemed not to be as high as originally anticipated and therefore an impairment was recognized.

NOTE 11 INTANGIBLE ASSETS

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

(NOK 1 000)	GOODWILL	PATENTS AND LICENCES	TECHNOLOGY AND DEVELOPMENT	CUSTOMER RELATION-SHIPS	2016 TOTAL
COST PRICE					
Opening balance 01.01.2016	69 058	11 088	81 703	18 483	180 332
Additions from purchase of companies	340 235	5 760	0	101 966	447 961
Additions [1)]	0	1 765	18 632	0	20 398
Disposals carved-out activities	-35 655	-1 639	-1 888	0	-39 181
Translation differences	-425	0	-41	0	-467
Cost of acquisition 31.12.2016	**373 213**	**16 974**	**98 406**	**120 449**	**609 042**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Opening balance 01.01.2016	16 530	10 159	43 930	18 483	89 102
Depreciation for the year	0	1 040	5 116	3 057	9 213
Disposals carved-out activities	-16 530	-1 669	-1 888	0	-20 087
Translation differences	0	3	-40	13	-24
Accumulated depreciation and impairment 31.12.2016	**0**	**9 533**	**47 118**	**21 554**	**78 204**
Net carrying amount 31.12.2016	**373 213**	**7 442**	**51 288**	**98 896**	**530 838**
Amortisation rate	None	6-17 %	5-20 %	11-14 %	
Useful life	Indefinite	6-17 years	5-20 years	7-9 years	
Depreciation method	None	Straight-line	Straight-line	Straight-line	

1) Addition of MNOK 11.6 in technology and development relates to the xperion acqusition.

(NOK 1 000)	GOODWILL	PATENTS AND LICENCES	TECHNOLOGY DEVELOPMENT [1)]	CUSTOMER RELATION-SHIPS	2015 TOTAL
COST PRICE					
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
Cost of acquisition 31.12.2015	**69 058**	**11 088**	**81 703**	**18 483**	**180 332**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Opening balance 01.01.2016	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
Accumulated depreciation and impairment 31/12/2015	**16 530**	**10 159**	**43 930**	**18 483**	**89 102**
Net carrying amount 31.12.2015	**52 528**	**928**	**37 773**	**0**	**91 229**

1) Technology and development of own resources.

Additions from purchase of companies relate to the acquisition of xperion Energy & Environment GmbH and its subsidiary companies.

Other additions for this year and the previous year primarily relate to technological developments in the High-Pressure CNG & CHG segment.

Disposals carved-out activities relate to the merger with Agility Fuel Systems Inc., where Hexagon Composites ASA contributed its existing CNG Automotive heavy and medium duty business and Agility Fuel Systems contributed its natural gas fuel systems solutions business, into a newly formed equally owned company Agility Fuel Solutions.

Research & development costs totalling MNOK 34.5 (MNOK 34.2) were expensed in 2016. The Group has received government grants of MNOK 14.6 (MNOK 17.6) in 2016. MNOK 9.7 (MNOK 6.6) has been offset against research and development costs while MNOK 4.9 (MNOK 11.0) 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, two 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. Impairment test as of 31.12.2016 for the xperion Group goodwill were not performed as the acqusition was in October 2016.

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 four 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 2017, as well as forecasts up to and including 2021. Cash flow projections for subsequent years will be the same as the cash flow for 2021, 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 9.4% 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)	**2016**	**2015**
Hexagon Ragasco - Low-Pressure LPG	32 350	32 350
Hexagon Lincoln - High-Pressure CNG & CHG	629	20 178
xperion Energy & Environment - High-Pressure CNG & CHG	340 235	0
Total goodwill	**373 213**	**52 528**

The assumptions that were used as a basis for the calculations made at the end of 2016 were met by good margins for Hexagon Ragasco AS. Impairment test as of 31.12.2016 for the xperion group goodwill were not performed as the acqusition was in October 2016.

OTHER ASSUMPTIONS FOR THE IMPAIRMENT TESTING OF GOODWILL IN HEXAGON RAGASCO
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 2016. In the prognosis period, an increase in the operating profit equal to the general growth in the economy is expected.

SENSITIVITY ANALYSES FOR THE HEXAGON RAGASCO GOODWILL
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 Hexagon Ragasco 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)	2016	2015
Loans to employees	414	999
Other non-current assets	1 280	2 202
Total other non-current assets	**1 694**	**3 202**

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

NOTE 13 INVENTORIES

(NOK 1 000)	2016	2015
Raw materials and consumables	118 362	191 513
Work in progress	42 732	73 011
Finished goods	66 386	67 834
Total inventories	**227 481**	**332 358**
Recognised impairment cost	**8 150**	**12 008**
Impairment in balance sheet	-25 115	-17 108
Carrying amount of holdings used as pledged assets	**0**	**0**

NOTE 14 TRADE RECEIVABLES

(NOK 1 000)	2016	2015
Trade receivables	92 421	171 692
Provisions for loss	-7 716	-7 234
Trade receivables after provision for losses	**84 705**	**164 458**
Carrying amount of trade receivables used as pledged assets	**0**	**0**

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)	2016	2015
Opening balance 1 January	7 234	5 626
Additions from purchase of companies	659	0
Provision for losses for the year	26	1 577
Actual losses during the year	0	-564
Translation differences	-202	595
Closing balance 31 December	**7 716**	**7 234**

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
2016	92 421	59 436	16 775	8 228	2 603	5 379
2015	171 692	119 952	37 442	6 315	3 125	4 857

NOTE 15 OTHER CURRENT ASSETS

(NOK 1 000)	2016	2015
Earned, not invoiced income	195	1
Prepaid expenses	20 436	18 917
VAT due	15 961	9 955
Prepaid tax overseas	48 401	28 329
Other [1)]	26 785	20 756
Total other current assets	**111 777**	**77 958**

1) Other in 2016 included receivables from the Skattefunn tax incentive scheme and other grants of NOK 6 023 thousand (11 135 thousand).

NOTE 16 BANK DEPOSITS, CASH AND CASH EQUIVALENTS

(NOK 1 000)	2016	2015
Cash at bank and in hand	208 073	93 177
Bank deposits, cash and cash equivalents	**208 073**	**93 177**
Bank overdrafts	0	10 719
Cash & cash equivalents in the cash flow analysis	208 073	93 177
Undrawn Group overdraft facility	85 000	74 281
Undrawn loan facilities	506 117	527 183
Restricted funds included in cash & cash equivalents [1)]	6 332	5 372

1) Restricted tax withholdings

NOTE 17 SHARE CAPITAL AND SHARE PREMIUM

(NOK 1 000)	2016	2015
Ordinary shares of NOK 0.10 each	166 627 868	133 294 868
Total number of shares	**166 627 868**	**133 294 868**

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)	
	2016	2015	2016	2015	2016	2015
ORDINARY SHARES						
Issued and paid 1 January	133 294 868	133 294 868	13 329	13 329	82 955	82 955
Issued new share capital	33 333 000	0	3 333	0	663 327	0
Transaction cost					-18 643	
Issued and paid 31 December	**166 627 868**	**133 294 868**	**16 663**	**13 329**	**727 639**	**82 955**
OWN SHARES						
1 January	1 166 075	1 166 075	117	117		
Change during period	0	0	0	0		
31 December	**1 166 075**	**1 166 075**	**117**	**117**		

As of 31.12.2016 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 31.12.2016

	NUMBER OF SHARES	SHAREHOLDING
Mitsui & Co., Ltd.	41 666 321	25.01 %
Flakk Composites AS [1)]	28 902 667	17.35 %
MP Pensjon PK	11 617 614	6.97 %
Bøckmann Holding AS	10 000 000	6.00 %
Verdipapirfondet Odin Norge	7 438 064	4.46 %
Nødingen AS	6 000 000	3.60 %
Swedbank Robur Smabolagsfond Norden	5 624 346	3.38 %
Skandinaviska Enskilda Banken AB, SFMA1	3 407 337	2.04 %
Verdipapirfondet Storebrand Norge	3 149 535	1.89 %
JP Morgan Chase Bank, N.A., London (Nominee)	2 730 154	1.64 %
Verdipaprirfondet Storebrand Vekst	1 647 519	0.99 %
JP Morgan Chase Bank, N.A., London (Nominee)	1 438 233	0.86 %
Societe Generale Paris	1 320 618	0.79 %
Verdipapirfondet DNB SMB	1 298 837	0.78 %
Invesco Perpetual European Smaller Companies Fund	1 211 316	0.73 %
Hexagon Composites ASA (own shares)	1 166 075	0.70 %
Verdipapirfondet Eika Norge	1 045 016	0.63 %
Flakk Invest AS [1)]	1 000 000	0.60 %
Statoil Pensjon	916 147	0.55 %
Verdipapirfondet Nordea Kapital	914 924	0.55 %
Total 20 largest shareholders	**132 494 723**	**79.52 %**
Remainder	34 133 145	20.48 %
Total	**166 627 868**	**100.00 %**

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

OWNERSHIP STRUCTURE

The total number of shareholders as of 31.12.2016 was 2 390 of whom 183 were foreign shareholders. The number of shares held by foreign shareholders was 66 303 612 or 39.8%.

The Board proposes to the general meeting that there will be no dividend to be paid for the 2016 financial year.

No dividend was paid for the 2015 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)	2016	2015
Defined contribution pension plan	15 348	16 402
Defined benefit pension plan in Norway	572	856
Mulit-employer pension plan in Norway (new AFP)	1 498	1 333
Total	**17 418**	**18 591**

DEFINED CONTRIBUTION PENSION PLANS IN THE GROUP
The defined contribution pension plans in the Norwegian companies has contribution rates from 7% 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 from 7,1 G to 12 G. As of 31.12.2016 the Norwegian defined contribution pension plans had 143 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 31.12.2016, 96 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 31.12.2016, 1 member were covered by the plan.

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

DEFINED CONTRIBUTION PLANS EXPENSES

(NOK 1 000)	2016	2015
Defined contribution pension plans - Norway	7 131	8 019
Defined contribution pension plans - USA	7 859	7 947
Defined contribution pension plans - Sweden	358	436
Total	**15 348**	**16 402**

LIABILITIES FROM DEFINED BENEFIT PENSION PLAN IN THE GROUP
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 31.12.2016 amounted to NOK -18 094 thousand, compared with NOK -18 077 thousand as of 31.12.2015. As of 31.12.2016 the Groups defined benefit plans had 19 members (14 members in 2015).

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

(NOK 1 000)	2016	2015
Current service cost	426	664
Interest cost on benefit obligation	396	406
Expected return on plan assets	-413	-358
Administrative costs	67	39
Employer's contribution	84	106
Effect of implementation	12	0
Total pension expenses	**572**	**856**

PENSION LIABILITIES AND PLAN ASSETS

(NOK 1 000)	2016	2015
Present value of funded obligations	17 699	17 078
Fair value of plan assets	-17 155	-16 372
Employer's contributions on net pension liabilities	-89	100
Net liability recognised in balance sheet 31 December	**455**	**806**

(NOK 1 000)	2016	2015
Net liability recognised in balance sheet 1 January	806	3 119
Additions from purchase of companies	1 172	0
Effect of demerged activities	-836	0
Recognised benefit expense	572	856
Benefits paid	-1 275	-1 538
Actuarial gains and losses arising from changes in financial assumtions	255	-1 455
Actuarial gains and losses arising from changes in demographic assumtions	-208	-176
Net liability recognised in balance sheet 31 December	**455**	**806**
Retirement benefit obligation	**1 367**	**1 441**
Plan assets	**912**	**635**

CHANGE IN BENEFIT LIABILITY DURING YEAR

(NOK 1 000)	2016	2015
Benefit obligation 1 January	17 078	17 819
Current service cost	554	664
Interest expense	396	406
Actuarial gains/losses (-)	-1 897	-1 454
Pension payments	-370	-356
Effect change of plans	-245	0
Additions from purchase of companies	4 191	0
Effect of demerged activities	-1 998	0
Retirement benefit obligation 31 December	**17 699**	**17 078**

Expected premium payment next year is NOK 1 585 thousand.

CHANGE IN FAIR VALUE OF PLAN ASSETS DURING THE YEAR

(NOK 1 000)	2016	2015
Plan assets 1 January	16 372	15 085
Return on plan assets	413	358
Actuarial gains/losses (-)	-1 912	-25
Administrative costs	-67	-39
Pension premiums	1 117	1 348
Paid pensions	-370	-356
Effect change of plans	-255	0
Additions from purchase of companies	3 019	0
Effect of demerged activities	1 162	0
Plan assets 31 December	**17 155**	**16 372**

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

	2016		2015	
(NOK 1 000)	ALLOCATION	AMOUNT	ALLOCATION	AMOUNT
Shares	6 %	961	6 %	999
Bonds/certificates	75 %	12 884	73 %	11 902
Property	19 %	3 260	15 %	2 407
Other	0 %	51	7 %	1 064
Total	**100 %**	**17 155**	**100 %**	**16 372**

The actual return on plan assets in 2016 was NOK -1 499 thousand (333 thousand in 2015), allowing for previous years' actuarial gains/losses.

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

	2016		2015	
(NOK 1 000)	NORWAY	GERMANY	NORWAY	GERMANY
Discount rate	2.60 %	1.93 %	2.70 %	NA
Return on plan assets	2.60 %	1.93 %	2.70 %	NA
Salary increases	2.50 %	2.00 %	2.05 %	NA
Pension increases	0.00 %	0.00 %	0.00 %	NA
Adjustment of national insurance base rate	2.25 %	1.50 %	2.25 %	NA
Mortality table	K2013 BE	RT Heubech 2005G	K2013 BE	NA

The Group has used the Norwegian covered bonds (OMF) as basis for the discount rate as of 31 December for both 2016 and 2015 for the Norwegian plans.

MULTI-EMPLOYER PENSION PLAN IN NORWAY

139 (168) 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% (2.4% in 2015) for saleries in the range 1.0 - 7.1 times the national insurance base rate (G), and is expected to increase in the comming years. Total contribution for the arrangement were NOK 1 498 thousand in 2016 and NOK 1 333 thousand in 2015. Expected premium for 2017 is NOK 1 543 thousand.

NOTE 19 PROVISIONS

(NOK 1 000)	2016	2015
Balance 1 January	43 491	27 200
Additions from purchase of companies	23 019	0
Disposals from demerged activities	-6 282	0
Provisions for year	10 020	25 172
Translation differences	-281	2 860
Provisions used during year	-22 799	-11 742
Balance 31 December	**47 168**	**43 491**

While we seek to minimize the level of warranty or other claims from third parties through a diligent focus on quality, we also try to ensure the Group consistently recognizes the potential impact of any unanticipated events. Provisions are made for both general and, if required, specific warranty claims on low pressure and high pressure cylinders. Such provisions are typically based on i.) historical warranty costs levels for equivalent products and services, ii.) our assessment of any ongoing third party legal disputes or quality related matters, and iii.) a forward view based on the changing levels and complexity of our business activities within High and Low-Pressure business areas.

NOTE 20 NON-CURRENT INTEREST-BEARING LIABILITIES

				CARRYING AMOUNT	
(NOK 1 000)	INTEREST RATE CONDITIONS	CURRENCY	MATURITY	2016	2015
UNSECURED					
Bank loan (bullet)	Nibor 3 month + margin	NOK	24.04.2020	0	382 868
Bank loan (bullet)	Euribor 3 month + margin	EUR	30.09.2021	406 924	0
Total unsecured non-current liabilities				**406 924**	**382 868**
SECURED					
Ohio loan	Fixed interest rate	USD	01.06.2023	14 914	0
Vehicle loan	Fixed interest rate	USD	01.08.2019	248	0
Obligations under finance leases	Libor + margin	USD	17.04.2020	7 795	0
Obligations under finance leases	Euribor + margin	EUR	30.11.2017	5 631	0
Obligations under finance leases	Euribor + margin	EUR	31.05.2018	5 123	0
Obligations under finance leases	Euribor + margin	EUR	30.09.2019	5 142	0
Total secured non-current liabilities				**38 853**	**0**
Total non-current liabilities				445 776	382 868
1st year's instalments, non-current liabilities				-14 095	0
Total non-current liabilities, not including 1st year's instalments				**431 681**	**382 868**

ESTIMATED REPAYMENT STRUCTURE FOR NON-CURRENT LIABILITIES (NOK 1 000) AS OF 31.12.2016

2017	2018	2019	2020	2021	THEREAFTER
14 095	9 252	7 116	409 232	2 378	3 704

The current financing facility has been modified to a bilateral facility with DNB Bank, incorporating certain beneficial changes to the facility particularly in relation to higher leverage covenants. The modifications will allow more flexibility for the Group overall going forward. The overall size of the facility remains at NOK 1 billion, comprising a main revolving credit with overdraft facility of NOK 600 million and an optional ancillary facility of NOK 400 million.

On 5 April 2016 the Company repaid all outstanding bank loans. On 30 September 2016 the Company drew a total of EUR 45 millio on the facility in readiness for the acquisition of xperion Energy & Enviroment Gmbh. The increase of secured non-current liabilities (Ohio loan, Vehicle loan and finance leases) is related to the acqusition of the xperion group.

There are no breaches of the financial covenants under the financing facility agreements.

NOTE 21 SHORT-TERM INTEREST-BEARING LOANS

(NOK 1 000)	2016	2015
SECURED		
Current interest-bearing liabilities	0	10 719
1st year's instalments, non-current interest-bearing liabilities	14 095	0
Total	**14 095**	**10 719**

Current short term interest bearing debt is subject to the same financial terms as the secured non-current interest bearing debt disclosed in note 20. The overdraft facility in Norway is subject to NIBOR + margin. In addition to this is a limit provision.

As at 31.12.2016 the Group had not drawn on these facilities.

NOTE 22 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

(NOK 1 000)	2016	2015
Trade payables	185 943	170 890
Amounts due to related parties	0	0
Forward exchange contracts	0	17 081
Public duties payable	12 759	8 796
Accrued expenses and other current liabilities	82 077	52 267
Current liabilties to closely-related parties	0	0
Total	**280 780**	**249 034**

NOTE 23 LEASES

THE GROUP AS LESSEE / FINANCIAL LEASES

In relation to the acqusition of the xperion group in 2016 The Group acqurred finance lease contracts for patents and machinery. As of 31.12.2015 The Group had no financial leases.

ASSETS HELD UNDER FINANCIAL LEASES

(NOK 1 000)	2016	2015
Intangible assets	12 875	0
Plant and equipment	33 759	0
Accumulated depreciation	-20 533	0
Net carrying amount	**26 101**	**0**
OVERVIEW OF FUTURE MINIMUM LEASE PAYMENTS		
Next year	13 220	0
1 to 5 years	12 251	0
Later than 5 years	0	0
Future minimum lease payments	**25 472**	**0**
PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Which includes:		
- current liabilities	11 895	0
- non-current liabilities	11 796	0

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)	2016	2015
Ordinary lease payments	32 635	25 737
Total	**32 635**	**25 737**

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

Not later than 1 year	32 160
1 to 5 years	95 610
Later than 5 years	107 269
Total	**235 040**

NOTE 24 FINANCIAL INSTRUMENTS

FINANCIAL RISK

The Group use 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 31.12.2016

(NOK 1 000)	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	INTEREST RATE SWAPS USED AS CASH FLOW HEDGING 1)	LOANS/RECEIVABLES/ FINANCIAL OBLIGATION AT AMORTISED COSTS	NON FINANCIAL ASSETS/ LIABILITIES	TOTAL
ASSETS					
Other non-current assets			1 694		1 694
Trade receivables			84 705		84 705
Forward exchange contracts	5 209				5 209
Other current assets				111 777	111 777
Bank deposits, cash and cash equivalents			208 073		208 073
Total financial assets	**5 209**	**0**	**294 472**	**111 777**	**411 458**
LIABILITIES					
Non-current interest-bearing liabilities			431 681		431 681
Non-current liabilities (earn-out and other)			2 126	104 493	106 619
Short-term loans			14 095		14 095
Forward exchange contracts					0
Trade payables and other current liabilities			185 943	94 837	280 780
Total financial liabilities	**0**	**0**	**633 846**	**199 329**	**833 175**

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 31.12.15

(NOK 1 000)	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	INTEREST RATE SWAPS USED AS CASH FLOW HEDGING [1]	LOANS/RECEIVABLES/ FINANCIAL OBLIGATIONS AT AMORTISED COSTS	NON FINANCIAL ASSETS/ LIABILITIES	TOTAL
ASSETS					
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
Total financial assets	**0**	**0**	**260 836**	**77 958**	**338 794**
LIABILITIES					
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
Total financial liabilities	**21 255**	**0**	**564 478**	**61 063**	**646 795**

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 and Hexagon Raufoss AS have 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 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 uses 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. Following the repayment of all outstanding loan balances in April 2016 and the subsequent modification of facility terms the Group exited its remaining interest rate hedging positions at a loss of NOK 4 million. At the end of September 2016, the modified bank loan facility was drawn in Euro, with negative EURIBOR base rates. The Group is currently evaluating a new hedging position but remains unhedged as at 31.12.2016.

FORWARD RATE AGREEMENTS 31.12.2016

	CURRENCY	AMOUNT (NOK 1 000)	MATURITY	FIXED RATE	FAIR VALUE
Interest rate swap	NOK	NOK 100 000	Settled in 2016	2.47 % + margin	0
Total					**0**

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
Total					**-4 173**

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)
2016	+50	-1 672	0
	-50	1 672	0
2015	+50	-390	891
	-50	390	-891

Based on the financial instruments which existed as of 31 December 2016, an interest rate increase of 1% would reduce profit after tax by NOK 3 344 thousand (780 thousand).

THE AVERAGE EFFECTIVE INTEREST RATE ON FINANCIAL INSTRUMENTS WAS AS FOLLOWS

	2016	2015
Bank overdrafts	2.5 %	2.7 %
Bank loan	2.6 %	3.4 %
Bond issue	N/A	6.7 %
Finance leases	1.25 to 4.88 %	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):

31.12.2016 REMAINING PERIOD

(NOK 1 000)	LESS THAN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS	TOTAL
Repayment of bank loan				408 884		408 884
Interest on loan		1 227	3 680	18 400		23 306
Other long term liabilities (earn-out and other)				106 619		106 619
Financial Leases		2 927	8 781	11 983		23 691
Interest on Financial leases		189	567	788		1 544
Other Loans		597	1 791	9 070	3 704	15 162
Interest on other loans		50	149	745	319	1 263
Trade payables	120 863	65 080				185 943
Total	**120 863**	**70 069**	**14 967**	**556 489**	**4 023**	**766 412**

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 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
Total	**111 079**	**68 465**	**23 141**	**488 248**	**0**	**690 932**

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

(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)
2016	+5 %	-14 306	-18 110
	-5 %	14 306	18 110
2015	+5 %	-740	-12 098
	-5 %	740	12 098

	MOVEMENT OF NOK AGAINST EUR	EFFECT ON PROFIT/LOSS AFTER TAX	EFFECT ON OTHER INCOME AND EXPENSES AFTER TAX (NOK 1 000)
2016	+5 %	16 732	434
	-5 %	-16 732	-434
2015	+5 %	2 200	0
	-5 %	-2 200	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 31.12.2016, 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 31.12.2016
Forward contracts to hedge expected future sales 1)	EUR/NOK	12 550/118 516	2017	8.68 - 9.85	3 575
Forward contracts to hedge expected future sales 1)	EUR/NOK	6 600/62 992	2018	9.28 - 9.80	1 634
Total					**5 209**

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

As of 31.12.2015, 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 31.12.2015
Forward contracts to hedge expected future sales 1)	EUR/NOK	14 500/126 417	2016	8.37 - 9.57	-13 567
Forward contracts to hedge expected future sales 1)	EUR/NOK	5 800/53 090	2017	8.68 - 9.66	-3 515
Total					**-17 081**

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 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)	2016	2015
Fair value of cash flow hedges 1 January	0	-4 629
Change over total comprehensive income	0	4 629
Fair value of cash flow hedges 31 December	**0**	**0**

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

		2016		2015	
(NOK 1 000)	LEVEL	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
FINANCIAL ASSETS					
Other non-current assets		1 694	1 694	3 202	3 202
Trade receivables		84 705	84 705	164 458	164 458
Forward exchange contracts		5 209	5 209	0	0
Bank deposits, cash and cash equivalents		208 073	208 073	93 177	93 177
FINANCIAL LIABILITIES					
Bank loans		406 924	408 884	382 868	387 818
Other loans		12 758	12 758	0	0
Finance leases		12 000	12 000	0	0
Other long term liabilities (earn-out and other)		106 619	106 619	0	0
Interest rate swaps	2	0	0	4 173	4 173
Short-term leases		11 691	11 691	10 719	10 719
Short-term loans		2 404	2 404	10 719	10 719
Forward exchange contracts	2	0	0	17 081	17 081
Trade payables and other current liabilities		185 943	185 943	170 890	170 890

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

(NOK 1 000)	2016	2015
Level 1: Based on prices in an active market	0	0
Level 2: Observable market data	4 892	-21 255
Level 3: Other than observable market data	0	0
Total financial instruments at fair value	**4 892**	**-21 255**

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

(NOK 1 000)	2016	2015
Level 1: Based on prices in an active market	0	0
Level 2: Observable market data	0	0
Level 3: Other than observable market data	0	0
Total financial instruments at fair value	**0**	**0**

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 2015 or 2016.

NOTE 25 INTEREST IN JOINT OPERATIONS

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

The joint operation entity was dissolved and subsumed simultaneously with the Agility Fuel Solutions merger transaction (See note 5). As at 31.12.2016 there were no interests in joint operations.

NOTE 26 INVESTMENTS IN JOINT VENTURES

The Group has classified the investment in Agility Fuel Solutions 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 operational agreement and shareholder agreement. Under these agreements, It is required unanimity between the parties for making decissions 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 Agility Fuel Solutions 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
Agility Fuel Solutions LLC	USA	High-Pressure CNG & CHG	50 %	50 %
Rugasco LLC [1)]	Russia	Low-Pressure LPG	49 %	50 %

1) No activity in Rugasco LLC during 2016

HEXAGON COMPOSITES GROUP'S SHARE OF PROFIT/LOSS IN AGILITY FUEL SOLUTIONS LLC

(NOK 1 000)	
Carve-out value as at 03.10.2016	421 309
Cash payment as at 03.10.2016	150 850
Reqognised gain carve-out excluding transaction costs	380 192
Translation differences as at 31.12.2016	18 990
Acqusiton cost as at 31.12.2016	**971 370**
Share of profit after tax 2016 (reported as share of loss from assosiates)	2 106
Amortisation of excess value	-3 556
Reported as profit/loss from joint venture	**-1 450**
Share of OCI	-1 041
Share-based payment	7 114
Book value as at 31.12.2016	**975 963**

Agility Fuel Solutions LLC does not have an observable market value in form of market price or similar.

THE TABLE BELOW SHOWS THE CONDENSED FINANCIAL INFORMATION OF AGILITY FUEL SOLUTIONS LLC, BASED ON 100% FOR THE PERIOD 03.10.2016 - 31.12.2016

INCOME STATEMENT FOR THE PERIOD	2016
Operating income	310 959
Operating expenses	308 739
Net financial items	-1 853
Profit before and after tax	**4 072**
Other income and expenses	-2 042
Comrephensive income	**2 031**
Group's share of comprehensive income	**1 015**

BALANCE SHEET	31.12.2016
ASSETS	
Current assets	649 135
Cash and cash equivalentes	82 173
Non-current assets	571 985
LIABILITIES	
Current liabilities	235 937
Current financial liabilities	96 746
Long-term liabilities	0
Long-term financials liabilities	93 892
Equity	**876 717**
Group's share of the equity	**438 359**
Goodwill	267 544
Trade name	8 026
Technology	42 807
Customer relationships	216 711
Depreciation identified intangible assets	-3 556
Translation differences	-1 041
Share-based payment	7 114
Group's carrying amount of the investment	**975 963**

Agility Fuel Solutions LLC has the same reporting period as the Parent Company.

HEXAGON COMPOSITES GROUP'S SHARE OF PROFIT/LOSS IN RUGASCO LLC

Book value as at 31.12.2015	0
Share of profit after tax 2016	0
Book value as at 31.12.2016	**0**

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. During 2016 there has been no activity in Rugasco LLC.

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 from 2016 and beyond.

NOTE 27 SHARE-BASED PAYMENT

The Group has a share option programme covering certain employees in senior positions.

As at 31.12.2016, 24 employees were included in the option programme.

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.

1 April 2016 Hexagon Composites ASA issued 925 000 new call options to senior executives and managers in the Group at NOK 20 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 2018, first quarter of 2019 or second quarter of 2019.

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 2016 associated with the share option scheme was NOK 4 833 thousand (1 918). The fair value of all options granted is estimated to NOK 9 780 thousand 31 of December 2016 (5 320).

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)	**2016**	**2015**
Outstanding options 1 January	975 000	0
Options granted	925 000	975 000
Options exercised	0	0
Options lapsed	-50 000	0
Share options outstanding 31 December	**1 850 000**	**975 000**
Exercisable at 31 December	0	0

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

(NOK 1 000)	**AWARDED 2016**	**AWARDED 2015**
Weighted average fair values at the measurement date per share (NOK)	10.62	7.42
Dividend yield (%)	0	0
Expected volatility (%)	57.40 %	54.60 %
Risk-free interest rate (%)	0.46 %	0.85 %
Expected life of share options (years)	3.44	3.51
Weighted average share price (NOK)	23.3	21.2
Model used	Black-Scholes	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 Gruppen AS. The Chairman of the board, Knut Flakk, has ownership interests and managerial roles in these companies.

THE MAIN AGREMENTS ARE AS FOLLOWS

The purchase of administrative services from Flakk International AS, NOK 137 thousand (232 thousand) in 2016.

The agreement covers primarily accounting services.

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

(NOK 1 000)	**2016**	**2015**
Trade payables	0	0

REMUNERATION OF THE BOARD AND MANAGEMENT

(NOK 1 000)	SALARIES AND FEES TO BOARD MEMBERS	BONUSES PAID [1]	BENEFITS IN KIND	PAID PENSION PREMIUM	VALUE OF AWARDED SHARE OPTIONS	TOTAL REMUN-ERATION 2016	TOTAL REMUN-ERATION 2015
EXECUTIVE MANAGEMENT							
Jon Erik Engeset, Group President	3 010	614	13	129	1 593	5 358	5 576
Tore J. Fjell, Senior Vice President	1 506		52	1	0	1 559	1 895
David Bandele, Chief Financial Officer	1 703	200	13	129	1 062	3 106	3 058
BOARD OF DIRECTORS							
Knut Flakk, Chairman	740					740	740
Kristine Landmark, Deputy Chair	240					240	240
Sverre Narvesen	170					170	170
Kathrine Duun Moen	0					0	0
Katsunori Mori	0					0	0
Gunnar Bøckmann, Deputy Board member	25					25	50
FORMER BOARD MEMBERS							
Tom Vidar Rygh	150					150	150
May Britt Myhr	150					150	150
Total remuneration	**7 693**	**814**	**78**	**258**	**2 655**	**11 498**	**12 029**

1) Bonuses paid in the year relate to the year 2015.

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 970 thousand to the Group President and NOK 550 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

	2016	2015
Knut Flakk, (Chairman) [1]	30 715 717	44 429 038
Kristine Landmark (Deputy chair) [2]	10 000	10 000
Katsunori Mori (Board member) [3]	41 666 321	N/A
Gunnar S. Bøckmann (Deputy board member) [4]	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, 28 902 667 are owned through Flakk Composites AS and 1 000 000 are owned through Flakk Invest AS.
2) The shares are owned by Kristine Landmarks husband.
3) Shares owned by Mitsui & Co., Ltd., represented in the Board by Katsunori Mori.
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

	2016	2015
Jon Erik Engeset, Group President [1]	420 867	420 867
Tore Fjell, Senior Vice President	775 131	775 131
David Bandele, Chief Financial Officer	32 745	32 745

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

Car loan has been given to one employee in subsidiaries. The remaining balance 31 December 2016 was NOK 414 thousand. The loan was 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)	2016	2015
Statutory audit and auditing-related services	2 666	2 548
Other attestation services	261	65
Tax advice	1 855	908
Other non-auditing services	170	780
Total	**4 952**	**4 301**

NOTE 29 PURCHASING COMMITMENTS

THE GROUP HAS THE FOLLOWING COMMITMENTS RESULTING FROM PURCHASING MATERIALS

The Group has no purchasing commitments per 31 December 2016.

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

(NOK 1 000)	2016	2015
2016	0	28 737
2017	8 563	0
Thereafter	0	0
Total	**8 563**	**28 737**

All contracts relate to investments in production facilities/machines.

NOTE 30 EVENTS AFTER THE BALANCE SHEET DATE

There have not been any significant events after the balance sheet date.

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
SUBSIDIARIES					
Hexagon Ragasco AS	Norway	Raufoss	Low-Pressure LPG	100 %	100 %
Composite Scandinavia AB	Sweden	Piteå	Low-Pressure LPG	100 %	100 %
Ragasco NA Inc.	USA	Lincoln, NE	Low-Pressure LPG	100 %	100 %
Hexagon Composites India Pvt. Ltd.	India	Bangalore	Low-Pressure LPG	100 %	100 %
Hexagon Composites Rus LLC	Russia	Nizhny Novgorod	Low-Pressure LPG	100 %	100 %
Hexagon Raufoss AS	Norway	Raufoss	High-Pressure CNG & CHG	100 %	100 %
Hexagon USA Holdings Inc.	USA	Delaware, DE	High-Pressure CNG & CHG	100 %	100 %
Hexagon Lincoln LLC	USA	Lincoln, NE	High-Pressure CNG & CHG	100 %	100 %
MasterWorks Inc.	USA	Lincoln, NE	High-Pressure CNG & CHG	100 %	100 %
Hexagon Railgas LLC	USA	Lincoln, NE	High-Pressure CNG & CHG	80 %	80 %
Hexagon Technology AS	Norway	Aalesund	High-Pressure CNG & CHG	100 %	100 %
Hexagon Composites Germany GmbH	Germany	Herford	High-Pressure CNG & CHG	100 %	100 %
xperion Energy & Environment GmbH	Germany	Herford	High-Pressure CNG & CHG	100 %	100 %
xperion E&E Overseas GmbH,	Germany	Herford	High-Pressure CNG & CHG	100 %	100 %
xperion E&E US Holding Inc.	USA	Heath, OH	High-Pressure CNG & CHG	100 %	100 %
xperion E&E USA LLC	USA	Heath, OH	High-Pressure CNG & CHG	100 %	100 %
Hexagon Bus Systems AS 2)	Norway	Raufoss	High-Pressure CNG & CHG	100 %	100 %
JOINT VENTURES / JOINT OPERATIONS					
Agility Fuel Solutions LLC 1)	USA	Delaware, DE	High-Pressure CNG & CHG	50 %	50 %
Agility Hexagon, LLC 2)	USA	Delaware, DE	High-Pressure CNG & CHG	50 %	50 %
Rugasco, LLC 3)	Russia	Nizhny Novgorod		49 %	50 %

1) 44.5% directly owned. 5,5% owned through 9,91% ownership in Agility Fuel Solutions Holdings Inc.
2) Consolidated until 3 October 2016 when the enteties were merged with Agility Fuel Systems, and the new Agility Fuel Solutions was established.
3) Both partners in the Rugasco LLC joint venture have agreed to stop the activity of the company and perform actions regarding its closure.

NOTE 32 EXCHANGE RATES

	EXCHANGE RATE 1.1.2016	AVERAGE EXCHANGE RATE 2016	EXCHANGE RATE 31.12.2016
USD	8.809	8.401	8.620
EUR	9.619	9.293	9.086
GBP	13.072	11.373	10.613
RUB	11.984	12.589	14.131
CHF	889.870	852.290	846.100
SEK	104.750	98.160	95.120

INCOME STATEMENT – PARENT COMPANY

HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	2016	2015
Other revenue	6	34 361	43 568
Total operating income		**34 361**	**43 568**
Payroll & social security expenses	9,11,14	27 353	21 683
Depreciation and impairment	2,3	5 729	15 975
Other operating expenses	11	16 916	23 404
Operating profit		**-15 637**	**-17 494**
Income from investment in subsidiaries	10	70 081	53 049
Finance income	12,13	42 266	100 423
Finance expense	5,12,13	35 955	133 237
Profit on ordinary activities before tax		**60 755**	**2 741**
Tax on profit on ordinary activities	10	11 152	4 376
Profit on ordinary activities		**49 603**	**-1 635**
Profit/loss for the year		**49 603**	**-1 635**
Allocated to dividends	1	0	0
Transferred equity	1	49 603	-1 635
Total transferred		**49 603**	**-1 635**

BALANCE SHEET – PARENT COMPANY

HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	31.12.2016	31.12.2015
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Research & development	3	0	5 000
Total intangible assets		**0**	**5 000**
PROPERTY, PLANT AND EQUIPMENT			
Land, buildings and other real estate	2	6 000	6 000
Fixtures/fittings, equipment and tools	2	1 961	2 604
Total property, plant & equipment		**7 961**	**8 604**
FINANCIAL ASSETS			
Investments in subsidiaries	4	123 265	120 966
Loans to group companies	5,6	1 050 091	391 124
Other non-current receivables	5	957	1 901
Investments in shares		301	301
Excess financing of pension liabilities	9	380	373
Total financial assets		**1 174 994**	**514 665**
Total non-current assets		**1 182 956**	**528 269**
CURRENT ASSETS			
RECEIVABLES			
Other receivables	6	77 045	54 212
Total receivables		**77 045**	**54 212**
Bank deposits, cash and cash equivalents	7	27 270	670
Total current assets		**104 315**	**54 882**
Total assets		**1 287 270**	**583 151**

BALANCE SHEET – PARENT COMPANY
HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	31.12.2016	31.12.2015
EQUITY AND LIABILITIES			
EQUITY			
PAID-IN CAPITAL			
Share capital	1,8	16 663	13 329
Own shares	1	-117	-117
Share premium	1	727 639	75 273
Other paid-in capital	1	6 752	1 918
Total paid-in capital		**750 937**	**90 404**
Other equity	1	41 894	0
Total other equity		**41 894**	**0**
Total equity		**792 831**	**90 404**
LIABILITIES			
OTHER NON-CURRENT LIABILITIES			
Non-current interest-bearing liabilities	5	406 924	382 868
Liabilities to group companies	6	52 652	53 789
Deferred tax liabilities	10	15 777	11 124
Total other non-current liabilities		**475 353**	**447 781**
CURRENT LIABILITIES			
Liabilities to credit institutions	5,13	0	24 031
Trade payables		3 046	1 746
Income tax payable	10	6 490	0
Public duties payable		1 829	1 210
Allocated dividends	1	0	0
Other current liabilities	6	7 722	17 979
Total current liabilities		**19 087**	**44 966**
Total liabilities		**494 439**	**492 747**
Total equity and liabilities		**1 287 270**	**583 151**

Aalesund, Norway, 21 March 2017
The Board of Directors of Hexagon Composites ASA

Knut Flakk
Chairman of the Board

Kristine Landmark
Deputy Chair

Sverre Narvesen
Board Member

Kathrine Duun Moen
Board Member

Katsunori Mori
Board Member

Jon Erik Engeset
Group President

CASH FLOW STATEMENT – PARENT COMPANY
HEXAGON COMPOSITES ASA

(NOK 1 000)	NOTE	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		60 755	2 741
Tax paid for the period		0	-19 656
Depreciation and impairment		5 729	15 975
Gains and losses on shares		67	3 849
Impairment loan associates		0	10 751
Recognised group contribution and dividend		-70 081	-53 049
Changes in trade payables		1 299	-2 144
Changes in pension provisions		-42	8
Changes in other accrual accounting entries		620	-7 425
Net cash flow from operating activities		**-1 651**	**-48 950**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Purchase of property, plant & equipment and intangible assets		-87	-2 473
Purchase of shares		-11 743	0
Other investments		0	-241
Net payments on loans to/from subsidiaries		-600 481	123 524
Net cash flow from investing activities		**-612 310**	**120 810**
CASH FLOW FROM FINANCING ACTIVITIES			
New non-current liabilities		404 393	387 818
Repayment of non-current liabilities		-387 818	-300 000
Proceeds from issues of shares		648 017	0
Net change in bank overdraft		-24 031	-77 741
Dividend payments		0	-81 920
Net cash flow from financing activities		**640 561**	**-71 844**
Net change in cash & cash equivalents		26 599	16
Cash & cash equivalents at beginning of period		670	654
Cash & cash equivalents at end of period	**7**	**27 270**	**670**
Undrawn group overdraft facility	**7**	**85 000**	**74 281**
Undrawn credit facility		**506 117**	**527 183**

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. All shares are valued at cost in the company accounts.

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 in 2015 and 2016 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 is recognized, together with a corresponding increase in other paid-in capital, over the period in which the performance and/or service conditions are fulfilled. The fair value is calculated using the Black & Scholes model. The employer's contribution are accrued over the period in which the service conditions are 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). Pension premiums relating to defined contribution plans are recognized as an expense as they are incurred.

TAX

Tax expense in the income statement includes income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 24% (25% in 2015) 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 01.01.2016	13 329	-117	75 273	1 918	0	90 404
Profit/loss for the year			0		49 603	49 603
Share-based payment			0	4 833	0	4 833
Actuarial gains/losses for the year			0		-26	-26
Issued new share capital [1]	3 333		663 327			666 660
Transaction cost			-18 643			-18 643
Transfer		0	7 682		-7 682	0
Equity at 31.12.2016	**16 663**	**-117**	**727 639**	**6 752**	**41 894**	**792 831**

1) On 21 March 2016 the Company issued 33 333 000 new shares to Mitsui & Co., Ltd at the price of NOK 20 per share.

NOTE 2 PROPERTY, PLANT & EQUIPMENT

(NOK 1 000)	LAND/ BUILDINGS AND OTHER PROPERTY	FIXTURES/ FITTINGS, EQUIPMENT AND SIMILAR	TOTAL
Cost of acquisition as of 01.01.2016	8 345	3 589	11 934
Property, plant & equipment purchased	0	87	87
Cost of acquisition 31.12.2016	**8 345**	**3 676**	**12 021**
Accumulated depreciation and impairment 31.12.2016	2 345	1 715	4 060
Carrying amount at 31.12.2016	**6 000**	**1 961**	**7 961**
Depreciation for the year	0	729	729
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 01.01.2016	22 215	22 215
Cost of acquisition 31.12.2016	**22 215**	**22 215**
Accumulated depreciation and impairment 31.12.2016	22 215	22 215
Carrying amount at 31.12.2016	**0**	**0**
Depreciation for the year	1 777	1 777
Impairment for the year [1]	3 223	3 223
Useful life	Discontinued	

1) The company has recognized an impairment of NOK 3 223 thousand (13 216 thousand) as a part of the annual impairment review. The value of use of is no longer as high as originally anticipated and therefore an impairment was recognized.

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 Technology AS	Ålesund	100 %	100 %	6 200
Hexagon USA Holdings Inc.	Delaware, USA	100 %	100 %	19 020
Hexagon Composites Germany GmbH	Herford, Germany	100 %	100 %	11 742
Hexagon Composites Rus LLC	Nizhny Novgorod, Russia	100 %	100 %	1
				123 265

3 October 2016 Hexagon Composites ASA completed the sale of the 100% owned subsidiary Hexagon Bus Systems AS. The shares was sold with a loss of NOK 67 thousand. Hexagon Bus Systems AS changed name to Agility Fuel Solutions Norway AS, and is now a part of Agility Fuel Solutions. In connection with the merger with Agility Fuel Systems Inc., a new holding company was established in USA. The new holding company, Hexagon USA Holding Inc, became parent company of the remaining business of Hexagon Lincoln Inc, and the latter became a LLC. The reorganization was accounted for using the pooling method.

Hexagon Composites Germany GmbH was established to acquire the xperion Energy & Environment companies.

EQUITY AND PROFIT/LOSS AS REPORTED IN MOST RECENT ANNUAL ACCOUNTS (COMPANY)

(NOK 1 000)	HEXAGON RAGASCO AS	HEXAGON RAUFOSS AS	HEXAGON TECHNOLOGY AS	HEXAGON USA HOLDINGS INC.	HEXAGON COMPOSITES GERMANY GMBH	HEXAGON COMPOSITES RUSSIA LLC
Cost of acquisition	64 905	21 398	6 200	19 020	11 742	1
Equity at 31.12.2016	80 687	23 887	52 452	482 933	-11 560	1 651
Profit 2016	62 912	6 397	15 264	147 618	-8 515	1 719

ASSOCIATES AND JOINT VENTURES

(NOK 1 000)	REGISTERED OFFICE	OWNERSHIP SHARE	VOTES	CARRYING AMOUNT
Rugasco LLC	Nizhny Novgorod, Russia	49.0 %	50.0 %	0

Value of 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 was recognised as a finance expense in 2015. Both partners in the Hexagon Rugasco joint venture have agreed to stop the activity of the company and perform actions regarding its closure.

NOTE 5 RECEIVABLES AND LIABILITIES

(NOK 1 000)	2016	2015
RECEIVABLES DUE FOR PAYMENT AFTER 1 YEAR		
Other non-current receivables	957	1 901
Loans to group companies	1 050 091	391 124
Total	**1 051 048**	**393 025**
SHORT-TERM LIABILITIES		
Liabilities to credit institutions	0	24 031
Total	**0**	**24 031**
Liabilities secured with collateral	**0**	**0**

The bank loans are unsecured credit facilities.

LONG-TERM FINANCING

(NOK 1 000)	CURRENCY AMOUNT	CARRYING AMOUNT	INTEREST	DURATION	MATURITY
Unsecured bank loans	EUR 45 000	406 924	Euriboribor 3 month + margin	5 years	30.09.2021

On 30 September 2016 the current financing facility was modified to a bilateral facility with DNB Bank, incorporating certain beneficial changes to the facility particularly in relation to higher leverage covenants. The modifications will allow more flexibility for the Group overall going forward.

The overall size of the facility remains at NOK 1 billion, comprising a main revolving credit with overdraft facility of NOK 600 million and an optional ancillary facility of NOK 400 million.

The Company is in the process of formalising share pledges on Hexagon Ragasco AS, Hexagon Raufoss AS and Hexagon Technology AS as security for the Bank loan. 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 31.12.2016 was NOK 1 959 thousand.

There are no breaches of the financial covenants under the financing facility agreements.

In 2016 the company realised a loss of NOK 4 490 thousand related to termination of an interest rate swap. The value of the interest rate swap was NOK - 4 173 thousand at 31.12.2015. The loss was not recognised as the Company used hedge accounting.

NOTE 6 INTRA-GROUP TRANSACTIONS AND BALANCES

(NOK 1 000)	2016	2015
INCOME		
Administrative services to subsidiaries	34 136	43 568
Total	**34 136**	**43 568**
RECEIVABLES		
Loans to group companies	1 050 091	391 124
Other current receivables	73 810	53 735
Total	**1 123 901**	**444 859**
LIABILITIES		
Liabilities to group companies - long-term	52 652	53 789
Liabilities to group companies - current	0	7 703
Total	**52 652**	**61 492**

NOTE 7 BANK DEPOSITS

(NOK 1 000)	2016	2015
Restricted tax withholdings	847	670

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

(AMOUNTS IN NOK)	NUMBER	NOMINAL	CARRYING AMOUNT
A shares	166 627 868	0.10	16 662 787

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

20 LARGEST SHAREHOLDERS AS OF 31.12.2016

	NUMBER OF SHARES	SHAREHOLDING
Mitsui & Co., Ltd.	41 666 321	25.01 %
Flakk Composites AS 1)	28 902 667	17.35 %
MP Pensjon PK	11 617 614	6.97 %
Bøckmann Holding AS	10 000 000	6.00 %
Verdipapirfondet Odin Norge	7 438 064	4.46 %
Nødingen AS	6 000 000	3.60 %
Swedbank Robur Smabolagsfond Norden	5 624 346	3.38 %
Skandinaviska Enskilda Banken AB, SFMA1	3 407 337	2.04 %
Verdipaprirfondet Storebrand Norge	3 149 535	1.89 %
JP Morgan Chase Bank, N.A., London (Nominee)	2 730 154	1.64 %
Verdipaprirfondet Storebrand Vekst	1 647 519	0.99 %
JP Morgan Chase Bank, N.A., London (Nominee)	1 438 233	0.86 %
Societe Generale Paris	1 320 618	0.79 %
Verdipapirfondet DNB SMB	1 298 837	0.78 %
Invesco Perpetual European Smaller Companies Fund	1 211 316	0.73 %
Hexagon Composites ASA (own shares)	1 166 075	0.70 %
Verdipapirfondet Eika Norge	1 045 016	0.63 %
Flakk Invest AS 1)	1 000 000	0.60 %
Statoil Pensjon	916 147	0.55 %
Verdipapirfondet Nordea Kapital	914 924	0.55 %
Total 20 largest shareholders	**132 494 723**	**79.52 %**
Remainder	34 133 145	20.48 %
Total	**166 627 868**	**100.00 %**

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

As of 31.12.2016 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.

OWNERSHIP STRUCTURE

The total number of shareholders as of 31.12.2016 was 2 390 of whom 183 were foreign shareholders. The number of shares held by foreign shareholders was 66 303 612 or 39.8%.

The Board proposes to the general assembly that there will be no dividend to be paid for the 2016 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.

The contribution rates is 7% for salaries in the range of up to 7.1 times the national insurance base rate (G) and 25.1% for salaries in the range 7.1 to 12 G.

Contributions for the year were expensed at NOK 1 101 thousand (969), excluding employer's contributions.

NET PENSION EXPENSES FOR THE YEAR IN THE DEFINED BENEFIT PENSION PLAN ARE CALCULATED AS FOLLOWS

(NOK 1 000)	2016	2015
Current service cost	0	41
Interest cost on benefit obligation	46	42
Expected return on plan assets	-55	-47
Administrative costs	17	9
Employer's contribution	1	6
Total	**9**	**51**

PENSION LIABILITIES AND PLAN ASSETS

(NOK 1 000)	2016	2015
Present value of funded obligations	1 785	1 788
Fair value of plan assets	-2 118	-2 116
Employer's contributions on net pension liabilities	-47	-46
Net pension liabilities/plan assets recognised in balance sheet 31.12	**-380**	**-373**
Net liability recognised in balance sheet 1 January	-373	-255
Recognised benefit expense	9	51
Premium payments/contributions paid	-51	-43
Actuarial gains/losses recognised directly in equity	35	-126
Net liability recognised in balance sheet 31.12	**-380**	**-373**
Retirement benefit obligation	**0**	**0**
Plan assets	**380**	**373**
Accumulated actuarial gains/losses are recognised directly in equity (net after tax).	99	72

FINANCIAL ASSUMPTIONS

(NOK 1 000)	2016	2015
Discount rate	2.60 %	2.70 %
Expected salary adjustment	2.50 %	2.50 %
Expected pension adjustment	0.00 %	0.00 %
Adjustment of national insurance base rate	2.25 %	2.25 %
Expected return on plan assets	2.60 %	2.70 %
Mortality table	K2013 BE	K2013 BE

NOTE 10 TAX

TAX EXPENSE FOR THE YEAR CONSISTS OF

(NOK 1 000)	2016	2015
Income tax payable	6 490	0
Change in deferred tax	4 662	4 376
Total tax expense	**11 152**	**4 376**

CALCULATION OF TAX BASE FOR THE YEAR

(NOK 1 000)	2016	2015
Profit before tax	60 755	2 741
Permanent differences	-13 517	16 762
Change in temporary differences	-15 182	-25 599
Use of loss carryforwards	0	0
Tax base for the year	**32 056**	**-6 096**

Received group contributions of NOK 70 081 thousand (NOK 53 049 thousand in 2015) have been entered as income on investments in subsidiaries and included in the pre-tax profit.

OVERVIEW OF TEMPORARY DIFFERENCES

(NOK 1 000)	2016	2015
Receivables	68 045	51 879
Non-current assets	-797	-801
Provisions	-1 890	-861
Pensions	380	373
Loss carryforwards	0	-6 096
Total	**65 737**	**44 494**
DEFERRED TAX 24% (25% IN 2015)	**15 777**	**11 124**

WHY TAX EXPENSE FOR THE YEAR DOES NOT AMOUNT TO 25% OF PROFIT BEFORE TAX (27% IN 2015)

(NOK 1 000)	2016	2015
25% of profit before tax (27% in 2015)	15 189	740
Permanent differences 25% (27% in 2015)	-3 379	4 526
Gains and losses/sale of financial assets 25% (27% in 2015)	0	0
Correction for previous year	0	0
Effect of change in tax rate	-657	-890
Calculated tax expense	**11 152**	**4 376**
Effective tax rate [1)]	18.4 %	159.7 %

1) Tax expense in relation to profit before tax.

From the 2017 financial year, the tax rate on general income in Norway has been reduced to 24% (25% in 2015). Deferred tax and deferred tax assets as of 31 December 2016 are calculated using a tax rate of 24%. The effect on tax expense for the year was NOK -216 thousand.

NOTE 11 PAYROLL, NUMBER OF EMPLOYEES, REMUNERATION, LOANS TO EMPLOYEES ETC.

PAYROLL COSTS

(NOK 1 000)	2016	2015
Wages/salaries and fees	17 499	14 794
Employer's contribution	2 771	3 024
Pension expense	1 104	1 015
Other contributions	5 979	2 850
Total	**27 353**	**21 683**

There were 10 (11 in 2015) employees in the Company during the financial year.

(NOK 1 000)	SALARIES AND FEES	PAID BONUS	NATURAL CONTRI-BUTIONS	PAID PENSION PREMIUM	VALUE OF AWARDED SHARE OPTIONS	TOTAL REMUNE-RATION
EXECUTIVE MANAGEMENT						
Jon Erik Engeset, Group President	3 010	614	13	129	1 593	5 358
Tore J. Fjell, Senior Vice President	1 506	0	52	1	0	1 559
David Bandele, CFO	1 703	200	13	129	1 062	3 106
BOARD OF DIRECTORS						
Knut Flakk, Chairman	740					740
Kristine Landmark, Deputy Chair	240					240
Sverre Narvesen	170					170
Katsunori Mori	0					0
Kathrine Duun Moen	0					0
Gunnar Bøckmann, Deputy Board member	25					25
FORMER BOARD MEMBERS						
Tom Vidar Rygh	150					150
May Britt Myhr	150					150
Total remuneration	**7 693**	**814**	**78**	**258**	**2 655**	**11 498**

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 970 thousand to the Group President and NOK 550 thousand to the CFO.

Group management participate in the Company's general pension arrangements, which are described in note 9, 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 Company's option scheme, which are described in note 14, Share-based Payment.

SHARES OWNED BY BOARD MEMBERS OR RELATED PARTIES

	2016	2015
Knut Flakk, (Chairman) 1)	30 715 717	44 429 038
Kristine Landmark (Deputy chair) 2)	10 000	10 000
Katsunori Mori (Board member) 3)	41 666 321	N/A
Gunnar S. Bøckmann (Deputy board member) 4)	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, 28 902 667 are owned through Flakk Composites AS and 1 000 000 are owned through Flakk Invest AS.
2) The shares are owned by Kristine Landmarks husband.
3) Shares owned by Mitsui & Co., Ltd., represented in the Board by Katsunori Mori.
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

	2016	2015
Jon Erik Engeset, Group President 1)	420 867	420 867
Tore Fjell, Senior Vice President	775 131	775 131
David Bandele, Chief Financial Officer	32 745	32 745

1) Of 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)	2016	2015
Statutory audit and auditing-related services	1 105	929
Other attestation services	1	0
Tax advice	1 266	379
Other non-auditing services	0	19
Total	**2 372**	**1 326**

NOTE 12 MERGED ITEMS IN THE ACCOUNTS

FINANCE INCOME

(NOK 1 000)	2016	2015
Interest income from group companies	19 947	21 956
Other interest income	3 184	1 265
Other finance income (currency gains)	19 135	77 203
Total finance income	**42 266**	**100 423**

FINANCE INCOME

(NOK 1 000)	2016	2015
Interest expenses to group companies	1 842	1 827
Other interest expenses	6 261	19 033
Buyback premium bond loan	0	21 000
Arrangement fees and other commissions	8 673	8 143
Currency losses	14 090	67 804
Impairment of financial assets	0	14 600
Other finance expense	5 089	831
Total finance expense	**35 955**	**133 237**

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. As of 31.12.2016 the company has no outstanding derivative instruments.

INTEREST RATE RISK
Interest rate risk arises in the short and medium term from the Company's floating rate liabilities. The Company have used 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

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.

1 April 2016 Hexagon Composites ASA issued 925 000 new call options to senior executives and managers in the Group at NOK 20 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 2018, first quarter of 2019 or second quarter of 2019.

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 2016 associated with the share option scheme was NOK 4 833 thousand (1 918). The fair value of all options granted is estimated to NOK 9 780 thousand 31 of December 2016 (5 320).

OVERVIEW OF NUMBER OF OUTSTANDING OPTIONS

(NOK 1 000)	**2016**	**2015**
Outstanding options 1 January	975 000	0
Options granted	925 000	975 000
Options exercised	0	0
Options lapsed	-50 000	0
Share options outstanding 31 December	**1 850 000**	**975 000**
Exercisable at 31. December	0	0

NOTE 15 LEASES

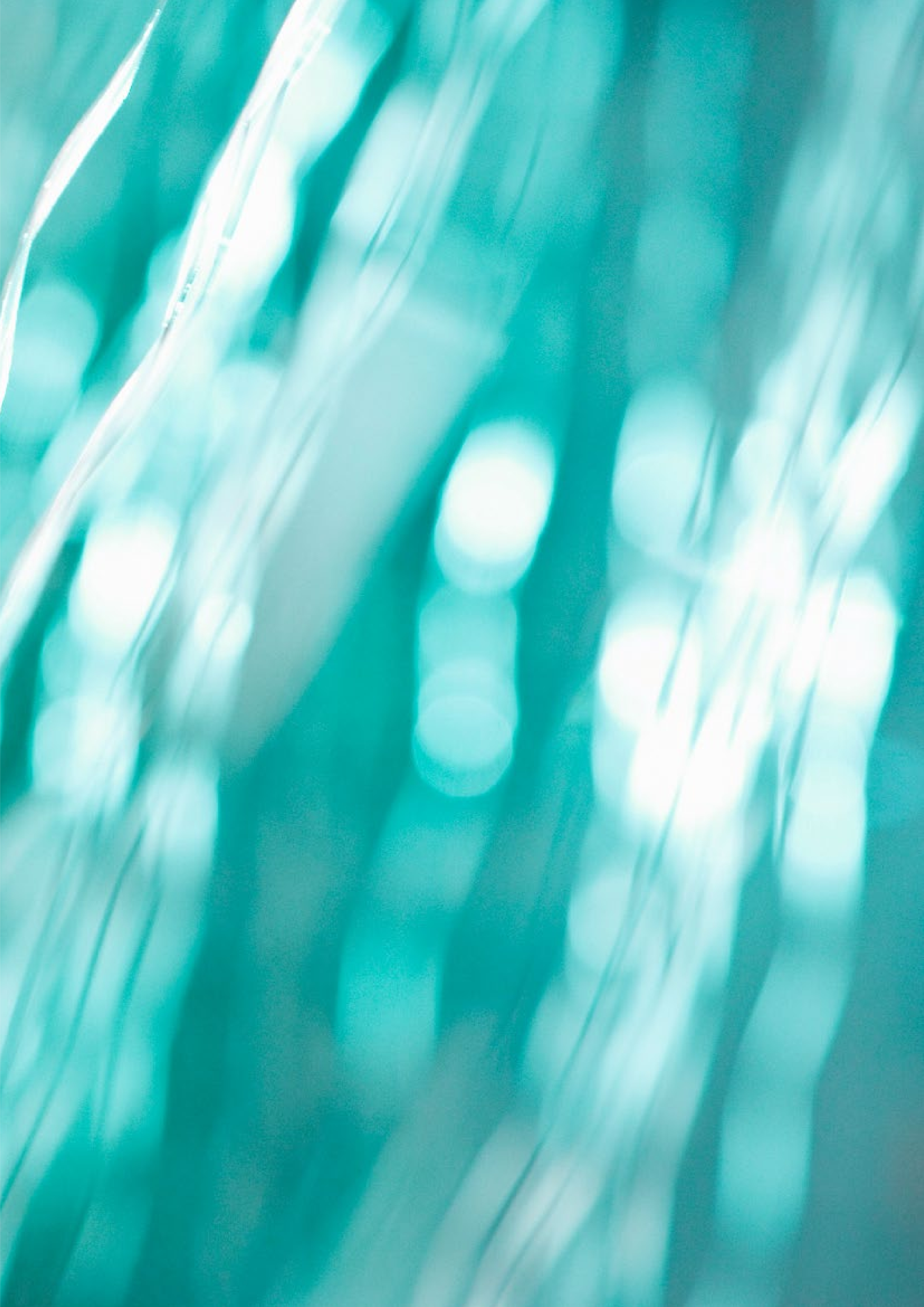
Ordinary lease payments for 2016 were NOK 2 832 thousand (2 946 in 2015).

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

(NOK 1 000)	**2016**
Not later than 1 year	2 412
1 to 5 years	10 858
Later than 5 years	4 023
Total	**17 293**

NOTE 16 EVENTS AFTER THE BALANCE SHEET DATE

There have not been any significant events after the balance sheet date.



Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Hexagon Composites ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hexagon Composites ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2016, the income statement and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the financial position as at 31 December 2016, the income statement, the statements of comprehensive income, the cash flow statement and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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Acquisition xperion Energy & Environment - Purchase price allocation and earn out calculation

At October 4, 2016, the Hexagon Composites ASA Group obtained control over xperion Energy & Environment GmbH Group. The purchase consideration amounted to NOK 396 million including an earn-out payment of maximum NOK 103 million. Management estimated that the entire earn out amount would be payable and further allocated significant parts of the purchase price to customer relationships, technology and goodwill. Based on the materiality of the acquisition and the significant degree of management judgment that the preliminary purchase price allocation requires we have determined this to be a key audit matter.

We evaluated management's assumptions related to the valuation of the intangible fixed assets such as customer relationships and technology of the acquired companies, compared key assumptions to market data and the Group's forecasts supporting the acquisition. We also used our own valuation specialists to assist in the evaluation of the management's valuation methodologies and assumptions. Our procedures included assessing the assumptions used to value the earn-out payment, including evaluation of the share purchase agreement, the sales revenue and calculations used in the revenue assumptions and the discount rate applied.

We refer to disclosures in note 5 of the financial statements.

Merger with Agility Fuel Systems – loss of control in a subsidiary

At October 3, 2016 Hexagon Composites ASA Group completed its merger transaction with Agility Fuel Systems Inc. and formed the new entity Agility Fuel Solutions LLC. The merger resulted, at the date of loss of control, in a de-recognition of the wholly owned CNG business and a recognition of a net accounting gain of NOK 348 million based on a policy choice to recognize 50% of the gain. The gain was calculated based on the fair value of the new entity of NOK 2 688 million. The investment in Agility Fuel Solutions has been accounted for according to the equity method from October 3, 2016. The management prepared the preliminary purchase price allocation to net assets, trade name, technology and goodwill. Because of the materiality of the recognized gain, judgements in relation to the purchase price allocation and complexity of the transaction, we determined this to be a key audit matter.

We reviewed the management's assessment of the transaction including the loss of control. We assessed whether the accounting treatment was consistent with the requirements of IFRS, and evaluated relevant supporting documentation, including the merger agreement. The book value for the CNG-business was based on the carve-out balance sheet at October 3, 2016 and we tested that the appropriate accounting entries, including de-recognition of merged assets and liabilities, were recorded. We evaluated managements assumptions related to the fair value of the new entity, the use of comparable marked date for peer companies and calculation of implicit value of the Hexagon cash payment. We further considered management's assessment of the allocation of excess value over book value allocated to trade name, technology, customer relationships and goodwill.

We refer to disclosures in note 5 and 26 of the financial statements.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and the Group President (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is 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 International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in 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 Board of Directors' report concerning the financial statements and in the statements on corporate governance and corporate social responsibility, and the going concern assumption, and 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Ålesund, 21 March 2017
ERNST & YOUNG AS

Amund Frøysa
State Authorised Public Accountant (Norway)

GLOSSARY

ASA	Public Limited Company in Norway
BAR	Unit of pressure. 1 millibar = 100 N/m^2
CHG	Compressed Hydrogen Gas
CNG	Compressed Natural Gas
TYPE 1	Steel cylinder
TYPE 2	Steel cylinder, composite-reinforced
TYPE 3	Composite cylinder with metal liner
TYPE 4	Composite cylinder with polymer liner
EBIT	Earnings before interests and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
HEX	Hexagon Composites ticker on Oslo Børs
HMS	Health, Safety & Environment. Collective term for activities relating to health protection, environmental protection, working environment and employee safety.
HYDROGEN	Light, colourless gas (Symbol H), produced on an industrial scale
IA	Inclusive Workplace
ISO	International Organization for Standardization – publishes standards in a large number of areas
JOINT VENTURE	Legally signed contractual agreement whereby two or more parties undertake an economic activity
COMPOSITE	Combination of glass/carbon fibre and thermosetting plastic, exploiting the malleability of the plastic and the stiffness and strength of the glass/carbon fibre
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas (propane gas)
MATCH	Equity segment on Oslo Børs
MOBILE PIPELINE®	Gas distribution products
NGV	Natural Gas Vehicle
OEM	Original Equipment Manufacturer
OSE	Oslo Stock Exchange (Oslo Børs)
X-STORE®	High-pressure composite cylinder for bulk transportation and storage of CNG
RESIN	Chemical adhesives for strengthening glass and/or carbon fibre
SMARTSTORE®	High-pressure composite cylinder for bulk transportation and storage of CNG
SCM ^{3}	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
STYREN	Organic hydrocarbon used in the production of rubber and plastic components
TITAN®	High-pressure composite cylinder for bulk transportation and storage of CNG

FINANCIAL CALENDAR 2017

ANNUAL GENERAL MEETING
20 April 2017

1ST QUARTER 2017
10 May 2017

2ND QUARTER AND
HALF YEAR REPORT 2017
18 August 2017

3RD QUARTER 2017
1 November 2017

4TH QUARTER 2017
14 February 2018

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HEXAGON

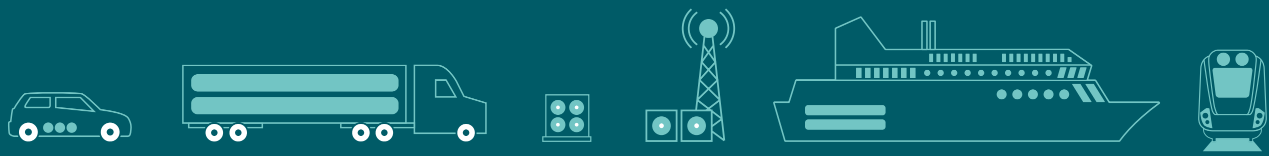
MOBILE PIPELINE®

TITAN® X-STORE®

LIGHT-DUTY VEHICLES

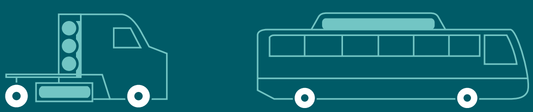
Light-Duty Vehicles

HYDROGEN



Fuel Cell Electric Vehicles | Gas Distribution | Ground storage | Backup power | Marine | Rail

AGILITY FUEL SOLUTIONS



Heavy-Duty Trucks | Transit Buses

LOW-PRESSURE CYLINDERS LPG

Cooking, heating, recreation and fork-lift trucks

ARTBOX | ELLE mELLE | Photo: Tony Hall, Shane & Sunny Photography