HEXAGON

# ANNUAL REPORT

2017

# CONTENTS

# HEXAGON COMPOSITES ASA
# OSE:HEX

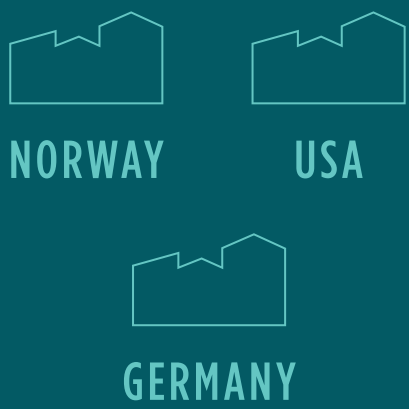
Hexagon Composites delivers safe and innovative solutions for a cleaner energy future. We are adapting our leading composite pressure vessel technology for a wide range of mobility and storage applications.

*"The energy transition towards a low-carbon society is constantly opening up exciting growth opportunities for Hexagon.*

**WORKFORCE**

850

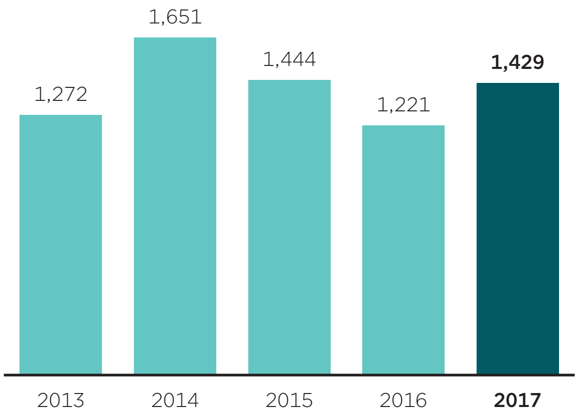
**MODERN PRODUCTION FACILITIES**



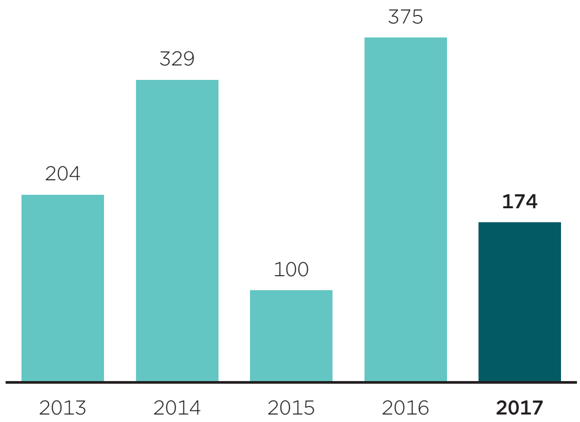

| OPERATING INCOME | NET PROFIT | EQUITY RATIO |
|---|---|---|
| 1,429 | 99.3 | 59.1 |
| MNOK | MNOK | % |

# KEY FIGURES

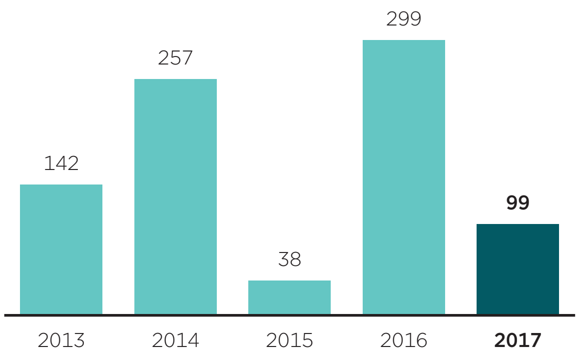
**OPERATING INCOME** MNOK



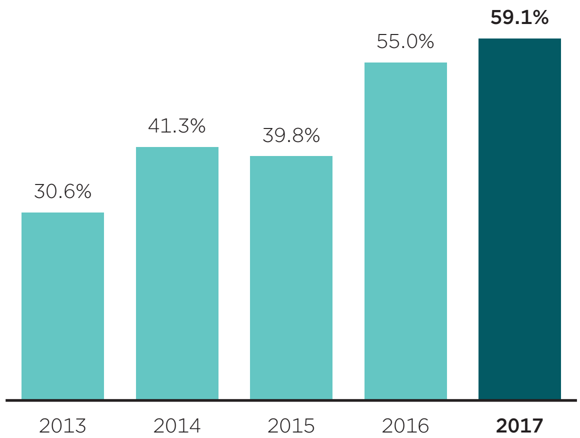

**EBITDA** MNOK



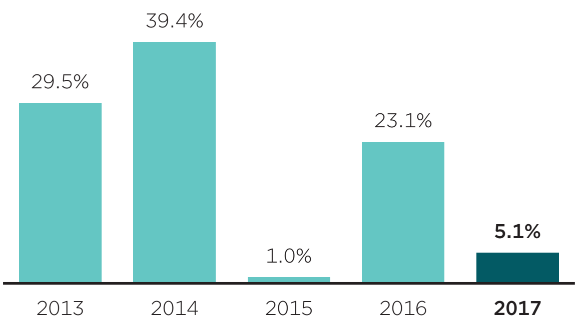

**EBIT** MNOK



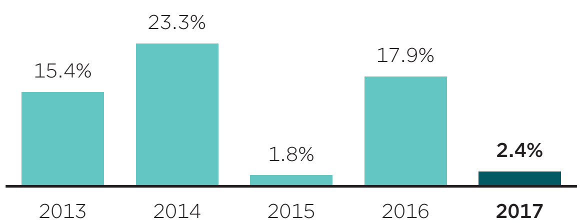

**EQUITY RATIO** %




**RETURN ON EQUITY** %




**TOTAL RATE OF RETURN** %



(NOK 1 000)

| REVENUES AND PROFIT | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Operating income | 1 429 397 | 1 220 511 | 1 443 873 | 1 650 829 | 1 271 621 |
| Operating profit before depreciation (EBITDA) | 174 022 | 374 877 | 100 119 | 329 151 | 204 362 |
| Operating profit (EBIT) | 99 291 | 299 266 | 37 513 | 256 788 | 142 064 |
| Profit before tax | 48 227 | 311 866 | 291 | 237 419 | 128 443 |
| Profit after tax | 69 472 | 208 303 | 4 563 | 164 672 | 89 643 |
| **CAPITAL 31.12** | | | | | |
| Total assets | 2 391 298 | 2 424 847 | 1 180 789 | 1 179 615 | 1 137 346 |
| Equity | 1 412 441 | 1 333 170 | 470 138 | 487 109 | 348 564 |
| Equity ratio [1)] | 59.1 % | 55.0 % | 39.8 % | 41.3 % | 30.6 % |
| **PROFITABILITY AND RATE OF RETURN** | | | | | |
| Cash flow from operations | 90 434 | -4 034 | 41 276 | 175 908 | 158 575 |
| Operating margin [2)] | 6.9 % | 24.5 % | 2.6 % | 15.6 % | 11.2 % |
| Return on equity [3)] | 5.1 % | 23.1 % | 1.0 % | 39.4 % | 29.5 % |
| Total rate of return [4)] | 2.4 % | 17.9 % | 1.8 % | 23.3 % | 15.4 % |
| NIBD/EBITDA [5)] | 1.2 | 0.6 | 3.0 | 0.3 | 1.0 |
| **SHARES** | | | | | |
| Share capital | 16 663 | 16 663 | 13 329 | 13 329 | 13 329 |
| Total number of shares per 31.12 | 166 627 868 | 166 627 868 | 133 294 868 | 133 294 868 | 133 294 868 |
| Earnings per share [6)] (NOK) | 0.42 | 1.40 | 0.03 | 1.24 | 0.67 |
| Cash flow per share [7)] (NOK) | 0.55 | -0.03 | 0.31 | 1.33 | 1.19 |
| Equity per share [8)] (NOK) | 8.48 | 8.00 | 3.56 | 3.67 | 2.62 |

## 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.

Jon Erik Engeset,

Group President & CEO
of Hexagon Composites ASA

# SETTING THE PACE FOR GROWTH

All of Hexagon's businesses are addressing energy related opportunities. The energy markets have undergone profound changes over the last few years. The cleaner energy transition, supported by public and private players, is happening now.

The launch of the Hydrogen Council, chaired by major energy and mobility players, demonstrates a strong commitment to hydrogen technology and investments. Through the consortium "CNG Mobility", the Volkswagen Group and leading German industrial players are taking the lead, aiming at 1 million CNG cars in Germany by 2025. We are proud to be part of both initiatives to continue enhancing the essential role of hydrogen, CNG and biogas in the future energy mix.

To be phased in from 2020, EU legislation sets stricter CO2 emission targets for new cars. The OEMs are mandated to swiftly deploy low carbon emission vehicles to meet the new regulations.

For Hexagon, these developments – combined with numerous others, represent major opportunities and we have good reasons for considerable optimism.

**2017 AT A GLANCE**

Hexagon Ragasco continues to increase the market penetration of LPG composite cylinders. We are investing in our facility at Raufoss to further improve manufacturing efficiency and product differentiation, as well as provide more production capacity. Innovations aimed at safety, ease of use, and high corrosion resistance are expected to make a positive impact upon the demand for LPG cylinders globally.

Our Hydrogen business has experienced exceptional growth since it was established at the beginning of 2016. During 2017 we had commercial sales to rail, distribution, refueling station, passenger car and heavy-duty vehicle markets. The award of a development contract for hydrogen cylinders for new fuel cell electric vehicle (FCEV) models represents a major milestone for us.

In Germany, we see a strong g-mobility drive in the light-duty vehicle market and an increasing consensus that climate targets cannot be reached without natural gas and biogas. We have confidence in the fundamentals of our CNG Light-Duty Vehicle business and the outlook for 2018 is very promising.

After a couple of challenging years for our Mobile Pipelines business, we see recovery in volumes particularly in North America, and strong underlying growth drivers globally. Natural gas has an increased portion of the energy mix, and biogas (renewable natural gas) is becoming more important in North America and Europe.

During fourth quarter of 2017, we successfully launched an efficient testing technology solution for our Mobile Pipeline® customers which minimizes their downtime during regulatory requalification of these modules. A large number of modules are due for regulatory requalification in the U.S. during 2018.

A word from the CEO

"We aim to lead the markets in renewable gas storage, distribution and fuel systems technology and solutions."

Medium and heavy-duty vehicles markets have been soft during 2017, however Agility Fuel Solutions' strong focus on cost efficiencies has created a sound platform for maximizing financial performance in an otherwise soft market. Cummins Westport's introduction of a "near zero" emissions 12L natural gas engine is expected to be a positive development for Natural Gas Vehicles going forward.

**SET FOR FURTHER GROWTH**
Having made significant strategic moves in 2016, our priority in 2017 has been to ensure optimal integration of the new businesses, with an emphasis on the realization of synergies.

Hexagon has established a unique position as the global market leader in safe and innovative mobility solutions for a cleaner energy future. We see strong growth drivers both short and long term across all business units.

**SHARPENING OUR FOCUS ON CLEANER ENERGY OPPORTUNITIES**
Hexagon is evolving from trusted product supplier to trusted solutions provider with increasing momentum. We are adopting our leading and proven Type 4 composite pressure tank technology for a wide range of mobility and storage applications in the energy market.

We are seeing a major paradigm shift in the energy transition. Hexagon views hydrogen as an essential energy carrier in the development of decarbonized energy systems. g-mobility, the use of gas in mobility applications, is the fastest way to reduce CO2 emissions in the transportation sector in a short-term.

Biogas is a commercially viable fuel, supported by governmental incentives. Biogas can rely on existing natural gas infrastructure and is based on proven technology.

As a carbon-negative solution, biogas provides the world's energy system with several advantages: it contributes to reaching climate targets through reduced CO2 emissions sequestration and can improve air quality by being used as a vehicular fuel displacing petrol. Further, it advances energy security as it can be produced locally using available biowaste. Biogas is the most emission-friendly fuel available today.

We aim to lead the markets in renewable gas storage, distribution and fuel systems technology and solutions. Hexagon is responding to these market opportunities and has organized Hydrogen and Light-Duty Vehicle activities into a dedicated business segment. Looking ahead, Hexagon will focus on forward integration and providing solutions around the hydrogen value chain.

Our Hydrogen business is a key focus area for our strategic partner and major owner, Mitsui & Co. The alliance secures a valuable and long-term minded partner and allows for deeper value chain penetration, directly leveraging the hydrogen opportunity.

**ORGANIZATIONAL DEVELOPMENT IS KEY TO SUCCESS**
In 2018 we will make substantial investments in our organization, research and development and production capacity to meet market demands and maintain technology leadership. Adapting to change can be demanding and challenging, and requires that we fundamentally change the way we think and work together.

I am grateful for the hard work and dedication exhibited by our people during this year. As we look forward to meeting market demands and unlocking new opportunities, I express my sincere gratitude for the cooperation and support from our shareholders and other key stakeholders during 2017.

Jon Erik Engeset

**JON ERIK ENGESET**
Group President & CEO

# IMPORTANT EVENTS IN 2017

## POSITIONING FOR SIGNIFICANT LONG-TERM OPPORTUNITIES

In 2017 Hexagon Composites prioritized the integration of the new business combination as a result of strategic moves in 2016. Going forward, the Group will focus on the significant long-term opportunities, particularly within hydrogen and biogas.

HEXAGON

**ACQUISITION OF XPERION**
Successful integration of Hexagon xperion (renamed from xperion Energy & Environment) into the Group's business units

HYON

**PARTNERSHIPS**
Launched Hyon AS, a joint venture with NEL ASA and PowerCell Sweden AB, with an immediate focus on hydrogen related solutions within marine and maritime applications

1,429

MNOK

**OPERATING INCOME**
- Record LPG performance – 30% revenue growth
- Mobile Pipelines recovery in volumes
- Exceptional Hydrogen growth
- Positive macro sentiment for Light-Duty Vehicles

99

**EBIT** MNOK

**PROFITABILITY**
- EBIT margins for Low-Pressure LPG were above 19%
- Underlying profitability in all business units
- Agility recorded 78% growth in adjusted EBITDA

**FINANCE**
- Double-digit Group EBITDA margin
- Strong balance sheet with 59% equity ratio
- Net interest-bearing debt held to within 10% of total assets

# BOARD OF DIRECTORS

**KNUT FLAKK**
Chairman

MSc (BI Norwegian Business School) and MBA (London Business School). 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. 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), Director for Business Development and IT at Relacom. Duun Moen has extensive experience from various management positions in energy, telecom and consultancy, and most recently as Senior Vice President in Statkraft. She held board positions in several energy and innovation companies. Independent board member.

Number of shares: 0

**ELISABETH HEGGELUND TØRSTAD**
Board Member

Cand. scient. (University of Oslo) and Business Administration (Norwegian School of Management). CEO Digital Solutions at DNV GL. Tørstad has more than fifteen years of experience from leadership positions in DNV GL and most recently as CEO for Oil & Gas. Tørstad has been, for the most part, on the Executive Board and Council in DNV GL since 2010. 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. Narvesen 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), President & CEO of Mitsui & Co. Plastics Ltd. Mori held various management positions in Mitsui & Co. within the fields of advanced composite materials and renewable energy related materials. He 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: Elisabeth Heggelund Tørstad, Katsunori Mori, Knut Flakk, Kristine Landmark, Kathrine Duun Moen and Sverre Narvesen

# EXECUTIVE MANAGEMENT

**JON ERIK ENGESET**

Group President & CEO

MSc 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: 440,867
Number of options: 550,000
*Includes shares owned by related parties*

**DAVID BANDELE**

CFO

Bachelor of Economics (University of Sheffield), qualified Chartered Accountant in London (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: 350,000

**JACK SCHIMENTI**

Executive Vice President

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

Number of shares: 60,341
Number of options: 350,000

**MICHAEL KLESCHINSKI**

Executive Vice President
Hydrogen & Light-Duty Vehicles

PhD and BSc in Mechanical Engineering (respectively Darmstadt University and Glasgow University), CEO of Hexagon xperion since 2016. Has previously held different management positions within production and engineering and has extensive experience with design and manufacturing of composites.

Number of shares: 0
Number of options: 150,000

**SKJALG SYLTE STAVHEIM**

President
Low-Pressure Area LPG

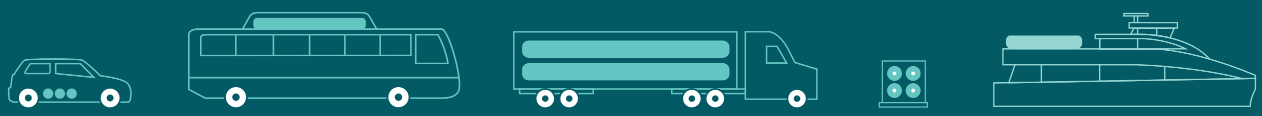
MSc in Economics and Business Administration (BI Norwegian Business School). Skjalg Sylte Stavheim has been employed at Hexagon Ragasco since the beginning of 1996 and as Managing Director since 2013. He has experience from Delta Consult, Norbok and Raufoss ASA.

Number of shares: 29,215
Number of options: 300,000

# DELIVERING ENERGY SOLUTIONS

Hexagon is adapting its leading composite pressure cylinder technology for a wide range of mobility and storage applications. The energy transition towards a low-carbon society provides exciting growth opportunities for the Group.

## HYDROGEN & LIGHT-DUTY VEHICLES



## MOBILE PIPELINES

## LPG

## AGILITY FUEL SOLUTIONS

The value-added features of the products are light weight, high capacity, long life 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, environmentally sound and cost-effective solutions through sustainable business practices.

Hexagon Composites ASA is listed on the Oslo Stock Exchange (OSE:HEX). Based in Aalesund, Norway, the extended Group has around 850 employees and generated NOK 1,429 million in operating income in 2017. Production is carried out in modern, automated plants in Norway, Germany and the U.S.

## DELIVERING ON STRATEGIC AGENDA

Having made significant strategic moves in 2016, the Company's priority in 2017 has been integration of the new businesses. Hexagon sees strong growth drivers both short and long-term across its businesses.

## BUSINESS SEGMENTS

Hexagon was until 2017 comprised of two business segments: High-Pressure CNG & CHG and Low-Pressure LPG. To respond to the growing market opportunities for renewable fuels solutions, Hexagon has organized its Hydrogen activities and Light-Duty Vehicle activities into a dedicated single business segment. The new reporting structure from 2018 will be:

Consolidated segments:
- Hydrogen & Light-Duty Vehicles
- Mobile Pipelines
- LPG
- Other: Hexagon MasterWorks

Equity accounted:
- Medium and Heavy-Duty Vehicles (Agility Fuel Solutions (50% owned))

## HYDROGEN & LIGHT-DUTY VEHICLES

### 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 is well positioned across the hydrogen value chain with vehicle tanks for cars, buses and heavy-duty trucks, ground storage, transportation, marine, rail and backup power solutions. Type 4 tanks provide the best combination of safety, efficiency and durability that is available today. Their lightweight construction improves range, payload and handling.

### Light-Duty Vehicles

Hexagon's cylinders are the ideal fuel tanks for light-duty vehicles because of their combination of safety, efficiency and durability. They are less than 50% of the weight of steel, which reduces fuel consumption, extends vehicle range and provides better stability and handling. The Group's principal OEM customers are located in Europe.

## MOBILE PIPELINES

Hexagon designs and manufactures high-pressure composite cylinders and systems for the transportation and storage of compressed gases (natural gas, biogas and hydrogen). The TITAN® and X-STORE® solutions are designed for bulk transportation of natural gas and renewable 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 traditional pipeline infrastructure. With four times more capacity and weighing only 30% that of steel tubes, Hexagon's cylinders are more economical in use under most conditions. This enables a faster return on investment.

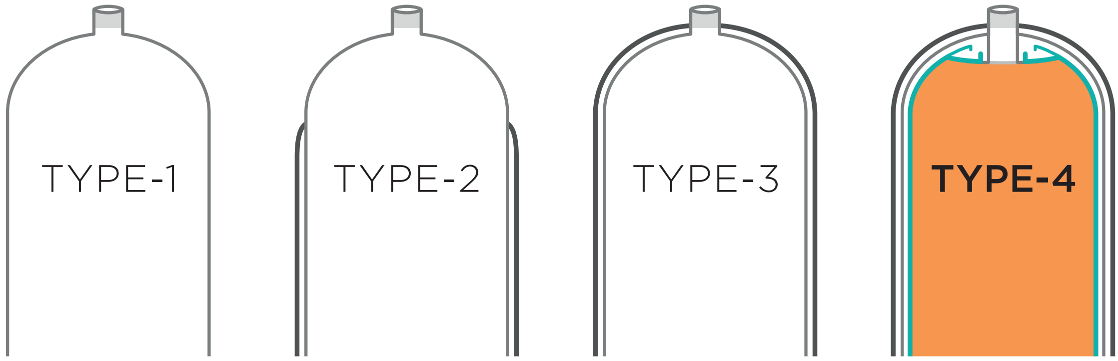
## LPG

Hexagon designs and manufactures low-pressure composite cylinders for LPG (propane and butane) used for leisure activities, household use and industrial applications worldwide. As the world's leading manufacturer of LPG composite cylinders, Hexagon has sold around 14 million units to over 80 countries in the last 17 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.

## MEDIUM AND HEAVY-DUTY VEHICLES

Hexagon's 50%-owned affiliate, Agility Fuel Solutions, designs and manufactures high-pressure composite fuel cylinders and systems for transit buses, refuse trucks and medium- and heavy-duty trucks. The cylinders are used for CNG, biogas and hydrogen. Light weight, compact size, and superior safety make the cylinders an attractive alternative for the Natural Gas Vehicle (NGV) and Alternative Fuel Vehicles (AFV) market. The Type 4 composite cylinders are less than 30% of the weight of steel cylinders. Lower emissions, reduced particulates and

## LEADING TYPE 4 PRESSURE CYLINDER TECHNOLOGY




| All steel | Fiberglass hoop wrap steel liner | All carbon full wrap metallic liner | Fiberglass/carbon full wrap, plastic liner |
|---|---|---|---|
| (1.2-1.5kg/liter) | (0.7-1.4kg/liter) | (0.3-0.4kg/liter) | (0.25-0.35kg/liter) |

lower fuel costs of gas powered engines, give customers a competitive edge while reducing the environmental impact of their operations.

### A MARKET DRIVEN BY THE ENERGY TRANSITION AND ECONOMICS

Hydrogen, biogas and natural gas are expected to increase their share in the global energy mix. g-mobility, the use of gas in mobility applications, is the fastest way to reduce CO2 emissions in the transportation sector. The strong momentum towards low-carbon economies is stimulating demand for the Group's solutions.

Hydrogen is a clean and safe energy carrier with favorable characteristics as it does not release any CO2 during use. Hydrogen technologies and products have significantly progressed over the past years and are now being widely introduced and commercialized globally.

Gas transportation infrastructure is limited in many places. Mobile Pipeline® solutions enable markets to convert from diesel and oil to low-carbon natural gas, biogas and hydrogen without conventional pipelines.

The rapid increase worldwide in the use of natural gas and biogas has resulted in strong, long-term growth trends in the Group's markets. The fundamental market drivers remain robust and are expected to stimulate demand for Hexagon's solutions.

### INNOVATION AND COST-EFFECTIVE PRODUCTION

Product and process innovation, along with highly automated and efficient production, are core competitive strengths underlying Hexagon's 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.

### PRODUCT SAFETY

Since Hexagon's products are used to transport and store highly flammable, pressurized gases, product safety is a fundamental requirement. Hexagon is involved in several international standards development and maintenance committees with the primary aspect of bringing safety to users and the environment. All of Hexagon's products are tested and approved in accordance with established safety standards. Production and related processes are regularly monitored and controlled.

### COMPETENCE AND EXPERTISE

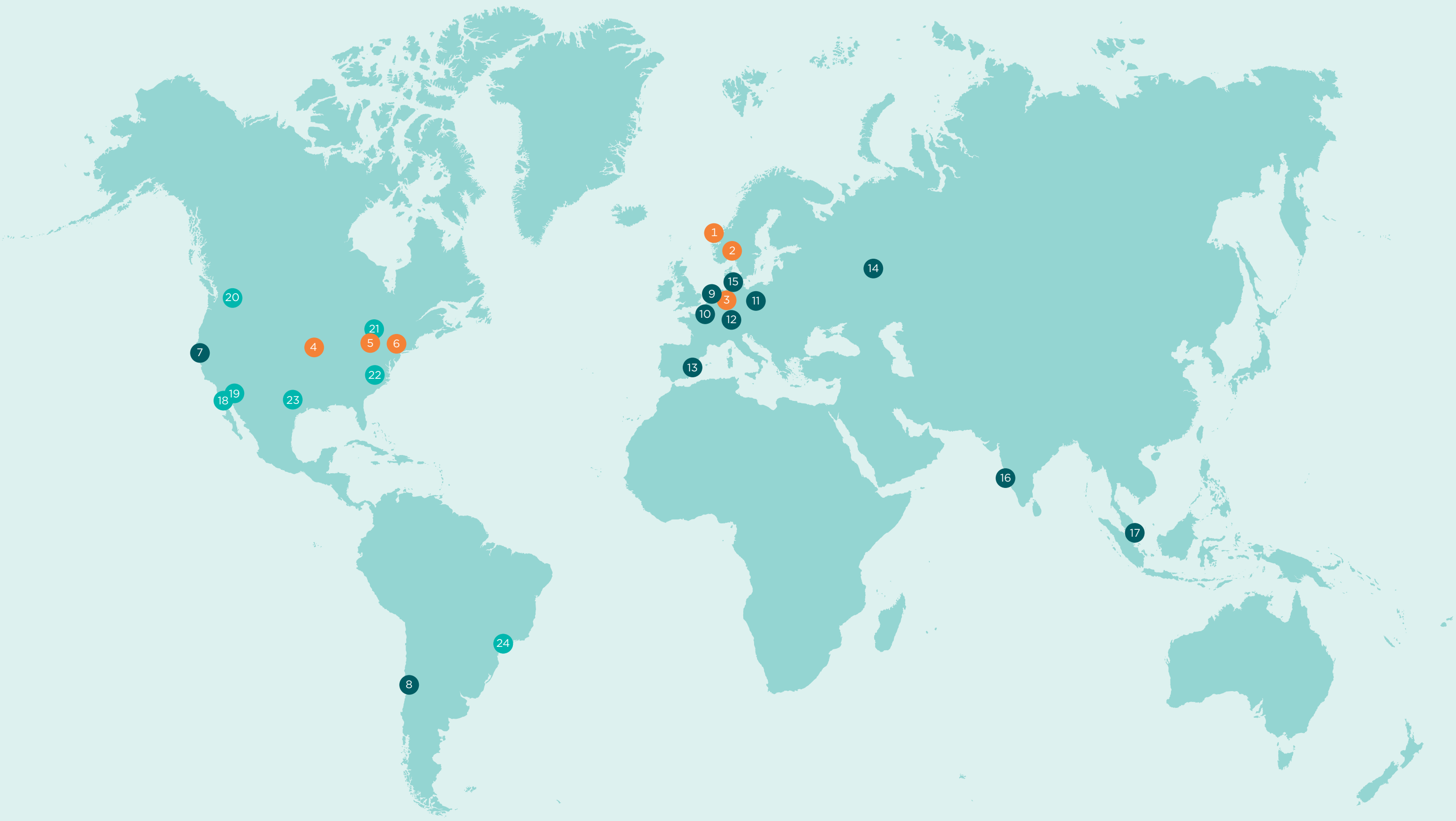
Innovation, ambition, and expertise are critical success factors. Hexagon encourages diversity in hiring practices with the aim of hiring people with different backgrounds and expertise. The Group emphasizes empowerment and a flat organizational structure that recognizes employees' accomplishments and enable them to thrive.

## THE EXTENDED HEXAGON COMPOSITES GROUP

31 DECEMBER 2017

850

The extended Hexagon Composites Group




### HEXAGON ADMINISTRATION AND PRODUCTION SITES

1. **Aalesund, Norway**
   Headquarters
2. **Raufoss, Norway**
   LPG Cylinders
   Light-Duty Vehicles
3. **Kassel, Germany**
   Hydrogen
   Light-Duty Vehicles
   Mobile Pipelines
4. **Lincoln (NE), U.S.**
   Hydrogen
   Mobile Pipelines
5. **Heath (OH), U.S.**
   LPG Cylinders distribution
6. **Taneytown (MD), U.S.**
   Hexagon MasterWorks

### HEXAGON SALES OFFICES AND REPRESENTATIVES

7. **Corona (CA), U.S.**
   Sales representative
8. **Santiago, Chile**
   Sales representative
9. **Arnheim, Netherlands**
   Sales representative
10. **Paris, France**
    Sales representative
11. **Wroclaw, Poland**
    Sales representative
12. **Klagenfurt, Austria**
    Sales representative
13. **Barcelona, Spain**
    Sales representative
14. **Nizhny Novgorod, Russia**
    Sales office
15. **Copenhagen, Denmark**
    Sales representative
16. **Bangalore, India**
    Sales office
17. **Singapore**
    Sales office

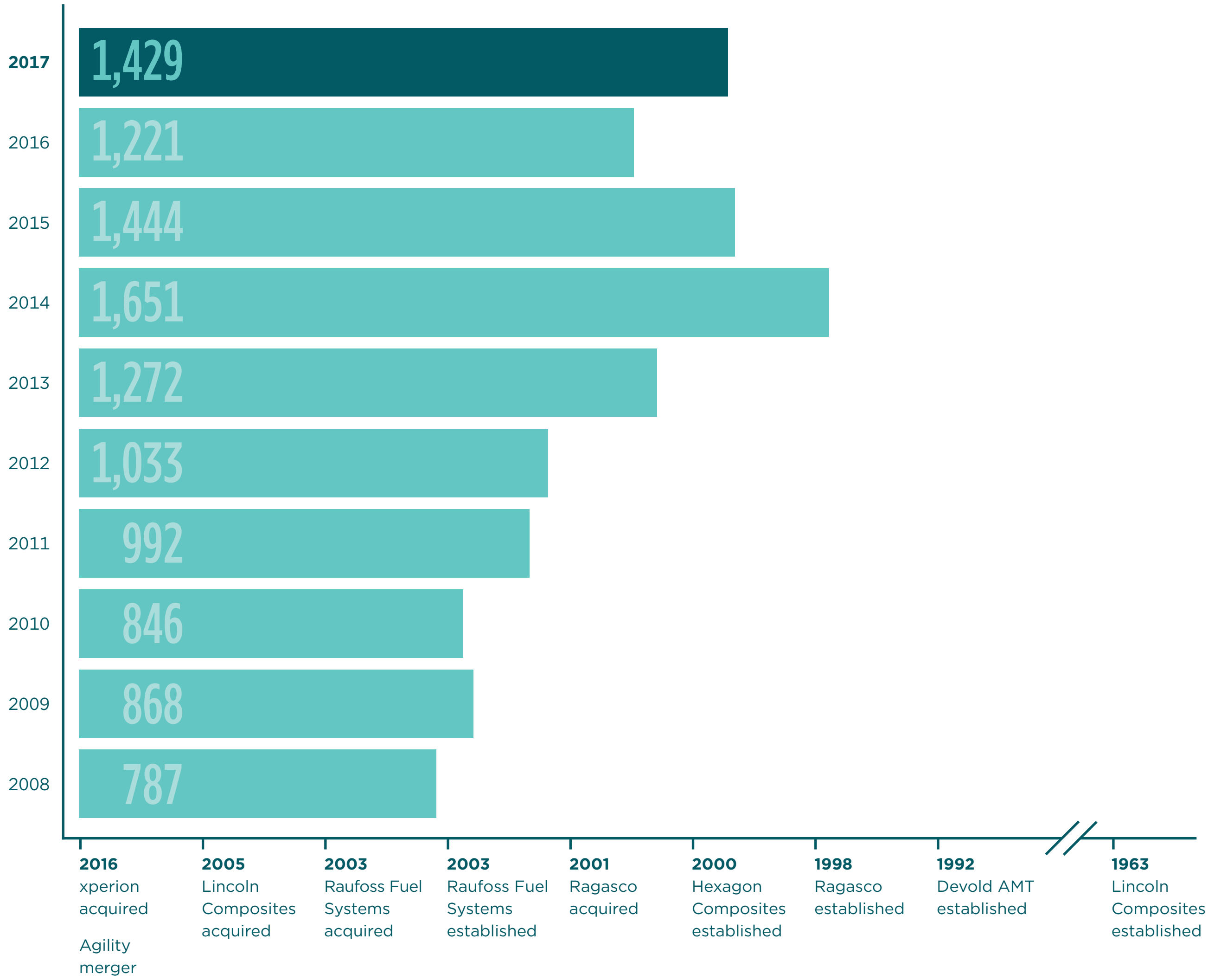
### AGILITY FUEL SOLUTIONS (50/50 OWNED)

2. **Raufoss, Norway**
   Systems production
4. **Lincoln (NE), U.S.**
   Cylinders production
18. **Costa Mesa (CA), U.S.**
    Headquarters
19. **Fontana (CA), U.S.**
    Systems production
20. **Kelowna (BC), Canada**
    Engineering,
    test and validation
21. **Wixom (MI), U.S.**
    Powertrain systems
22. **Salisbury (NC), U.S.**
    Systems production
23. **Georgetown (TX), U.S.**
    Propane dispenser
24. **Sao Paolo, Brazil**
    Sales resources

History

# HISTORY ROOTED IN INNOVATION AND CHANGE

**OPERATING INCOME**
MNOK



**1999**
Flakk Group became the largest owner of publicly listed Norwegian Applied Technology ASA of 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 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 leading manufacturer of composite LPG cylinders based in Raufoss, Norway. Enviromech (U.S.) was founded as a supplier of fuel storage solutions for natural gas and hydrogen.

**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**
Hexagon 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 U.S. 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 LPG cylinders.

**2011**
FAB industries and Enviromech merged and formed Agility Fuel Systems, becoming a leading supplier of alternative fuel systems for heavy-duty trucks and buses.

**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 and the production volume was transferred to Raufoss.

**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 was initiated. 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.

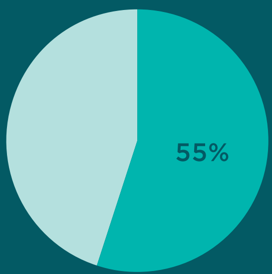
**2016**
Mitsui & Co., Ltd. acquired 25.01% of Hexagon and a strategic alliance agreement was signed. The CNG Automotive Products Division was merged with Agility Fuel Systems, to create Agility Fuel Solutions (50% Hexagon owned). xperion Energy & Environment in Germany, one of the leading Type 4 cylinder manufacturers, was acquired.

**2017**
xperion was successfully integrated to the organization and the Group repositioned itself for further growth. Hyon AS was launched, a joint venture with NEL ASA and PowerCell Sweden AB, focused on hydrogen projects.

# SHARPENED FOCUS ON CLEAN ENERGY OPPORTUNITIES

**OPERATING INCOME**
MNOK

786.5




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

**EBIT**
MNOK
-8.6

**KEY FIGURES**

| (MNOK) | 2017 | 2016 |
|---|---|---|
| Operating income | 786.5 | 728.3 |
| EBITDA | 47.2 | 302.4 |
| EBIT | -8.6 | 248.4 |
| EBITDA % | 6.0 % | 41.5 % |
| EBIT % | -1.1 % | 34.1 % |

**HEXAGON LINCOLN**
LINCOLN, NE, USA

MOBILE PIPELINES
HYDROGEN

121

6,000 $m^2$

**HEXAGON RAUFOSS**
RAUFOSS, NORWAY

LIGHT-DUTY VEHICLES

12

3,000 $m^2$

**HEXAGON XPERION**
KASSEL, GERMANY

MOBILE PIPELINES
HYDROGEN
LIGHT-DUTY VEHICLES

136

7,000 $m^2$

Hexagon Composites is the global leader in Type 4 high-pressure composite cylinders and solutions for storage and transportation of compressed natural gas (CNG), biogas and hydrogen gas. Low weight, combined with considerable lower emissions, reduced particulates and lower fuel costs of natural gas-powered engines, helps the customer be more competitive and reduces the environmental impact of their operations.

The wholly-owned subsidiaries, Hexagon Lincoln, Hexagon Raufoss and Hexagon xperion, design and manufacture Type 4 cylinders and gas distribution systems at modern and high-capacity production facilities in Lincoln (Nebraska, USA), Kassel (Germany) and Raufoss (Norway). The 50% owned affiliate, Agility Fuel Solutions, a globally leading provider of natural gas fuel systems and Type 4 cylinders for medium- and heavy-duty commercial vehicles, operates state-of-the-art production facilities strategically located in the U.S., Norway and Canada.

The lightweight pressure cylinders are typically less than 25-30% the weight of steel cylinders, which is the dominating technology. The Type 4 composite cylinders are superior in fatigue life and further enhance safety by behaving corrosion-free over their lifetime. Less weight may provide substantially lower operational expenses and greater range due to more fuel being transported.

## BENEFITS TO THE BOTTOM LINE AND THE ENVIRONMENT

Demand for Hexagon's solutions is driven by the price advantage of natural gas to oil-derived fuels, and the environmental benefits of cleaner-burning fuels. Consumers are looking to control their fuel costs minimizing their environmental footprint. The stability of the natural gas price compared to more volatile oil-derived fuels and improved emissions performance meet these requirements.

The acceleration of the energy transition to cleaner fuels continues to attract investments spurring further adoption of natural gas, biogas (renewable natural gas) and hydrogen.

## OPERATING RESULTS

The High-Pressure area generated NOK 786.5 (728.3) million in operating income and made an operating profit (EBIT) of NOK -8.6 (248.5) million in 2017. Mobile Pipelines sales showed recovery with high activity in the North American oil & gas sector. Light-Duty Vehicle sales in Europe were disrupted in the first half of the year, but recovered strongly and returned to satisfactory profitability. Organic and inorganic growth has driven Hydrogen sales volumes to account for 10% of Group revenues, from 3% in 2016.

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

## KEY DEVELOPMENTS AND IMPORTANT EVENTS 2017

- Mobile Pipelines recovery in volumes driven by strong North American markets
- Exceptional Hydrogen growth
- Positive macro sentiment for CNG Light-Duty Vehicles in Europe
- Successful integration of the Hexagon xperion operations
- Entered into long-term agreement with Certarus and received TITAN® orders with a total value of approx. NOK 348 million
- Launched requalification testing program for Mobile Pipeline® cylinders minimizing customers' equipment downtime during regulatory requalification
- Received a major development award for hydrogen cylinders for new fuel cell electric vehicle (FCEV) models
- Expanded into the fuel cell heavy-duty truck market with deliveries to Toyota and ASKO
- Launched Hyon AS, a joint venture between Hexagon, Nel ASA and PowerCell Sweden AB
- Awarded a substantial order for cylinders from Air Products for hydrogen transportation in Germany
- Significant sales orders received for composite CNG cylinder vehicle conversions in Indonesia
- Expanded into the maritime industry with the first delivery of CNG TITAN® tanks for fuel storage onboard a LNG gas supply vessel being built for Babcock Schulte Energy
- Agility expanded its LPG-focused Powertrain Systems business unit through acquisition, and accelerating product sales.

## OBJECTIVES ACHIEVED IN 2017

- Recovered volumes in North American Mobile Pipelines market towards the end of the year
- Improved profitability
- Obtained additional Hydrogen OEM business
- Strengthened market share positions for CNG vehicles in Indonesia
- Expanded market reach geographically
- Realized synergies of the xperion transaction and successfully integrated the business.

**OBJECTIVES FOR 2018-2019**

- Improve profitability in Mobile Pipelines and LDV
- Invest significantly in expanding hydrogen related businesses
- Successfully execute existing hydrogen OEM projects
- Re-establish Mobile Pipelines volumes in markets outside North America
- Trigger incremental Mobile Pipelines demand through further developing financing solutions
- Successful launch of new product offering within Mobile Pipelines
- Support the European resolve to displace diesel with CNG
- Strengthen our market reach geographically
- Continuously improve production efficiencies and reduce operational costs
- Seek and receive specific national approvals for key hydrogen products.

**STRATEGY**

Hexagon Composites will grow its leading position in the development, production and global adoption of Type 4 high-pressure CNG, biogas and hydrogen cylinders for mobility applications. The Group complies with enhanced applicable safety standards. With high integrity and leading product technology and manufacturing infrastructure, Hexagon targets to increase its position as the preferred partner to key players in the automotive and gas distribution industries. Experience in highly automated production and a leading position in the value chain enables the Group to provide customers with continuous high-quality products and cost-competitive solutions as the market grows. The formation of the jointly-owned affiliate Agility Fuel Solutions enhances the Company's commitment to the CNG space. The joint venture is well positioned to lead the global commercial vehicle market's continued transition to natural gas and biogas (renewable natural gas).

Over the last decade, Hexagon has developed a strong and competitive tier 1 position with European car manufacturers for its Type 4 tanks in a niche market for CNG vehicles. Hexagon is ideally positioned to support an increasing market demand due to its legacy in robot-automated high serial production of full composite pressure vessels and the experience of a Tier 1 supplier.

Hexagon will remain the global leader in distribution systems for road transportation of CNG and other compressed energy gases beyond the pipeline. The company sees great potential in this largely undeveloped market on a global scale. Its TITAN® and X-STORE® solutions allow CNG, biogas and hydrogen to compete against other fuels, including pipeline natural gas, liquefied natural gas (LNG) and oil-derived liquid fuels. Hexagon continues to promote CNG as the preferred energy for off-pipeline and high-horsepower consumers, as well as expanding CNG and hydrogen as a fuel into emerging applications such as rail and marine markets. Hexagon continues to develop life-cycle asset management solutions and products.

Hydrogen is considered an essential part of the energy mix required for the energy transition. Hexagon 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, distribution, marine, rail and backup power solutions. Hydrogen has the potential to solve the challenge of equalizing energy demand and supply from solar and wind power.

**RESEARCH, DEVELOPMENT AND INNOVATION**

Hexagon is investing in technology and process innovation, and dedicates substantial resources towards this.

A research & development (R&D) center of excellence (COE) has been established in Lincoln, utilizing a virtual organization across the entire Group including Raufoss and Kassel, to enable the effective prioritization of R&D initiatives. The COE is focused on improvement initiatives that will positively impact Hexagon's competitive position in its markets. The R&D team continuously evaluates new innovative materials, design, and processing and analysis techniques. Hexagon is at the forefront of standards development throughout the world for Type 4 pressure vessels, systems and auxiliary components.

Hexagon has a strong, ongoing focus on product development in close collaboration with its 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 2017, Hexagon received U.S. DOT (U.S. Department of Transportation) permits for the Modal Acoustic Emission (MAE) requalification testing program, as well as U.S. DOT permits for TITAN® 4 module enhancements.

Agility Fuel Solutions operates manufacturing and assembly facilities in North America, South America and Europe, as well as research and development centers. The company designs and produces fuel systems and cylinders which are based on its core product.

**PRODUCTION**

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

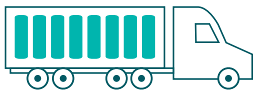
The production line of TITAN® 4 modules in Lincoln was upgraded in the third quarter of 2017 to reflect a coordinated effort between Hexagon and suppliers to reduce cost, ease manufacturability and product improvements. Production volumes fluctuated during the year and after a relatively soft second and third quarter, high production volume was achieved at the end of the year. A firmer order position has allowed for an expansion in manning capacity in the U.S. which will have greater effect through 2018.

Capacity utilization in Kassel, Germany, was low during the first half of 2017 due to disruptions, and high during second half of the year. The organization has focused on increasing efficiencies by streamlining all production steps to be prepared for increased marked demand.

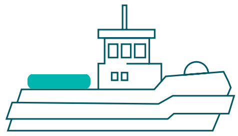
Production volumes of LDV cylinders at Raufoss were high during the first half of 2017, and relatively soft during the second half of the year due to the timing of new orders.

High-Pressure CNG, biogas and hydrogen

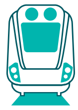
TITAN®



X-STORE®



Marine



Rail

# MOBILE PIPELINES – ENABLING CONVERSION FROM PETROLEUM TO LOW-CARBON FUELS

Hexagon's Mobile Pipelines solutions offer distribution of CNG and biogas off the pipeline network. The Company's product portfolio is the broadest in the market and comprises the product brands TITAN® and X-STORE®.

TITAN® and X-STORE® modules are highly effective in areas without a pipeline network and with stringent road weight limitations. Both product brands represent the benchmark with regard to quality, weight, safety and payload for composite transport solutions.

## KEY DEVELOPMENTS AND IMPORTANT EVENTS 2017

- Mobile Pipelines recovery in volumes driven by strong North American markets
- Entered into long-term agreement with Certarus and received TITAN® orders with a total value of approx. NOK 348 million
- Launched requalification testing program for Mobile Pipeline® cylinders minimizing customers' equipment downtime during regulatory requalification
- Expanded into the maritime industry with the first deliverable of CNG TITAN® tanks for fuel storage onboard a LNG (Liquefied Natural Gas) gas supply vessel (GSV) being built for Babcock Schulte Energy
- Received an order for gas container modules from EGAS in Pakistan with a total estimated value of approx. NOK 21 million.

### Market

Mobile Pipelines sales volumes in 2017 were primarily attributed to North American customers and drove year-over-year organic growth of 48%. The Mobile Pipelines 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 order intake outside North America is currently low, however, the prospect list is long and market opportunities remain strong.

The North American market is driven by high shale oil and gas activity, as well as strong interest from the industrial sector. CNG is a low-cost fuel alternative to diesel for high-horsepower drilling rigs and hydraulic fracturing pumps. Improving macro conditions, particularly in the oil and gas sector, give momentum to this business. Demand for Hexagon's Mobile Pipelines solutions is driven principally by the price advantage of natural gas to oil-derived fuels, and the environmental benefits of cleaner burning alternative fuels.

The Company sees customer interests in flare gas capture, gas utilities, biogas plants, mobile refueling, industrial applications, oil field transportation, virtual interconnect and gas islands.

In the fourth quarter of 2017, Hexagon Lincoln launched a requalification testing program for Mobile Pipelines modules. The efficient requalification testing program, based on Modal Acoustic Emission (MAE) technology, minimizes the operators' out of service time while ensuring an approved, safe and reliable requalification method. Hexagon is a first-mover launching this unmatched service to the gas transportation market, expanding its equipment and service offerings to further its ability to meet market needs.

The inclusion of Hexagon xperion's Mobile Pipelines business has strengthened the Company's footprint. Hexagon xperion's X-STORE® solutions have a strong foothold in Europe, the Middle East and Southeast Asia. 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.

Hexagon will continue to focus on further development of products and business solutions, achieving the lowest cost per delivered gas volume unit, as well as value-added customer services to differentiate itself from the competition.

Hexagon 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 and market-leading products.

**Rail**
Hexagon continues its efforts to strengthen the value proposition of CNG for railways in North America. While still in the incubation stage, CNG for rail represents an economic fuel alternative for locomotives and could significantly reduce engine exhaust emission and improve air quality in surrounding communities. Long-term competitive fuel pricing and meeting reduced emissions requirements are important market drivers for the adoption of CNG in this segment.

**Marine**
In the marine transit segment CNG can be preferred, or be complimentary to LNG. Hexagon sees market opportunities in this sector. In 2017, Hexagon delivered its first CNG TITAN® tanks for fuel storage onboard a LNG (Liquefied Natural Gas) gas supply vessel (GSV).

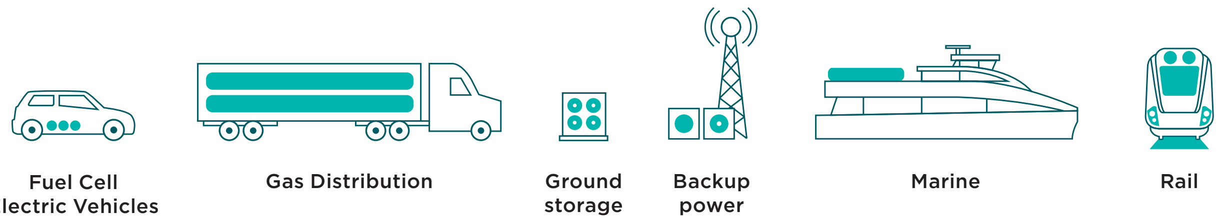
**Environmental benefits**
The business unit focuses on continued awareness about the benefits of CNG and biogas (Renewable Natural Gas) and expects to retain its strong market position as the market recovers. In many instances, CNG remains the most economic fuel choice for industry and transportation. Mobile Pipeline® solutions require low capital expenditures compared to pipeline installations, do not cause visual or environmental concerns, and can be deployed within weeks.

Mobile Pipeline solutions can be used for transporting RNG produced at remote production plants to the pipeline grid. In 2017, the US Environmental Protection Agency approved a pathway for RNG delivery by mobile pipelines solutions, which is expected to see an increased number of projects in this market.

**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 lower operating costs.

The competition, mainly from traditional steel cylinder solutions is strong due to lower initial investment costs. There are also competitors delivering Type 4 cylinders (plastic inner liners) and Type 3 cylinders (aluminum inner liners). The improved market outlook for Mobile Pipelines, especially in the U.S. and Europe, has attracted new competition and it is expected to see more competition in the years to come.

High-Pressure CNG, biogas and hydrogen




# 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.

**IMPORTANT EVENTS 2017**

- Exceptional Hydrogen growth
- Received a major development award for hydrogen cylinders for new fuel cell electric vehicle (FCEV) models
- Expanded into the fuel cell heavy-duty truck market with deliveries to Toyota and ASKO
- Launched Hyon AS, a joint venture between Hexagon, Nel ASA and PowerCell Sweden AB
- Awarded a substantial order for cylinders from Air Products for hydrogen transportation in Germany.

**Market**

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

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 in 2017 amounted to NOK 142 million.

Many opportunities are presenting themselves, especially prospects in the automotive, transportation and ground storage applications, which make this segment a significant growth area in the near term.

**Fuel cell vehicles**

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

In 2017, Hexagon was awarded a development contract for hydrogen cylinders for new fuel cell electric vehicle (FCEV) models. Hexagon has the capabilities to execute the initial deliveries in existing facilities.

**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 cylinders. The fatigue-resistant cycling properties of composite pressure cylinders make them more suitable for storage than steel alternatives.

Players in Germany, Japan, California (U.S.) and Scandinavia are currently leading the development of FCEVs and related refueling infrastructure.

**Gas distribution**

Demand for Hydrogen distribution solutions is expected to grow strongly as a function of the demand for energy and especially for distribution of hydrogen from renewable sources like hydro, wind and solar. Hexagon's distribution solutions are certified for hydrogen distribution, and the Company has received several orders for its X-STORE® cylinders for the European market. The Company is currently seeking approvals in other geographical markets.

**Marine and Rail**

Hexagon 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.

During the year, Hexagon xperion delivered hydrogen cylinders to Alstom's first prototype hydrogen fuel cell trains. The cooperation between Hexagon and Alstom is an important strategic step for Hexagon to extend its hydrogen application portfolio to include the rail sector.

In 2017, Hyon AS, an equally owned joint venture company between Hexagon, Nel ASA and PowerCell Sweden AB was launched. Hyon 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 offers backup power solutions with lightweight hydrogen tanks that enhance system performance and payback.

**Competition**

Hexagon's high-pressure Type 4 cylinders are at the forefront of hydrogen and fuel cell vehicle technology. Type 4 cylinders are widely accepted as the optimal solution for 700 bar hydrogen storage systems for light-duty vehicles. Global regulations require that newly designed tank prototypes undergo stringent 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.

The strong market momentum is expected to attract more competitors.

**Light-Duty Vehicles**

# LIGHT-DUTY VEHICLES – STRONG G-MOBILITY DRIVE

Hexagon's cylinders are the ideal fuel tanks for light-duty vehicles due to their combination of safety, efficiency and durability. They are typically less than 30% of the weight of steel, which reduces fuel consumption, extends vehicle range and provides better stability and handling. The environmental value-proposition of CNG and bio-fueled Light-Duty Vehicles is being recognized to an increasing extent, especially in Europe.

### KEY DEVELOPMENTS AND IMPORTANT EVENTS 2017

- Positive macro sentiment for CNG Light-Duty Vehicles in Europe
- Significant deliveries for vehicle conversions in Indonesia.

**Market**

The Light-Duty Vehicle (LDV) business is considerably strengthened with the inclusion of the LDV unit of Hexagon xperion and recorded organic growth of approximately 19%. The Company mainly delivers cylinders to major passenger car manufacturers in Europe, with additional deliveries to Southeast Asia.

In 2017 Hexagon delivered CNG cylinders for conversion of nearly 6,000 taxis and government vehicles in Indonesia. The Indonesian market is adopting CNG as an alternative to diesel and gasoline because 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.

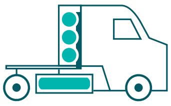
g-mobility, the use of natural gas and biogas in mobility applications, is the fastest way to reduce $CO_2$ emissions in the transportation sector due to existing infrastructure and available technology. The importance of CNG and biogas in addressing these environmental requirements is being recognized to an increasing extent, especially in Europe. Through the consortium "CNG Mobility", the Volkswagen Group and leading German industrial players are aiming for 1 million CNG cars in Germany by 2025.

By 2021, phased in from 2020, EU legislation sets stricter $CO_2$ emission targets for new cars. Failing to meet the regulations when they come into effect will force the OEMs to a swift deployment of low-carbon emission vehicles.

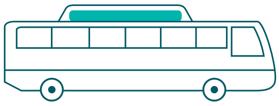
These strong market trends are stimulating the demand for CNG Light-Duty Vehicles.

**Competition**

Currently, steel cylinders dominate the European light-duty vehicle market because of price. However, the introduction of a new global driving cycle (WLTP – Worldwide harmonized Light vehicles Test Procedure) focusing on reduced vehicle emissions and incentives, as well as vehicle taxes and duties on traditional vehicles, is creating an increasing demand for lighter light-duty vehicles. Steel cylinders are heavier and susceptible to corrosion, inducing major car manufacturers to consider non-corrosive composite cylinders. These outstanding product properties, combined with an extensive systems knowledge, offer the Company a growth potential in this competitive market.



Heavy-Duty Trucks



Transit Buses

# AGILITY FUEL SOLUTIONS – FUEL SOLUTIONS FOR MEDIUM- AND HEAVY-DUTY VEHICLES

Agility Fuel Solutions designs and manufactures clean fuel solutions for medium- and heavy-duty commercial vehicles globally. Its product offerings include fuel storage and delivery systems, and Type 4 composite cylinders. Agility's products are designed and engineered for durability, performance, safety, and reliability, providing both economic and environmental benefits to commercial vehicle fleets.

Agility has developed a broad range of product offerings, including natural gas and hydrogen fuel storage and delivery systems, Type 4 composite natural gas cylinders, propane fuel systems and propane dispensers. The company offers solutions for a variety of vehicle types, including heavy-duty trucks, refuse trucks, transit buses, school buses, concrete mixers, and delivery trucks.

Agility's focus on commercial vehicle sectors is expected to increase competitiveness and shareholder value in the medium-to long-term and Agility's scale and strong balance sheet have allowed the company to be proactive in a time of challenging industry conditions.

### KEY DEVELOPMENTS AND IMPORTANT EVENTS 2017

- Launched Blue iQ diagnostics and service tools in partnership with Cummins Inc. to optimize fuel consumption and maximize uptime for natural gas vehicles
- Launched a new Powertrain Systems business unit focused initially on propane fuel systems for medium-duty engines and vehicles
- Acquired CleanFUEL USA to accelerate the development of its propane business
- Entered into strategic partnership with Thomas Built Buses to provide innovative, cutting-edge propane technologies to the North American school bus market
- Delivered its first CNG truck systems to fleet and OEM customers in the United Kingdom and France.

**Market**

Sales volumes in 2017 in the overall North American heavy-duty and refuse trucks markets were higher than in 2016. North America is Agility's primary market, with fuel systems and cylinders installed in Class 7 and 8 long-haul trucks, refuse collection trucks, transit buses and other heavy-duty truck platforms. While oil prices and the diesel to CNG price spread have increased notably since the beginning of 2016, this has not yet materialized in a significantly improved penetration of CNG in North American commercial vehicle markets. The environmental value proposition of CNG continues to stimulate demand, especially within larger fleets and urban applications. Biogas is stimulating demand in several countries, especially in Europe.

Cummins Westport's introduction of a "near zero" emissions 12L natural gas engine at the end of 2017, is expected to be a positive development for Natural Gas Vehicles going forward, once it is homologated into North American truck OEM platforms during 2018.

Agility's primary transit bus markets are in North America and Europe. The North American transit bus market was strong in 2017 though with lower penetration of CNG among Agility's customers, while the rest of the world transit bus market was softer than in 2016. There has been steady growth in the North American transit bus market for several years due to an increased focus on environmentally-friendly public transportation, and the outlook remains strong. Continued growth is expected in the overall global transit bus market.

Agility's entry into medium-duty propane powertrain systems in 2017 was in its startup phase and is expected to be a growth driver in 2018 and beyond.

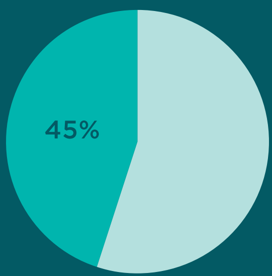
**Competition**

Agility Fuel Solutions is the global market leader for CNG and hydrogen fuel systems and Type 4 CNG cylinders in the medium- and heavy-duty truck and transit bus segments, and is establishing its position in the North American propane fuel systems market. Agility competes with CNG cylinder manufacturers globally, with smaller CNG system integrators in North America, South America, and Asia, and with medium-duty engine fuel system vendors and propane dispenser manufacturers in North America.

# DELIVERING ON THE STRATEGIC AGENDA

**OPERATING INCOME**
MNOK

654.3




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

**EBIT**
MNOK
125.7

**KEY FIGURES**

| (MNOK) | 2017 | 2016 |
|---|---|---|
| Operating income | 654.3 | 502.2 |
| EBITDA | 144.0 | 98.4 |
| EBIT | 125.7 | 77.9 |
| EBITDA % | 22.0 % | 19.6 % |
| EBIT % | 19.2 % | 15.5 % |

**HEXAGON RAGASCO**
RAUFOSS, NORWAY

143

5,000 m²

*"Hexagon continues to increase market penetration of LPG composite cylinders with a customer-oriented approach.*

Hexagon Composites is the leading manufacturer of low-pressure composite Liquefied Petroleum Gas (LPG) cylinders, used mainly for leisure activities, household use and industrial applications. An increased focus on safety, ease of use, high corrosion resistance and design is strengthening demand for composite LPG cylinders globally. A long-term customer-oriented approach has increased market penetration, improved capacity utilization and enabled expansion into new markets.

Hexagon Ragasco, the major operating unit within the Low-Pressure business area, is the world's leading manufacturer of composite LPG cylinders. A pioneer in the industry, it has sold nearly 14 million cylinders worldwide in the last 17 years, including 1.7 million in 2017. The unit started operations in 2000 and has since developed a customer base composed mainly of LPG distributors in over 80 countries. Production is carried out in modern, highly automated facilities located in Raufoss, Norway. The Company continues to build partnerships in new markets to help propane and butane marketers increase customer loyalty without compromising on safety.

The company's unique composite LPG cylinders deliver clear advantages over traditional steel alternatives in the form of significantly lower weight, no corrosion, translucency, increased safety and user-friendliness.

## OPERATING RESULTS

Operating income for the Low-Pressure segment increased to a record NOK 654.3 (502.2) million and made an operating profit (EBIT) of NOK 125.7 (77.9) in 2017. The business area experienced solid growth and continued market penetration in markets both in Europe and the Middle East. The growth is attributed to greater flexibility within the product offering and targeted market penetration initiatives. This has been in conjunction with recent investment programs allowing faster cycle times and capacity improvement. Underlying growth is strong and the company's position has been strengthened in 2017.

Hexagon Ragasco is continuing to invest in processes and technologies that can further enhance manufacturing efficiency and product differentiation.

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 selected markets.

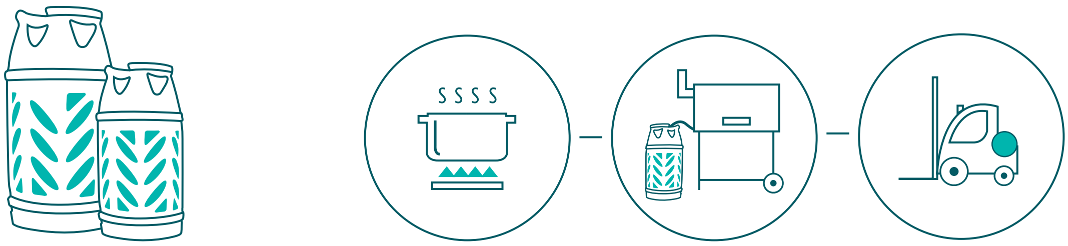
## KEY DEVELOPMENTS AND IMPORTANT EVENTS 2017

- Achieved 30% growth in revenues within the Low-Pressure segment versus 2016
- Received a major order from Iraq with a total value of approximately NOK 120 million
- Demonstrated strong momentum and continued market penetration to core European markets and markets outside Europe
- NOK 75 million investment program (2017-2019) for further product differentiation continued on-track
- Achieved high capacity utilization during the year.

## OBJECTIVES ACHIEVED IN 2017

- Continued double digit growth
- Increased sales and capacity utilization for the second half of the year to offset seasonally low volumes
- Initiated investment program for further product differentiation and enhanced productivity
- Increased market penetration in the Middle East

Low-Pressure LPG



Leisure activities, household and industrial applications

## MARKET

The Low-Pressure business segment continued to execute its strategy of increasing market penetration of LPG composite cylinders with a customer-oriented approach.

The first half of the year is traditionally strong in its core European markets. Large orders from existing customers outside Europe have allowed for a stronger year-over-year performance in the second half of the year, which traditionally has seasonally low sales volume quarters.

### Europe

Sales to Europe were solid during the year with continued high volumes from France, Scandinavia, Switzerland and the United Kingdom.

The company's most important market is European domestic and leisure customers, and these 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.

### Markets outside Europe

Currently, steel cylinders dominate markets outside of Europe because of price. Although they are cheaper, steel products are heavier and susceptible to corrosion. This affects the safety and useful life of the steel cylinders, especially in areas with high levels of humidity. Moreover, Hexagon's composite LPG cylinders will not succumb to BLEVE (Boiling Liquid Expanding Vapor Explosion) when engulfed in fire. The superior user-friendliness and safety features of the products are the LPG composite cylinders' competitive advantages in these markets.

Hexagon Ragasco has maintained focus 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. Increasing the market penetration in these regions is a priority going forward.

### Middle East

In the third quarter, Hexagon Ragasco was awarded a new major order for LPG cylinders from Iraq with a total value of around USD 15 million (approximately NOK 120 million). With this order, Iraq expanded its already large fleet of composite LPG cylinders for the domestic market.

Hexagon is experiencing continued good traction in the substantial Middle East market. The region continues to invest in lightweight composite cylinders, making domestic use of LPG safer and more user-friendly. The composite cylinders were introduced to Lebanon in 2017. The new orders are a confirmation that the Company's cylinders, to an increasing degree, are the preferred alternative to traditional steel cylinders in the region.

### South America

Development in the South American market has been softer than expected during 2017. Hexagon Ragasco is focusing its efforts on developing existing markets and increasing penetration of new markets in the region.

### North America

During 2017, Hexagon Ragasco focused on selected segments of the North American market, specifically businesses specializing in cylinder exchange for gas (or propane) BBQ applications. So far, the company has yet to achieve any notable sales volumes in this market.

### Asia and Africa

Bangladesh is one of the fastest growing markets in the region for LPG, especially bottled LPG for domestic use. 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 repeat orders during 2017 and is working on further opportunities in selected markets. Among several benefits, the distributor focuses on its corrosion-free feature, as humidity is an issue in the region.

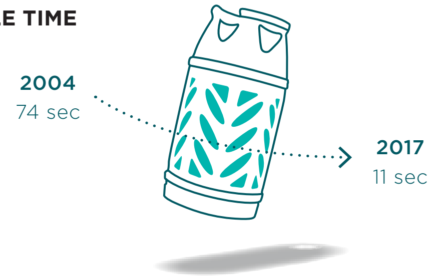
## CUSTOMERS

Hexagon Ragasco's customers are primarily leading national and international LPG distributors. These distributors manage large quantities of cylinders through their own exchange operations or through dealers.

## APPROVALS

Hexagon Ragasco's cylinders have been approved and sold in more than 80 countries globally.

**CYCLE TIME**




## COMPETITIVE POSITION

In 2017, 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 translucency and superior design make the composite LPG cylinders easier to monitor and use. The company's cylinders withstand a burst pressure that is twice as high as their steel counterparts. Since the cylinders will not succumb to BLEVE [1], the risk of explosion in case of fire is eliminated.

There are other composite cylinder alternatives in most markets and 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 was strong during the year. The recent investment programs have effectively increased capacity within the plant by allowing for faster cycle production times when required.

Hexagon Ragasco is continuing to invest in processes and technologies that can further enhance manufacturing efficiency and product differentiation.

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 17 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 2017, the cycle time was reduced from 12 to 11 seconds.

### Investments

The recent program of investments has effectively increased capacity within the plant by allowing for faster cycle production times when required. Hexagon Ragasco is continuing to invest in processes and technologies that can further enhance manufacturing efficiency and product differentiation. With these investments, Hexagon will also achieve increased volume and by mid-2019 the Company expects to reach a real capacity of 2 million cylinders.

### Operations

From mid-first quarter, Hexagon Ragasco operated "24/7" to meet customer demand. Production stability and volumes were satisfactory during 2017. 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 also high. However, a complex product mix affected productivity.

## MARKET OUTLOOK

The outlook for composite LPG cylinders is promising. 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 the environmental impact of traditional cooking fuels is expected to increase domestic demand for LPG.

### Objectives for 2018 – 2019

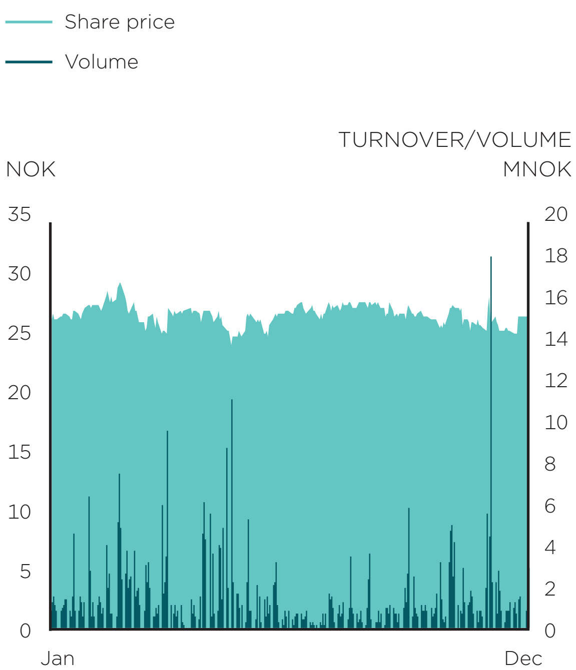
- Achieve continued double-digit growth
- Increase sales and capacity utilization for the second half of 2018
- Leverage new technology to enhance production and increase customer value
- Improve productivity and manufacturing flexibility
- Increase market penetration outside Europe.

1) BLEVE: Boiling liquid expanding vapor explosion

# THE ENERGY TRANSITION CREATES LARGE GROWTH OPPORTUNITIES

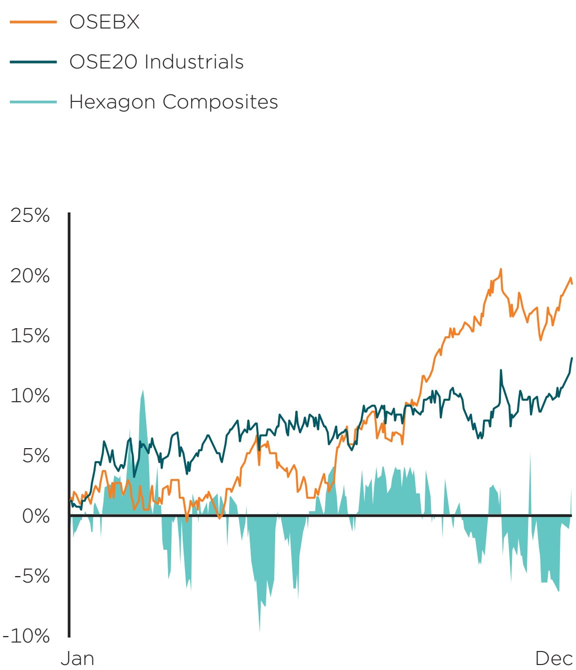
During 2017, Hexagon Composites has prioritized the integration of the new business combination as a result of the strategic moves executed in 2016. The share price closed the year 2.2% above the closing price for 2016. Going forward, the company sees large growth opportunities materializing from the accelerating transition towards cleaner fuels, and expects to direct resources and investments toward exploiting these prospects.

**HEXAGON SHARE PRICE AND VOLUME 2017**




Source: Oslo Stock Exchange

**OSE PRICE TRENDS IN 2017**




Source: Oslo Stock Exchange

Hexagon Composites ASA is listed on the Oslo Stock Exchange (OSE:HEX). The share capital was NOK 16.7 (16.7) million at the end of 2017, divided into 166.6 (166.6) 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 2017, the market value of the Group's shares was NOK 4,582 (4,482) million, based on a price per share of NOK 27.50 (NOK 26.90) per 31 December 2017. The price per share appreciated by 2.2% during the year. The highest daily closing price during the year was NOK 29.70 and the lowest recorded closing price was 24.30. By comparison, the Oslo Stock Exchange Industrial Index (OSE20GI) increased by 13.0%, while the OBX Total Return Index (OBX) gained 20.2%. 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 2017, 15.9 million (51.6) shares were traded with a turnover rate of 9.5% (32.8%) computed on the average number of shares outstanding. Shares were traded daily, while liquidity developed adversely compared to 2016.

Previous year included the private placement of 41,666,321 shares completed in March 2016.

### SHARE DISTRIBUTION AND MAJOR SHAREHOLDERS

The number of shareholders decreased by 3.8% to 2,298 (2,390) in 2017. The number of foreign shareholders was 197 (182) representing 40.91% (39.81%) ownership in the Group. The majority of the foreign shareholders are from Japan, the United Kingdom, Sweden and the USA.

Hexagon Composites' largest shareholder is Mitsui & Co., Ltd., with an ownership interest of 25.0% (25.0%).

The second largest shareholder is Flakk Composites AS, which, including related parties, controls 18.4% (18.4%) of the shares. Flakk Composites AS is a wholly owned subsidiary of Flakk Gruppen AS. Knut Flakk, who is Chairman of Hexagon Composites, owns 98.7% of Flakk Gruppen AS.

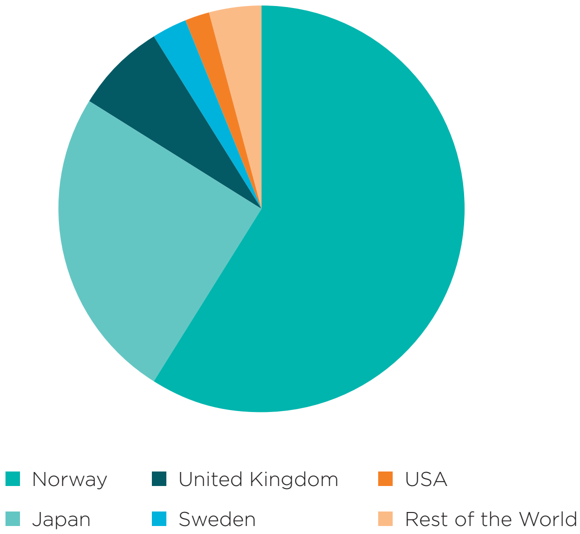
Mitsui & Co., Ltd. and Flakk Gruppen AS represent a combined ownership interest of 43.4% in Hexagon Composites. The 20 largest shareholders own 80.1% (79.5%) of the Group. Other shareholders are primarily private individuals, institutions and small- and medium-sized companies. Several employees including key management personnel of Hexagon Composites hold shares and share options in the Group.

### 10 LARGEST SHAREHOLDERS AS OF 20 MARCH 2018

| SHAREHOLDER | NUMBER OF SHARES | SHARE OF TOTAL | COUNTRY |
|---|---|---|---|
| Mitsui & Co., Ltd. | 41 666 321 | 25.01 % | JPN |
| Flakk Composites AS | 29 002 667 | 17.41 % | NOR |
| MP Pensjon PK | 13 075 846 | 7.85 % | NOR |
| Bøckmann Holding AS | 9 000 000 | 5.40 % | NOR |
| Odin Norge | 7 438 064 | 4.46 % | NOR |
| Nødingen AS | 6 000 000 | 3.60 % | NOR |
| JP Morgan Chase Bank, N.A., London | 5 160 762 | 3.10 % | GBR |
| Skandinaviska Enskilda Banken AB | 3 677 561 | 2.21 % | SWE |
| The Bank of New York | 3 108 002 | 1.87 % | GBR |
| Storebrand Norge | 2 807 732 | 1.69 % | NOR |
| **Total 10 largest shareholders** | **120 936 955** | **72.58 %** | |
| Remaining | 45 690 913 | | |
| **Total number of shares** | **166 627 868** | | |

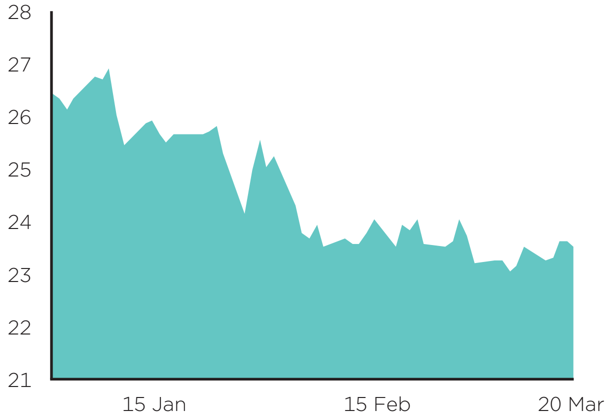
A detailed overview of the largest shareholders at 31.12.2017 is disclosed in Note 17 in the Financial Statements.

## OWNERSHIP DISTRIBUTIONS OF SHARES 2017




## HEX SHARE PRICE 2018 YTD

NOK

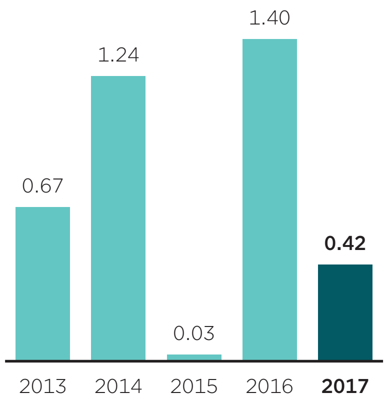



## DIVIDEND POLICY

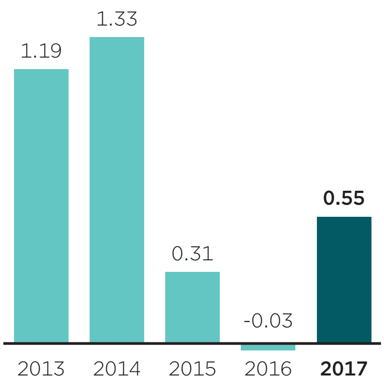
Hexagon Composites is focusing on developing its business in high-growth markets and intends to make the investments necessary to realize its growth ambitions. Our main objective is to provide competitive returns to shareholders primarily through increasing the intrinsic value of our business. Dividend payments are dependent on financial performance and excess cash after key investment requirements. For the year 2016 Hexagon Composites paid no dividends. The Board proposes to the Annual General Meeting on 19 April 2018 a dividend of NOK 0.30 per share for 2017.

The General Meeting on 20 April 2017 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 equity programs for employees, iii.) subsequent deletion of shares. The General Meeting also approved an authorization to increase in share capital by a maximum of NOK 1.7 million, which amounts to 16.7 million shares or 10% of existing share capital. These proxies are valid until the Group's Annual General Meeting in 2018.

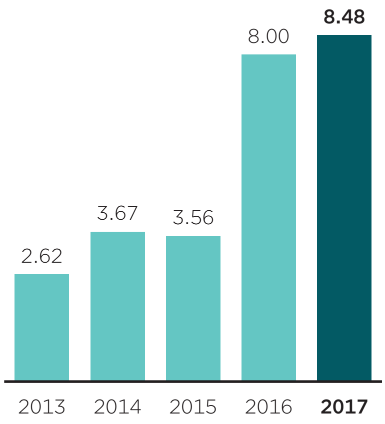
**EARNINGS PER SHARE**
NOK




**CASH FLOW FROM OPERATIONS PER SHARE** NOK




**EQUITY PER SHARE**
NOK




## KEY FIGURES SHARES

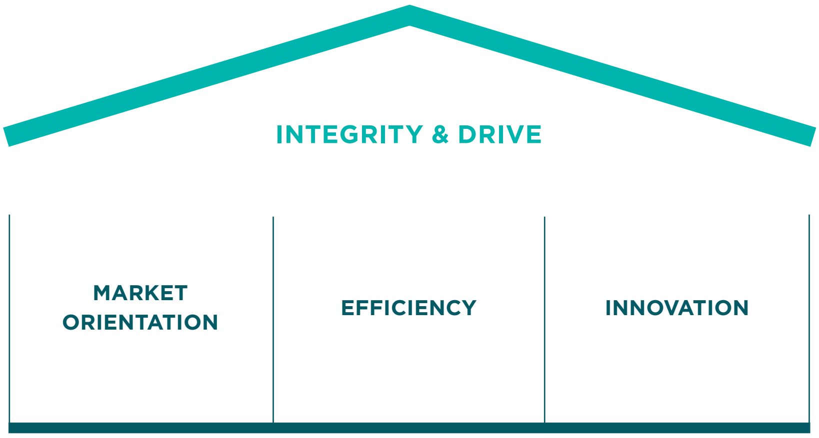
| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Closing Price NOK | 27.50 | 26.90 | 22.90 | 22.80 | 32.30 |
| Assessment value Price NOK | 26.95 | 26.70 | 22.45 | 23.60 | 31.30 |
| High NOK | 29.70 | 31.40 | 27.00 | 39.10 | 32.30 |
| Low NOK | 24.30 | 17.40 | 12.60 | 18.90 | 4.32 |
| Total return | 2.2 % | 17.5 % | 3.0 % | -28.8 % | 622.6 % |
| Market capitalization (NOK 1 000) | 4 582 266 | 4 482 290 | 3 052 452 | 3 039 123 | 305 424 |
| Turnover by value (NOK 1 000) | 425 217 | 1 221 416 | 2 015 203 | 4 172 911 | 463 559 |
| Turnover by no. of shares (1 000) | 15 852 | 51 607 | 98 372 | 140 065 | 91 008 |
| Number of transactions | 32 368 | 50 684 | 89 285 | 146 914 | 33 603 |
| Number of days traded | 251 | 253 | 251 | 250 | 248 |
| Turnover rate | 9.5 % | 32.8 % | 73.8 % | 105.1 % | 69.3 % |
| Beta | 0.49 | 0.75 | 1.80 | 1.02 | 0.66 |
| P/E | 65.96 | 21.52 | 668.98 | 18.46 | 48.03 |
| P/B [1)] | 3.24 | 3.36 | 6.49 | 6.24 | 12.35 |
| Earnings per share | 0.42 | 1.40 | 0.03 | 1.24 | 0.67 |
| Cash flow from operations per share | 0.55 | -0.03 | 0.31 | 1.33 | 1.19 |
| Dividend per share [2)] | 0.30 | 0.00 | 0.00 | 0.62 | 0.33 |
| Equity per share | 8.48 | 8.00 | 3.56 | 3.67 | 2.62 |
| Share capital (NOK 1 000) | 16 663 | 16 663 | 13 329 | 13 329 | 13 329 |
| Closing number of shares (1 000) | 166 627 | 166 627 | 133 295 | 133 295 | 133 295 |
| Number of shareholders, Norwegian | 2 101 | 2 208 | 2 663 | 2 558 | 2 240 |
| Number of shareholders, foreign | 197 | 182 | 186 | 197 | 132 |
| Ownership share, foreign | 40.91 % | 39.80 % | 16.55 % | 17.40 % | 17.30 % |

1) Exclusive goodwill.
2) The Board proposes to the Annual General Meeting on 19 April 2018 a dividend of NOK 0.30 per share for 2017.

# DRIVING ENERGY TRANSFORMATION

## VISION AND PURPOSE

Hexagon Composites aims to become the world's leading supplier of innovative and customer-valued composite solutions that positively impact the environment and enhance quality of life for the global community.




**DRIVING ENERGY TRANSFORMATION**

## STRATEGY

**MARKET ORIENTATION**
We enhance our competitive position by providing high-quality products, systems and services based on clearly understood and communicated customer values.

**EFFICIENCY**
We build a world class and cost-effective value chain on a global scale.

**INNOVATION**
We develop innovative products, systems and solutions, sharing our customers' striving to improve competitiveness and ecological sustainability.

## OUR VALUES

**INTEGRITY**
The integrity, transparency and excellence of our processes are essential to maintain the highest safety standards of our products, our people and our communities. Integrity will prevail throughout the organization and in all its functions.

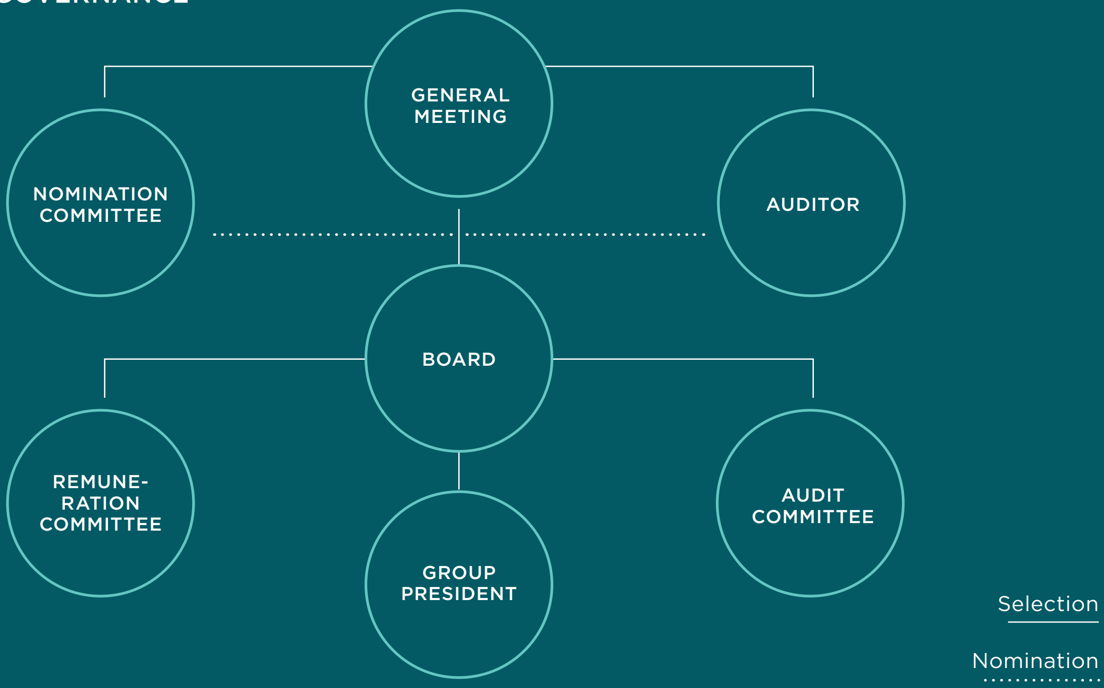
**DRIVE**
We are privileged to have excellent long-term growth opportunities. A healthy sense of urgency will be evident in our efforts to drive this growth.

## SHAREHOLDER VALUE

Hexagon Composites will deliver shareholder value through sustainable growth and healthy profitability.

# CREATING VALUE FOR OUR STAKEHOLDERS

## CORPORATE GOVERNANCE




## ATTENDANCE AT BOARD MEETINGS IN 2017

| | | |
|---|---|---|
| 6/6 | **KNUT FLAKK** | Chairman |
| 6/6 | **KRISTINE LANDMARK** | Deputy Chair |
| 6/6 | **SVERRE NARVESEN** | Board Member |
| 6/6 | **KATHRINE DUUN MOEN** | Board Member |
| 6/6 | **KATSUNORI MORI** | Board Member |
| 2/4 | **ELISABETH TØRSTAD** | Board Member |
| 0/1 | **GUNNAR S BØCKMANN** | Deputy 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 executive management to ensure good corporate management. We believe that this contributes to the greatest possible value creation for all interest groups and strengthens the trust in the Company among shareholders, in the capital markets and with other key stakeholders.

**1. DESCRIPTION OF CORPORATE GOVERNANCE**

Hexagon Composites ASA's principles for corporate governance were last revised at the Board meeting of 13 February 2018. 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.

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 or 10% of current issued share capital.

Equity incentive 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 2016 Hexagon Composites did not propose a dividend. The Board proposes a dividend of NOK 0.30 per share for 2017.

**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 2017, 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 2017 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 such interests, the Chairman will recuse himself and the Deputy Chair will assume responsibility for the matter in question.

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 2017. 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 and 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. The department 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 2017 the annual general meeting established the Board fees for 2016 in connection with the approval of the annual accounts.

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

Executive Members of the Board committees are paid additional fees per positions of NOK 30,000 (20,000). Members of the Board committees are paid additional fees per positions of NOK 20,000 (20,000). Fees are fixed and are not linked to the Company's performance. Board members are not eligible for share option programs. Business transactions between companies owned by the two primary shareholders, Knut Flakk and Mitsui & Co., and Hexagon Composites ASA are 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 based on company and individual 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 requirements related to capital increases in relation to 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 also 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. 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 its customers to do the same. Good working conditions for employees and relationships with the local 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 (NE), U.S.), Hexagon Raufoss (Raufoss, Norway) and Hexagon xperion, 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) encourages 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% less greenhouse gas than conventional fuels. Biogas is a commercially viable fuel, supported by local and regional jurisdictions.

Biogas is the most emission-friendly fuel available today. Biogas can rely on existing natural gas infrastructure and is based on proven technology. As a carbon-negative solution, biogas provides the world's energy system with several advantages: it contributes to reaching climate targets through reduced CO2 emissions and can improve air quality by being used as a vehicular fuel displacing petrol. Further, it advances energy security as it can be produced locally using available biowaste.

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 environmental impact. 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 a permit, and there are no health hazards associated with the Group's products. All waste from operations and production is sorted and delivered to approved sites for disposal or centers for recycling and reuse.

**Emissions**

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. The Company was certified to ISO14001 Environmental Standards in August 2017.

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 permits for Hazardous Materials and Spray Paint from the City of Lincoln 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 samplings which are found to be in accordance with federally regulated permissible exposure limits [3]). Air quality was last tested on 6 June 2017 with good results.

Hexagon xperion 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).

**Recycling**

Hexagon xperion's operations in Kassel have continuously reduced the scrap rate of the produced goods due to various process improvements. Since the end of 2017, Hexagon xperion has worked with a recycling company to reuse remaining glass and carbon fiber waste as filler material for concrete applications.

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. Furthermore, in 2017, Hexagon xperion completed a project to move the warehouse close to the production facility to reduce internal transportation and local emissions.

Hexagon Ragasco works continually to reduce risk and negative impact on the environment. During 2017, Hexagon Ragasco improved production processes and significantly reduced the volume of waste and scrap. The routines for recycling materials are continuously on the agenda for improvements. Implementation of garbage handling measures has reduced the need for transportation of waste. Furthermore, the company has initiated a life cycle analysis focusing on the entire life cycle time of cylinders and related aspects of the circular economy.

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 6% from 2016 to 2017.

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.

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 Limit.

## 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.

In 2017, Hexagon launched "Hexagon University" as an internal learning and development function. Initially rolled out in the High-Pressure organization, several different programs were offered during the year. The aim is to continue to build and implement programs that are valuable for the development of the Company's talent base.

### 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 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 | 2017 | 2016 |
|---|---|---|
| **High-Pressure CNG & CHG** | | |
| Norway | 0 % | 0 % |
| USA | 12 % | 12 % |
| Germany | 14 % | 15 % |
| **Low-Pressure LPG** | | |
| Norway | 19 % | 22 % |
| **Hexagon Composites ASA** | 22 % | 20 % |
| **Board of Directors** | 50 % | 40 % |

The changes in the percentages of women employees were largely due to new appointments and natural departures. No instances of discrimination were recorded at Hexagon Composites in 2017.

### Health, safety and environment (HSE)

The Group's production sites are comprised of industrial processes that involve 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

**Sickness absence**

| SEGMENT | 2017 | 2016 | TARGET 2018 | INITIATIVES AND OBJECTIVES |
|---|---|---|---|---|
| **High-Pressure CNG & CHG** | | | | |
| Norway | 1.8 % | 0.7 % | 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 | 1.4 % | 0.2 % | <0.5 % | Continued focus on wellness initiatives to keep absenteeism low. |
| Germany | 5.1 % | 5.4 % [1] | 4.8 % | Targeted measures to reduce and prevent sickness absence, and increase talks and guidance. |
| **Low-Pressure LPG** | | | | |
| Norway | 3.3 % | 5.5 % | 3.0 % | Targeted measures to reduce and prevent absence due to illness, guidance and facilitation for physical activity. |

1) Figure as per Q4 2017

systematically to reduce the number of injuries and improve safety performance.

In 2017, Hexagon Lincoln recorded four work-related injuries that resulted in absence and three other recordable injuries. One of those recordable injuries involved skin irritation related to the use of resin and carbon fiber in production. Hexagon Lincoln remains focused on improvements in the production process to enhance operational efficiency and reduce injuries. Further, the company is working on reducing incidents of skin irritation, and measures have been taken to further improve safety performance. In addition to work-related injuries, 17 instances of material or property damage were reported in 2017. Hexagon Lincoln discusses the risk of skin irritation related to production with new hires prior to starting work to provide better education regarding prevention and recognition of this type of injury. The company also completes an in-person first day training session with all new production hires to promote and focus on the importance of good safety practices.

Hexagon Lincoln has continued to coordinate quarterly HSE executive management reviews with Hexagon Raufoss and Hexagon xperion aimed at identifying and putting in place the needed focus for current and future initiatives. A shared performance metric for measuring and reducing overall injuries has also been established for Hexagon Lincoln, Hexagon Raufoss and Hexagon xperion to create additional visibility of this important area of the business. In 2017, Hexagon Lincoln coordinated and managed an integration of safety metrics and training with Hexagon Raufoss and Hexagon xperion to better identify deficiencies and opportunities for improvement. The aim of this coordinated effort was to share information between Hexagon Lincoln, Hexagon Raufoss and Hexagon xperion and find the "best practice". Hexagon Lincoln also implemented several health and wellness initiatives during 2017 with the goal of improving the overall health of our people.

Hexagon xperion in Kassel, Germany, had six work-related injuries that resulted in absence in 2017. The company's HSE coordinator is working closely with human resources and the external safety engineer on avoiding any injuries in the facility. During the year, an accident analysis was introduced, and specific security instructions were implemented for the various work stations, with a special emphasis on the production facility.

Hexagon xperion has initiated a fire prevention and evacuation plan which has been worked out and is controlled by the external safety engineer.

Hexagon Ragasco had one work-related injury with absence from work during 2017. The previous work-related injury was recorded 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 2017. The company has procedures for safety inspection focusing on risks related to chemicals, fire, electrical installations and noise, as well as on order and cleanliness. Twelve safety inspections were carried out in 2017. In general, the work environment and employee well-being are considered satisfactory.

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 Raufoss follows Hexagon Ragasco's HSE plans and audits.

No work-related accidents that resulted in absence from work were recorded at Hexagon Raufoss in 2017 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 for employees working in this production cell.

## SOCIETY

### Local community

In addition to providing employment opportunities, the Hexagon Group contributes to local communities by supporting 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 the Group's 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 as steel cylinders. This means that all customers in all countries, excluding Denmark, are subject to a 10-year testing interval, the same requirement as 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 2017.

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

Hexagon xperion designs its products according to national and international standards. All relevant aspects of products and manufacturing processes 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 to the automotive standard ISO/TS 16949. Internal audits guarantee a process of continuous improvements.

Hexagon Lincoln, Hexagon Raufoss, Hexagon xperion and Hexagon Ragasco are certified to 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.

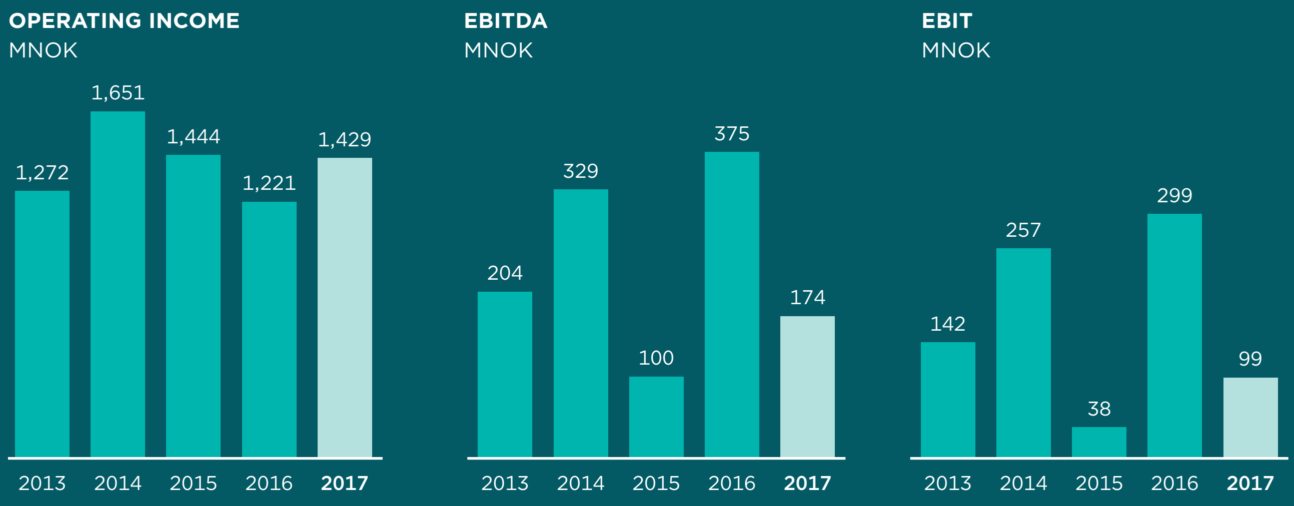
Identifying and qualifying efficient and cost-effective suppliers is critical to improve the Group's competitive position. Hexagon Composites works continuously to strengthen its supplier base to reduce cost, improve quality and minimize the risk of delays in the manufacturing cycle. Corporate responsibility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

# INTEGRATING THE NEW BUSINESS COMBINATION

For the year 2017 Group operating income increased by 17% to NOK 1,429.4 (1,220.5) million. Operating profit before depreciation (EBITDA) was NOK 174.0 (374.9) million. Operating profit (EBIT) was NOK 99.3 (299.3) million. Profit before tax was NOK 48.2 (311.9) million. All the above results for 2016 included an extraordinary gain of NOK 348 million related to the Agility transaction reported in the fourth quarter. Underlying profitability for the year, after normalizing for the gain, one-off costs and movements in accruals, increased significantly. This improvement is attributable to all business units within the Hexagon Composites Group.




**KEY FIGURES**

| (MNOK) | **2017** | **2016** |
|---|---|---|
| Operating income | 1 429.4 | 1 220.5 |
| Operating profit before extraordinary gain and depreciation | 174.0 | 26.7 |
| Extraordinary gain | 0.0 | 348.2 |
| EBITDA | 174.0 | 374.9 |
| EBIT | 99.3 | 299.3 |
| EBITDA % | 12.2 % | 30.7 % |
| EBIT % | 6.9 % | 24.5 % |

*"Hexagon has a strong financial and technological base provided by the established LPG and CNG businesses*

## KEY DEVELOPMENTS 2017

- Successfully integrated the acquired xperion businesses
- Record LPG performance reported with 30% revenue growth
- Mobile Pipelines recovery in volumes driven by strong North American markets
- Strong growth in Hydrogen related sales with tripling of sales year-over-year
- Positive momentum for CNG Light-Duty Vehicles
- Received a major LPG order from Iraq with a total value of approx NOK 120 million
- Entered into long-term agreement with Certarus and received TITAN® orders with a total value of approx NOK 348 million
- Launched an innovative and efficient requalification testing program for Mobile Pipeline® modules minimizing customers' downtime during regulatory requalification
- Received a major development contract for hydrogen cylinders for two new fuel cell electric vehicle (FCEV) models
- Expanded into the fuel cell heavy-duty truck market with deliveries to Toyota and ASKO
- Launched Hyon AS, a joint venture between Hexagon, Nel ASA and PowerCell Sweden AB
- Agility grew adjusted EBITDA by 78% for the year; Cost-efficiencies and integration synergies delivered significantly improved profitability in a relatively flat market
- Agility launched new Powertrain Systems business unit.

## INTRODUCTION

*In the fourth quarter of 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 were 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 2016 was 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

2017 saw significant improvement in the High-Pressure segment profitability, together with a record performance within Low-Pressure.

Mobile Pipelines sales showed recovery from a weak 2016 with high activity in the North American oil & gas sector as a principal driver. Light-Duty Vehicle sales in Europe were disrupted in the first half of the year, but recovered strongly and returned to more satisfactory profitability levels. Organic and inorganic growth has driven Hydrogen sales volumes to account for 10% of Group revenues, compared to 3% in 2016. Some, but not all, integration synergies from the xperion acquisition were realized in 2017, primarily in cost base savings and cost avoidance. Hexagon MasterWorks continued to be dilutive to profits as the unit works to secure contract revenues from key opportunities in oil & gas and aerospace.

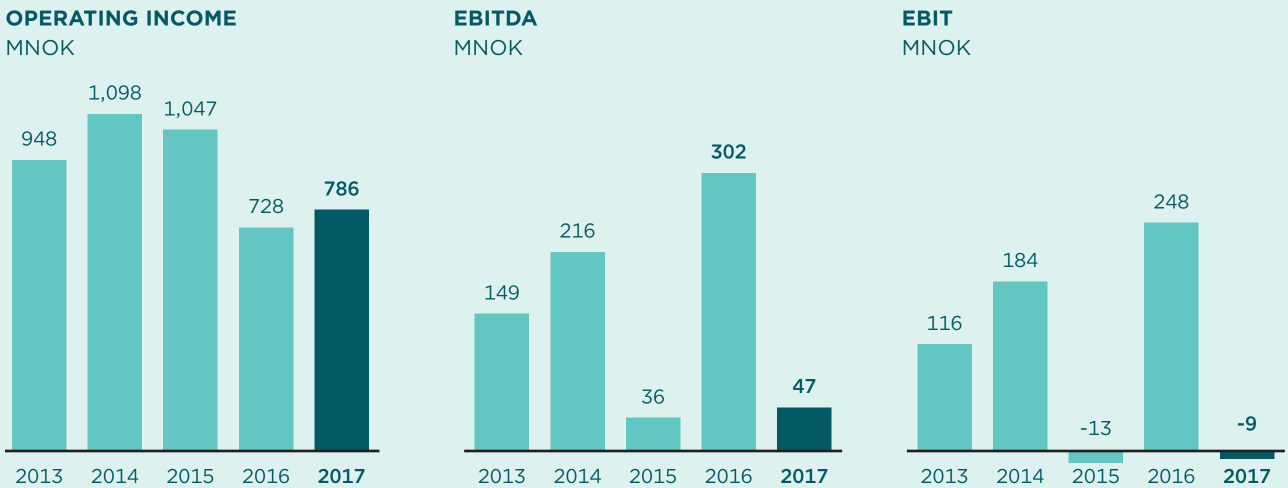
Revenues for the Low-Pressure segment grew by 30% year-over-year, whilst receiving orders and executing deliveries to new market geographies. Hexagon Ragasco continues to invest in equipment and processes allowing faster cycle times, a wider array of cylinder variants and capacity improvement. Major investment milestones were achieved by the end of the year.

Management resources were focused on the successful integration of the acquired xperion businesses.

## SEGMENT RESULTS

# HIGH-PRESSURE CNG, BIOGAS AND HYDROGEN

HEXAGON LINCOLN | HEXAGON RAUFOSS | HEXAGON XPERION | AGILITY FUEL SOLUTIONS




### KEY FIGURES

| (MNOK) | 2017 | 2016 |
|---|---|---|
| Operating income | 786.5 | 728.3 |
| Operating profit before extraordinary gain and depreciation | 47.2 | -45.8 |
| Extraordinary gain | 0.0 | 348.2 |
| EBITDA | 47.2 | 302.4 |
| EBIT | -8.6 | 248.4 |
| EBITDA % | 6.0 % | 41.5 % |
| EBIT % | -1.1 % | 34.1 % |

> *2017 saw significant improvement in the High-Pressure segment profitability.*

### KEY DEVELOPMENTS

- Mobile Pipelines recovery in volumes driven by strong North American markets
- Strong growth in Hydrogen related sales with tripling of sales year-over-year
- Positive momentum for CNG Light-Duty Vehicles
- Entered into long-term agreement with Certarus and received TITAN® orders with a total value of approx NOK 348 million
- Launched requalification testing program for Mobile Pipeline® cylinders minimizing customers' downtime during regulatory requalification
- Received a major development award for hydrogen cylinders for two new FCEV models
- Expanded into the fuel cell heavy-duty truck market with deliveries to Toyota and ASKO
- Launched Hyon AS, a joint venture between Hexagon, Nel ASA and PowerCell Sweden AB
- Awarded a substantial order for cylinders from Air Products for hydrogen transportation
- Significant sales orders received for composite CNG cylinder vehicle conversions in Indonesia
- Agility grew adjusted EBITDA by 78%; Cost-efficiencies and integration synergies delivered significantly improved profitability in a relatively flat market
- Agility launched Powertrain Systems business unit through acquisition, accelerating product sales.

**SALES AND MARKET**

The High-Pressure segment achieved operating income in 2017 of NOK 786.5 (728.3) million. The M&A transactions effects in the fourth quarter in 2016, detailed earlier in this report, were contained to the High-Pressure segment.

Mobile Pipelines sales volumes for the year recovered strongly in North America but remained relatively weak in the rest of the world. A firmer order position has allowed for an expansion in manning capacity in the U.S. which will have greater effect through 2018. Improving macro conditions, particularly in the oil and gas sector, gained momentum as evidenced in increased customer interest, orders and sales.

The Light-Duty Vehicle (LDV) business is considerably strengthened with the integration of the LDV unit of Hexagon xperion. Sales volumes and profitability within the LDV business have steadied at a satisfactory level after disruptions earlier in 2017. Headline year-over-year growth exiting the fourth quarter was 19%.

The Hydrogen business unit revenues have grown from being 3% to 10% of Group turnover. Product sales represent more than 80% of total revenues recorded in 2017, the remainder primarily being funded development. Commercial sales particularly within rail, transport and distribution continue to deliver growth within this rapidly expanding business unit.

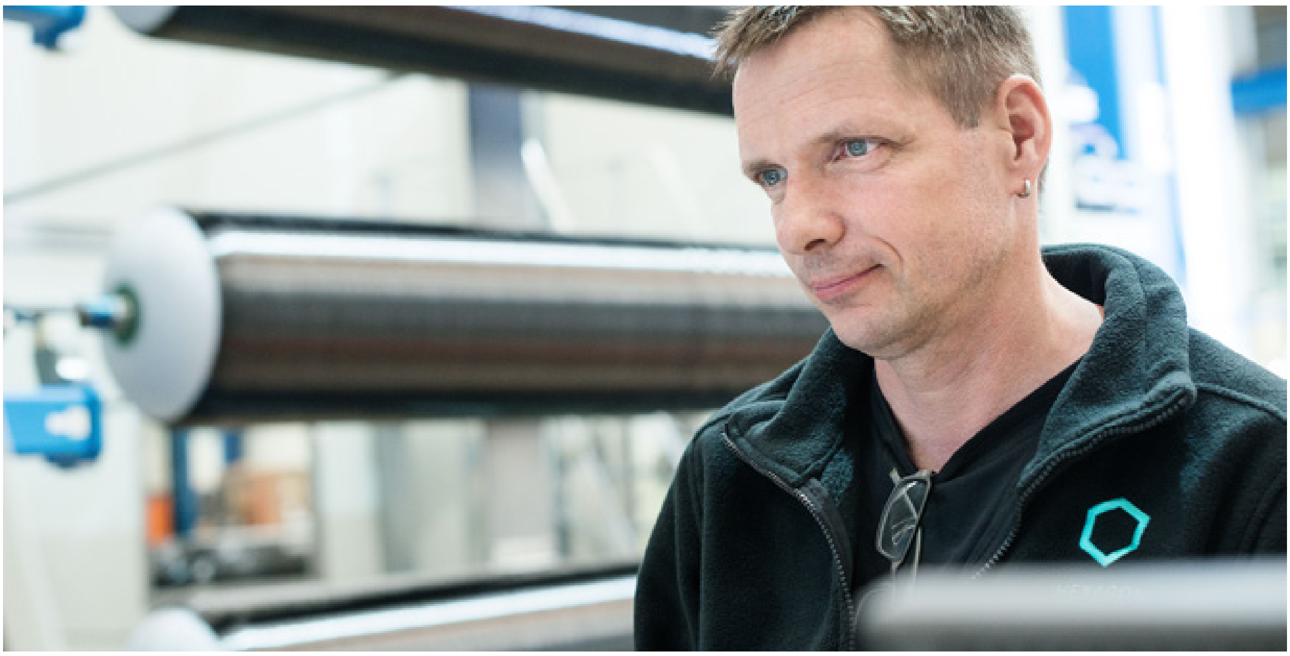
The Hexagon MasterWorks business unit is currently focused on product portfolio expansion opportunities within aerospace and oil and gas. The unit is also a supplier of key manufacturing equipment. However, its profitability has been subject to delays in contracted revenues and the business unit recorded losses for the year. The unit is expected to deliver modest profits going forward.

Year-over-year growth of revenues in 2017 for Agility, comprising the Medium and Heavy-Duty CNG automotive businesses, increased by 3% primarily as a result of growth in Heavy-Duty Truck deliveries, versus a weak 2016. Transit Bus volumes were solid, though lower than in the exceptionally strong year of 2016, while Refuse Truck sales were generally weak in 2017. The new Powertrain Systems business provided inorganic growth for 2017.

**PROFIT/LOSS**

Operating income within High-Pressure for the year 2017 amounted to NOK 786.5 (728.3) million. Operating profit before depreciation (EBITDA) was NOK 47.2 (302.4) million, while Operating profit (EBIT) was NOK -8.6 (248.4) million. The 2016 figures were impacted by the one-off extraordinary gain of NOK 348 million.

Revenues for Agility for the year 2017 were USD 157.3 million (approximately NOK 1.3 billion), reported EBITDA was USD 9.5 million (approximately NOK 78 million) and EBITDA adjusted for non-recurring or non-cash items was USD 14.7 million (approximately NOK 120 million). Hexagon Composites' fifty percent share of net profit before tax, realized in the financial statements after IFRS adjustments, was NOK -16.3 million. This includes depreciation of intangibles of NOK -13.7 million, an elimination of unrealized profit from a downstream transaction to Agility of NOK -10.7 million and non-cash share based incentivization charges of NOK -21.5 million.

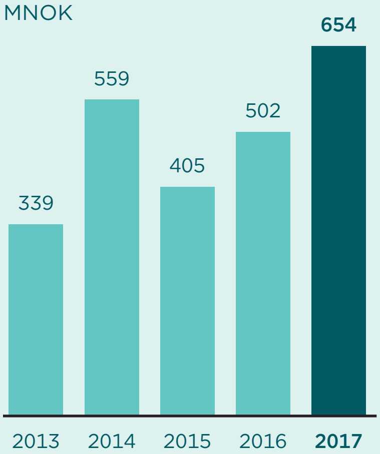


## SEGMENT RESULTS

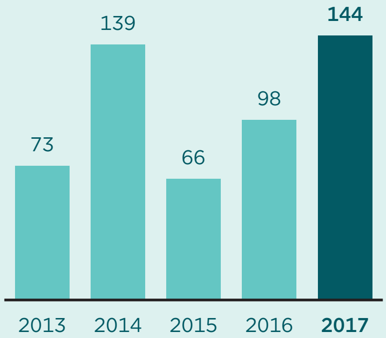
# LOW-PRESSURE LPG

HEXAGON RAGASCO

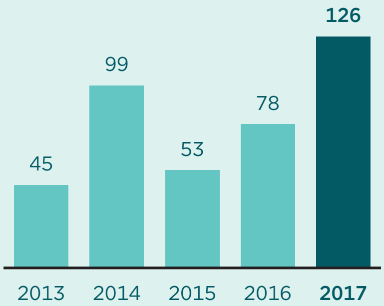
**OPERATING INCOME**
MNOK




**EBITDA**
MNOK




**EBIT**
MNOK




### KEY FIGURES

| (MNOK) | **2017** | **2016** |
|---|---|---|
| Operating income | **654.3** | 502.2 |
| EBITDA | **144.0** | 98.4 |
| EBIT | **125.7** | 77.9 |
| EBITDA % | **22.0 %** | 19.6 % |
| EBIT % | **19.2 %** | 15.5 % |

*"The growth is attributed to greater flexibility within the product offering and increased market activities.*

### KEY DEVELOPMENTS

- 30% growth in revenues within the Low-Pressure segment versus 2016
- Solid growth and continued market penetration
- Received a major order from Iraq with a total value of approx NOK 120 million
- Strong momentum and continued market penetration to core European markets and markets outside Europe
- NOK 75 million investment program (2017-2019) for further product differentiation continued on-track
- Achieved high capacity utilization during the year.

**SALES AND MARKET**
Sales revenues for 2017 were NOK 654.3 (502.2) million, an increase of 30%. The growth is attributed to greater flexibility within the product offering and increased market activities. This has been in conjunction with productivity initiatives allowing faster cycle times and capacity improvement.

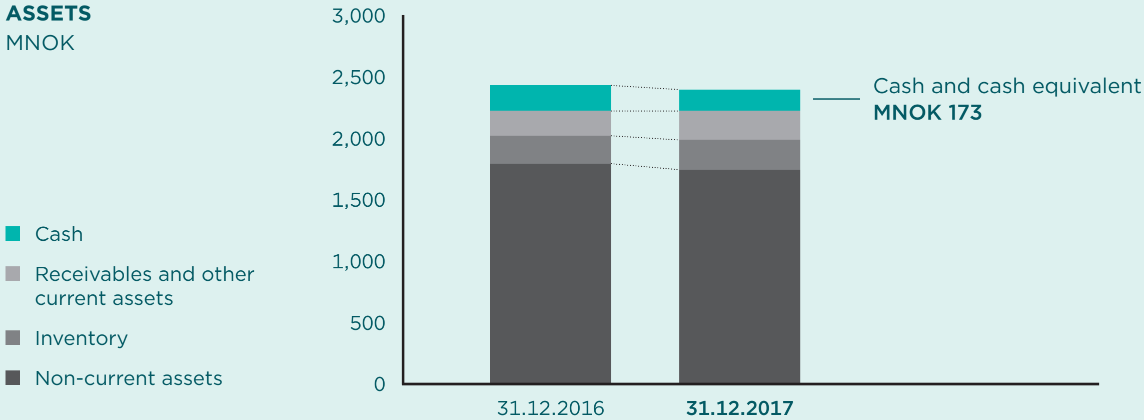
The Low-Pressure business area has focused on developing the value proposition for LPG marketers and distributors. The composite LPG cylinders give clear advantages in strengthening customer branding and design options to increase market share. In addition, there are significant benefits related to safety and opportunities in reducing maintenance and logistics costs. Sales for the year were primarily to core European markets and the Middle East. The business area also continued development of custom design products for the French and the U.S. market.

The production facility at Raufoss in Norway was shut down at the end of the year for extensive maintenance and transition activities relating to building expansion and equipment relocation. These were all planned activities after a year of high uptime activity and continued investments in the lines. These investments into processes and technologies will further enhance manufacturing efficiency and product differentiation, as well as provide more capacity. In addition, longer cycle time products were prioritized in the fourth quarter of 2017 which impacted overall output and productivity. Production has since resumed as planned from January 2018.

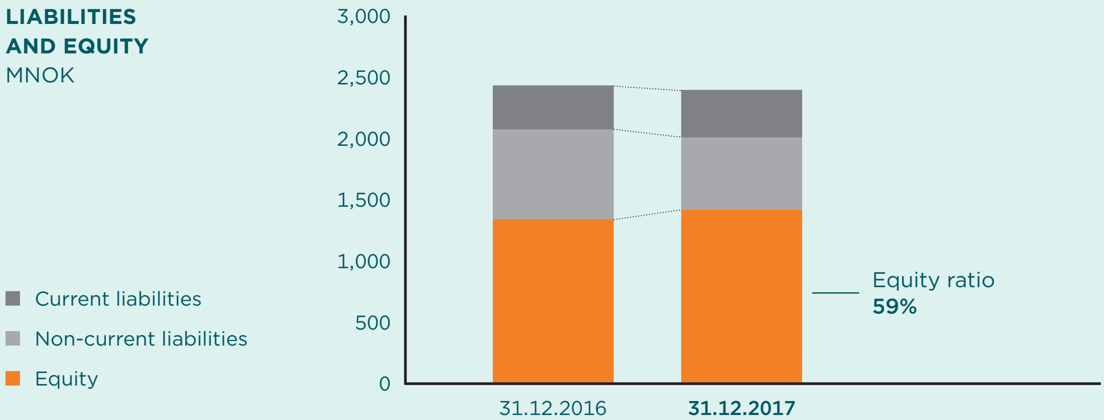
**PROFIT/LOSS**
Low-Pressure achieved an operating profit before depreciation (EBITDA) of NOK 144.0 (98.4) million). Operating profit (EBIT) was NOK 125.7 (77.9) million, an increase of 61%. Operating margins were 19.2% (15.5%) due to higher achieved volumes.

# GROUP

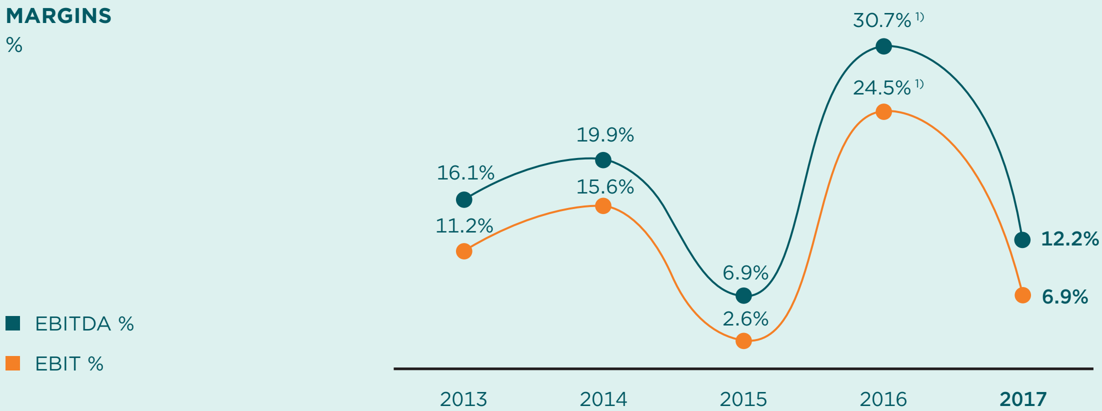
**ASSETS**
MNOK




**LIABILITIES AND EQUITY**
MNOK




**MARGINS**
%




1) Margins were positively impacted by the one-off gain recorded following the Agility transaction in Q4 2016.

Hexagon Composites' headquarters is located in Aalesund, Norway. At the end of 2017, the Group's administration consisted of eight employees, responsible for general administration, finance, strategy, business development, investor relations and communications.

**PROFIT/LOSS**

Net profit after tax for the full year of 2017 was NOK 69.5 (208.3) million including negative foreign exchange effects recorded in other financial items of NOK 22.2 million. Net interest charges for the year were NOK 7.8 million and other financial items totaled NOK 4.4 million. A net credit tax charge of NOK 21.2 million was generated primarily due to restatements of deferred tax liabilities in the U.S., as a result of the recent U.S. tax reforms.

**FINANCIAL POSITION**

At year-end the statement of financial position totaled NOK 2,391.3 (2,424.8) million and the Group's equity ratio was 59% (55%). There is little change in total assets, however, equity has increased while liabilities have reduced.

Intangible assets and property, plant and equipment were NOK 551.3 (530.8) million and NOK 260.6 (260.6) million respectively. Inventory was NOK 242.4 (227.5) million. Outstanding receivables were NOK 238.1 (201.7) million.

Cash and cash equivalents decreased by NOK 36.5 million to NOK 171.6 million at the end of the year. The main factors influencing developments for the year included positive cash flow from operations of NOK 90.4 million, and debt repayments driving a cash flow of NOK -99.4 million in financing activities.

Long-term interest-bearing debt decreased to NOK 367.4 (431.7) million. Equity was strengthened to NOK 1,412.4 (1,333.2) million after a profitable year.

**CASH FLOW AND LIQUIDITY**

Total cash amounted to 171.6 (208.1) million at the end of 2017. Unused credit and overdraft facilities amounted to NOK 635.9 (591.1) million. The Group expects that cash and available credit facilities will be sufficient to cover planned capital expenditures, operational requirements and financing activities in 2018.

Net cash flow from operating activities was NOK 90.4 (-4.0) million. Depreciation and write-downs totaled NOK 74.7 (75.6) million. 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 -26.5 (-547.5) million and is net of receipts received for sales of assets in the year. Net cash flow from financing activities was NOK -99.4 (644.1) million. Net currency differences presented separately totaled NOK -1.0 (-1.7) 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 2017. See also note 24 for more information.

**SHARE PRICE DEVELOPMENT AND DIVIDENDS**

At the end of 2017 Hexagon Composites' share value was NOK 27.50, 2.2% above the closing price on 31 December 2016. This represents a market value at the end of the year of NOK 4.58 billion. By comparison, the Oslo Stock Exchange Industrial index increased by 13.0% while the OBX increased by about 20.2%.

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 19 April 2018 that dividend of NOK 0.30 per share 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. Please see note 24 to the consolidated financial statements for further 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 635.9 (591.1) million. 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 2017 were NOK 1.8 (0.0) million. Trade receivables at the end of the year amounted to NOK 172.9 (84.7) million.

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 niche 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 13 February 2018 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 40.8 (34.5) million in 2017. The Group has received government contributions of NOK 16.8 (14.6) million towards research and development activities for 2017. The total amount of deferred costs related to R&D amounted to NOK 52.7 million as of 31.12.2017. Costs capitalized for the year amounted to NOK 9.8 (20.4) million, while amortization of deferred costs amounted to NOK 11.4 (6.2) million. The group has 44 fulltime equivalents who are directly expensed in addition to the above.

## AFTER BALANCE SHEET DATE

No significant events have happened after the balance sheet date.

## OUTLOOK

The global transition to cleaner, low-carbon energy and especially its application in mobility is happening now. It is supported by public and private investment, and Hexagon Composites aims to ensure it remains at the forefront, through innovative solutions comprising its leading pressure vessel technology.

Given the many exciting opportunities in all segments within the Hydrogen business unit and continued strong growth, the Company has begun to resource-up the organization to realize the full potential of this growth market. The Company maintains a leading position within Hydrogen, and substantial organizational investments are being made to develop this position further. Such plans are dilutive to short and medium-term profitability, however accretive to long-term shareholder value.

The importance of natural gas and biogas-fueled Light-Duty Vehicles in addressing environmental requirements is being recognized to an increasing extent, especially in Europe. Continued profitable growth is expected for 2018.

Mobile Pipelines sales volumes are on an upwards trend. New uses for Mobile Pipelines are expected to stimulate the demand for the Company's products. New product variants are scheduled to be in service in 2018, while tailored financial solutions and after-market services are available where appropriate. Hexagon may require the use of its own balance sheet to a limited but increasing extent, to stimulate sales in areas with challenging funding conditions. The Company will continue to act appropriately in managing risk against the reward of such projects.

Agility's strong focus on cost, plant optimization and vertical synergies has created the platform for maximizing financial performance in an otherwise soft market cycle. The venture into Medium-Duty propane powertrain systems has proven timely, and this is expected to become a growth driver in 2018. The overall year-over-year development in profitability in 2017 is significant and leaves Agility well positioned for future upswings in the Heavy-Duty market. Such upswings are anticipated in the second half of 2018. The Board is expecting the positive underlying results in Agility to be reflected in the share of profit recorded below the line, for the full year 2018.

The Low-Pressure business segment closed the year with record sales volumes, providing the Hexagon Group with a sound, profitable foundation. The Company will continue to invest in capturing market opportunities globally and continue to gain market share from steel cylinders. The order book for first half of 2018 is strong.

The Company aims for strong growth in the years ahead. It has the distinct advantage of a financially and technologically strong base provided by the established LPG and CNG businesses. This provides a sound platform for realizing the substantial growth opportunities related to hydrogen and biogas.

## 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 -22.4 (-15.6) million in 2017 and a profit of NOK 124.0 (49.6) million.

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

| (MNOK) | |
|---|---|
| Allocated to dividends | 49.6 |
| Transferred from/to other equity | 74.4 |
| **Total allocations** | **124.0** |

## STATEMENT FROM THE BOARD OF DIRECTORS AND GROUP PRESIDENT

We confirm to the best of our knowledge that:

- the financial statements for the Group and Parent Company for 2017 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements gives a true and fair view of the Group's and Parent Company's assets, liabilities, financial position and financial performance as a whole, and
- the Board of Directors' Report gives a true and fair overview of the Group's and Parent Company's development, profit and financial position, together with a description of the principal risks and uncertainties that they face.

Aalesund, Norway, 20 March 2018
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

Elisabeth Heggelund Tørstad
Board Member

Jon Erik Engeset
Group President & CEO

# FINANCIAL STATEMENTS 2017

## FINANCIAL STATEMENTS GROUP



## FINANCIAL STATEMENTS PARENT COMPANY



## AUDITOR'S REPORT

# INCOME STATEMENT GROUP

## 01.01 – 31.12

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Sales revenue | 4 | 1 407 939 | 1 220 511 |
| Other operating income | 28 | 21 458 | 0 |
| **Total operating income** | | **1 429 397** | **1 220 511** |
| **OPERATING EXPENSES** | | | |
| Cost of materials | 13 | 646 062 | 643 803 |
| Payroll & social security expenses | 9,18,27,28 | 345 449 | 365 622 |
| Depreciation, amortization and impairment | 10,11 | 74 731 | 75 611 |
| Other operating expenses | 5,14,19,23 | 263 863 | 184 404 |
| Gain on carve-out | 5 | 0 | -348 196 |
| **Total operating expenses** | | **1 330 105** | **921 245** |
| **Operating profit** | **4** | **99 291** | **299 266** |
| **FINANCE INCOME AND EXPENSES** | | | |
| Finance income | 6,24 | 79 831 | 99 800 |
| Finance expense | 6,20 | 114 228 | 85 750 |
| **Net financial items** | | **-34 397** | **14 050** |
| Profit/loss from associates and joint ventures | 5,26 | -16 667 | -1 450 |
| **Profit before tax** | | **48 227** | **311 866** |
| Tax expense | 7 | -21 245 | 103 563 |
| **Profit/loss for the year** | | **69 472** | **208 303** |
| **Earnings per share (NOK)** | | | |
| Ordinary | 8 | 0.42 | 1.40 |
| Diluted | 8 | 0.47 | 1.42 |

# STATEMENT OF COMPREHENSIVE INCOME

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| Profit/loss after tax | | 69 472 | 208 303 |
| **OTHER COMPREHENSIVE INCOME:** | | | |
| **ITEMS THAT WILL BE RECLASSIFIED THROUGH PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | | |
| Translation differences when translating foreign activities | | -18 120 | -5 391 |
| **Net total of items that will be reclassified through profit and loss in subsequent periods** | | **-18 120** | **-5 391** |
| **ITEMS THAT WILL NOT BE RECLASSIFIED THROUGH PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | | |
| Actuarial gains/losses for the period | 18 | -1 351 | -23 |
| Tax on actuarial gains/losses for pensions for the period | 7 | 324 | 6 |
| **Net total of items that will not be reclassified through profit and loss in subsequent periods** | | **-1 027** | **-17** |
| **Other comprehensive income for the period** | | **-19 147** | **-5 409** |
| **Total comprehensive income for the period** | | **50 325** | **202 894** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 50 325 | 202 722 |
| Non-controlling interests | | 0 | 172 |

# FINANCIAL POSITION OF THE GROUP

| (NOK 1 000) | NOTE | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant & equipment | 10 | 260 550 | 260 550 |
| Intangible assets | 11 | 551 338 | 530 838 |
| Net pension assets | 18 | 383 | 912 |
| Investments in associates and joint ventures | 5,26 | 918 769 | 975 963 |
| Other non-current assets | 12 | 557 | 1 694 |
| Deferred tax asset | 7 | 7 639 | 17 644 |
| **Total non-current assets** | | **1 739 237** | **1 787 601** |
| **CURRENT ASSETS** | | | |
| Inventories | 13 | 242 351 | 227 481 |
| Trade receivables | 14 | 172 868 | 84 705 |
| Forward exchange contracts | 24 | 0 | 5 209 |
| Other current assets | 15 | 65 238 | 111 777 |
| Bank deposits, cash and cash equivalents | 16 | 171 605 | 208 073 |
| **Total current assets** | | **652 062** | **637 245** |
| **Total assets** | | **2 391 298** | **2 424 847** |

# FINANCIAL POSITION OF THE GROUP

| (NOK 1 000) | NOTE | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 17 | 16 663 | 16 663 |
| Share premium | 17 | 727 639 | 727 639 |
| Own shares | 17 | -117 | -117 |
| Other paid-in capital | | 16 888 | 6 752 |
| **Total paid-in capital** | | **761 073** | **750 937** |
| Other equity | | 651 368 | 582 233 |
| **Total other equity** | | **651 368** | **582 233** |
| **Total equity** | | **1 412 441** | **1 333 170** |
| **NON-CURRENT LIABILITIES** | | | |
| Non-current interest-bearing liabilities | 20,23 | 367 403 | 431 681 |
| Pension liabilities | 18 | 1 838 | 1 367 |
| Deferred tax liabilities | 7 | 108 892 | 197 289 |
| Non-current provisions | 5 | 113 675 | 106 619 |
| **Total non-current liabilities** | | **591 808** | **736 956** |
| **CURRENT LIABILITIES** | | | |
| Short-term loans | 16,21,23 | 19 494 | 14 095 |
| Trade payables and other current liabilities | 22,24,26 | 287 744 | 280 780 |
| Income tax payable | 7 | 41 966 | 12 677 |
| Provisions | 19 | 37 845 | 47 168 |
| **Total current liabilities** | | **387 049** | **354 721** |
| **Total liabilities** | | **978 857** | **1 091 677** |
| **Total equity and liabilities** | | **2 391 298** | **2 424 847** |

Aalesund, Norway, 20 March 2018
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

Elisabeth Heggelund Tørstad
Board Member

Jon Erik Engeset
Group President & CEO

# CASH FLOW STATEMENT GROUP

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 48 227 | 311 866 |
| Tax paid for the period | | 11 467 | 24 089 |
| Gains/losses on sale of property, plant & equipment | 10 | -24 946 | -450 |
| Depreciation/amortization | 10,11 | 73 988 | 68 716 |
| Impairment loss | 10 | 743 | 6 895 |
| Interest income | 6 | -1 144 | -2 609 |
| Interest expenses | 6 | 9 087 | 15 326 |
| Profit/loss from associates and joint ventures | 26 | 16 667 | 1 450 |
| Gain on carve-out | 5 | 0 | -348 196 |
| Changes in inventories, trade receivables and payables | | -132 711 | 47 465 |
| Changes in pension liabilities | 18 | -352 | 391 |
| Changes in other accrual accounting entries | | 89 408 | -128 977 |
| **Net cash flow from operating activities** | | **90 434** | **-4 034** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | |
| Proceeds sale of fixed assets | | 36 591 | 0 |
| Purchase of property, plant & equipment | 10 | -68 830 | -67 511 |
| Purchase of intangible assets | 11 | -9 781 | -20 398 |
| Interest received | 6 | 1 144 | 2 609 |
| Payment acquisition | 5,26 | 0 | -462 150 |
| Other investments | | 14 396 | 0 |
| **Net cash flow from investing activities** | | **-26 479** | **-547 450** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| New non-current liabilities | 20,23 | 0 | 404 393 |
| Repayment of non-current liabilities | 20,23 | -90 427 | -387 752 |
| Bank overdraft payments | 21 | 0 | -5 463 |
| Interest payments | 6 | -8 981 | -15 076 |
| Payments of dividends | | 0 | 0 |
| Increase in share capital | | 0 | 648 023 |
| **Net cash flow from financing activities** | | **-99 407** | **644 125** |
| Net change in cash & cash equivalents | | -35 453 | 92 641 |
| Net currency exchange differences | | -1 016 | -1 728 |
| Cash & cash equivalents at beginning of period | | 208 073 | 93 177 |
| Cash and cash equivalents acquisition | | 0 | 23 983 |
| **Cash & cash equivalents at end of period** | **16** | **171 605** | **208 073** |
| Undrawn Group overdraft facilities | 16,20 | 635 909 | 591 117 |
| Restricted funds, included in cash & cash equivalents | 16 | 6 400 | 6 332 |

# STATEMENT OF CHANGES IN EQUITY

| (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** |

| (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 01.01.2017 | 16 663 | -117 | 727 639 | 6 752 | 105 967 | 476 266 | 0 | 1 333 170 |
| Dividends to shareholders | | | | | | | | 0 |
| Share-based payment etc. | | | | 10 136 | | 18 811 | | 28 947 |
| Profit/loss for the year | | | | | | 69 472 | | 69 472 |
| **OTHER COMPREHENSIVE INCOME** | | | | | | | | |
| Translation differences when translating foreign activities | | | | | -18 120 | | | -18 120 |
| Actuarial gains/losses for the period | | | | | | -1 027 | | -1 027 |
| Actual gains or losses on instruments used for cash flow hedging | | | | | | | | 0 |
| **Total other comprehensive income** | | | | | **-18 120** | **-1 027** | | **-19 147** |
| **Balance as of 31.12.2017** | **16 663** | **-117** | **727 639** | **16 888** | **87 847** | **563 521** | **0** | **1 412 441** |

Own shares comprise cost of acquisition for the Company's shares owned by the Group. As of 31 December 2017, the Group owned 1 166 075 (1 166 075) own shares.

Other equity includes accumulated actuarial gains/losses for pensions after tax of NOK -19 121 thousand (change of NOK -1 027 thousand from NOK -18 094 thousand as of 31.12.2016).

On the 21 March 2016 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 agreement 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 authorized the annual report for publication on 20 March 2018.

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 adopted by the EU as of 31.12.2017, and Norwegian disclose requirements listed in the Norwegian Accounting Act as of 31.12.2017.

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 recognized 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. Translation differences are recognized 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 recognized 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, 2017. 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 recognized 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 are 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 recognized and any investment retained is recognized at fair value. Gain or loss is recognized in profit and loss at the date when the control is lost. The Group 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 recognize 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 recognized at cost. The carrying amount of the investment is adjusted to recognize 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 recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized 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 and is recognized against profit/loss from investment in associates and joint ventures.

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 recognized 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 recognized 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 recognizes 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 recognizes 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 recognizes 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 recognized at fair value less impairment losses. Nominal value does not normally differ significantly from amortized cost.

**2.8 INVENTORIES**
Inventories are recognized 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 utilization.

**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 recognized 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 recognized as an expense in the income statement, while expenses that are expected to generate future economic benefits are capitalized.

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 is recognized 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 recognized 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 recognized as an expense over the lease term.

## 2.11 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized on the date the Group becomes a party to the instruments' contractual terms. A financial asset is derecognized 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 derecognized 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 recognized on an ongoing basis in the period they arise and are recognized in finance income or finance expense in the income statement.

**Financial assets and liabilities measured at amortized cost.**

Trade receivables, other non-current and current financial assets are valued at amortized 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 recognized at their amortized 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

Before a hedging transaction is carried out, the Group's finance department assesses whether a derivative (or possibly another financial instrument in the case of a currency hedge) is to be used to:

- hedge the fair value of a recognized asset or liability or a firm commitment,
- hedge a future cash flow from a recognized asset, obligation, identified very probable future transaction or, in the case of a currency risk, a firm commitment or
- hedge a net investment in a foreign operation.

The Group's criteria for classifying a derivative or other financial instrument as a hedging instrument are as follows:

- the hedge is expected to be very effective in that it counteracts changes in the fair value of or cash flows to an identified asset - a hedging efficiency of 80-125% is expected,
- the effectiveness of the hedge can be reliably measured,
- there is adequate documentation when the hedge is entered into that the hedge is effective, among other things,
- for cash-flow hedges, the forthcoming transaction must be highly probable, and
- the hedge is evaluated regularly and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

**Cash flow hedges**
The effective part of changes in the fair value of a hedging instrument is recognized in other comprehensive income. The ineffective part of the hedging instrument is recognized in profit and loss.

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 recognized 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 recognized in equity up to this date remain in equity and are recognized 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 unrealized gains or losses on the hedging instrument that have previously been recognized directly in equity are recognized in the statement of comprehensive income immediately.

**Hedges of a net investment in a foreign operation**
A hedge of a net investment in a foreign operation is accounted for in a similar way as a cash flow hedge. Foreign exchange gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized directly in equity, while any foreign exchange gains and losses related to the ineffective portion are recognized in profit and loss. On disposal of the foreign entity, the cumulative value of foreign exchange gains or losses recognized directly in equity is transferred to profit and loss.

**Derivatives that are not hedging instruments**
Financial derivatives that are not recognized as hedging instruments are assessed at their fair value. Changes in the fair value are recognized 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 recognized at cost. The cost of intangible assets acquired as part of acquisitions is recognized at fair value in the Group's opening balance. Capitalized intangible assets are recognized at cost less any amortization and impairment.

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

The economic life is either definite or indefinite. Intangible assets with a definite economic life are amortized over their economic life and tested for impairment if there are any indications. The amortization method and period are assessed at least once a year. Changes to the amortization 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 amortized. 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 recognized 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 recognized as income immediately on the acquisition date.

**Patents and licences**
Amounts paid for patents and licences are recognized in the balance sheet and are amortized 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 capitalized 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 recognized as incurred. Development costs that have previously been expensed are not recognized in subsequent periods. Capitalized development costs are amortized on a straight-line basis over the estimated useful life of the asset. Capitalized 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 recognized at cost less amortization. Customer contracts and technology are amortized 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 amortized, 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 recognized 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 recognized 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 recognized 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 recognized 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

Financial instruments are classified as liabilities or equity in accordance with the underlying economical realities.

Interest, dividend, gains and losses relating to a financial instrument classified as a liability will be presented as an expense or income. Amounts distributed to holders of financial instruments that are classified as equity will be recorded directly in equity.

**(I) Own shares**

In the event of a purchase of own shares, the purchase price and any directly associated costs are recognized as a change in equity. Own shares are reported as a reduction in equity. Gains or losses related to own share transactions are recognized directly in equity.

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

Transaction costs directly related to an equity transaction are recognized 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 recognized in other comprehensive income. Exchange-rate differences in monetary amounts (liabilities or receivables) which are in reality a part of a company's net investment in a foreign entity are also included as translation differences.

If a foreign entity is sold, the accumulated translation differences linked to the entity are reversed and recognized in profit or loss in the same period in which the gain or loss on sale is recognized.

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

Actuarial gains or losses resulting from changes in assumptions and basic data are recognized 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 recognized at fair value, with a corresponding entry in total comprehensive income, and transferred to the revaluation reserve (net of tax). Realized gains or losses are recognized 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 recognized 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.

Revenues from the sale of goods and services is recognized when delivery has taken place and the significant risks and return has been transferred. Royalties are recognized as revenue in accordance with the terms and conditions of the various royalty agreements. Interest income is recognized as interest accrues.

Dividends are recognized 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 recognized 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 recognized 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 other comprehensive income. Translation differences in other 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 recognized 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 recognized continuously through other comprehensive income. The pension cost 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 recognized 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 recognized.

**Defined contribution pension plans**

Pension premiums relating to defined contribution plans are recognized 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 recognized 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 recognized over the estimated vesting period.

**2.20 GOVERNMENT GRANTS**

Government grants, including the Skattefunn tax incentive scheme, are recognized 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 recognized as deductions against the cost that they are intended to compensate. Investment grants are capitalized and recognized systematically over the asset's useful life. Investment grants are recognized 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 recognized 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 recognized when it is probable that the Group will have a sufficient profit for tax purposes in subsequent periods to utilize the tax asset. The Group recognize previously unrecognized deferred tax assets to the extent it has become probable that the Group can utilize 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 utilize 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 recognized 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 recognized directly in other comprehensive income if the tax items relate to items recognized in other comprehensive income. Deferred tax is recognized directly in equity if the tax items relate to items recognized directly in equity.

### 2.22 SEGMENTS
For management purposes, the Group is organized 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 recognized in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities that are remote to incurred.

Contingent assets are not recognized 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, except for IAS 7 Statement of Cash Flows which has introduced a disclosure requirement relating to changes in financial liabilities arising from financing activities, and specified in note 20. The change does not entail any changes in the recognition and measurement of financial liabilities. There is no other new accounting standards or amendments in IFRS in 2017 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 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 standard has accounting effect from 1 January 2018. 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 amortized cost 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 no significant losses on trade receivables.

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group plans to adopt the new standard on the required effective date using 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 mass-produced standard products in the segments Low-pressure cylinders (LPG) and High-pressure cylinders (CNG and CHG). The products are 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. These revenue streams accounts for over 90% of the Groups total revenue.

Some contracts with customers provide trade discounts or volume rebates. Currently, the Group recognizes revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of 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. Based on analysis of open contracts 31.12.2017, the Group estimates an effect of NOK 2.9 million in increased revenue 2017 related to variable considerations under IFRS 15. Besides this, 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 other services. These services are normally sold on their own. Under IFRS 15, allocation will be made based on relative stand-alone selling prices. The Group has also entered into funded contracts with a limited number of customers for development services. The Group recognizes revenue on development-in-progress as the services are performed. The Group have concluded that these services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, under IFRS 15 the Group would continue to recognize revenue for these service contracts over time rather than at a point of time.

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.

**In summary, the impact of IFRS 15 adoption is expected to be, as follows (NOK 1 000):**

| **Impact on the statement of profit or loss (increase/- decrease) for 2017** | |
|---|---|
| Sale of goods | 2 900 |
| Income tax expense | -696 |
| **Net impact on profit for the year** | **2 204** |

| **Impact on equity (increase/- decrease) as of 31 December 2017** | |
|---|---|
| Provisions | 2 900 |
| Deferred tax liabilities | -696 |
| **Net impact on equity** | **2 204** |

**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 23 the Group has a total of MNOK 290 related to future minimum lease payments relating to fixed term operational leases as of 31.12.2017. It is assumed that some of these operational leases will be classified as financial leases according to IFRS 16 at implementation. In 2018, the Group plans to start the assessment of the potential effect of IFRS 16 on its consolidated financial statements.

**IFRS 10 Consolidated Accounts and IAS 28 Investments in Associates and Joint Ventures**

The amendment addresses an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and the investor's associates or joint ventures. The main consequence of the amendment is that a full gain or loss are recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

IASB has postponed the effective date of the amendment indefinitely. The Group has made a policy choice, when control is lost and the reminder of the interest is retained through a joint venture of associate, to partly recognize the gain or loss as to that attributable to the other party of which control is lost. If the above amendment becomes effective the Group will assess any impact on the financial statements.

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

## NOTE 3 ESTIMATION UNCERTAINTY

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

The Group prepares estimates and makes assumptions about the future. The accounting estimates based on this process are, by definition, rarely completely in line with the final outcome. Estimates and assumptions represent a risk of material changes in the carrying amounts of assets and liabilities, 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 including earn out provision.
- 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 Hexagon xperion in 2016 an earn-out payment provision was recognized contingent to future revenue developments through 2017 and 2018. This contingent consideration was valued at fair value at the acquisition date as part of the business combination. The value of the earn-out is estimated to MNOK 113.2 as at 31.12.2017 (MNOK 103.4 as at 31.12.2016) based on 100% achievement. Future developments in 2018 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 exists 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 0.7 (MNOK 6.9), principally related to specific production equipment. Impairment in 2016 was related to capitalization of ERP solutions. See also note 10.

**Development costs**
The Group capitalizes development costs for a project in accordance with the Groups accounting policy. Initial capitalization 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 capitalized, 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 2017, the carrying amount of capitalized development costs was NOK 52 705 (51 288) 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**
Recognized 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 labor 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 program 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 two strategic business areas, which are organized and managed separately. These two business areas are also defined as the groups reportable operating segments as 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 REPORTABLE OPERATING SEGMENTS**

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

Hexagon Ragasco manufactures low-pressure cylinders, i.e. cylinders for propane gas.
Hexagon Lincoln / Hexagon Raufoss / Hexagon xperion and Agility Fuel Solutions develop and supply complete storage and transport solutions for compressed natural gas (CNG) and compressed hydrogen gas (CHG) to the bus and automotive industry and for bulk transport of compressed gas.

The President Low-Pressure Area LPG and the President High-Pressure Area are the Chief Operating Decision Maker's (CODM's) and monitors the operating results of their respective business areas separately for the purpose of making decisions about resource allocation and performance assessment.
No operating segments have been aggregated to form the above reportable operating segments. 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 2017 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 273 674 thousand. In 2016 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 133 401 thousand in 2016.

**GEOGRAPHICAL AREAS**

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

Transactions in the different segments have been eliminated.

**INTERNAL RESTRUCTURING 2016**

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 is accounted for according to the equity method from 3 October 2016 (See note 5 and 26).

With effect from 4 October 2016 Hexagon Composites acquired Hexagon xperion (xperion Energy & Environment GmbH) and its subsidiary companies. Hexagon 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 2017

| (NOK 1 000) | HIGH-PRESSURE CNG & CHG | LOW-PRESSURE LPG | UNALLOCATED | ELIMINATION | CONSOLIDATED 2017 |
|---|---|---|---|---|---|
| **OPERATING INCOME FROM EXTERNAL CUSTOMERS:** | | | | | |
| Sale of goods | 763 402 | 643 784 | 753 | 0 | 1 407 939 |
| Other operating income | 21 458 | 0 | 0 | 0 | 21 458 |
| **Total operating income from external customers** | **784 859** | **643 784** | **753** | | **1 429 397** |
| Internal transactions | 1 622 | 10 535 | 37 486 | -49 643 | 0 |
| **Total operating income** | **786 481** | **654 319** | **38 239** | **-49 643** | **1 429 397** |
| **Operating profit for segment before depreciation/amortization (EBITDA)** | **47 245** | **143 964** | **-17 186** | | **174 022** |
| **Operating profit for segment (EBIT)** | **-8 562** | **125 699** | **-17 845** | | **99 291** |
| Profit/loss from associates and joint ventures | -16 667 | | | | -16 667 |
| Net financial items | | | | | 34 397 |
| Tax expense | | | | | -21 245 |
| **Profit/loss for the year** | | | | | **69 472** |
| **Segment assets** | **1 999 613** | **456 140** | **15 855** | **-80 311** | **2 391 298** |
| **Segment liabilities** | **1 491 019** | **358 492** | **128 858** | **-999 512** | **978 857** |
| Investments in assets for the year | 23 213 | 55 369 | 29 | 0 | 78 611 |
| Depreciation/amortization/impairment | 55 807 | 18 265 | 659 | | 74 731 |

## GEOGRAPHICAL INFORMATION 2017

| (NOK 1 000) | EUROPE | NORTH AMERICA | SOUTH-EAST ASIA | MIDDLE EAST | OTHER | NORWAY | CONSOLIDATED 2017 |
|---|---|---|---|---|---|---|---|
| Income divided among customer locations from external customers | 680 217 | 405 089 | 57 355 | 193 287 | 12 281 | 81 170 | 1 429 397 |
| Non-current assets [1)] | 488 404 | 84 254 | | | | 239 230 | 811 888 |
| Investments in assets for the year | 4 268 | 8 065 | | | | 66 278 | 78 611 |

1) Non-current assets for this purpose consists of property, plant & equipment and intangible assets

## 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/amortization (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 | | 598 871 |
| Depreciation/amortization/impairment | 53 970 | 20 451 | 1 190 | | 75 611 |

## GEOGRAPHICAL INFORMATION 2016

| (NOK 1 000) | EUROPE | NORTH AMERICA | SOUTH-EAST ASIA | SOUTH AMERICA | OTHER | NORWAY | CONSOLIDATED 2016 |
|---|---|---|---|---|---|---|---|
| Income divided among customer locations from external customers | 507 482 | 545 774 | 27 311 | 42 702 | 27 718 | 69 526 | 1 220 511 |
| Non-current assets 2) | 476 279 | 112 765 | | | | 202 344 | 791 389 |
| Investments in assets for the year | 480 252 | 72 361 | | | | 46 257 | 598 871 |

1) Of the unallocated cost, MNOK 16.0 relates to acquisition costs of the xperion group
2) Non-current assets for this purpose consists of property, plant & equipment and intangible assets

# NOTE 5 CHANGES IN THE GROUP'S STRUCTURE

**PURCHASE OF XPERION GROUP IN 2016**

With effect from 4 October 2016 Hexagon Composites acquired Hexagon xperion GmbH (xperion Energy & Environment GmbH) and its subsidiary companies. Hexagon 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.

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

**XPERION GROUP**

| (NOK 1 000) | **FAIR VALUE RECOGNIZED 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 liabilities | 168 646 |
| Deferred tax liabilities | 30 256 |
| **Total equity and liabilities** | **229 877** |
| **Net identifiable assets and liabilities at fair value** | **60 389** |
| Goodwill | 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 acquisition:** | |
| Net cash acquired with the subsidiary | 23 651 |
| Cash paid | -292 836 |

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 MEUR 11.5 (MNOK 103.4 as at 31.12.2016 and MNOK 113.2 as at 31.12.2017) 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 acquisition 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 recognized is primarily 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 was expensed and included in administrative expenses in the statement of profit and loss and as a part of operating cash flows in the statement of cash flows.

**MERGER OF HEXAGON COMPOSITES CNG AUTOMOTIVE PRODUCTS DIVISION AND AGILITY FUEL SYSTEMS IN 2016:**
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 made an accounting policy choice to only recognize a gain attributable to the other party, meaning only 50% of the gain was 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. Further information about the investment can be found in note 26.

## NOTE 6 NET FINANCIAL ITEMS

| (NOK 1 000) | **2017** | **2016** |
|---|---|---|
| Interest income | 1 144 | 5 109 |
| Return on interest rate derivative with actual gains or losses through profit and loss | 0 | 4 173 |
| Unrealized gains from forward exchange contracts with actual gains or losses through profit and loss | 0 | 23 238 |
| Other finance income | 0 | 649 |
| Foreign exchange items | 78 686 | 66 631 |
| **Total finance income** | **79 831** | **99 800** |
| Loss on exchange items | 90 202 | 61 250 |
| Unrealized loss on forward exchange contracts and interest rate swaps with actual gains or losses through profit and loss | 10 645 | 0 |
| Cost of interest on loans etc. | 8 986 | 10 161 |
| Other finance expense | 4 395 | 14 339 |
| **Total finance expense** | **114 228** | **85 750** |
| **Net financial items** | **-34 397** | **14 050** |

# NOTE 7 TAX

## TAX EXPENSE

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| Income tax payable in the income statement | | 56 823 | -28 804 |
| Change in deferred tax in income statement | | -78 068 | 132 367 |
| **Tax expense** | | **-21 245** | **103 563** |
| Income tax payable in the balance sheet | | 41 966 | 12 677 |
| Prepaid tax overseas in the balance sheet | 15 | -3 073 | -44 616 |
| Settled tax overseas | | 17 930 | 3 135 |
| **Total income tax payable in the income statement** | | **56 823** | **-28 804** |
| **Nominal tax rates in Norway** | | **24 %** | **25 %** |
| Profit before tax | | 48 227 | 311 866 |
| Tax based on nominal tax rate in Norway | | 11 575 | 77 966 |
| Other differences relating to foreign subsidiaries | | 1 392 | 29 675 |
| Share of profit/loss from associates | | 4 000 | -363 |
| Other non-taxable income and non-deductible expenses | | 2 375 | -3 958 |
| Effect of changes in tax rate | | -40 586 | 242 |
| **Tax expense** | | **-21 245** | **103 563** |

## DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

| | BALANCE SHEET | | CHANGE IN DEFERRED TAX IN INCOME STATEMENT | |
|---|---|---|---|---|
| (NOK 1 000) | 2017 | 2016 | 2017 | 2016 |
| DEFERRED TAX ASSET | | | | |
| Pension | -416 | -179 | 88 | 28 |
| Loss carryforwards | -24 806 | -5 805 | -19 001 | -9 |
| Inventories and trade receivables | -2 499 | -4 560 | 2 061 | 7 511 |
| Derivatives | -1 250 | 0 | -1 250 | 5 314 |
| Provisions for liabilities/other current liabilities | -12 846 | -20 830 | 7 984 | -19 044 |
| Other | -13 446 | -22 850 | 9 404 | -9 637 |
| **Deferred tax asset– gross** | **-55 264** | **-54 225** | **-714** | **-15 837** |
| DEFERRED TAX LIABILITIES | | | | |
| Property, plant & equipment | 6 958 | 16 483 | -9 525 | 15 172 |
| Derivatives | 0 | 1 250 | -1 250 | 1 250 |
| Provisions for liabilities/other current liabilities | 149 559 | 216 138 | -66 579 | 198 264 |
| **Deferred tax liabilities – gross** | **156 517** | **233 871** | **-77 354** | **184 342** |
| **Net recognized deferred tax liabilities/assets (-)** | **101 253** | **179 645** | **-78 068** | **168 505** |
| Change in deferred tax from purchase of companies | | | 0 | -38 246 |
| Change in deferred tax due to carved-out activities | | | 0 | 2 108 |
| **Net change in deferred tax in income statement** | | | **-78 068** | **132 367** |
| CARRYING AMOUNTS | | | | |
| Deferred tax asset | -7 639 | -17 644 | | |
| Deferred tax liabilities | 108 892 | 197 289 | | |
| **Net recognized deferred tax assets/deferred tax liabilities** | **101 253** | **179 645** | | |

The effect of changes in tax rate for 2018 in USA and Norway resulted in tax income in 2017 on MNOK -40.0 related to USA and MNOK -0.5 related to Norway.

The Group has a total loss carried forward of MNOK 118.2 (MNOK 33.1) as of 31 December 2017, of which MNOK 118.2 (MNOK 33.1) is related to foreign activities.

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

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Actuarial gains/losses, pensions | 324 | 6 |
| Derivatives | 0 | 0 |
| **Total** | **324** | **6** |

# 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 recognized 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 | 2017 | 2016 |
|---|---|---|---|
| **PROFIT/LOSS FOR THE YEAR FLOWING TO HOLDERS OF ORDINARY SHARES** | | | |
| **Profit/loss for the year** | | **69 472** | **208 303** |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING 31.12** | 17 | | |
| Ordinary shares issued 01.01 | | 166 627 868 | 133 294 868 |
| Own shares | | -1 166 075 | -1 166 075 |
| Issued new shares | | 0 | 33 333 000 |
| **Outstanding number of shares 31.12** | | **165 461 793** | **165 461 793** |
| **Weighted average number of shares outstanding 31.12** | | **165 461 793** | **148 795 293** |
| **Profit/loss per share** | | **0.42** | **1.40** |
| **DILUTED NUMBER OF SHARES OUTSTANDING 31.12** | 17 | | |
| Ordinary shares issued 01.01 | | 166 627 868 | 133 294 868 |
| Own shares | | -1 166 075 | -1 166 075 |
| Issued new shares | | 0 | 33 333 000 |
| Effect of employee options issued | | 3 465 000 | 1 850 000 |
| **Outstanding shares 31.12 adjusted for dilution effects** | | **168 926 793** | **167 311 793** |
| **Weighted average number of shares outstanding 31.12 adjusted for dilution effects** | | **168 119 293** | **150 207 793** |
| **Diluted profit/loss per share** | | **0.47** | **1.42** |

# **NOTE 9** PAYROLL COSTS AND NUMBER OF EMPLOYEES

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| Salaries/fees [1] | | 285 292 | 303 327 |
| Bonus/profit-sharing | | 8 094 | 5 524 |
| Pension expense, defined-benefit plans | 18 | 768 | 572 |
| Pension expense, defined-contribution plans | 18 | 16 578 | 16 846 |
| Other social security costs | | 34 717 | 39 353 |
| **Payroll costs [2]** | | **345 449** | **365 622** |
| | | | |
| **Average number of full-time equivalents:** | | **378** | **437** |
| | | | |
| **GROUP MANAGEMENT** | | 10 | 10 |
| | | | |
| **LOW-PRESSURE LPG** | | | |
| Norway | | 143 | 126 |
| Sweden | | 1 | 2 |
| Russia | | 5 | 5 |
| USA | | 3 | 3 |
| | | | |
| **HIGH-PRESSURE CNG & CHG [3]** | | | |
| Norway | | 12 | 21 |
| USA | | 102 | 246 |
| Germany | | 102 | 25 |
| | | | |
| **Total of** | | **378** | **437** |

1) Capitalized payroll costs related to technology development projects amounted to MNOK 2.6 in 2017 and MNOK 2.6 in 2016.
2) Payroll costs in 2017 includes NOK 16.8 million of funding credits.
3) The number of full-time equivalents in 2016 was influenced by the carve-out of the CNG business 3 October 2016 and the acquisition 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 | 2017 TOTAL |
|---|---|---|---|---|---|
| **COST OF ACQUISITION** | | | | | |
| Cost of acquisition 01.01.2017 | 52 618 | 534 459 | 66 466 | 22 901 | 676 445 |
| Additions | 5 734 | 24 227 | 18 162 | 20 706 | 68 830 |
| Transfer from assets under construction | -407 | 3 871 | 1 823 | -5 288 | 0 |
| Disposals/scrap | -34 | -1 682 | -14 340 | -6 711 | -22 767 |
| Translation differences | -467 | -4 631 | -406 | -396 | -5 899 |
| **Cost of acquisition 31.12.2017** | **57 445** | **556 245** | **71 706** | **31 212** | **716 608** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | |
| Accumulated depreciation 01.01.2017 | 23 056 | 362 661 | 23 126 | 7 051 | 415 895 |
| Depreciation for the year | 4 155 | 35 821 | 9 913 | 0 | 49 889 |
| Impairment | 0 | 637 | 106 | 0 | 743 |
| Disposals/scrap | -14 | 0 | -1 011 | -6 711 | -7 736 |
| Translation differences | -33 | -2 435 | 75 | -339 | -2 732 |
| **Accumulated depreciation and impairment 31.12.2017** | **27 164** | **396 684** | **32 209** | **0** | **456 058** |
| **Net carrying amount as of 31.12.2017** | **30 280** | **159 561** | **39 497** | **31 212** | **260 550** |
| Of which pledged | | | | | 0 |
| Amortization 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 | 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 |
| Amortization 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 | | |

1) Assets under construction. Hexagon Lincoln, Hexagon Ragasco and Hexagon xperion have assets under construction totalling NOK 31 212 thousand (15 850 thousand).

2) Construction loan interest expenses
No construction loan interest expenses were recognized in 2016 or 2017.

3) The calculated residual value on property, plant & equipment totalled NOK 6 000 thousand as of 31.12.2017 and NOK 6 000 thousand as of 31.12.2016.

4) Impairment
In 2017 the Group recognized an impairment of NOK 743 thousand. The impairment was principally related to specific pieces of equipment. The impairment was recorded as a part of the annual impairment review. The productivity of the machines was deemed not to be as high as originally anticipated and therefore an impairment was recognized.
In 2016 the Group recognized an impairment of NOK 6 895 thousand, principally related to capitalization of ERP solutions in Hexagon Lincoln. 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.

# 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 | 2017 TOTAL |
|---|---|---|---|---|---|
| **COST PRICE** | | | | | |
| Opening balance 01.01.2017 | 373 213 | 16 974 | 98 406 | 120 449 | 609 042 |
| Additions | 0 | 241 | 9 540 | 0 | 9 781 |
| Disposals | 0 | -1 476 | 0 | 0 | -1 476 |
| Translation differences | 28 220 | 624 | 0 | 8 461 | 37 306 |
| **Cost of acquisition 31.12.2017** | **401 433** | **16 364** | **107 946** | **128 911** | **654 653** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | |
| Opening balance 01.01.2017 | 0 | 9 533 | 47 118 | 21 554 | 78 204 |
| Depreciation for the year | 0 | 3 307 | 8 123 | 12 669 | 24 099 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Translation differences | 0 | 123 | 0 | 888 | 1 012 |
| **Accumulated depreciation and impairment 31.12.2017** | **0** | **12 963** | **55 241** | **35 111** | **103 315** |
| **Net carrying amount 31.12.2017** | **401 433** | **3 400** | **52 705** | **93 800** | **551 338** |
| Amortization rate | None | 6-34 % | 5-20 % | 11-14 % | |
| Useful life | Indefinite | 3-17 years | 5-20 years | 7-9 years | |
| Depreciation method | None | Straight-line | Straight-line | Straight-line | |

## 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** |
| Amortization 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 acquisition.

Additions for this year and the previous year primarily relate to technological developments in the High-Pressure CNG & CHG segment.
Additions from purchase of companies in 2016 relate to the acquisition of Hexagon xperion GmbH and its subsidiary companies.

Disposals carved-out activities in 2016 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 40.8 (MNOK 34.2) were expensed in 2017. The Group has received government grants of MNOK 16.8 (MNOK 14.6) in 2017. MNOK 16.6 (MNOK 9.7) has been offset against research and development costs while MNOK 0.2 (MNOK 4.9) is presented as income.

The Group has recognized 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 capitalized 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, capitalized goodwill is maintained. When the recoverable amount is lower than invested capital, capitalized goodwill is written down to its recoverable amount. Invested capital consists of the units' total assets less interest-free current liabilities and interest-free non-current liabilities. The recoverable amount is based on expected future cash flows for the relevant unit based on the management's approved budget and strategy figures for the next four years. These are estimated based on current sales and margins and the expected market development. For subsequent periods it is assumed that there will be an increase in the cash flows equivalent to expected general growth within the various business areas.

The expected future investment requirements for the units are reflected in the calculations. These are in accordance with the management's approved budget and strategy. For the period beyond the next 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 2018, as well as forecasts up to and including 2022. Cash flow projections for subsequent years will be the same as the cash flow for 2022, 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 8.5% after 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) | 2017 | 2016 |
|---|---|---|
| Hexagon Ragasco - Low-Pressure LPG | 32 350 | 32 350 |
| Hexagon Lincoln - High-Pressure CNG & CHG | 615 | 629 |
| Hexagon xperion - High-Pressure CNG & CHG | 368 468 | 340 235 |
| **Total goodwill** | **401 433** | **373 213** |

The assumptions that were used as a basis for the calculations made at the end of 2017 were met by good margins for Hexagon Ragasco AS, Hexagon Lincoln and Hexagon xperion GmbH. Impairment test as of 31.12.2016 for the Hexagon xperion GmbH goodwill were not performed as the acquisition was in October 2016.

**OTHER ASSUMPTIONS FOR THE IMPAIRMENT TESTING OF GOODWILL**
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 2017. In the prognosis period, an increase in the operating profit equal to the general growth in the economy is expected.

**SENSITIVITY ANALYSES FOR THE 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, sensitivity 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 Hexagon Lincoln and Hexagon xperion goodwill exceed the recognized value by a good margin, and a reasonable change in key assumption (+/- 0.5% for WACC and +/- 2.0% on EBITDA margin) would not cause the carrying amount to exceed value in use.

# NOTE 12 OTHER NON-CURRENT ASSETS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Loans to employees | 0 | 414 |
| Other non-current assets | 557 | 1 280 |
| **Total other non-current assets** | **557** | **1 694** |

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

# NOTE 13 INVENTORIES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Raw materials and consumables | 136 335 | 118 362 |
| Work in progress | 37 723 | 42 732 |
| Finished goods | 68 294 | 66 386 |
| **Total inventories** | **242 351** | **227 481** |
| **Recognized cost of obsolete inventory** | **18 167** | **8 150** |
| Provision for obsolete inventory in balance sheet | -18 892 | -25 115 |
| **Carrying amount of holdings used as pledged assets** | **0** | **0** |

# NOTE 14 TRADE RECEIVABLES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Trade receivables | 179 311 | 92 421 |
| Provisions for loss | -6 443 | -7 716 |
| **Trade receivables after provision for losses** | **172 868** | **84 705** |
| **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) | 2017 | 2016 |
|---|---|---|
| Opening balance 1 January | 7 716 | 7 234 |
| Additions from purchase of companies | 0 | 659 |
| Provision for losses for the year | 662 | 26 |
| Actual losses during the year | -1 845 | 0 |
| Translation differences | -90 | -202 |
| **Closing balance 31 December** | **6 443** | **7 716** |

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 |
|---|---|---|---|---|---|---|
| 2017 | 179 311 | 64 630 | 50 431 | 40 030 | 6 624 | 17 596 |
| 2016 | 92 421 | 59 436 | 16 775 | 8 228 | 2 603 | 5 379 |

# NOTE 15 OTHER CURRENT ASSETS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Earned, not invoiced income | 0 | 195 |
| Prepaid expenses | 15 540 | 20 436 |
| VAT due | 8 621 | 15 961 |
| Prepaid tax overseas | 3 073 | 48 401 |
| Other [1)] | 38 004 | 26 785 |
| **Total other current assets** | **65 238** | **111 777** |

1) Other in 2017 included receivables from the Skattefunn tax incentive scheme and other grants of NOK 31 961 thousand (6 023 thousand).

# NOTE 16 BANK DEPOSITS, CASH AND CASH EQUIVALENTS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Cash at bank and in hand | 171 605 | 208 073 |
| **Bank deposits, cash and cash equivalents** | **171 605** | **208 073** |
| Bank overdrafts | 0 | 0 |
| Cash & cash equivalents in the cash flow analysis | 171 605 | 208 073 |
| Undrawn Group overdraft facility | 85 000 | 85 000 |
| Undrawn loan facilities | 550 909 | 506 117 |
| Restricted funds included in cash & cash equivalents [1)] | 6 400 | 6 332 |

1) Restricted tax withholdings

# NOTE 17 SHARE CAPITAL AND SHARE PREMIUM

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Ordinary shares of NOK 0.10 each | 166 627 868 | 166 627 868 |
| **Total number of shares** | **166 627 868** | **166 627 868** |

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) | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **ORDINARY SHARES** | | | | | | |
| Issued and paid 1 January | 166 627 868 | 133 294 868 | 16 663 | 13 329 | 727 639 | 82 955 |
| Issued new share capital | 0 | 33 333 000 | 0 | 3 333 | 0 | 663 327 |
| Transaction cost | | | | | 0 | -18 643 |
| **Issued and paid 31 December** | **166 627 868** | **166 627 868** | **16 663** | **16 663** | **727 639** | **727 639** |
| **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 31.12.2017 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 31.12.2017

| | NUMBER OF SHARES | SHAREHOLDING |
|---|---|---|
| Mitsui & Co., Ltd. | 41 666 321 | 25.01 % |
| Flakk Composites AS 1) | 29 002 667 | 17.41 % |
| MP Pensjon PK | 12 531 440 | 7.52 % |
| Bøckmann Holding AS | 9 000 000 | 5.40 % |
| Verdipapirfondet Odin Norge | 7 438 064 | 4.46 % |
| Nødingen AS | 6 000 000 | 3.60 % |
| JP Morgan Chase Bank, N.A., London (Nominee) | 5 560 955 | 3.34 % |
| Skandinaviska Enskilda Banken AB, SFMA1 | 3 683 496 | 2.21 % |
| Verdipapirfondet Storebrand Norge | 3 342 802 | 2.01 % |
| The Bank of New York Mellon SA/NV (Nominee) | 3 108 002 | 1.87 % |
| The Bank of New York Mellon SA/NV (Nominee) | 1 778 168 | 1.07 % |
| JP Morgan Chase Bank, N.A., London (Nominee) | 1 472 042 | 0.88 % |
| Societe Generale | 1 450 000 | 0.87 % |
| TR European Growth Trust PLC | 1 308 563 | 0.79 % |
| Hexagon Composites ASA (own shares) | 1 166 075 | 0.70 % |
| Verdipapirfondet Eika Norge | 1 045 016 | 0.63 % |
| VPF Nordea Kapital | 1 029 924 | 0.62 % |
| VPF Eika Spar | 1 004 000 | 0.60 % |
| Flakk Invest AS 1) | 1 000 000 | 0.60 % |
| Mustad Industrier AS | 900 000 | 0.54 % |
| **Total 20 largest shareholders** | **133 487 535** | **80.11 %** |
| Remainder | 33 140 333 | 19.89 % |
| **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 31.12.2017 was 2 298 of whom 197 were foreign shareholders. The number of shares held by foreign shareholders was 68 163 365 or 40.9%.

The Board proposes to the general assembly that a dividend is paid of NOK 0.30 per outstanding share, NOK 49 639 thousand in total for the 2017 fiscal year.

No dividend was paid for the 2016 financial year.

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

The Board (unanimous) has a mandate to increase share capital by up to NOK 1 666 278 by issuing up to 16 662 780 shares (par value NOK 0.10). This authorization is valid until the next ordinary general assembly.

# **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) | 2017 | 2016 |
|---|---|---|
| Defined contribution pension plan | 14 810 | 15 348 |
| Defined benefit pension plan in Norway | 768 | 572 |
| Multi-employer pension plan in Norway (new AFP) | 1 770 | 1 498 |
| **Total** | **17 348** | **17 418** |

### 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 31.12.2017 the Norwegian defined contribution pension plans had 159 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 31.12.2017, 114 members were covered by the plan.

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

### DEFINED CONTRIBUTION PLANS EXPENSES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Defined contribution pension plans - Norway | 9 054 | 7 131 |
| Defined contribution pension plans - USA | 5 468 | 7 859 |
| Defined contribution pension plans - Sweden | 288 | 358 |
| **Total** | **14 810** | **15 348** |

### LIABILITIES FROM DEFINED BENEFIT PENSION PLAN IN THE GROUP

The obligation for the defined benefit pension plans is calculated on a straight-line basis. Unrealized gains and losses resulting from changes in actuarial assumptions are recognized in other comprehensive income. Net accumulated actuarial gains/losses after tax as of 31.12.2017 amounted to NOK -19 121 thousand, compared with NOK -18 094 thousand as of 31.12.2016. As of 31.12.2017 the Groups defined benefit plans had 19 members (19 members in 2016).

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Current service cost | 444 | 426 |
| Interest cost on benefit obligation | 444 | 396 |
| Expected return on plan assets | -390 | -413 |
| Administrative costs | 199 | 67 |
| Employer's contribution | 71 | 84 |
| Effect of implementation | 0 | 12 |
| **Total pension expenses** | **768** | **572** |

### PENSION LIABILITIES AND PLAN ASSETS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Present value of funded obligations | 19 604 | 17 699 |
| Fair value of plan assets | -18 186 | -17 155 |
| Employer's contributions on net pension liabilities | 36 | -89 |
| **Net liability recognized in balance sheet 31 December** | **1 454** | **455** |

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Net liability recognized in balance sheet 1 January | 455 | 806 |
| Translation differences | 97 | 0 |
| Additions from purchase of companies | 0 | 1 172 |
| Effect of demerged activities | 0 | -836 |
| Recognized benefit expense | 768 | 572 |
| Benefits paid | -1 218 | -1 275 |
| Actuarial gains and losses arising from changes in financial assumptions | 1 268 | 255 |
| Actuarial gains and losses arising from changes in demographic assumptions | 84 | -208 |
| **Net liability recognized in balance sheet 31 December** | **1 454** | **455** |
| **Retirement benefit obligation** | **1 838** | **1 367** |
| **Plan assets** | **383** | **912** |

### CHANGE IN BENEFIT LIABILITY DURING YEAR

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Benefit obligation 1 January | 17 699 | 17 078 |
| Current service cost | 444 | 554 |
| Interest expense | 444 | 396 |
| Actuarial gains/losses (-) | -1 107 | -1 897 |
| Pension payments | -437 | -370 |
| Translation differences | 348 | 0 |
| Effect change of plans | 0 | -245 |
| Additions from purchase of companies | 0 | 4 191 |
| Effect of demerged activities | 0 | -1 998 |
| **Retirement benefit obligation 31 December** | **19 604** | **17 699** |

Expected premium payment next year is NOK 1 278 thousand.

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Plan assets 1 January | 17 155 | 16 372 |
| Return on plan assets | 390 | 413 |
| Actuarial gains/losses (-) | -77 | -1 912 |
| Administrative costs | -199 | -67 |
| Pension premiums | 1 044 | 1 117 |
| Paid pensions | -378 | -370 |
| Translation differences | 251 | 0 |
| Effect change of plans | 0 | -255 |
| Additions from purchase of companies | 0 | 3 019 |
| Effect of demerged activities | 0 | 1 162 |
| **Plan assets 31 December** | **18 186** | **17 155** |

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| (NOK 1 000) | ALLOCATION | AMOUNT | ALLOCATION | AMOUNT |
| Shares | 10 % | 1 782 | 6 % | 961 |
| Bonds/certificates | 80 % | 14 512 | 75 % | 12 884 |
| Property | 10 % | 1 728 | 19 % | 3 260 |
| Other | 1 % | 164 | 0% | 51 |
| **Total** | **100 %** | **18 186** | **100 %** | **17 155** |

The actual return on plan assets in 2017 was NOK 313 thousand (-1 499 thousand in 2016), allowing for previous years' actuarial gains/losses.

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| (NOK 1 000) | NORWAY | GERMANY | NORWAY | GERMANY |
| Discount rate | 2.30 % | 2.16 % | 2.60 % | 1.93 % |
| Return on plan assets | 2.30 % | 2.16 % | 2.60 % | 1.93 % |
| Salary increases | 2.50 % | 2.00 % | 2.50 % | 2.00 % |
| Pension increases | 0.40 % | 0.00 % | 0.00 % | 0.00 % |
| Adjustment of national insurance base rate | 2.25 % | 1.50 % | 2.25 % | 1.50 % |
| Mortality table | K2013 BE | RT Heubech 2005G | K2013 BE | RT Heubech 2005G |

The Group has used the Norwegian covered bonds (OMF) as basis for the discount rate as of 31 December for both 2017 and 2016 for the Norwegian plans.

### MULTI-EMPLOYER PENSION PLAN IN NORWAY

155 (139) 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 2.5% (2.5% in 2016) for salaries in the range 1.0 - 7.1 times the national insurance base rate (G), and is expected to increase in the coming years. Total contribution for the arrangement were NOK 1 770 thousand in 2017 and NOK 1 498 thousand in 2016. Expected premium for 2018 is NOK 1 824 thousand.

# NOTE 19 PROVISIONS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Balance 1 January | 47 168 | 43 491 |
| Additions from purchase of companies | 0 | 23 019 |
| Disposals from demerged activities | 0 | -6 282 |
| Provisions for year | 23 405 | 10 020 |
| Translation differences | 137 | -281 |
| Provisions used during year | -32 865 | -22 799 |
| **Balance 31 December** | **37 845** | **47 168** |

The Group seeks to minimize the level of warranty or other claims from third parties through a diligent focus on quality. The Group also seeks to consistently recognize any potential impact of 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.

**Legal Processes**
Composites Scandinavia AB have appealed a decision from The Swedish Civil Contingencies Agency, MSB, regarding a withdrawal of specific cylinders. The cylinders are no longer in production and have not been sold since 2012. The products have met the relevant requirements when placed on the market and, according to MSB's investigation, still meet those requirements. As the decision is appealed, it has no legal effect as per 20 March 2018.

# NOTE 20 NON-CURRENT INTEREST-BEARING LIABILITIES

| | | | | CARRYING AMOUNT | |
|---|---|---|---|---|---|
| (NOK 1 000) | INTEREST RATE CONDITIONS | CURRENCY | MATURITY | 2017 | 2016 |
| **UNSECURED** | | | | | |
| Bank loan (bullet) | Euribor 3 month + margin | EUR | 30.09.2021 | 362 535 | 406 924 |
| **Total unsecured non-current liabilities** | | | | **362 535** | **406 924** |
| **SECURED** | | | | | |
| Ohio loan | Fixed interest rate | USD | 30.06.2018 | 12 188 | 14 914 |
| Vehicle loan | Fixed interest rate | USD | 01.08.2019 | 150 | 248 |
| Obligations under finance leases | Libor + margin | USD | 01.11.2019 | 5 132 | 7 795 |
| Obligations under finance leases | Euribor + margin | EUR | 30.11.2017 | 0 | 5 631 |
| Obligations under finance leases | Euribor + margin | EUR | 31.05.2018 | 2 940 | 5 123 |
| Obligations under finance leases | Euribor + margin | EUR | 30.09.2019 | 3 954 | 5 142 |
| **Total secured non-current liabilities** | | | | **24 362** | **38 853** |
| Total non-current liabilities | | | | 386 897 | 445 776 |
| 1st year's instalments, non-current liabilities | | | | -19 494 | -14 095 |
| **Total non-current liabilities, not including 1st year's instalments** | | | | **367 403** | **431 681** |

**ESTIMATED REPAYMENT STRUCTURE FOR NON-CURRENT LIABILITIES (NOK 1 000) AS OF 31.12.2017**

| 2018 | 2019 | 2020 | 2021 | 2022 | THEREAFTER |
|---|---|---|---|---|---|
| 19 494 | 4 868 | 0 | 362 535 | 0 | 0 |

The current financing facility is a bilateral facility with DNB Bank. The overall size of the facility is NOK 1 billion, comprising a main revolving credit with overdraft facility of NOK 600 million and an optional ancillary facility of NOK 400 million. There are no breaches of the financial covenants under the financing facility agreements.

**RECONCILIATION FOR LIABILITIES ARISING FROM FINANCING ACTIVITIES**

| (NOK 1 000) | FINANCIAL LIABILITIES | FINANCIAL LEASING OBLIGATIONS | TOTAL |
|---|---|---|---|
| **Liabilities 1 January 2016** | **393 587** | **0** | **393 587** |
| Cash flow from financing activities | -393 215 | 0 | -393 215 |
| Exchange differences | -831 | 0 | -831 |
| Additions financial liabilities | 419 554 | 23 691 | 443 246 |
| Other transactions without cash settlement | 2 989 | 0 | 2 989 |
| **Liabilities 31 December 2016** | **422 085** | **23 691** | **445 776** |
| | | | |
| **Liabilities 1 January 2017** | **422 085** | **23 691** | **445 776** |
| Cash flow from financing activities | -78 296 | -12 130 | -90 427 |
| Exchange differences | 30 679 | 465 | 31 144 |
| Additions financial liabilities | 0 | 0 | 0 |
| Other transactions without cash settlement | 403 | 0 | 403 |
| **Balance 31 December 2017** | **374 871** | **12 025** | **386 897** |

## NOTE 21 SHORT-TERM INTEREST-BEARING LOANS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| **SECURED** | | |
| Current interest-bearing liabilities | 0 | 0 |
| 1st year's instalments, non-current interest-bearing liabilities | 19 494 | 14 095 |
| **Total** | **19 494** | **14 095** |

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 31.12.2017 the Group had not drawn on these facilities.

## NOTE 22 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Trade payables | 151 130 | 185 943 |
| Forward exchange contracts | 5 436 | 0 |
| Public duties payable | 13 836 | 12 759 |
| Accrued expenses and other current liabilities | 117 343 | 82 077 |
| **Total** | **287 744** | **280 780** |

# NOTE 23 LEASES

**THE GROUP AS LESSEE / FINANCIAL LEASES**
In relation to the acquisition of the Hexagon xperion group in 2016 The Group acquired finance lease contracts for patents and machinery. As of 31.12.2017 The Group has finance lease contracts for machinery.

**ASSETS HELD UNDER FINANCIAL LEASES**

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Intangible assets [1)] | 0 | 12 875 |
| Plant and equipment | 33 751 | 33 759 |
| Accumulated depreciation | -18 780 | -20 533 |
| **Net carrying amount** | **14 971** | **26 101** |
| **OVERVIEW OF FUTURE MINIMUM LEASE PAYMENTS** | | |
| Next year | 7 699 | 13 220 |
| 1 to 5 years | 4 976 | 12 251 |
| Later than 5 years | 0 | 0 |
| **Future minimum lease payments** | **12 676** | **25 472** |
| **PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS** | | |
| Which includes: | | |
| - current liabilities | 4 911 | 11 895 |
| - non-current liabilities | 7 115 | 11 796 |

1) In 2017 the Group redeemed a financial lease for EUR 425 thousand.

**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) | 2017 | 2016 |
|---|---|---|
| Ordinary lease payments | 29 622 | 32 635 |
| **Total** | **29 622** | **32 635** |

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

| | |
|---|---|
| Not later than 1 year | 37 426 |
| 1 to 5 years | 114 641 |
| Later than 5 years | 138 291 |
| **Total** | **290 358** |

# 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 are 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 minimize 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 31.12.2017**

| (NOK 1 000) | FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS | INTEREST RATE SWAPS USED AS CASH FLOW HEDGING | LOANS/RECEIVABLES/ FINANCIAL OBLIGATION AT AMORTIZED COSTS | NON FINANCIAL ASSETS/ LIABILITIES | TOTAL |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Other non-current assets | | | 557 | | 557 |
| Trade receivables | | | 172 868 | | 172 868 |
| Other current assets | | | | 65 238 | 65 238 |
| Bank deposits, cash and cash equivalents | | | 171 605 | | 171 605 |
| **Total financial assets** | **0** | **0** | **345 030** | **65 238** | **410 268** |
| **LIABILITIES** | | | | | |
| Non-current interest-bearing liabilities | | | 367 403 | | 367 403 |
| Non-current provisions (earn-out and other) | | | 512 | 113 163 | 113 675 |
| Short-term loans | | | 19 494 | | 19 494 |
| Forward exchange contracts | 5 436 | | | | 5 436 |
| Trade payables and other current liabilities | | | 151 130 | 131 178 | 282 308 |
| **Total financial liabilities** | **5 436** | **0** | **538 538** | **244 342** | **788 316** |

**THE GROUP HAS THE FOLLOWING FINANCIAL ASSETS AND LIABILITIES DIVIDED INTO DIFFERENT CATEGORIES FOR ACCOUNTING TREATMENT AND RECONCILED AGAINST THE BALANCE SHEET ITEMS 31.12.16**

| (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 AMORTIZED 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 provisions (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 recognized 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 minimizes 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 minimized 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 76 174 thousand (53 941 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 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 (see note 20). The Group is currently evaluating a new hedging position but remains unhedged as at 31.12.2017.

#### 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** |

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 hedging of cash flow and is recognized 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) |
|---|---|---|---|
| 2017 | +50 | -1 470 | 0 |
| | -50 | 1 470 | 0 |
| 2016 | +50 | -1 672 | 0 |
| | -50 | 1 672 | 0 |

Based on the financial instruments which existed as of 31 December 2017, an interest rate increase of 1% would reduce profit after tax by NOK 2 940 thousand (3 344 thousand).

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

| | 2017 | 2016 |
|---|---|---|
| Bank overdrafts | 2.5 % | 2.5 % |
| Bank loan | 1.6 % | 2.6 % |
| Finance leases | 1.25 to 4.88 % | 1.25 to 4.88 % |

### (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):

**31.12.2017 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 | | | | 364 091 | | 364 091 |
| Interest on loan | | 1 365 | 4 096 | 15 019 | | 20 480 |
| Other long term liabilities (earn-out and other) | | | | 113 675 | | 113 675 |
| Forward exchange contracts | | 876 | 2 574 | 1 986 | | 5 436 |
| Financial Leases | | 1 878 | 5 429 | 4 868 | | 12 175 |
| Interest on Financial leases | | 90 | 270 | 298 | | 658 |
| Other Loans | | 3 047 | 9 141 | | | 12 188 |
| Interest on other loans | | 66 | 66 | | | 133 |
| Trade payables | 98 235 | 52 896 | | | | 150 130 |
| **Total** | **98 235** | **60 218** | **21 576** | **499 937** | **0** | **679 965** |

**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** |

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) |
|---|---|---|---|
| 2017 | +5 % | -5 686 | -34 187 |
| | -5 % | 5 686 | 34 187 |
| 2016 | +5 % | -14 306 | -18 110 |
| | -5 % | 14 306 | 18 110 |

| | MOVEMENT OF NOK AGAINST EUR | EFFECT ON PROFIT/LOSS AFTER TAX | EFFECT ON OTHER INCOME AND EXPENSES AFTER TAX (NOK 1 000) |
|---|---|---|---|
| 2017 | +5 % | 22 690 | 687 |
| | -5 % | -22 690 | -687 |
| 2016 | +5 % | 16 732 | 434 |
| | -5 % | -16 732 | -434 |

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 31.12.2017, 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 31.12.2017 |
|---|---|---|---|---|---|
| Forward contracts to hedge expected future sales [1)] | EUR/NOK | 9 600/91 468 | 2018 | 9.24 - 9.97 | -3 450 |
| Forward contracts to hedge expected future sales [1)] | EUR/NOK | 6 200/60 190 | 2019 | 9.37 - 10.09 | -1 986 |
| **Total** | | | | | **-5 436** |

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

As of 31.12.2016, 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 31.12.2016 |
|---|---|---|---|---|---|
| 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.

### (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 recognized 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 recognized in accordance with amortized 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) | 2017 | 2016 |
|---|---|---|
| Fair value of cash flow hedges 1 January | 0 | 0 |
| Change over total comprehensive income | 0 | 0 |
| **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

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| (NOK 1 000) | LEVEL | BOOK VALUE | FAIR VALUE | BOOK VALUE | FAIR VALUE |
| **FINANCIAL ASSETS** | | | | | |
| Other non-current assets | | 557 | 557 | 1 694 | 1 694 |
| Trade receivables | | 172 868 | 172 868 | 84 705 | 84 705 |
| Forward exchange contracts | 2 | 0 | 0 | 5 209 | 5 209 |
| Bank deposits, cash and cash equivalents | | 171 605 | 171 605 | 208 073 | 208 073 |
| **FINANCIAL LIABILITIES** | | | | | |
| Bank loans | 2 | 362 535 | 364 091 | 406 924 | 408 884 |
| Other loans | | 0 | 0 | 12 758 | 12 758 |
| Finance leases | 2 | 4 868 | 4 868 | 12 000 | 12 000 |
| Other long term liabilities (earn-out and other) | | 113 675 | 113 675 | 106 619 | 106 619 |
| Short-term leases | | 7 306 | 7 306 | 11 691 | 11 691 |
| Short-term loans | | 12 188 | 12 188 | 2 404 | 2 404 |
| Forward exchange contracts | 2 | 5 436 | 5 436 | 0 | 0 |
| Trade payables and other current liabilities | | 151 130 | 151 130 | 185 943 | 185 943 |

The management assessed that the fair values of bank deposits, cash and cash equivalents, trade receivables, other non-current assets, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the Group's interest-bearing bank loans and finance leases are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31.12.2017 and 31.12.2016 was assessed to be insignificant.

The Group enters into foreign exchange contracts with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing models using present value calculations.

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Level 1: Based on prices in an active market | 0 | 0 |
| Level 2: Observable market data | -5 436 | 4 892 |
| Level 3: Other than observable market data | 0 | 0 |
| **Total financial instruments at fair value** | **-5 436** | **4 892** |

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| 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 amortized 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 maximize 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 2016 or 2017.

## NOTE 25 INTEREST IN JOINT OPERATIONS

The joint operation entity was dissolved and subsumed simultaneously with the Agility Fuel Solutions merger transaction in October 2016 (See note 5). As at 31.12.2016 and 31.12.2017 there were no interests in joint operations.

# **NOTE 26** INVESTMENTS IN JOINT VENTURES

The Group has classified the investment in Agility Fuel Solutions LLC and Hyon AS as joint ventures. The entities are organized as limited liability companies with its own management in charge of day-to-day business. However, the composition of the board and guidelines for operation of the companies are based on a operational agreement and shareholder agreement. Under these agreements, it is required unanimity between the parties for making decisions about relevant activities. Accordingly, the ventures 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 the companies are 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 % |
| Hyon AS | Norway | High-Pressure CNG & CHG | 33 % | 33 % |
| Rugasco LLC [1)] | Russia | Low-Pressure LPG | 49 % | 50 % |

1) No activity in Rugasco LLC during 2016 and 2017

### THE INCOME STATEMENT INCLUDES THE FOLLOWING AMOUNTS RESULTING FROM TRANSACTIONS WITH JOINT VENTURES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Sales revenue | 6 412 | 4 130 |
| Other operating income | 21 458 | 0 |
| Cost of materials | 17 669 | 12 065 |
| Other operating expenses | 130 | 247 |

### THE BALANCE SHEET INCLUDES THE FOLLOWING AMOUNTS RESULTING FROM TRANSACTIONS WITH JOINT VENTURES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Trade receivables | 3 028 | 1 453 |
| Trade payables | 1 113 | 1 106 |

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Carve-out value as at 03.10.2016 | | 421 309 |
| Cash payment as at 03.10.2016 | | 150 850 |
| Recognized gain carve-out excluding transaction costs | | 380 192 |
| Translation differences as at 31.12.2016 | | 18 990 |
| **Acquisition cost as at 31.12.2016** | | **971 341** |
| **BOOK VALUE AS AT 01.01.2017 / ACQUISITION COST AS AT 31.12.2016** | **975 963** | **971 341** |
| Share of profit | 8 056 | 2 106 |
| Amortization of excess value | -13 649 | -3 556 |
| Elimination of downstream transaction | -10 729 | 0 |
| **Reported as profit/loss from joint venture** | **-16 322** | **-1 450** |
| Share of OCI | -46 078 | -1 041 |
| Received dividends | -14 770 | 0 |
| Share-based payment | 18 811 | 7 114 |
| **Book value as at 31.12.** | **917 604** | **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 2017 AND 03.10.2016 - 31.12.2016

| INCOME STATEMENT FOR THE PERIOD | 2017 | 2016 |
|---|---|---|
| Operating income | 1 300 728 | 310 959 |
| Operating expenses | 1 276 292 | 308 739 |
| Net financial items | -8 325 | -1 853 |
| **Profit before and after tax** | **16 112** | **4 072** |
| Other income and expenses | 1 752 | -2 042 |
| **Comprehensive income** | **17 864** | **2 031** |
| **Group's share of comprehensive income** | **8 932** | **1 015** |

| BALANCE SHEET | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets | 455 028 | 649 135 |
| Cash and cash equivalents | 86 676 | 82 173 |
| Non-current assets | 599 852 | 571 985 |
| **LIABILITIES** | | |
| Current liabilities | 191 724 | 235 937 |
| Current financial liabilities | 4 084 | 96 746 |
| Long-term liabilities | 11 045 | 0 |
| Long-term financials liabilities | 72 871 | 93 892 |
| **Equity** | **861 832** | **876 717** |
| **Group's share of the equity** | **430 916** | **438 359** |
| Goodwill | 254 663 | 267 544 |
| Trade name | 7 003 | 7 893 |
| Technology | 37 351 | 42 094 |
| Customer relationships | 193 385 | 214 002 |
| Translation differences | 0 | -1 041 |
| Elimination of downstream transaction | -10 729 | 0 |
| Share-based payment | 5 015 | 7 114 |
| **Group's carrying amount of the investment** | **917 604** | **975 963** |

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

## HEXAGON COMPOSITES GROUP'S SHARE OF PROFIT/LOSS IN HYON AS AND RUGASCO LLC

| | HYON AS | RUGASCO LLC |
|---|---|---|
| Book value as at 31.12.2016 | 0 | 0 |
| Share capital contribution | 1 510 | 0 |
| Share of profit after tax 2017 | -345 | 0 |
| **Book value as at 31.12.2017** | **1 165** | **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 2017 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 program covering certain employees in senior positions.

As at 31.12.2017, 31 employees were included in the option program.

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.

5 April 2017 Hexagon Composites ASA issued 1,450,000 new call options to senior executives and managers in the Group at NOK 27 per share. 7 September 2017 additional 190,000 call options were added to this program. 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 2019, first quarter of 2020 or second quarter of 2020.

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 2017 associated with the share option scheme was NOK 10 136 thousand (4 833). The fair value of all options granted is estimated to NOK 16 760 thousand 31 of December 2017 (9 780).

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

### OVERVIEW OF NUMBER OF OUTSTANDING OPTIONS

| (NOK 1 000) | **2017** | **2016** | **2015** |
|---|---|---|---|
| Outstanding options 1 January | 1 850 000 | 975 000 | 0 |
| Options granted | 1 640 000 | 925 000 | 975 000 |
| Options exercised | 0 | 0 | 0 |
| Options lapsed | -25 000 | -50 000 | 0 |
| **Share options outstanding 31 December** | **3 465 000** | **1 850 000** | **975 000** |
| Exercisable at 31 December | 0 | 0 | 0 |

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

| (NOK 1 000) | **AWARDED 2017** | **AWARDED 2016** | **AWARDED 2015** |
|---|---|---|---|
| Weighted average fair values at the measurement date per share (NOK) | 10.55 | 10.62 | 7,42 |
| Dividend yield (%) | 0 | 0 | 0 |
| Expected volatility (%) | 53.23 % | 57.40 % | 54.60 % |
| Risk-free interest rate (%) | 0.80 % | 0.46 % | 0.85 % |
| Expected life of share options (years) | 3.42 | 3.44 | 3.51 |
| Weighted average share price (NOK) | 27.3 | 23.3 | 21.2 |
| Model used | Black-Scholes | Black-Scholes | Black-Scholes |

# NOTE 28 TRANSACTIONS WITH RELATED PARTIES

The Group's related parties consist of associates, joint ventures, main shareholders, members of the Board and management. Transactions with joint ventures are disclosed in note 26.

All the transactions were carried out as part of normal business and at arm's length prices.

### THE INCOME STATEMENT INCLUDES THE FOLLOWING AMOUNTS RESULTING FROM TRANSACTIONS WITH RELATED PARTIES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Sales revenue | 6 077 | 0 |
| Other operating expenses | 2 988 | 625 |

### THE BALANCE SHEET INCLUDES THE FOLLOWING AMOUNTS RESULTING FROM TRANSACTIONS WITH RELATED PARTIES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Trade receivables | 1 825 | 0 |
| Trade payables | 907 | 509 |

### 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 2017 | TOTAL REMUN-ERATION 2016 |
|---|---|---|---|---|---|---|---|
| **EXECUTIVE MANAGEMENT** | | | | | | | |
| Jon Erik Engeset, Group President | 3 307 | 970 | 14 | 160 | 2 657 | 7 108 | 5 358 |
| Tore J. Fjell, Senior Vice President 2) | 886 | | 31 | 1 | 0 | 918 | 1 559 |
| David Bandele, Chief Financial Officer | 1 775 | 550 | 14 | 160 | 1 594 | 4 093 | 3 106 |
| **BOARD OF DIRECTORS** | | | | | | | |
| Knut Flakk, Chairman | 750 | | | | | 750 | 740 |
| Kristine Landmark, Deputy Chair | 240 | | | | | 240 | 240 |
| Sverre Narvesen | 180 | | | | | 180 | 170 |
| Kathrine Duun Moen | 150 | | | | | 150 | 0 |
| Katsunori Mori 3) | 0 | | | | | 0 | 0 |
| Elisabeth Heggelund Tørstad | 0 | | | | | 0 | 0 |
| Gunnar Bøckmann, Deputy Board member | 50 | | | | | 50 | 25 |
| **FORMER BOARD MEMBERS** | | | | | | | |
| Tom Vidar Rygh | 135 | | | | | 135 | 150 |
| May Britt Myhr | 0 | | | | | 0 | 150 |
| **Total remuneration** | **7 472** | **1 520** | **59** | **320** | **4 252** | **13 624** | **11 498** |

1) Bonuses paid in the year relate to the year 2016.
2) Tore J. Fjell retired from his position as Senior Vice President end of July 2017.
3) Mr. Katsunori Mori has advised the company that he waives any board remuneration for the period he will serve on the board of directors.

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 1 106 thousand to the Group President and NOK 591 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. As of 31.12.2017 the Group President has 550 thousand (300 thousand) and CFO has 350 thousand (200 thousand) outstanding share options.

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

| | 2017 | 2016 |
|---|---|---|
| Knut Flakk, (Chairman) 1) | 30 715 717 | 30 715 717 |
| Kristine Landmark (Deputy chair) 2) | 10 000 | 10 000 |
| Katsunori Mori (Board member) 3) | 41 666 321 | 41 666 321 |
| Gunnar S. Bøckmann (Deputy board member) 4) | 9 339 400 | 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 Landmark's 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 9 000 000 are owned through a limited liability company.

### SHARES HELD BY KEY MANAGEMENT PERSONNEL

| | 2017 | 2016 |
|---|---|---|
| Jon Erik Engeset, Group President 1) | 440 867 | 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 439 000 are owned by related limited liability companies.

Car loan has been given to one employee in subsidiaries. The remaining balance 31 December 2017 was NOK 0 (NOK 414 thousand in 2016). 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) | 2017 | 2016 |
|---|---|---|
| Statutory audit and auditing-related services | 3 136 | 2 666 |
| Other attestation services | 179 | 261 |
| Tax advice | 2 094 | 1 855 |
| Other non-auditing services | 767 | 170 |
| **Total** | **6 177** | **4 952** |

# NOTE 29 PURCHASING COMMITMENTS

**THE GROUP HAS THE FOLLOWING COMMITMENTS RESULTING FROM PURCHASING MATERIALS**

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| 2017 | 0 | 0 |
| 2018 | 3 500 | 0 |
| Thereafter | 0 | 0 |
| **Total** | **3 500** | **0** |

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

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| 2017 | 0 | 8 563 |
| 2018 | 1 610 | 0 |
| Thereafter | 0 | 0 |
| **Total** | **1 610** | **8 563** |

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 % |
| Ragasco NA Inc. | USA | Lincoln, NE | Low-Pressure LPG | 100 % | 100 % |
| Composite Scandinavia AB | Sweden | Piteå | 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 Technical Services LLC | USA | Lincoln, NE | High-Pressure CNG & CHG | 100 % | 100 % |
| Hexagon Technology AS | Norway | Aalesund | High-Pressure CNG & CHG | 100 % | 100 % |
| Hexagon Composites Germany GmbH | Germany | Herford | High-Pressure CNG & CHG | 100 % | 100 % |
| Hexagon xperion 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 % |
| **JOINT VENTURES / JOINT OPERATIONS** | | | | | |
| Agility Fuel Solutions LLC 1) | USA | Delaware, DE | High-Pressure CNG & CHG | 50 % | 50 % |
| Hyon AS | Norway | Oslo | High-Pressure CNG & CHG | 33 % | 33 % |
| Rugasco, LLC 2) | Russia | Nizhny Novgorod | | 49 % | 50 % |

1) 44.5% directly owned. 5,5% owned through 9,91% ownership in Agility Fuel Solutions Holdings Inc.

2) 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 1.1.2017 | AVERAGE EXCHANGE RATE 2017 | EXCHANGE RATE 31.12.2017 |
|---|---|---|---|
| USD | 8.620 | 8.271 | 8.205 |
| EUR | 9.086 | 9.372 | 9.840 |
| GBP | 10.613 | 10.639 | 11.091 |
| RUB | 14.131 | 14.158 | 14.181 |
| CHF | 846.100 | 839.110 | 840.910 |
| SEK | 95.120 | 98.560 | 99.960 |

# INCOME STATEMENT – PARENT COMPANY
## HEXAGON COMPOSITES ASA

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| Other revenue | 6 | 38 239 | 34 361 |
| **Total operating income** | | **38 239** | **34 361** |
| Payroll & social security expenses | 9,11,14 | 35 469 | 27 353 |
| Depreciation and impairment | 2,3 | 659 | 5 729 |
| Other operating expenses | 11 | 24 466 | 16 916 |
| **Operating profit** | | **-22 356** | **-15 637** |
| Income from investment in subsidiaries | 10 | 174 029 | 70 081 |
| Finance income | 12,13 | 84 680 | 42 266 |
| Finance expense | 5,12,13 | 70 873 | 35 955 |
| **Profit on ordinary activities before tax** | | **165 479** | **60 755** |
| Tax on profit on ordinary activities | 10 | 41 480 | 11 152 |
| **Profit on ordinary activities** | | **123 998** | **49 603** |
| **Profit/loss for the year** | | **123 998** | **49 603** |
| Allocated to dividends | 1 | 49 639 | 0 |
| Transferred equity | 1 | 74 360 | 49 033 |
| **Total transferred** | | **123 998** | **49 603** |

# BALANCE SHEET – PARENT COMPANY
## HEXAGON COMPOSITES ASA

| (NOK 1 000) | NOTE | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| **INTANGIBLE ASSETS** | | | |
| Research & development | 3 | 0 | 0 |
| **Total intangible assets** | | **0** | **0** |
| | | | |
| **PROPERTY, PLANT AND EQUIPMENT** | | | |
| Land, buildings and other real estate | 2 | 6 000 | 6 000 |
| Fixtures/fittings, equipment and tools | 2 | 1 331 | 1 961 |
| **Total property, plant & equipment** | | **7 331** | **7 961** |
| | | | |
| **FINANCIAL ASSETS** | | | |
| Investments in subsidiaries | 4 | 123 265 | 123 265 |
| Investments in associates and joint ventures | 4 | 1 510 | 0 |
| Loans to group companies | 5,6 | 1 106 636 | 1 050 091 |
| Other non-current receivables | 5 | 256 | 957 |
| Investments in shares | | 301 | 301 |
| Excess financing of pension liabilities | 9 | 383 | 380 |
| **Total financial assets** | | **1 232 352** | **1 174 994** |
| | | | |
| **Total non-current assets** | | **1 239 682** | **1 182 956** |
| | | | |
| **CURRENT ASSETS** | | | |
| **RECEIVABLES** | | | |
| Other receivables | 6 | 177 860 | 77 045 |
| **Total receivables** | | **177 860** | **77 045** |
| | | | |
| Bank deposits, cash and cash equivalents | 7 | 788 | 27 270 |
| | | | |
| **Total current assets** | | **178 647** | **104 315** |
| | | | |
| **Total assets** | | **1 418 329** | **1 287 270** |

# BALANCE SHEET – PARENT COMPANY
## HEXAGON COMPOSITES ASA

| (NOK 1 000) | NOTE | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **PAID-IN CAPITAL** | | | |
| Share capital | 1,8 | 16 663 | 16 663 |
| Own shares | 1 | -117 | -117 |
| Share premium | 1 | 727 639 | 727 639 |
| Other paid-in capital | 1 | 16 887 | 6 752 |
| **Total paid-in capital** | | **761 073** | **750 937** |
| Other equity | 1 | 116 225 | 41 894 |
| **Total other equity** | | **116 225** | **41 894** |
| **Total equity** | | **877 298** | **792 831** |
| **LIABILITIES** | | | |
| **OTHER NON-CURRENT LIABILITIES** | | | |
| Non-current interest-bearing liabilities | 5 | 362 535 | 406 924 |
| Liabilities to group companies | 6 | 0 | 52 652 |
| Deferred tax liabilities | 10 | 16 733 | 15 777 |
| **Total other non-current liabilities** | | **379 268** | **475 353** |
| **CURRENT LIABILITIES** | | | |
| Liabilities to credit institutions | 5,13 | 56 444 | 0 |
| Trade payables | | 2 657 | 3 046 |
| Income tax payable | 10 | 40 515 | 6 490 |
| Public duties payable | | 1 902 | 1 829 |
| Allocated dividends | 1 | 49 639 | 0 |
| Other current liabilities | 6 | 10 607 | 7 722 |
| **Total current liabilities** | | **161 764** | **19 087** |
| **Total liabilities** | | **541 032** | **494 439** |
| **Total equity and liabilities** | | **1 418 329** | **1 287 270** |

Aalesund, Norway, 20 March 2018
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

Elisabeth Heggelund Tørstad
Board Member

Jon Erik Engeset
Group President & CEO

# CASH FLOW STATEMENT – PARENT COMPANY
## HEXAGON COMPOSITES ASA

| (NOK 1 000) | NOTE | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 165 479 | 60 755 |
| Tax paid for the period | | -6 490 | 0 |
| Depreciation and impairment | | 659 | 5 729 |
| Gains and losses on shares | | 0 | 67 |
| Recognized group contribution and dividend | | -174 029 | -70 081 |
| Changes in trade payables | | -389 | 1 299 |
| Changes in pension provisions | | -41 | -42 |
| Changes in other accrual accounting entries | | 45 942 | 620 |
| **Net cash flow from operating activities** | | **31 132** | **-1 651** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | |
| Purchase of property, plant & equipment and intangible assets | | -28 | -87 |
| Purchase of shares | | -1 510 | -11 743 |
| Net payments on loans to/from subsidiaries | | -36 329 | -600 481 |
| **Net cash flow from investing activities** | | **-37 867** | **-612 310** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| New non-current liabilities | | 0 | 404 393 |
| Repayment of non-current liabilities | | -76 190 | -387 818 |
| Proceeds from issues of shares | | 0 | 648 017 |
| Net change in bank overdraft | | 56 444 | -24 031 |
| Dividend payments | | 0 | 0 |
| **Net cash flow from financing activities** | | **-19 747** | **640 561** |
| Net change in cash & cash equivalents | | -26 482 | 26 599 |
| Cash & cash equivalents at beginning of period | | 27 270 | 670 |
| **Cash & cash equivalents at end of period** | **7** | **788** | **27 270** |
| **Undrawn group overdraft facility** | **7** | **85 000** | **85 000** |
| **Undrawn credit facility** | | **550 909** | **506 117** |

# 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 recognized as services are rendered. The portion of sales revenue relating to future rendering of services is capitalized as unearned revenue on the sale and recognized 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 recognized 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 recognized at nominal value on the date of commencement. Costs associated with non-current liabilities are amortized over the duration of the loan using the effective interest method.

**RECEIVABLES**
Trade and other receivables are recognized 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 recognized 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 recognized and depreciated over the asset's expected useful life. Direct maintenance of property, plant and equipment is recognized 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 realizable 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 recognized 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, 2016 and 2017 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 recognized 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 23% (24% in 2016) 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 recognized to the extent that it is probable that it can be utilized.

**INTEREST-BEARING LOANS AND BORROWING COSTS**

Loans are recognized at the initial amount received less directly related transaction costs. In subsequent periods, interest-bearing loans are measured at amortized cost using the effective interest method. Profit and loss is entered in the income statement when liabilities are deducted from the balance and via amortization. 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 01.01.2017 | 16 663 | -117 | 727 639 | 6 752 | 41 894 | 792 831 |
| Profit/loss for the year | | | 0 | | 123 998 | 123 998 |
| Allocated dividends | | | | | -49 639 | -49 639 |
| Share-based payment | | | 0 | 10 136 | 0 | 10 136 |
| Actuarial gains/losses for the year | | | 0 | | -29 | -29 |
| **Equity at 31.12.2017** | **16 663** | **-117** | **727 639** | **16 887** | **116 225** | **877 298** |

## NOTE 2 PROPERTY, PLANT & EQUIPMENT

| (NOK 1 000) | LAND/ BUILDINGS AND OTHER PROPERTY | FIXTURES/ FITTINGS, EQUIPMENT AND SIMILAR | TOTAL |
|---|---|---|---|
| Cost of acquisition as of 01.01.2017 | 8 345 | 3 676 | 12 021 |
| Property, plant & equipment purchased | 0 | 28 | 28 |
| **Cost of acquisition 31.12.2017** | **8 345** | **3 705** | **12 050** |
| Accumulated depreciation and impairment 31.12.2017 | 2 345 | 2 374 | 4 719 |
| **Carrying amount at 31.12.2017** | **6 000** | **1 331** | **7 331** |
| Depreciation for the year | 0 | 659 | 659 |
| Useful life | 20 years - perpetual | 4-10 years - perpetual | |

## NOTE 3 INTANGIBLE ASSETS

| (NOK 1 000) | RIGHTS TO TECHNOLOGY | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|
| Cost of acquisition as of 01.01. | 22 215 | 22 215 | 22 215 |
| **Cost of acquisition 31.12.** | **22 215** | **22 215** | **22 215** |
| Accumulated depreciation and impairment 31.12. | 22 215 | 22 215 | 22 215 |
| **Carrying amount at 31.12.** | **0** | **0** | **0** |
| Depreciation for the year | 0 | 0 | 1 777 |
| Impairment for the year [1)] | 0 | 0 | 3 223 |
| Useful life | Discontinued | | |

1) In 2016 The company recognized an impairment of NOK 3 223 thousand as a part of the annual impairment review.

# **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** |

## 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 31.12.2017 | 63 416 | 24 714 | 50 257 | 446 628 | -18 656 | 1 881 |
| Profit 2017 | 85 080 | 1 036 | 23 667 | -13 024 | -14 154 | 225 |

## ASSOCIATES AND JOINT VENTURES

| (NOK 1 000) | REGISTERED OFFICE | OWNERSHIP SHARE | VOTES | CARRYING AMOUNT |
|---|---|---|---|---|
| Hyon AS | Oslo | 33.34 % | 33.34 % | 1 510 |
| Rugasco LLC | Nizhny Novgorod, Russia | 49.0 % | 50.0 % | 0 |

# NOTE 5 RECEIVABLES AND LIABILITIES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| **RECEIVABLES DUE FOR PAYMENT AFTER 1 YEAR** | | |
| Other non-current receivables | 256 | 957 |
| Loans to group companies | 1 106 636 | 1 050 091 |
| **Total** | **1 106 862** | **1 051 048** |
| **SHORT-TERM LIABILITIES** | | |
| Liabilities to credit institutions | 56 444 | 0 |
| **Total** | **56 444** | **0** |
| **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 37 000 | 362 535 | 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 formalizing 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 amortized over the duration of the loans using the effective interest method and are included in the carrying amount of the loans. Balance as of 31.12.2017 was NOK 1 556 thousand.

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

In 2016 the company realized 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 01.01.2016. The loss was not recognized as the Company used hedge accounting.

## NOTE 6 INTRA-GROUP TRANSACTIONS AND BALANCES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| **INCOME** | | |
| Administrative services to subsidiaries | 37 486 | 34 136 |
| **Total** | **37 486** | **34 136** |
| **RECEIVABLES** | | |
| Loans to group companies | 1 106 636 | 1 050 091 |
| Other current receivables | 175 100 | 73 810 |
| **Total** | **1 281 735** | **1 123 901** |
| **LIABILITIES** | | |
| Liabilities to group companies - long-term | 0 | 52 652 |
| Liabilities to group companies - current | 2 906 | 0 |
| **Total** | **2 906** | **52 652** |

## NOTE 7 BANK DEPOSITS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Restricted tax withholdings | 785 | 847 |

The Group's liquidity in Norway is organized 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 31.12.2017**

| | NUMBER OF SHARES | SHAREHOLDING |
|---|---|---|
| Mitsui & Co., Ltd. | 41 666 321 | 25.01 % |
| Flakk Composites AS 1) | 29 002 667 | 17.41 % |
| MP Pensjon PK | 12 531 440 | 7.52 % |
| Bøckmann Holding AS | 9 000 000 | 5.40 % |
| Verdipapirfondet Odin Norge | 7 438 064 | 4.46 % |
| Nødingen AS | 6 000 000 | 3.60 % |
| JP Morgan Chase Bank, N.A., London (Nominee) | 5 560 955 | 3.34 % |
| Skandinaviska Enskilda Banken AB, SFMA1 | 3 683 496 | 2.21 % |
| Verdipapirfondet Storebrand Norge | 3 342 802 | 2.01 % |
| The Bank of New York Mellon SA/NV (Nominee) | 3 108 002 | 1.87 % |
| The Bank of New York Mellon SA/NV (Nominee) | 1 778 168 | 1.07 % |
| JP Morgan Chase Bank, N.A., London (Nominee) | 1 472 042 | 0.88 % |
| Societe Generale Paris | 1 450 000 | 0.87 % |
| TR European Growth Trust PLC | 1 308 563 | 0.79 % |
| Hexagon Composites ASA (own shares) | 1 166 075 | 0.70 % |
| Verdipapirfondet Eika Norge | 1 045 016 | 0.63 % |
| Verdipapirfondet Nordea Kapital | 1 029 924 | 0.62 % |
| Verdipapirfondet Eika Spar | 1 004 000 | 0.60 % |
| Flakk Invest AS 1) | 1 000 000 | 0.60 % |
| Mustad Industrier AS | 900 000 | 0.54 % |
| **Total 20 largest shareholders** | **133 487 535** | **80.11 %** |
| Remainder | 33 140 333 | 19.89 % |
| **Total** | **166 627 868** | **100.00 %** |

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

As of 31.12.2017 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 31.12.2017 was 2 298 of whom 197 were foreign shareholders. The number of shares held by foreign shareholders was 68 163 365 or 40.9%.

The Board proposes to the general assembly that a dividend is paid of NOK 0.30 per outstanding share, NOK 49 639 thousand in total for the 2017 fiscal year. There was no dividend for the 2016 fiscal year.

The Board (unanimous) has a mandate to increase share capital by up to NOK 1 666 278 by issuing up to 16 662 780 shares (par value NOK 0.10). This authorization is valid until the next ordinary general assembly.

# 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 - nine employed and two 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 rate 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 1 226 thousand (1 101), excluding employer's contributions.

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

| (NOK 1 000) | **2017** | **2016** |
|---|---|---|
| Current service cost | 0 | 0 |
| Interest cost on benefit obligation | 44 | 46 |
| Expected return on plan assets | -53 | -55 |
| Administrative costs | 26 | 17 |
| Employer's contribution | 2 | 1 |
| **Total** | **20** | **9** |

### PENSION LIABILITIES AND PLAN ASSETS

| (NOK 1 000) | **2017** | **2016** |
|---|---|---|
| Present value of funded obligations | 1 758 | 1 785 |
| Fair value of plan assets | -2 094 | -2 118 |
| Employer's contributions on net pension liabilities | -47 | -47 |
| **Net pension liabilities/plan assets recognized in balance sheet 31.12** | **-380** | **-380** |
| Net liability recognized in balance sheet 1 January | -380 | -373 |
| Recognized benefit expense | 20 | 9 |
| Premium payments/contributions paid | -61 | -51 |
| Actuarial gains/losses recognized directly in equity | 38 | 35 |
| **Net liability recognized in balance sheet 31.12** | **-383** | **-380** |
| **Retirement benefit obligation** | **0** | **0** |
| **Plan assets** | **383** | **380** |
| Accumulated actuarial gains/losses are recognized directly in equity (net after tax). | 128 | 99 |

### FINANCIAL ASSUMPTIONS

| (NOK 1 000) | **2017** | **2016** |
|---|---|---|
| Discount rate | 2.30 % | 2.60 % |
| 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 | 2.30 % | 2.60 % |
| Mortality table | K2013 BE | K2013 BE |

# NOTE 10 TAX

### TAX EXPENSE FOR THE YEAR CONSISTS OF

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Income tax payable | 40 515 | 6 490 |
| Change in deferred tax | 966 | 4 662 |
| **Total tax expense** | **41 480** | **11 152** |

### CALCULATION OF TAX BASE FOR THE YEAR

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Profit before tax | 165 479 | 60 755 |
| Permanent differences | 10 387 | 13 517 |
| Change in temporary differences | -7 055 | -15 182 |
| Use of loss carryforwards | 0 | 0 |
| **Tax base for the year** | **168 811** | **32 056** |

Received group contributions of NOK 174 029 thousand (NOK 70 081 thousand in 2016) have been entered as income on investments in subsidiaries and included in the pre-tax profit.

### OVERVIEW OF TEMPORARY DIFFERENCES

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Receivables | 75 473 | 68 045 |
| Non-current assets | -836 | -797 |
| Provisions | -2 267 | -1 890 |
| Pensions | 383 | 380 |
| Loss carryforwards | 0 | 0 |
| **Total** | **72 754** | **65 737** |
| **DEFERRED TAX 23% (24% IN 2016)** | **16 733** | **15 777** |

### WHY TAX EXPENSE FOR THE YEAR DOES NOT AMOUNT TO 24% OF PROFIT BEFORE TAX (25% IN 2016)

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| 24% of profit before tax (25% in 2016) | 39 715 | 15 189 |
| Permanent differences 24% (25% in 2016) | 2 493 | -3 379 |
| Gains and losses/sale of financial assets 24% (25% in 2016) | 0 | 0 |
| Correction for previous year | 0 | 0 |
| Effect of change in tax rate | -728 | -657 |
| **Calculated tax expense** | **41 480** | **11 152** |
| Effective tax rate [1)] | 25.1 % | 18.4 % |

1) Tax expense in relation to profit before tax.

From the 2018 financial year, the tax rate on general income in Norway has been reduced to 23% (24% in 2017). Deferred tax and deferred tax assets as of 31 December 2017 are calculated using a tax rate of 23%. The effect on tax expense for the year was NOK -728 thousand.

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

## PAYROLL COSTS

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Wages/salaries and fees | 20 030 | 17 499 |
| Employer's contribution | 2 950 | 2 771 |
| Pension expense | 1 239 | 1 104 |
| Other contributions | 11 250 | 5 979 |
| **Total** | **35 469** | **27 353** |

There were 10 (10 in 2016) employees in the Company during the financial year.

| (NOK 1 000) | SALARIES AND FEES | PAID BONUS [1] | NATURAL CONTRI-BUTIONS | PAID PENSION PREMIUM | VALUE OF AWARDED SHARE OPTIONS | TOTAL REMUNE-RATION |
|---|---|---|---|---|---|---|
| **EXECUTIVE MANAGEMENT** | | | | | | |
| Jon Erik Engeset, Group President | 3 307 | 970 | 14 | 160 | 2 657 | 7 108 |
| Tore J. Fjell, Senior Vice President [2] | 886 | 0 | 31 | 1 | 0 | 918 |
| David Bandele, CFO | 1 775 | 550 | 14 | 160 | 1 594 | 4 093 |
| **BOARD OF DIRECTORS** | | | | | | |
| Knut Flakk, Chairman | 750 | | | | | 750 |
| Kristine Landmark, Deputy Chair | 240 | | | | | 240 |
| Sverre Narvesen | 180 | | | | | 180 |
| Katsunori Mori [3] | 0 | | | | | 0 |
| Kathrine Duun Moen | 150 | | | | | 150 |
| Elisabeth Heggelund Tørstad | 0 | | | | | 0 |
| Gunnar Bøckmann, Deputy Board member | 50 | | | | | 50 |
| **FORMER BOARD MEMBERS** | | | | | | |
| Tom Vidar Rygh | 135 | | | | | 135 |
| **Total remuneration** | **7 472** | **1 520** | **59** | **320** | **4 252** | **13 624** |

1) Bonuses paid in the year relate to the year 2016
2) Tore J. Fjell retired from his position as Senior Vice President end of July 2017
3) Mr. Katsunori Mori has advised the company that he waives any board remuneration for the period he will serve on the board of directors

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 1 106 thousand to the Group President and NOK 591 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. As of 31.12.2017 the Group President has 550 thousand (300 thousand) and CFO has 350 thousand (200 thousand) outstanding share options.

### SHARES OWNED BY BOARD MEMBERS OR RELATED PARTIES

| | 2017 | 2016 |
|---|---|---|
| Knut Flakk, (Chairman) 1) | 30 715 717 | 30 715 717 |
| Kristine Landmark (Deputy chair) 2) | 10 000 | 10 000 |
| Katsunori Mori (Board member) 3) | 41 666 321 | 41 666 321 |
| Gunnar S. Bøckmann (Deputy board member) 4) | 9 339 400 | 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 9 000 000 are owned through a limited liability company.

### SHARES HELD BY KEY MANAGEMENT PERSONNEL

| | 2017 | 2016 |
|---|---|---|
| Jon Erik Engeset, Group President 1) | 440 867 | 420 867 |
| Tore Fjell, Senior Vice President (until July 2017) | 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 439 000 are owned by related limited liability companies.

### EXPENSED AUDITORS' FEES AND COMPRISED OF THE FOLLOWING SERVICES (NOT INCLUDING VAT)

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Statutory audit and auditing-related services | 1 342 | 1 105 |
| Other attestation services | 0 | 1 |
| Tax advice | 904 | 1 266 |
| Other non-auditing services | 136 | 0 |
| **Total** | **2 383** | **2 372** |

## NOTE 12 MERGED ITEMS IN THE ACCOUNTS

### FINANCE INCOME

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Interest income from group companies | 34 325 | 19 947 |
| Other interest income | 2 335 | 3 184 |
| Other finance income (currency gains) | 48 020 | 19 135 |
| **Total finance income** | **84 680** | **42 266** |

### FINANCE INCOME

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Interest expenses to group companies | 843 | 1 842 |
| Other interest expenses | 8 711 | 6 261 |
| Arrangement fees and other commissions | 1 441 | 8 673 |
| Currency losses | 59 032 | 14 090 |
| Other finance expense | 846 | 5 089 |
| **Total finance expense** | **70 874** | **35 955** |

# NOTE 13 FINANCIAL MARKET RISK

The Company's international activities expose it to currency risk and interest risk. Derivative financial instruments are used to minimize these risks under the Group's strategy for interest and currency exposure. As of 31.12.2017 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 historically used interest rate swaps to minimize the risk.

**CURRENCY RISK**
Fluctuations in exchange rates represent a financial risk to the Company, both directly and indirectly. The Company have used currency swaps and borrows in foreign currency to minimize 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.

5 April 2017 Hexagon Composites ASA issued 1,450,000 new call options to senior executives and managers in the Group at NOK 27 per share. 7 September 2017 additional 190,000 call options were added to this program. 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 2019, first quarter of 2020 or second quarter of 2020.

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 2017 associated with the share option scheme was NOK 10 136 thousand (4 833). The fair value of all options granted is estimated to NOK 16 760 thousand 31 December 2017 (9 780).

**OVERVIEW OF NUMBER OF OUTSTANDING OPTIONS**

| (NOK 1 000) | 2017 | 2016 |
|---|---|---|
| Outstanding options 1 January | 1 850 000 | 975 000 |
| Options granted | 1 640 000 | 925 000 |
| Options exercised | 0 | 0 |
| Options lapsed | -25 000 | -50 000 |
| **Share options outstanding 31 December** | **3 465 000** | **1 850 000** |
| Exercisable at 31. December | 0 | 0 |

# NOTE 15 LEASES

Ordinary lease payments for 2017 were NOK 2 817 thousand (2 832 in 2016).

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

| (NOK 1 000) | 2017 |
|---|---|
| Not later than 1 year | 2 435 |
| 1 to 5 years | 8 938 |
| Later than 5 years | 4 069 |
| **Total** | **15 442** |

## NOTE 16 EVENTS AFTER THE BALANCE SHEET DATE

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

Auditors' Report

Statsautoriserte revisorer
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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 2017, 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 of the Group as at 31 December 2017, 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 2017, 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 2017 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 and the Group 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 2017. 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.

Building a better working world

**Goodwill Hexagon xperion – Impairment test**

As at 31 December 2017, Hexagon Composites ASA Group reported goodwill of NOK 368 million from the acquisition of Hexagon xperion in 2016. Goodwill is subject to annual impairment testing and estimating the recoverable amount of the related cash generating unit requires management judgement of future revenues, gross margins, operating costs, terminal value growth rates, capital expenditures and discount rate. No impairment was recognized. The impairment test involves significant estimation uncertainty and management judgment, and is therefore a key audit matter.

Our audit procedures included, among others, an evaluation of the impairment model applied. We involved specialists in our team to support testing of the assumptions and methods used by management. We compared future cash flows against board approved plan for the years 2018-2022 and considered underlying assumptions for expected growth rates and the related cash flows applied by the group. We considered consistency against the assumptions used for the acquisition. Furthermore, we tested the input of the discount rate against comparable market data. We also tested the mathematically accuracy of the impairment model and performed sensitivity analysis of the assumptions used. We also assessed the disclosures in note 5 – Changes in the Group's structure and 11 – Intangible assets in 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 Group President & CEO (management) are 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 on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report in the statements on corporate governance and corporate social responsibility concerning the financial statements, 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, 20 March 2018
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 amortization |
| **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 2018

**ANNUAL GENERAL MEETING**
19 April 2018

**1ST QUARTER 2018**
9 May 2018

**2ND QUARTER AND HALF YEAR REPORT 2018**
15 August 2018

**3RD QUARTER 2018**
31 October 2018

**4TH QUARTER 2018**
13 February 2019

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ANNUAL REPORT 2017

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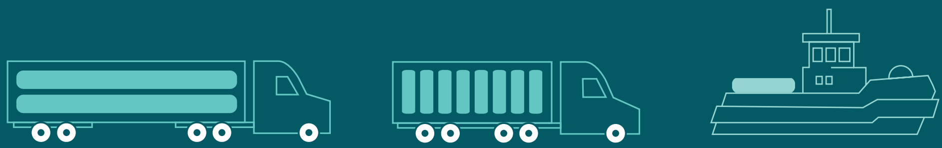
HEXAGON

## HYDROGEN & LIGHT-DUTY VEHICLES

CNG Light-Duty Vehicles | Fuel Cell Electric Vehicles | Transit Buses | Heavy-Duty Trucks

Distribution | Ground storage | Backup power | Marine | Rail

## MOBILE PIPELINES



Distribution | Marine

## LPG

Leisure activities, household and industrial applications

## OTHER

Hexagon MasterWorks

## AGILITY FUEL SOLUTIONS

Heavy-Duty Trucks | Transit Buses

ARTBOX | Photo: Tony Hall, Ajay Photography