HANZA

ANNUAL REPORT
2019

CONTENTS

Calendar

Forthcoming disclosures:

- Interim report for the period January to March 2020: April 27, 2020
- Interim report for the period January to June 2020: July 28, 2020
- Interim report for the period January to September 2020:November 3, 2020

Annual General Meeting

HANZA Holding AB's 2020 AGM will be held on April 27 2020 in Danderyd.

Please note that this English translation is for information purposes only. In case of any discrepancies between this version and the Swedish version of the annual report, the Swedish version shall prevail.

HANZA modernizes and streamlines the manufacturing industry. By gathering different manufacturing technologies locally, the company creates shorter lead times, more environmentally friendly processes and increased profitability for its customers.

THIS IS HANZA

HANZA represents a new, rational manufacturing industry characterized by a strategy of advisory services and complete manufacturing close to the customer. HANZA was founded in 2008 and today it is an international group with sales exceeding SEK 2 billion.

As the cost situation is changing in developing countries and quality- and environmental requirements are tightened, production is continuously relocating to new geographic areas. It is now common that parts for industrial products are manufactured in several factories in different countries. This creates a long and complex manufacturing chain which among other things mean increased production- and shipping costs, reduced production flexibility, higher level of tied-up capital and increased vulnerability for delivery disruptions.

To face the increasing global competition, it is crucial for Europe-based product owners to optimize and rationalize the manufacturing chain.

ADVISORY SERVICES

HANZA offers a unique combination of advisory services and tailor-made manufacturing solutions which enables increased growth and profitability for the customers. HANZA can provide business consultation to assist large as well as smaller product owning customers in achieving their growth- and profitability targets, by creating more efficient manufacturing solutions through a service called MIG™.

HANZA's manufacturing solutions are mainly carried out in its own factories but also through collaborations with strategic manufacturing partners.

MANUFACTURING CLUSTERS

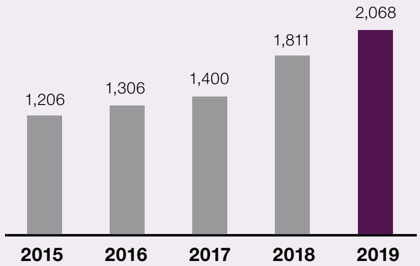
HANZA currently has operations in six manufacturing clusters; Sweden, Finland, Germany, the Baltics, Central Europe (Poland and Czech Republic) and China. Among HANZA's customers are leading companies such as ABB, Epiroc, Getinge, Oerlikon, Saab and Siemens.

OPERATIONS ARE REPORTED BY THE FOLLOWING SEGMENTS:

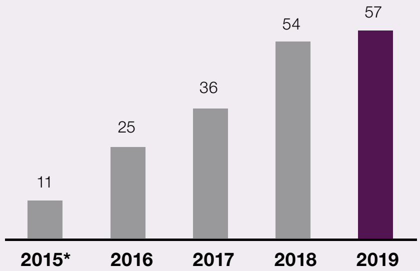
- The Nordics – Manufacturing clusters that are located within or close to HANZA's primary geographic customer markets, which currently are Sweden, Finland and Norway. Today these clusters consist of Sweden and Finland. Operations in these areas are characterized by a high degree of automation and close cooperation with the customers' development departments.
- Rest of the World – Manufacturing clusters outside of HANZA's primary geographic customer markets, but in proximity to important end-customer markets. Currently these clusters consist of the Baltics, Central Europe (close to Germany among others) and China (in China). Operations are characterized by high work content, extensive complex assembly as well as focus on efficient logistics. During the year, RITTER, with production in Germany and the Czech Republic mainly for German customers, has been added to this segment. The German operations have, like the Nordic segment, distribution to customers in nearby geographic areas but otherwise a degree of automation more comparable to the Rest of the World segment. From March 2020, Germany forms a cluster of its own.
- Business Development – Costs and revenues that are not allocated to the manufacturing clusters, and which are mainly group-wide functions within the parent company, as well as group-wide adjustments not allocated to the other two segments.

As a consequence of globalization, the demand for HANZA's services is continuously increasing. Manufacturing chains in need of modernization within HANZA's primary customer markets are expected to increase significantly in the next few years.

SALES DEVELOPMENT (SEK MILLION)

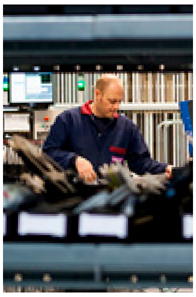
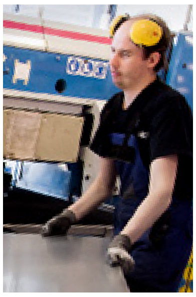


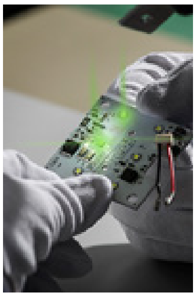
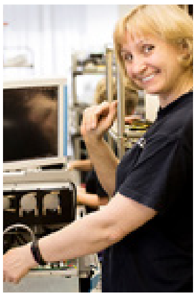
EBIT DEVELOPMENT (SEK MILLION)



* Year 2015 excluding a positive one-off item relating to negative goodwill. Including this one-off item, operating profit amounted to SEK 51.1 million.

Our manufacturing solutions are primarily based on the following technologies

Logistics → Sheet and heavy mechanics → Cable Harnesses → Machining → PCB assembly → Final assembly and test

HANZA's six manufacturing clusters

SWEDEN
Employees: **377**
Factories: **5**

FINLAND
Employees: **106**
Factories: **2**

THE BALTICS
Employees: **734**
Factories: **3**

CENTRAL EUROPE
Employees: **261**
Factories: **3**

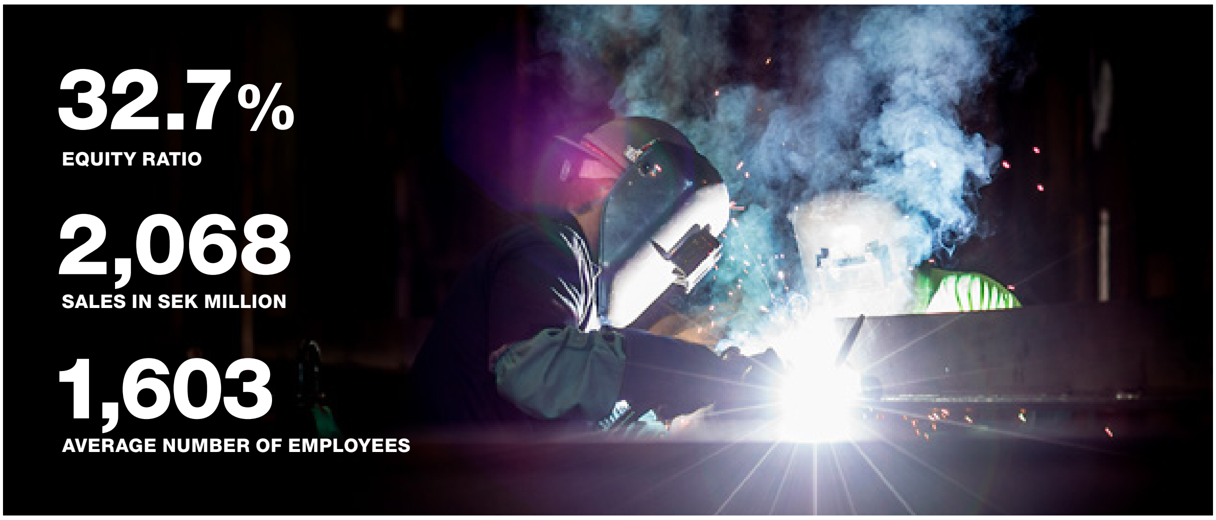
GERMANY
Employees: **154**
Factories: **1**

CHINA
Employees: **115**
Factories: **1**

Employees refer to average number of employees 2019 if the companies acquired in 2019 had been included for the whole year.

THE YEAR IN BRIEF

2019 was, for HANZA, characterised by listing on NASDAQ Stockholm's main list and strategic acquisitions.

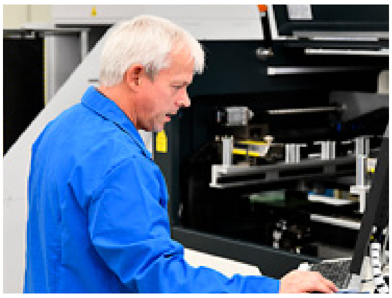


KEY RATIOS

	2019	2018	2017	2016	2015
Key ratios according to IFRS					
Net sales, SEK million	2,067.7	1,810.6	1,399.7	1,305.8	1,206.4
Operating profit (EBIT), SEK million	56.8	54.1	35.7	25.2	51.1
Profit/loss for the year, SEK million	23.6	20.8	16.4	1.9	37.5
Earnings per share before dilution, SEK[1]	0.73	0.74	0.69	0.08	2.94
Dividend per share. SEK	–	0.25	–	–	–
Cash flow from operating activities, SEK million	122.0	113.5	72.0	41.6	5.0
Average number of employees	1,603	1,407	1,305	1,346	1,169
Alternative performance measurements					
EBITDA margin, %	7.2	6.3	5.7	5.6	7.5
Operating margin (EBIT margin), %	2.7	3.0	2.6	1.9	4.2
Operational segments EBITA, SEK million	83.6	71.3	40.1	30.0	13.0
Operational EBITA margin	4.0	3.9	2.9	2.3	1.1
Operating capital, SEK million	1,041.0	675.2	455.3	499.2	501.7
Return on operating capital, %	7.9	10.8	7.5	5.0	12.3
Capital turnover on operating capital, times	2.4	3.2	2.9	2.6	2.9
Return on capital employed, %	6.1	8.5	6.9	4.7	11.9
Net interest-bearing debt, SEK million	543.3	264.7	146.0	230.4	247.6
Net debt/equity ratio, times	1.1	0.6	0.5	0.9	1.0
Net debt/equity ratio in relation to EBITDA, times	3.6	2.3	1.8	3.2	2.7
Operational net debt, SEK million	350.2	260.2	142.0	226.7	244.2
Equity ratio, %	32.7	37.5	40.2	35.6	32.7
Equity per share at end of period, SEK[1]	14.65	13.70	12.79	11.98	11.37

1) The 2015–2018 year values have been recalculated due to the fund issue elements of preferential rights issue 2018.

Material events during 2019



During the year, the company Ritter Elektronik GmbH was acquired, which became the starting point for the venture in Germany.

Ritter offers design and development services to customers, which now broadens HANZA's offering even further.

HANZA's management team opens trading on NASDAQ on March 25.

Listing

On March 25, HANZA's share was listed on NASDAQ Stockholm's main list, having previously been listed on First North Premier. The listing took place without raising capital or issuing new shares.

Acquisitions

- In January, HANZA acquired Toolfac Oy, a high-tech Finnish manufacturer of machined parts, with a production plant and approx. 60 employees in Iisalmi, Finland. The purchase price amounted to SEK 34 million and consisted of a cash portion and a share portion, as well as a variable additional purchase price. During the year, Toolfac was integrated into HANZA's manufacturing cluster in Finland.
- On July 25, 2019, the RITTER Group was acquired, a German manufacturer with production plants in Germany and the Czech Republic, and a total of approx. 290 employees. Additionally, the company contributed a product development department to HANZA. The purchase price amounted to EUR 12 million and consisted of a cash portion and a share portion. During the year, RITTER was integrated into HANZA's manufacturing cluster in Central Europe.

Read more on the financial impact of the acquisitions in the Management Report and Note 33.

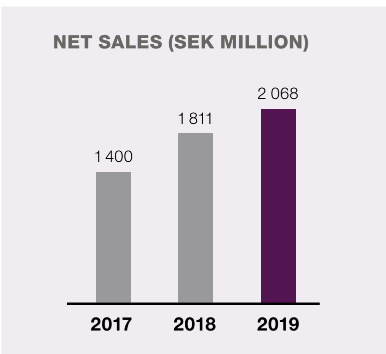
Market events

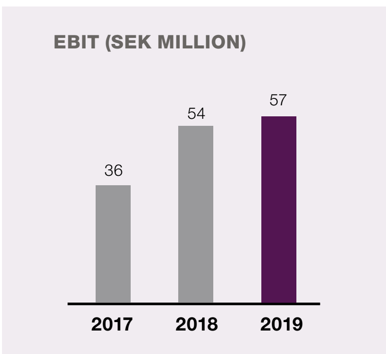
In 2019, HANZA won important new customers and manufacturing contracts including in February signing a global manufacturing agreement with Epiroc, for deliveries of assembled mechanics and subsystems to supply the company's mining equipment. The collaboration with existing customers was also broadened, among other things the relationship with the med-tech company Getinge was deepened, through the manufacture of assembled mechanical parts for their ventilators and anesthesia machines. In June, HANZA was named Supplier of the Year by the multinational group 3M at a supplier conference in Switzerland.

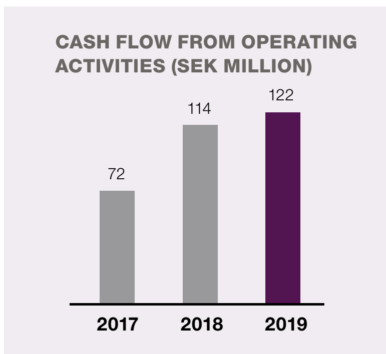
Development of HANZA's manufacturing clusters

During 2019, HANZA initiated and implemented several key development projects for the group's manufacturing clusters, including:

- In Finland, following the acquisition of Toolfac, an efficiency project was carried out whereby HANZA's unit in Tampere was moved and integrated with the group's other operations.
- In Central Europe, following the RITTER acquisition, a coordination project was carried out whereby HANZA's former Czech unit in Kunovice (sheet metal mechanics), was organizationally coordinated with the acquired unit in Zabreh (cable harness production and advanced final assembly). The new unit in Remscheid, Germany, was also integrated with the HANZA Group.
- In the Baltics, a major efficiency program was carried out with upgrading of machinery, renovation of buildings etc.
- In China, HANZA decided to cease its operations in Ma'anshan, to concentrate the group's operations in China to Suzhou. This happens in conjunction with HANZA agreeing with a German customer to move certain parts of their manufacturing to HANZA's factory in Suzhou.







SEVERAL OPERATIONAL GOALS WERE ACHIEVED

In 2019 we carried out extensive work to develop our company and achieved several important operational goals: We took the next step in Finland by acquiring a high-tech company specialized in machining; HANZA was approved for listing on NASDAQ's main list – a quality stamp for our Group – and we carried out significant work to further develop our manufacturing clusters.

Furthermore, on 25 July, we reached a milestone when we established HANZA in Germany through the acquisition of RITTER Elektronik. Following the acquisition, extensive integration work has been carried out, involving substantial costs, but we can still confirm in this report that we are following the financial assessment that we presented in September 2019.

HANZA IN GERMANY

Our offer is based on streamlining our customers' manufacturing process, which among other things reduces the number of suppliers and removes unnecessary transport. This leads to increased growth and profitability, as well as reduced impact on the environment. Our model is not product-dependent – we manufacture anything from small units, such as compasses, to large items such as conveyor belts for the mining industry, weighing several tons. The common denominator is that the manufacturing is customer specific and is done in small to medium sized volumes.

That is why launching HANZA's concept in Germany is so important. Not only because it is the largest economy in Europe, but also because the market is a good fit for HANZA's business model. The German manufacturing industry is mainly focused on large volumes divided into specific manufacturing technologies. Our model is less exposed to competition than traditional component production and our initial market response has been good.

HANZA's unique advisory services will also play a significant role in Germany and will be supported through the product-development competence we have acquired via RITTER. We have already agreed with one customer to move certain parts of their manufacturing from Germany to HANZA's factory in Suzhou, in order to be closer to the end market.

FINANCIAL DEVELOPMENT

In 2019, HANZA reached sales exceeding SEK 2 billion for the first time, which in itself is another milestone. But of course, profitability is more important, where a higher customer value yields higher margins than in traditional contract manufacturing. However, a number of development projects are ongoing, which are all part of our Strategy 2022, which is why it can be difficult to keep track of the underlying business' profitability. In addition to acquisitions and listing, we have performed a review of the Group's five manufacturing clusters, including coordinating our IT systems and through separate projects in Finland, Estonia and the Czech Republic. Furthermore, we decided to focus our operations in China to our production unit in Suzhou - a decision that was made in close cooperation with our customers.

To describe how these extensive activities affect the Group financially, in September last year (after the establishment in Germany), we published a financial assessment of profit after non-recurring costs for the second half on 2019: Segment Rest of the World should achieve a slightly positive margin and the Nordic segment should achieve a margin exceeding 6%. We note that the outcome in this report is in line with our guidance.

Furthermore, it is worth repeating our continuous focus on cash-flow, which enables expansion, amortization, investments, acquisitions and dividends. It is therefore a pleasure to yet again being able to present a strong cash-flow from our operations in 2019; SEK 122.0 million (113.5).

HANZA continues to be financially strong.

SUSTAINABILITY

For us, sustainability is not just a word but an integrated part of our business model. We streamline and regionalize manufacturing in a way that creates environmentally sustainable manufacturing chains. We work widely within the group to create a great work environment by preventing accidents and having a zero-tolerance policy on corruption and harassment. These efforts have already shown great results but will still always be carried on.

HANZA IN THE FUTURE

The rapid spread of covid-19 is currently creating significant challenges for both society and the economy. HANZA's model with regionalized, complete manufacturing brings advantages compared to traditional manufacturing, but HANZA too is impacted by the ongoing pandemic. For example, by the authorities deciding to temporarily close our factory in China, increased component disruptions and decreased volumes from certain customer groups. It is not yet possible to fully estimate the impact on our operations and our financial development.

During the ongoing virus outbreak our main priority is to protect our people, and early on we implemented a series of measures to prevent the risk of spread in our production facilities. Further we have drawn up action plans to help us meet different scenarios as well as making sure we keep on-point deliveries to our customers.

But there is also another consequence from the pandemic – it highlights the weaknesses and risks in global supply chains, which increases the demand for streamlining the manufacturing industry. And this is HANZA's foundational offer. Our financial situation is good, and we are prepared to handle both difficulties and possibilities during the corona crisis.

Finally, I want to extend my warm thanks to all our customers, employees, suppliers, collaborators and shareholders who are demonstrating excellent cooperation, especially in these unsettled times. Together we will continue to develop HANZA into a leading manufacturing strategist in Europe.

Erik Stenfors, CEO

HANZA was approved for listing on NASDAQ's main list – a quality stamp for our group.

FOCUS ON TOTAL COST AND SUSTAINABILITY

When a company manufactures products owned by another company on behalf of that company, this is usually called contract manufacturing. Contract manufacturing is common in the manufacturing of electronics and mechanics.

Contract manufacturing came to the fore in the 1990s, when product companies started outsourcing the manufacturing of various components for their final products, such as PCBs, turned parts or sheet metal chassis. Today it is common for a number of contract manufacturers to manufacture different parts of a customer's product. The main reasons that major product companies choose to outsource their manufacturing to contract manufacturers are as follows:

- **Cost reduction:** The product company does not need to invest in the equipment and machinery needed to manufacture the products/components manufactured by the contract manufacturer. Nor does the product company need as many employees, which reduces labor costs.
- **Improved resource allocation:** The main strength of the product company often lies in marketing and selling its products. If manufacturing is outsourced to a contract manufacturer, the product company can focus on its customer relationships and maintain a more flexible, efficient organizational structure.
- **Increased innovation and quality:** When a product company looks for a third party to produce a component or a whole product under its own brand, the first thing the product company will do is make sure that the contract manufacturer is able to deliver at the desired level of quality. This is why the contract manufacturer that lands the assignment is often specialized in the manufacture of the specific component. In this regard, the contract manufacturer is seen as a specialist or expert in the manufacture and delivery of the product or service. This ensures that the product to be used will be of the desired quality.

TRENDS – CONTRACT MANUFACTURERS FUNCTION AS MANUFACTURING EXPERTS

The increased focus of product companies on shortening the lead time from product development to product market launch has increased the need to involve contract manufacturers early on in the process. It is common, among other things, for the contract manufacturer to be involved in the discussion of which materials and manufacturing processes are best suited for a particular product. This places high demands on the contract manufacturer in terms of broad expertise in manufacturing technology, manufacturing efficiency and various types of quality tests. To meet this need, HANZA has developed a special service product called Manufacturing Solutions for Increased Growth & Earnings (”MIG”) that not only brings together all manufacturing technologies at a single manufacturer, but also analyzes and transforms the customer's entire manufacturing and logistics chain. This means that HANZA has developed into a knowledge-based complex manufacturing company, which gives it a special competitive edge.

FOCUS ON TOTAL COST INSTEAD OF COST PER UNIT

The business relationship between product companies and contract manufacturers has traditionally been focused on securing the lowest cost per manufactured part of the product. Today, product companies are increasingly working on the basis of a total cost concept. That is to say, a concept where the customer strives for the lowest possible cost for the manufacture of the entire product over the product life cycle. The contract manufacturing market is made up of a large number of operators with a low degree of differentiation. To avoid having to compete solely on price, a number of contract manufacturers have expanded their range, for example to include expertise in logistics and parts development. HANZA has taken this a step further by offering the customer the ability to manufacture entire systems, including product-development, as well as logistics services and aftermarket and spare parts services.

MANUFACTURING MOVES BACK TO EUROPE FROM LOW-COST COUNTRIES

One consequence of recent total cost analyses is the back-sourcing of manufacturing. Contract manufacturing was previously significantly concentrated in low-cost countries, for example in Asia. However, the recent pattern has been for many customers to choose to move their production back to Europe (”backsourcing”), mainly for cost reasons, but also because of an increased focus on the environment. HANZA has developed its manufacturing clusters with a view to total cost, and to meet the demand for production backsourcing. This is why, for example, HANZA's cluster in China is focused on production for delivery within China, and not exports to Europe.

THE MARKET

The total contract manufacturing market is significant. It spans various types of companies offering everything from the manufacture of single components in long product runs to the manufacture of composite products with higher added value. Under the traditional contract manufacturing model, the customer orders the components to be built into the product from different suppliers. The customer can then perform final assembly of the product itself, or else outsource assembly to another supplier. Traditional contract manufacturing is primarily dependent on large volumes, is often specialized in a few component types, and provides limited customer added value. In contrast, HANZA has developed a broader range that includes several manufacturing technologies and qualified manufac-

> **The total market for contract manufacturing of electronics has grown rapidly in line with increased globalization.**

turing process consulting. As a result of price pressure and increased globalization, contract manufacturers that manufacture parts for use in the same final production can be located in various parts of the world. This can lead to complications in the manufacturing process, including difficulties reviewing and quality-assuring the manufacturing, but also has consequences such as significant shipping costs and higher environmental impact. As a result, more and more companies have chosen to relocate their production back to Europe from low-cost countries in, for example, Asia. HANZA sees significant potential in terms of optimizing the manufacturing process and reducing total manufacturing costs by combining large-scale manufacturing, for example in Eastern Europe and China, with the manufacturing of shorter runs and more complicated products in countries like Sweden, Finland and Germany.

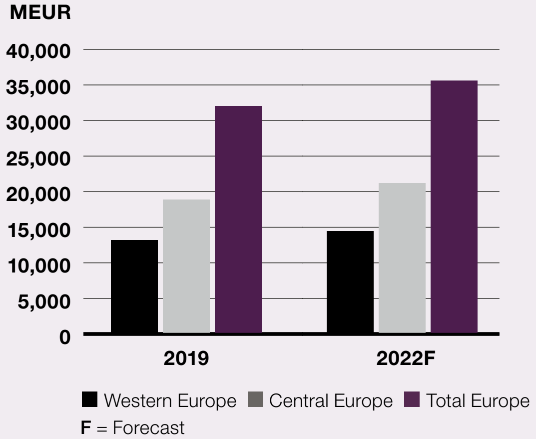
MARKET SIZE

HANZA's total market is difficult to estimate, since it comprises contract manufacturers in several different segments as well as manufacturers with proprietary products. This means that there is no information on the total market available. On the other hand, there is reliable information on the existing market for the contract manufacturing of electronics. HANZA considers the electronics market to be the dominant sub-market found in most products, which is why it provides a relevant indication of growth and trends within the overall contract manufacturing market.

THE MARKET FOR CONTRACT MANUFACTURING OF ELECTRONICS

The total market for contract manufacturing of electronics has grown rapidly in line with increased globalization, amounting to approximately EUR 33 billion in Europe in 2019 alone, which is equivalent to nearly eight per cent of world production. The European market is expected to grow to around EUR 37.7 billion by 2023. The graph presents the development of the European market for contract manufacturing of electronics between 2019 and 2022. 2019 is based on actual figures while 2022 refers to estimated figures.

MARKET TRENDS FOR CONTRACT MANUFACTURING OF ELECTRONICS

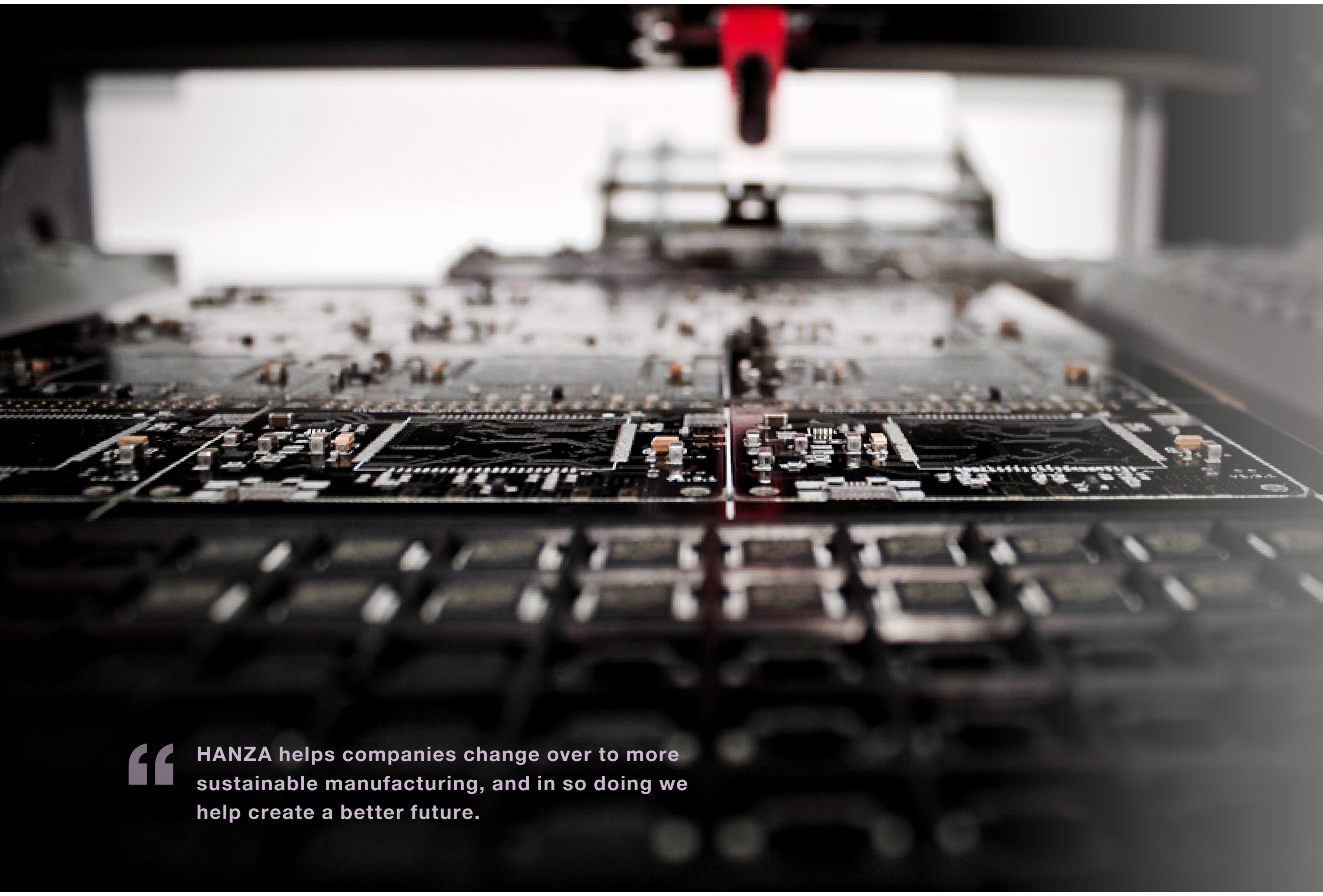


Source: Reed Electronics Research; The European electronic manufacturing services industry 2016-2021, a strategic study of the European EMS industry.

COMPETITION

Because contract manufacturers normally do not hold any patents, traditional contract manufacturing is a competitive sector. The company assesses the level of competition in the manufacture of individual components, such as sheet metal parts, to be high. In conjunction with a low degree of resource utilization in different factory facilities, this can lead to increased price pressure. When competition increases and product owners want to deliver higher quality at a lower price, contract manufacturers need to adapt to these requirements.

Competing on price alone can be challenging, as the price can only be lowered as long as production remains profitable. To avoid having to compete solely on price, a number of contract manufacturers have begun to highlight other competitive advantages, such as prototype know-how and logistics expertise, as well as their ability to offer whole systems manufacturing. Meeting the customer's needs often requires manufacturing within a number of areas and in different geographical markets. Providing whole systems manufacturing shifts the cooperation from one based on offering the lowest price alone to one that is based above all on the expertise possessed by the contract manufacturer. In addition to HANZA, examples of companies offering such solutions are the Swedish company AQ Group and the Finnish company Scanfil. Global competition and the rapid pace of innovation also lead to increased focus on time-to-market, that is, on the ability to bring new product ideas to market with a short development cycle. Because HANZA offers a wider range of services than do traditional contract manufacturers, the company assesses that it has greater potential for sustainable profitability than does the industry as a whole. In financial downturns there are often even greater incentives for product owner companies to cut costs, reduce tied-up capital and become less sensitive to the ups and downs of the business cycle. This benefits HANZA, which offers consulting as part of its business model.



STRATEGIES AND OBJECTIVES

HANZA's strategy is divided into four different parts conceived to help to meet the challenging goals set by company management.

BUSINESS CONSULTING

Most people today know that the manufacturing industry accounts for a very large portion of global emissions and negative environmental impacts, meaning that the industry needs to pivot toward more sustainable solutions for the future. Over the years, many companies have built up complex manufacturing solutions for their products involving many subcontractors scattered all over the world. This makes it easy to lose control over your total costs, lead times and quality, but above all your environmental impact. HANZA has developed a 360-degree consulting service that analyzes a company's manufacturing strategies and proposes changes with regard to total cost, lead times, capital tied-up, sustainability and much more. This creates an opportunity for these companies to achieve faster growth at higher profitability.

MANUFACTURING CLUSTERS

To be able to manufacture a company's products, a number of in-depth manufacturing technologies are often required, such as sheet metal working, machining, electronics, cabling and assembly. The traditional way has been to procure these technologies individually from different contract manufacturers and have these parts shipped around the world for final product assembly. HANZA, on the other hand, has built up proprietary manufacturing clusters in strategic geographical areas where complete products can be manufactured without being shipped around. This yields benefits such as shortened lead times, better quality control, easier management for the customer, reduced logistics and thus also less negative environmental impact. This can be done at a high level of competitiveness due to reduced peripheral costs and a consolidated factory setup.

VISION

To be a unique, value-creating business partner in manufacturing.

This means that HANZA strives to create greater customer value than traditional contract manufacturers are able to offer.

BUSINESS CONCEPT

To develop and offer manufacturing solutions and advisory services to increase growth and profit on behalf of the HANZA's customers.

Specifically, this is partly achieved through HANZA's development of factory parks and manufacturing clusters where products can be manufactured rationally, at lower cost and with less environmental impact compared to traditional contract manufacturing, and partly through HANZA's development of value-creating consulting services linked to product manufacturing.

FINANCIAL TARGETS

- Sales growth of at least 10 per cent per year over a business cycle.
- Average operating margin of at least 6 per cent over a business cycle.
- Equity/asset ratio of at least 30 per cent.
- Dividend distribution amounting to approximately 30 percent of profit after tax.

STRATEGY

HANZA is to achieve its goals by:

- **Business consulting** – offering qualified consulting in product manufacturing, which enables increased growth and profitability for the company's customers.
- **Manufacturing clusters** – developing a broad spectrum of manufacturing technologies in a select few strategic geographical areas.
- **Customer portfolio** – creating a well-balanced customer portfolio in order to reduce business risk and yield cost benefits for both HANZA and the company's customers.
- **Acquisitions** – supplementing geographies, technologies or customer portfolios through strategic acquisitions.

CUSTOMER PORTFOLIO

It is not only a matter of the customer choosing HANZA, HANZA also needs to actively go out and choose its customers. The customer should have a sufficiently interesting business in terms of volume, sales, potential and breadth of technology in order for HANZA to be able to create added value compared to other manufacturers. It is important for both the customer and the supplier to create a mutual balance where both parties become important to one another. Only then can they challenge each other in order to develop and create new, competitive models and methods for manufacturing. HANZA works with customers of different sizes operating within different industrial segments, which is why it has achieved a good spread of risk.

ACQUISITIONS

Acquisitions are an important part of the company's strategy. The growth target of an average of ten per cent per year is to be achieved through a combination of organic growth and acquisitions, for which reason potential acquisition candidates are evaluated on an ongoing basis. The logic determining whether a candidate is of interest comes down to one or more of the following:

1. Expansion into new geographical areas.
2. Introduction of a new strategic manufacturing technology for HANZA, or
3. Expansion within a new customer or industry segment.

With the help of its manufacturing clusters, HANZA is able to achieve consolidation effects immediately following an acquisition, which in turn contribute to higher margins. At the same time, HANZA creates intriguing growth opportunities for both existing and new customers.

OUR OFFER

By pooling expertise and various manufacturing technologies, HANZA takes a holistic approach and creates added value for the customer by reducing the number of parties the customer needs to interface with. A complete, comprehensive contract manufacturing solution enhances the customer's control of the manufacturing chain and promotes production efficiency.

In addition to contract manufacturing, HANZA also offers qualified consulting services, a service product in the area of manufacturing solutions – Manufacturing Solutions for Increased Growth and Earnings ("MIG"), and a service with a focus on the environment – Material Compliance Solution ("MCS"). MIG analyzes and improves the customer's production chains, which lays the groundwork for higher growth and better profitability. MCS results in a report that follows up on compliance with environmental directives and in which component data is tracked against bills of materials, which improves the customer's ability to meet new and tightened environmental directives. This makes HANZA a strategic business partner that creates added value for the customer throughout the product lifecycle. The consulting services currently account for a limited portion of the company's net sales, and HANZA assesses that they will not account for a significant portion of the company's net sales in the future either.

STRENGTHS AND COMPETITIVE ADVANTAGES

HANZA's wide, integrated range of manufacturing processes provides high flexibility as well as capacity control and quality control as agreed with various customers, whose demand may vary considerably and may involve short forward planning. HANZA has a clear competitive advantage, since the customer need only use a single contract manufacturer with all operations under one roof, rather than having to work with several parties that they need to synchronize, including final assembly and delivery to the customer.

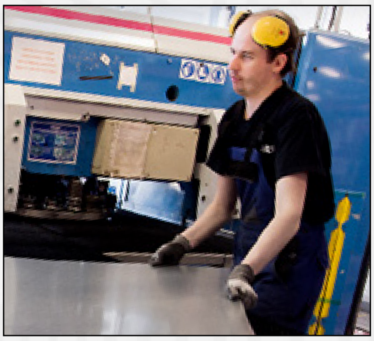
ABILITY TO ADJUST OPERATIONS ACCORDING TO CHANGED DEMAND AND NEEDS

Temporary fluctuations and systemic changes in market demand may cause customer order volumes to vary considerably. HANZA's production and sales to various customers can therefore be difficult to forecast. By controlling the manufacture of both the various product components and final assembly within the group and the given cluster, HANZA is able

OUR TECHNOLOGIES

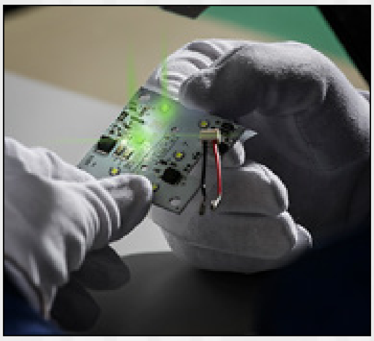
Machining

Among other things, HANZA offers turning, milling, sparking, grinding, heat treatment and non-destructive testing. The company offers machining of both large and small parts in different batch sizes.



Sheet metal working

HANZA has a product range that includes both thin sheet and structural steel. In addition to punching, cutting and bending, we offer robot welding, manual welding, surface treatment and coating.



PCBs

HANZA has expertise ranging from flex PCB assembly to the assembly of large circuit boards. A high level of quality is maintained using the latest technology in AOI (Automated Optical Inspection), X-ray, selective soldering and testing. Leaded and unleaded soldering processes in surface mounting and wave soldering are combined with PCB molding and coating processes.

quickly to adjust its manufacturing to keep up with changing situations and the customer's capacity requirements. Freed-up resources from one production can be allocated to parallel production for another customer in the same factory. By pooling resources within a given geography (manufacturing clusters), HANZA is also able to share staff and skills between various factories as demand fluctuates. Unexpected reductions in the order volume by various customers that cannot be countered through internal staff redistribution may mean that costs cannot be passed on to customers.

SHORT LEAD TIMES

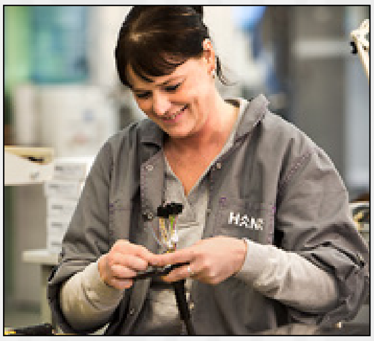
HANZA has created an organization that meets customer requirements for clear communication and short lead times. HANZA builds the customer's own production unit into what is referred to as a business unit, which pools all the resources needed for each specific project, such as project management, planning, purchasing, production, quality and more.

TOTAL SOLUTIONS

HANZA can contribute throughout the product life cycle. HANZA builds prototypes, gives the customer feedback on industrial design and layout from the perspective of production as well as that of assembly, delivery and the aftermarket. HANZA has extensive experience across a large number of industries in production technology and industrialization for everything from low-volume products to volume production. Working with the company's customers, we decide where and how the product in question is to be manufactured in order to achieve optimal logistics arrangements and value for the customer and HANZA.

DYNAMICS AND FLEXIBILITY

HANZA strives for simplicity. Different customers' operations often demand a fast pace, and this places high demands on the dynamism and flexibility of their partners. HANZA focuses on speed, simplicity and efficiency to meet the needs of different customers.



Cable harnesses

HANZA manufactures and delivers cabling and cabling harnesses for various applications, including prototype cabling, volume cabling, embedding and labeling.

Final assembly and testing

As a complement to the various manufacturing technologies, HANZA offers complex assembly, product testing and finished product packaging. This makes matters easier for the customer while at the same time creating a more sustainable manufacturing model in terms of competitiveness and environmental impact.

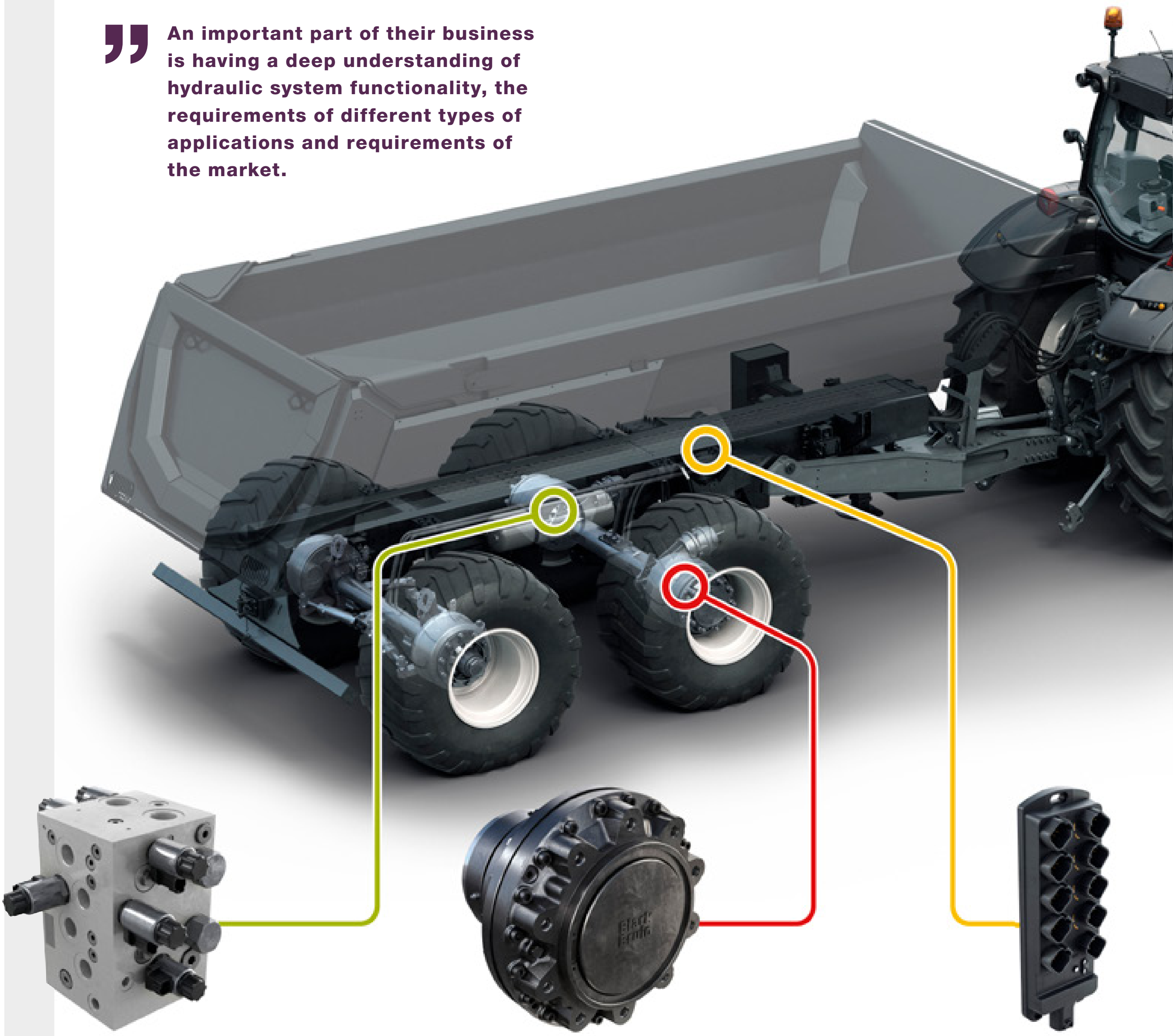
Logistics

HANZA offers production on behalf of the customer spread over a number of production facilities in different countries. Within this framework, HANZA is responsible for optimized, efficient logistics, both internal and external.

FULL STEAM AHEAD

Allow us to introduce Black Bruin, one of the world's leading suppliers of hydraulic motors for mobile and industrial applications.

An important part of their business is having a deep understanding of hydraulic system functionality, the requirements of different types of applications and requirements of the market.



Black Bruin Inc's history goes back to 1959, when Ilmari Louhio (1919-2015) invented the Sisu Nemo, a radial piston motor. Today the company offers drive solutions for agricultural, construction and mining, road construction, forestry and marine equipment applications. An important part of its business is having a deep understanding of hydraulic system functionality, the requirements of different types of applications and requirements of the market in different parts of the world. As an international player in Jyväskylä, in central Finland, they employ nearly 100 fully-trained employees, with a distribution network covering more than 25 countries.

One of Black Bruin's key products is the Black Brown On Demand Drive System. This complete transmission solution for tractor-driven trailers and working tools is intended for agricultural, forestry and earthmoving equipment that often need traction in difficult conditions and varying terrain.

HANZA has worked closely with Black Bruin for several years. As a result of this collaboration, new machining methods have been developed for improved production of cylinder hubs, distribution valves and pistons. The development of the production of all products began with the idea of making the phasing-in easier. The number of manufacturing steps per product has been cut down by up to 80 per cent.

Another important product line is the Black Brown S Series. These industrial hydraulic motors are Black Bruin's most powerful, estimated at 18,900 cm3 and 500 kW. The motors are perfect for demolition equipment, screw jacks and winches.

INFORMATION ABOUT BLACKBRUIN

- CEO: Jali Prihti
- Founded: The company traces its roots to Sisu Auto Oy, from 1959. Since then it has grown under the company names Partek, Valmet, Metso and Sampo Rosenlew.

More information: www.blackbruin.com

WE CONTINUE TO ESTABLISH THE HANZA CULTURE AND OUR LEADERSHIP

In 2019, HANZA has continued to grow by making two factory acquisitions; one in Finland and one in Central Europe. In total we now number nearly 2,000 employees at 15 factories spread across seven countries (six clusters). An important part of this evolution has been integrating the new acquisitions into HANZA's structure, while also implementing general global policies in different areas. Not least of which is our Code of Conduct, along with policies on recruitment, staff development, diversity as well as work environment and safety. We also defined our leadership skills during the year.

For our new acquisitions, the focus during the year has been on introducing our values, overall policies and processes linked to employees, and on following up on key ratios in this area. Important channels in this effort are our internal communication, our intranet and our communication structure, as well as HANZA Group onboarding and the introduction to our new factories during the leadership conference in October.

HANZA'S LEADERSHIP BEHAVIORS

At the end of 2018, we decided to review and define our leadership skills, a process which began in early 2019. This effort took place at the level of group management and operational management, with the involvement of the HR organization and the cluster management teams at our various clusters. The result is that our leadership behaviors were communicated at the end of the spring, and that we have continued to work on them during both the HR conference and the leadership conference held in the autumn. Our leadership behaviors are an important part of both recruitment and evaluation, and in the process of describing how we view leadership and our expectations in this regard. The leadership conference also saw the launch of HANZA's leadership program, which is linked to our leadership behaviors. The program was kicked off in September by group management and operational management. Other leaders were introduced to the program at the leadership conference.

HANZA'S PROCESSES AND POLICIES FOR THE EMPLOYEES

Work on our staff development processes is ongoing. The processes are being followed up on as part of our key ratio follow-up. In 2019 the focus was on skills surveying, as well as the mapping of existing skills and skills requirements. All HANZA factories, with the exception of those acquired during the year, have mapped all or a significant portion of their positions in 2019. In 2020 we will continue by mapping employees in connection with performance reviews and updating skills requirements and existing skills. For our newly acquired companies, skills mapping will occur during the first half of 2020, after which we will commence mapping employees in connection with training in our HR processes. We strive continuously to harness our internal skills and offer our employees development opportunities.

In conjunction with the change of list on the NASDAQ, we also conducted a review of our overall HR Policy, the majority of HR processes as well as our Code of Conduct. Information about the Code of Conduct has been provided to all cluster managers who in turn communicated the information onward within their organizations. Other processes have been communicated through the HR department in the clusters, our leadership conference and via the intranet.

HANZA'S STRATEGY

We introduced our newly-acquired companies at HANZA's annual leadership conference, held in October 2019. We also presented a plan for incorporating these companies into HANZA's Strategy 2022, and communicated updated strategies for Cluster Finland and Cluster Central Europe. We also presented a new component of our customer offering linked to development services.

INTERNAL COMMUNICATION

During the year we continued to develop several of our internal communication channels. Our corporate newsletter "HANZA United", which is published on a quarterly basis, has continued to focus on presenting our operations, our employees and our customers – often with a feature devoted to a cluster, but also with other elements about, for instance, IT, horizontal projects or the like. This is in line with what our employees have asked for.

We have continued to develop the corporate intranet launched in October 2018, and have built it to accord with employee requests regarding structure and content. By now this has become a well-established internal communication channel in which we offer a living organization chart and features that can be used to search for people and functions in other clusters, for example. It is also used to present new employees, news that affects all or parts of the group, investments, etc. We have also launched trainings in the form of e-learning modules in several areas, such as general

In connection with the list change on the NASDAQ, we also reviewed our overall HR Policy, most HR processes as well as our Code of Conduct.

onboarding, training in how to use our ERP system and IT security. As far as social media is concerned, we are active in publishing ads and posts on both LinkedIn and Facebook, and provide updates via Facebook and Instagram.

At the beginning of the autumn we made the decision to implement a new tool in 2020 meant to make it easier for employees without a computer and email address to stay up-to-date on what is going on in the group. They should also be able to prepare for and conduct performance reviews and respond to questionnaires, etc. For managers, this will become a tool that facilitates communication with their groups in the factories. A pilot will be rolled out in Cluster Finland in early 2020.

HEALTH AND SAFETY

Health and safety management is ongoing and during the year we have worked on coordinating and aligning much of what we do within the group, starting with the clusters. More information can be found in the sustainability report, pages 20-24, which also presents more on the work that has been done in connection with the employee survey conducted in the fall of 2018. This work occurs in the local organizations, yet taking into account overall policies and directives, for example those linked to security procedures and evacuation. During the last quarter, work was commenced, among other things, on producing a video about safety and evacuation at each facility for visitors, customers, suppliers and employees from other parts of the organization.

FOLLOW-UP OF KEY RATIOS FOR EMPLOYEES

In 2019, the focus has been on obtaining and following up on our key ratios in the employee area. These ratios deal with both health and safety as well as employee development and follow-up of staff turnover and related measures. The key ratios we monitor internally are sick leave, accidents and incident reporting, staff turnover, performance reviews and skills mapping. Skills mapping will be a strategic goal going forward. In 2020 we must follow up to ensure that the employees are mapped relative to the skills requirements that exist for each position. We have had 35 accidents total in our factories during the year, one of which was serious. This is a metric we will continue to focus on reducing in 2020.

Ahead of 2020, a decision was taken to retain four of five key figures, with an addition relating to accidents that will also involve monitoring LTIFR (Lost Time Injury Frequency Rate), that is, the extent to which an accident led to lost time. As far as incident reporting is concerned, the positive trend that began in 2018 has continued during the year, which means that we have achieved a good level overall and have raised the bar for 2020. We also monitor total absenteeism on a monthly basis at each factory/company, which includes absenteeism other than absenteeism due to illness. We have also decided to stop monitoring staff turnover in 2020, as the fluctuations are very minor and turnover has remained at a stable, very low level throughout the year.

BREAKDOWN BY GENDER

- Women . . . . 40 %
- Men . . . . . . 60 %

AVERAGE AGE

42 yrs

AVERAGE NUMBER OF EMPLOYEES PER COUNTRY*

- Estonia 734
- Sweden 377
- Germany 154
- Czech Republic 140
- Poland 121
- China 115
- Finland 106

*) Average number of employees assuming that companies acquired during the year had been owned all year.

This is the group's sustainability report, which must be stated in accordance with the Swedish Annual Accounts Act, Chapter 6, Section 11. It should be read in conjunction with the general description of the company and its business model on pages 4–5 and 10–13 as well as disclosures regarding valuation bases and employees on pages 18–19.

GOVERNANCE FOR A SUSTAINABLE HANZA

HANZA works to ensure that more ideas become reality in the form of innovative products, and that their manufacture will be efficient, profitable and sustainable. For the manufacturing industry to be sustainable over the long term, product owners and manufacturers must together create solutions that also work over the long term as regards environmental, social and economic aspects.

HANZA plays an advisory role, which enables a form of interplay with customers in which manufacturing solutions are tailored – with a long-term orientation. The result is a manufacturing process that is designed strategically from an economic, environmental and social sustainability perspective.

Our sustainability management is thus an integral part of both our business concept and operating activities. Sustainability permeates our way of working and includes taking responsibility for our own facilities and the choices we have the ability to influence, while also helping our clients create more sustainable manufacturing processes.

In 2019 we continued the efforts initiated in 2018 related to process improvements and policies, and also started a comprehensive program focusing on the streamlining of operational execution.

HANZA will continue to develop its sustainability management by continuously measuring and following up on this work, which in turn will enable us to contribute to a more rational, modern and efficient manufacturing industry. Our work in this regard is summarized in the annual sustainability report.

SUSTAINABILITY RISKS AND FOCUS AREAS

HANZA strives to promote a model of social development where ethical and climate issues are accorded high priority. HANZA took stock of the sustainability risks in its operations in 2017, on the basis of which it identified several important focus areas that were also confirmed and partially supplemented by the materiality analysis carried out in the form of interviews with investors, customers and suppliers as well as a survey of employees. The most material risks and focus areas that governed our sustainability management in 2019 and by which we essentially intend to allow our sustainability management to be governed in 2020 too, are described below. By focusing on the following, we lay the groundwork for being able to conduct a sustainable business:

Environment

In the environmental area, the risks mainly inhere in HANZA's operations having a greater environmental impact than necessary due to excessive resource consumption. The risks of emissions of environmentally hazardous chemicals are considered to be minor, but cannot be disregarded. There are also risks related to the content of and production methods for purchased materials and components.

Focus areas:

- Energy (consumption and type).
- Waste (waste and recycling).
- Compliance with environmental regulations for constituent materials and components (for example, three of the most important global directives RoHS1, REACH2 and Conflict Minerals3).
- Chemicals (emissions and use both internally and in inputs).
- Emissions (air and water, for example due to transport, factories, etc.)

Social aspects and ethics

As a manufacturing company, we face risks linked to health and safety in both the manufacturing process itself and in connection with transport. In addition, there are risks linked to how our employees are treated internally, as well as how the employees of suppliers are treated, and their working conditions. HANZA adheres to the UN's 10 guiding principles on business and human rights, which means that we have a responsibility to conduct both internal and external monitoring of how we live up to these principles.

There is also a risk that corruption and unethical behavior will occur, especially in contacts with customers and suppliers.

Focus areas:

- Health & Safety of HANZA employees.
- Diversity & equal treatment.
- Internal working conditions.
- Increased commitment.
- Business ethics (anti-corruption, bribery).
- External working conditions (at the suppliers).

Economic aspects

There is also the risk, linked to the management of information in IT systems, that the privacy of employees or others will be violated, and that confidential information will end up in the wrong hands.

Focus areas:

- Privacy and data protection.

1) RoHS (Restriction of Hazardous Substance) 2) REACH (Registration, Evaluation, Authorisation and restriction of Chemicals) 3) Conflict minerals (Minerals that are extracted from Democratic Republic of Congo and nine neighboring countries, where money from the exploitation used by local warlords and groups to fund ongoing conflicts).

APPROACH AND GOVERNANCE

In 2019, HANZA completed the process of adapting to the requirements that apply to Nasdaq Stockholm's main list. An important part of this was to develop our processes for internal control and corporate governance. Among other things, this involved developing a number of policies, guidelines and manuals, and adding new ones as well.

Extensive work has been carried out in 2019 related to implementing and gaining buy-in for these policies, both within the business and at suppliers. One important policy is the Code of Conduct, which describes and governs matters related to working conditions, discrimination, minimum wages and the right to trade union organization at both HANZA and at our suppliers. The current minimum requirements in each country represent the lowest level for both working and environmental conditions, but we strive to constantly raise our standard and to develop.

MATERIAL POLICIES, GUIDELINES AND MANUALS FOR HANZA'S SUSTAINABILITY MANAGEMENT:

- Code of Conduct, internal
- Code of Conduct, suppliers
- HR Policy
- Anti-Corruption Policy
- Work Environment Policy
- Diversity Policy
- Information Policy
- Purchasing Policy
- Information Security Policy

GOALS AND ACTIVITIES

ENVIRONMENT

Thanks to HANZA's manufacturing cluster business model, sustainability is an integral part of the business. The manufacturing clusters entail the pooling of several factories with different manufacturing technologies into the same geographical area, which creates a more environmentally friendly manufacturing method with reduced transport and enhanced resource utilization. A group environmental officer has been appointed in order to strengthen environmental management, whose aim is to reduce HANZA's environmental impact. This officer's responsibilities include implementing an environmental management system that covers the entire group.

Expanded monitoring of environmental management

Production of the type conducted by HANZA impacts the environment in different ways. Efforts to follow up on and reduce negative environmental impact primarily occur at the local level, at each factory. In its sustainability report HANZA has for the past two years been reporting on environmental targets and the associated monitoring for a sample factory in Tartu. This is one of HANZA's largest factories. It is certified and complies with ISO 14001 requirements. This has served as preparation for the implementation of an environmental management system for the entire group. The experiences gained at the Tartu factory will affect working methods and priorities when the monitoring is extended to the entire group.

Goals and goal achievement

Prior to 2019, HANZA's goal was to have a functioning environmental management system covering the entire group in place at the end of the year, to reduce energy consumption by installing new equipment, and to start measuring and compiling both energy consumption and waste generation metrics. Work on the environmental management system has been expanded to include health and safety. The work has not been completed but continues. Comprehensive environmental certification of the group is not expected to take place until 2021. However, all factories, with the exception of those added via acquisitions in 2019, were certified according to ISO 14001:2015 at year-end, and we assess that the efforts towards creating a group-wide environmental management system have made significant progress. In 2019, HANZA has made a number of investments in modern production equipment, which reduces energy consumption. In 2019 the measurement of energy consumption and the volume of generated waste has been standardized and compiled. Accordingly, the group now has a good basis for monitoring and comparing these factors over time and as between units.

In 2020, HANZA will continue to focus on energy use and the amount of waste generated, as these factors are considered to have the greatest impact on carbon dioxide emissions from HANZA's operations.

In addition to the priority goals described, efforts to reduce the environmental impact of HANZA's production to the greatest extent possible naturally continue at both the local and the central level, as does the work to fully comply with the environmental laws and regulations applicable in the countries where the group has its factories.

Goals 2020

- To have a functioning environmental management system that covers the entire group at the end of the year, and that enables group-wide environmental certification in 2021.
- To keep constant or to reduce the cost of generated waste, excluding the cost of recycling, in relation to sales.
- To keep constant or reduce the costs for energy in the form of electricity, gas for energy and district heating, again in relation to sales.

Activities 2020

- Implement a group-wide environmental, health and safety management system that will enable certification in 2021.

BUSINESS ETHICS – ANTI-CORRUPTION

Going in to 2019, HANZA's goal was for all new suppliers to sign the Code of Conduct for suppliers. This goal has been achieved.

Moreover, the company aimed for all employees to receive training as regards the Anti-Corruption Policy to the extent required for their position. However, efforts in the area of ethics have been concentrated on the implementation of the Code of Conduct that was completed in 2018, whereas the bulk of the work on training and communication related to the Anti-Corruption Policy remains to be done in 2020, as efforts to reach set goals continue.

The Code of Conduct is published on the intranet together with communication about the importance of reading the Code. Information about the Code of Conduct is also included in the onboarding received by new employees. All managers at group, cluster and factory management level have taken note of the policy and confirmed this.

The company has also communicated about its reporting and reporting paths as regards nonconformities, irregularities and the like, examples of which range from bribery and nepotism to violations or abuses of positions of trust. We have continued to work on our corporate culture, including by emphasizing the fact that openness and transparency are key mottos in our organization, and the fact that we encourage employees who are experiencing a problem to, in the first instance, contact their manager, their manager's manager, HR or group management. Should the employee feel that this cannot be done for any reason, there is also a HANZA Hotline where employees can report known or suspected deviations from policies and rules, including an option to report anonymously. Information about this Hotline has been communicated within the group through mailings, the intranet and communication by cluster managers.

In 2020, we plan on carrying out work similar to that done for our Code of Conduct for our Anti-Corruption Policy as well, i.e. to inform the organization about its existence, to present its content in broad terms, and to ask employees to confirm that they have taken note of the policy. The policy will also form part of the onboarding program for new hires, and all employees are required to be familiar with it.

Goals 2020

- Communication of the Anti-Corruption Policy and follow-up at group management level, and at clusters and factories, to ensure that employees have taken note of it.
- Developing an e-learning module related to the Anti-Corruption Policy, implementing it in local languages, and communicating it.
- The e-learning module will be included in the onboarding received by new employees.

Activities 2020

- Development of an e-learning module for anti-corruption training, which will become part of onboarding.
- Decision on which employees are to provide this training of existing employees.
- Possible decision regarding specific training for certain employee groups who have a lot of contact with external stakeholders

SOCIAL CONDITIONS

In 2019 our focus was on incorporating the operations added via acquisitions during the year into our culture and HANZA's values in the form of workshops, translated materials and more. In other parts of the group, we have continued to work on the results of the employee survey that was carried out in the fall of 2018. The respective clusters were responsible for identifying measures in their clusters and factories, and for monitoring them accordingly. We have also continued efforts on expertise sharing and collaborations between different factories both within and between clusters, especially within a given technology, but also including a certain amount of exchange between different technologies and areas of expertise. We have also continued to focus on health and safety and have, among other things, decided to produce videos about security and evacuation for each factory. For the factories in Tartu, this work was completed in 2019.

Several clusters have seen upgrades of both premises and machinery. The result is an improved work environment with better and more functional premises, improved ventilation and renovated and upgraded changing rooms.

Goals 2020

- Ensure implementation of the company's policies, guidelines and manuals as well as its values and Codes of Conduct, and ensure how this is monitored at our new acquisitions.
- ISO45001 certification at all factories, excluding new acquisitions, during 2020.
- Continued focus on e-learning and onboarding for HANZA in general with translation into local languages as well as local training for each Cluster.
- E-learnings, surveys and communication with employees via a new platform, featuring mobile access, will be implemented during the year.

EMPLOYEES

We have continued our work environment efforts and have implemented new, revised policies in this area. During Q4 2019, we also began efforts related to preparing analyses of both the target level and the actual level of the respective clusters as regards work environment, as we are preparing for certification according to ISO45001, a work environment management system. This certification is planned for 2020 for all factories operated by HANZA at the beginning of the year.

In 2019 we had a total of 35 work-related accidents at our 15 factories, one of which was serious. Measures have been identified regarding all accidents in the workplace and its surrounding area. This represents an increase over previous years, which we attribute to increased reporting and several acquisitions during the year. The focus in 2020 will be on reducing these accidents and working to bring about changes in behavior linked to accidents. For 2020 we have also introduced a mechanism to monitor time lost to absenteeism due to accidents called LTIFR (Lost Time Injury Frequency Rate). We also continue to focus on incident reporting, which has to do with preventing accidents by focusing on incidents that could lead to an accident. In 2019 we had 255 incident reports. We are pleased to see a continuing increase in this type of reporting throughout the year and also at factories that have not previously reported in this area, or had few reports.

In 2019 we worked on the outcome of the employee survey conducted in the fall of 2018, and identified measures to improve the work environment and increase the level of commitment. We will be carrying out a follow-up survey in 2020 in order to capture developments during the time that has passed since the last survey. A leadership training course was started in 2019 at group level and for our clusters in Sweden and the Baltics. This course will continue for much of 2020.

The work needed to finalize the technical/professional skills needed for each position at several HANZA factories was carried out in 2019. Such work was also commenced at some of our newly acquired factories. This mapping of employee skills occurs in the framework of the EDP interview (the development interview).

The goals for EDP interviews and skills mapping for 2020 are set at 98 percent. Values, job satisfaction and more will be followed up on in the employee survey that will commence in mid-March 2020.

The internal communication is governed by a previously adopted model involving internal messages sent out to cluster management and relevant groups for onward communication within the organization. Information about organization, global policies, guidelines, presentations and more is published on our intranet. Here employees can also find links to local systems and pages. HANZA also has an internal magazine called HANZA United, which is published quarterly and deals with our various clusters, employees, customers, plans going forward, the financial situation, what our customers are doing and much more. In 2020 we will be establishing a mobile accessibility platform for access to e-learning courses, messaging and many other features.

Goals 2020

- Ability for all employees to have mobile access to the intranet.
- Continued development of e-learning modules for general onboarding and compulsory training sessions at an overall level.
- Development of e-learning courses at the local level for proprietary systems, processes and more.
- Measures identified for all groups within HANZA linked to the follow-up employee survey.
- Development interviews for all employees according to the EDP process – 98 percent.
- Skills mapping completed for all positions and employees – 98 percent.

Activities 2020

- Create an opportunity for groups of employees to connect to the intranet from mobile devices without their own email account.
- Completion and launch of e-learning courses for our Code of Conduct, Anti-Corruption Policy and Work Environment Policy.
- Identification of measures linked to the employee survey results.

PRIVACY AND DATA PROTECTION

HANZA attaches great importance to the proper, legal and fair handling of all personal information, and values legal rights, privacy and trust. The company has therefore developed and implemented a policy to protect personal information, and has appointed an information security officer.

HANZA complies with GDPR. This means that HANZA has a good idea of where, by whom, for what reason and what personal data is processed in the group, as well as how the personal data is protected, and processes to improve such protection. The company has also informed and trained the group's employees as concerns the processing of personal data.

For HANZA it is essential to maintain the confidentiality and privacy of the production documentation with which customers supply the company. For this reason, HANZA has for some time been working to implement an information security management system based on the ISO27001 standard. HANZA believes that the group is ready for a certification audit in 2021.

Goals 2020

- For all employees to receive training related to privacy and data protection to the extent needed for their position.

Activities 2020

- Adaptation to ISO27001 with regard to information security.
- Continued information and training concerning issues related to GDPR.

This is the English translation of the auditor's report in Swedish.

THE AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of Hanza Holding AB, corporate, identity number 556748-8399

Engagement and responsibility
The Board of Directors is responsible for that the statutory sustainability report for the year 2019 on pages 20-24 has been prepared in accordance with the Annual Accounts Act.

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

Opinion
A statutory sustainability report has been prepared.

Stockholm, April 1 2020

Ernst & Young AB

Charlotte Holmstrand
Authorized Auditor

THE SHARE AND OWNERSHIP STRUCTURE

HANZA's share has been listed on the Nasdaq Stockholm Small Cap since March 25, 2019. Prior to that, the share was listed on the Nasdaq First North Premier since 2014. The share price at year-end was SEK 15.65 (13.85).

At the start of the year, the number of shares was 29,869,718. A minor remaining portion of the shares subscribed for through the warrant program that ended in 2018 was registered with the Swedish Companies Registration Office in early 2019, with the number of shares increasing by 110,210 and share capital increasing by SEK 11,021. In both acquisitions completed in 2019, part of the purchase price consisted of shares. In the acquisition of Toolfac in January, 1,000,000 new shares were issued, increasing the share capital by SEK 100,000. RITTER was acquired on July 25. In this acquisition another 3,000,000 shares were issued, increasing the share capital by SEK 300,000. The number of shares thereafter amounts to 33,979,928.

SHARE CAPITAL DEVELOPMENT

Year	Event	Quotient value SEK	Increase in share capital SEK	Number of shares	Total number of shares
2008	Incorporation	1	100,000	100,000	100,000
2010	New share issue	1	233,334	233,334	333,334
2010	New share issue	1	53,192	53,192	386,526
2010	New share issue	1	24,672	24,672	411,198
2012	New share issue	1	115,979	115,979	527,177
2013	New share issue	1	24,050	24,050	551,227
2013	New share issue	1	1,839	1,839	553,066
2013	New share issue	1	18,566	18,566	571,632
2013	Exchange of convertibles	1	60,000	60,000	631,632
2014	Split 1:10	–	–	5,684,688	6,316,320
2014	New share issue	0.1	17,000	170,000	6,486,320
2014	Spread issue before listing	0.1	75,760	757,600	7,243,920
2014	Non-cash issue	0.1	40,000	400,000	7,643,920
2015	New share issue	0.1	136,842	1,368,421	9,012,341
2015	New share issue	0.1	857,471	8,574,711	17,587,052
2015	New share issue	0.1	302,637	3,026,369	20,613,421
2015	New share issue	0.1	2,876	28,758	20,642,179
2016	New share issue	0.1	6,719	67,190	20,709,369
2017	Exchange of convertibles	0.1	161,464,	1,614,639	22,324,008
2018	Preferential rights issue	0.1	669,720	6,697,200	29,021,208
2018	Redemption of warrants	0.1	84,851	848,510	29,869,718
2019	Redemption of warrants	0.1	11,021	110,210	29,979,928
2019	Non-cash issue	0.1	100,000	1,000,000	30,979,928
2019	Non-cash issue	0.1	300,000	3,000,000	33,979,928

AUTHORIZATIONS

At the AGM on May 7, 2019, in accordance with the Board of Directors' proposal, it was resolved to authorize the Board of Directors, on one or more occasions during the period up to the 2020 AGM, to resolve to increase the company's share capital by SEK 300,000 (corresponding to 3,000,000 shares) through the issue of shares, warrants and/or convertible bonds. The authorization allows the Board of Directors to resolve to issue shares, warrants and/or convertible bonds derogating from the shareholders' preferential rights and/or with a provision regarding vesting, set-off or other terms in accordance with the Swedish Companies Act. The authorization was equivalent to approximately 9.3 per cent of the share capital at the time of issue.

The Board of Directors exercised the entire authorization in the acquisition of the RITTER Group on July 25, 2019.

OWNERSHIP

The number of shareholders at year-end amounted to 1,443 (1,200). The largest shareholders are listed below.

Ownership structure 2019-12-30	Number of shares[1]	Capital (%)	Votes %
Färna Invest AB[2]	6,482,687	19.08	19.08
Francesco Franzé[3]	3,425,000	10.08	10.08
Clearstream Bankings S.A	3,231,814	9.51	9.51
Nordnet Pensionsförsäkring AB	2,587,753	7.62	7.62
Försäkringsaktiebolaget, AVANZA Pension	2,579,992	7.59	7.59
Håkan Halén	1,997,470	5.88	5.88
Svenska Handelsbanken AB för PB	1,751,654	5.15	5.15
LANNEBO NANOCAP	1,556,185	4.58	4.58
Setraco AB	1,175,000	3.46	3.46
Skandinaviska Enskilda Banken S.A	1,129,666	3.32	3.32
10 largest shareholders, total	**25,917,221**	**76.27**	**76.27**
Other board members	43,000	0.13	0.13
Other senior executives	567,280	1.67	1.67
Other shareholders	7,452,427	21.93	21.93
Total number of shares	**33,979,928**	**100.00**	**100.00**

1) Refers to own holdings and those of related natural and legal persons.
2) Färna Invest AB is a company wholly owned by board member Gerald Engström.
3) Francesco Franzé's controlled holding of shares in the company amounts to 2,145,000. In addition to the foregoing, Francesco Franzé owns 1,280,000 shares in the company through an endowment insurance. Francesco Franzé's total holding amounts to 3,425,000 shares

Source: Euroclear

LOCK-UP AGREEMENT

In both acquisitions completed by HANZA in 2019, the sellers entered into an agreement not to sell or otherwise transfer shares in HANZA for 12 months. For the sellers of Toolfac, the number was 1,000,000 shares and the lock-up period expired on January 31, 2020. For RITTER the number is 3,000,000, and the agreement is valid until July 25, 2020. The Board of Directors of HANZA has the unilateral right to shorten this lock-up period. A total of 3,000,000 shares are now subject to lock-up agreements, which constitutes approximately 8.8 percent of the total number of shares.

DIVIDEND POLICY

Earnings are primarily to be reinvested in the business in order to enable continued development of the group's business and thereby create sales and profit growth. Therefore, when assessing the size of the dividend, the primary consideration is that the group's development must allow for financial strength and room for maneuver. Business development permitting, the dividend should correspond to approximately 30 percent of profit after tax.

In the year-end report, the Board of Directors proposed a dividend of SEK 0.25 per share, but due to the widespread uncertainty, the Board of Directors decided on March 24, to propose to the AGM that no dividend be paid for financial year 2019.

MANAGEMENT REPORT

The Board of Directors and the CEO of HANZA Holding AB, Corporate Identity no. 556748-8399, hereby submit the annual report and consolidated accounts for the financial year 2019.

ABOUT THE BUSINESS

HANZA currently has operations in Sweden, Finland, Estonia, Poland, the Czech Republic, Germany and China. Among HANZA's customers are leading industrials such as ABB, Epiroc, Getinge, Saab Defense and Siemens. The group is operationally divided into two main divisions, Nordic and Rest of World, which constitute the group's reportable segments in its financial reporting. This largely follows from the group's business model, from how the nature of the production services varies, how processes (primarily automation) vary, and how they are distributed. In 2019, the company added operations in Germany through the acquisition of RITTER. This operation, like the Nordic division, distributes to customers in its local area, but otherwise features a degree of automation that is more similar to the Rest of World segment. For 2019, Germany was reported under the Rest of World. Furthermore, the portion of group functions attributable to business development and acquisitions is reported as a separate segment.

The HANZA Group consists of the Parent Company HANZA Holding AB, with the wholly owned subsidiaries HANZA AB, HANZA Metalliset Oy, HANZA KA Åtvidaberg AB and HANZA RITTER GmbH. HANZA AB, HANZA Metalliset Oy and HANZA RITTER GmbH, in turn, have wholly-owned subsidiaries in Sweden, Finland, Estonia, Poland, the Czech Republic and China. HANZA Holding AB and HANZA AB are involved in business development, group management and group-wide functions such as finance, marketing, sales, strategic HR and global procurement. All other operational activities are conducted in the subsidiaries.

VISION AND BUSINESS MODEL

HANZA's vision is to be a unique, value-creating business partner in manufacturing. This means that the company strives to create greater customer value than what traditional contract manufacturers can offer.

HANZA's business model is to develop and offer manufacturing solutions and advisory services to increase growth and profit on behalf of the company's customers. Specifically, this is achieved through HANZA's development of factory parks and manufacturing clusters where products can be manufactured rationally, at lower cost and with less environmental impact compared to traditional contract manufacturing, and partly through HANZA's development of value-creating consulting services linked to product manufacturing.

THE COMPANY'S DEVELOPMENT

HANZA was founded in 2008 and has grown into a company with turnover in excess of SEK 2 billion. This growth has occurred and will continue to occur within the framework of the company's 3-phase program, which kicked off in 2009 with the aim of gathering factories into manufacturing clusters in specific geographical areas.

Phase 1: Build-up phase 2009–2013

HANZA's initial phase of building the company started in 2009. The strategy was to create a global "four-leaf clover" of manufacturing technologies: machining, sheet metal, circuit boards and cabling, and to add advanced assembly on top of this. As part of this effort, the company acquired a number of mechanical and electronics manufacturers in Sweden and Estonia, even as a couple of greenfield factories were built from scratch. Because the focus was on acquiring a breadth of manufacturing technologies, it was financially advantageous to focus the acquisitions on companies experiencing financial hardship. Such companies were in particularly abundant supply after the 2008 financial crisis. Acquired factories were restructured, with new management teams appointed. The build-up phase was partly financed through interest-bearing loans.

Phase 2: Gather production in select geographical areas and offer consulting services 2014 – 2017

While the aim of Phase 1 was to bring together different manufacturing technologies in order to evolve into a complete contract manufacturer, the aim of Phase 2 was to relocate and gather factories into select geographical areas known as clusters, in order to create a rational manufacturing environment. In addition, HANZA developed two consulting services: MIG and MCS.

In 2016, HANZA launched an acceleration program called "Frontrunner", the aim of which was to complete the cluster structure more quickly. Six of HANZA's production facilities were wound up and/or relocated as part of the program. Frontrunner was completed during Q4 2017, and the measures implemented during the program had the effect of increasing profitability thanks to lower costs on a percentage basis for staff and other costs in relation to sales and reprocessed stock. During Phase 2, the company repaid a portion of the loans that were raised during the build-up phase, which helped strengthen HANZA's balance sheet and to reduce the company's net debt.

Phase 3: Focus on profitability and advisory services

With the acquisition and integration of factories into clusters, Phase 1 and Phase 2 have now been completed, laying the groundwork for continued growth and increased profitability. In Phase 3, the focus shifts from build-up to streamlining manufacturing clusters. During this phase, HANZA also intends to expand into new customer markets. The acquisition of Wermech in 2018 is a clear example of HANZA's strategy during Phase 3, in that the company acquired a profitable growth company with a broad customer portfolio. The CORE program (Cluster Operational Excellence) has also been introduced recently. It is a program to further increase the efficiency and capacity of HANZA's clusters. One example where efficiency programs were applied is in Narva, Estonia, where the program increased plant efficiency by ten per cent.

In this phase, HANZA's clusters (mainly outside the Nordic region) will be further trimmed. Furthermore, HANZA's business model will be applied to new customer groups and market areas, for example Germany. HANZA's profitability is expected to increase in Phase 3, for which reason the Board of Directors has decided to raise its financial targets; see the section entitled “financial targets” below for more information.

EVENTS IN 2019

- On March 25, HANZA's share were listed on NASDAQ Stockholm's main list, having previously been listed on the First North Premier. The listing took place without any capital raise or new share issues.
- On January 31, the company acquired Toolfac Oy, a high-tech Finnish manufacturer focusing on machining, with a production facility in Iisalmi, Finland, along with approximately 60 employees. The purchase price ran to SEK 34 million and was paid for in both cash and shares, along with an additional consideration. Toolfac was integrated into HANZA's manufacturing cluster in Finland during the year.
- July 25 marked the acquisition of the RITTER Group, a German complete manufacturer with production facilities in Germany and the Czech Republic, as well a product development and a total of approximately 290 employees. The acquisition also gave HANZA a development department. The purchase price ran to EUR 12 million and was paid for in both cash and shares. RITTER was integrated into the HANZA manufacturing cluster during the year.
- In 2019, HANZA won new customers and manufacturing contracts, including the inking of a global manufacturing agreement with Epiroc in February for deliveries of assembled mechanics and subsystems for the company's mining machinery. The collaboration with existing customers was also broadened. For example, in April HANZA extended its collaboration with the medical technology company Getinge through the manufacture of assembled mechanical parts for the company's ventilators and anesthesia machines. In June, HANZA was named “Supplier of the Year” by the multinational 3M at a supplier conference in Switzerland.

In 2019, HANZA commenced and implemented several important development projects for the group's manufacturing clusters, including the following:

- In Finland, a streamlining project was carried out following the acquisition of Toolfac, as part of which HANZA's unit in Tampere was relocated and integrated with the group's other operations.
- In Central Europe, a coordination project was carried out following the acquisition of RITTER, in the course of which HANZA's former Czech unit in Kunovice (sheet metal mechanics) was coordinated organizationally with the acquired unit in Zabreh (cabling production and advanced final assembly). The new unit in Remscheid, Germany, was also integrated with the HANZA Group.
- In the Baltic countries, a major streamlining program was implemented, including machinery upgrades, building renovations, etc. In China, HANZA decided to wind up operations in Ma'anshan and concentrate the group's Chinese operations in Suzhou. This is being done in conjunction with HANZA's agreement with a German customer to relocate some production to HANZA's factory in Suzhou.

Francesco Franzé is elected Chairman of the Board of Directors at the AGM. He succeeds Mikael Smedeby, who declined re-election. The Board of Directors otherwise remains unchanged.

EVENTS AFTER THE END OF THE YEAR

- In March, HANZA decided to split the group's manufacturing clusters in Central Europe into two units in order to increase its focus on the German market. Germany will thus form its own cluster, and the Central Europe Cluster will comprise the factories in Poland and the Czech Republic.
- As part of HANZA's organizational development, certain group functions are being decentralized, as part of which Global Strategic Sourcing and Strategic HR will be moved to HANZA's manufacturing clusters. The sales function, which has recently been shored up through recruitment at the cluster level, is being revised and moved out to the respective clusters. The change is expected to be implemented in Q2 2020.
- Thomas Lindström, Head of Business Solutions & Marketing, as well as Petra Duprez, Head of Strategic HR, will be leaving the company in Q2 2020, at their own request. HANZA's Group management team now consists of Erik Stenfors, CEO, Lars Åkerblom, CFO and Andreas Nordin, COO.
- On March 24, HANZA's Board of Directors decided, due to the general uncertainty associated with the spread of coronavirus, to amend its proposal to the AGM to the effect that no dividend should be paid for the 2019 financial year. The earlier proposal was for SEK 0.25 per share.

At the time of this annual report's publication, there is an ongoing outbreak of coronavirus which, together with the measures taken to limit the spread of infection, may have major impacts on the entirety of HANZA's manufacturing and sales market. It is not yet possible to assess the effects that this will have on the company's operations and financial performance. The Board of Directors and the management team are monitoring developments closely in order to be able, quickly and efficiently, to cope with any changes that arise in the company's business environment.

FIVE-YEAR OVERVIEW

SEK million	2019	2018	2017	2016	2015
Net sales	2,067.7	1,810.6	1,399.7	1,305.8	1,206.4
Operating profit	56.8	54.1	35.7	25.2	51.1
Profit/loss after tax	23.6	20.8	16.4	1.9	37.5
Balance sheet total	1,522.7	1,096.1	769.8	755.6	776.3
Equity	497.7	410.5	309.3	268.8	254.1
Equity ratio,%	33	37	40	36	33

MARKET DEVELOPMENT

Following the acquisition of RITTER, HANZA's customer markets are mainly the Nordic region and Germany. There are also customers in the rest of Europe, Asia and the United States. Thanks to the broad industry spread of HANZA's customers, the business cycle is usually reflected in HANZA's sales. However, new opportunities for HANZA to gain market share have emerged even during recessionary periods, spurred by customers experiencing an acute need to streamline their production chain.

In its latest forecast (January 2020), the National Institute of Economic Research notes encouraging signals coming out of the manufacturing industry. The German economy was weak in 2019, but the German purchasing index rose in January. On the other hand, the coronavirus has created uncertainty and may impact component availability, among other things, mainly PCBs for circuit board assembly. On the whole, however, HANZA is seeing underlying demand continuing to meet expectations.

HANZA does not provide any forecasts, but does note that the company is in a good position to continue to gain additional market share thanks to the company's manufacturing concept, with the company's establishment in Germany and its new expertise in product development. Customs, transport costs, lead times, environmental considerations, etc., have also recently prompted more and more European manufacturing companies to “backsource” their manufacturing from China, which may provide new opportunities for HANZA to gain additional market share.

The group's growth target is to achieve an average sales increase of at least 10 per cent per year over a business cycle, which is measured as the net change, that is to say, the sum of additional volumes from new customers, company acquisitions, phased-out volumes and currency changes.

SALES AND EARNINGS

Net sales amounted to SEK 2,067.7 million (1,810.6). The Nordic segment grew to SEK 966.6 million (910.4). The Rest of World segment grew to SEK 1,101.0 million (900.5). Sales increased through acquisitions as well as new customers and contracts, and decreased due to completed projects. The transfer of customers from one segment to another also has an impact, see above. The currency effect was positive and ran to approximately SEK 44 million.

EBITDA amounted to SEK 149.0 million (113.2), which corresponds to an EBITDA margin of 7.2 per cent (6.3). Depreciation/amortization during the period amounted to SEK 92.2 million (59.1), of which amortization of intangible assets amounted to SEK 11.1 million (7.2), and right-of-use assets arising from the transition to IFRS 16 (see Note 2) ran to SEK 25.0 million (-). The introduction of IFRS 16 has had a marginally positive effect on operating profit, thanks to reduced other external costs in the amount of SEK 26.1 million and increased depreciation in the amount of SEK 25.0 million, which positively affects EBITDA by SEK 26.1 million and improves the EBITDA margin by 1.3 percentage points. The gross margin was 45.8 per cent (44.5).

Consolidated EBITA for the full year amounted to SEK 67.9 million (61.3), corresponding to a margin of 3.3 per cent (3.4). The Nordic segment reports an EBITA of SEK 62.7 million (67.4), which corresponds to an EBITA margin of 6.5 per cent (7.4). The Rest of the World segment has EBITA of SEK 20.9 million (3.9), which corresponds to an EBITA margin of 1.9 per cent (0.4). The Business Development segment's EBITA during the year amounted to SEK -15.7 million (-10.0), and mainly comprises costs for the list exchange process and acquisition costs for Toolfac and RITTER.

Consolidated EBIT amounted to SEK 56.8 million (54.1). Net financial items amounted to SEK -24.5 million (-24.9). Of this, net interest income amounts to SEK -18.1 million (-14.1). The change in net interest income is primarily due to increased net debt as a result of the acquisitions of Toolfac and RITTER, and to the transition to IFRS 16 (see Note 2). Net exchange rate gains and losses amounted to SEK -1.2 million (-6.4). Other financial expenses amounted to SEK -5.2 million (-4.4).

CASH FLOW AND INVESTMENTS

Cash flow from operating activities remains positive, amounting to SEK 122.0 million (113.5). Changes in working capital amounted to SEK -5.6 million (27.8).

Cash flow from investments in fixed assets amounted to SEK -48.0 million (-44.7), net, and acquisitions of subsidiaries amounted to SEK -89.4 million (-144.4). Total investments in tangible fixed assets amounted to SEK 61.5 million (59.5). The difference compared to cash flows is due to investments in machinery and equipment via leasing.

Cash flow from financing activities amounted to SEK 5.1 million (95.1) and consists of borrowings and repayments. Borrowing includes acquisition loans in the amount of of SEK 92.2 million in connection with the acquisitions of Toolfac and RITTER. The acquisitions were also financed by targeted new share issues to the sellers in a total amount of SEK 64.4 million net of transaction costs.

FINANCIAL POSITION

Equity at year-end amounted to SEK 497.7 million (410.5) and the equity ratio was 32.7 per cent (37.5). The balance sheet total amounted to SEK 1,522.7 million (1,096.1). Cash and cash equivalents at the end of the period amounted to SEK 66.7 million (77.5). Interest-bearing net debt at the end of the period amounted to SEK 543.3 million (264.7).

The implementation of IFRS 16 as of January 1, 2019 reduced the equity ratio by 2.6 percentage points and increased interest-bearing net debt by SEK 79.7 million (see Note 2). The acquisition of RITTER added a further SEK 35.7 million to liabilities attributable to IFRS 16.

EMPLOYEES

During the year, the average number of employees in the group was 1,603 (1,407). At year-end, the number of employees was 1,771, while at the beginning of the year the number was 1,514. Of the employees at the end of the period, 340 were added through acquisitions.

RISK FACTORS

The company's operations are affected by a number of factors that in some respects cannot be completely controlled by the company, and in other respects cannot be controlled by it at all. The following factors are considered to be of particular importance in terms of future development. The account given below of risk factors makes no claim to completeness, nor are the risks ranked by degree of significance. Additional risks of which the company is not currently aware may have a material impact on the company's operations, financial position and/or earnings. Not all factors are described in detail, but a complete evaluation must include all information in this company description as well as a general business environment analysis.

COMPANY-SPECIFIC RISKS

- **Cyclical developments** – Contract manufacturing is a relatively cyclical business, one in which HANZA is dependent on how and to what extent the company's customers choose to run their production operations. A weakening business cycle in Sweden or internationally could lead to a lower level of market growth for the company. If a deterioration in the general economy should occur, there is a risk that HANZA's sales and earnings could be adversely affected.

- **Competition** – HANZA is exposed to heavy competition in contract manufacturing markets, which places demands regarding time-effective and cost-effective production and logistics. There is a risk that in the future the company will not be able to offer services and products that are sufficiently competitive from a technical point of view and in terms of pricing. Such a development could risk adversely affecting the company's operations, financial position and earnings.
- **Customer dependence** – HANZA has been commissioned to perform assignments by a number of customers within a number of different applications. In 2019 the ten largest customers accounted for 53 per cent (41) of total sales. Individual subsidiaries within the group may be characterized by significant customer dependence, which may put pressure on earnings and the viability of individual subsidiaries. There is a risk that one of these large customers will reduce its purchases, which would adversely affect the company's operations, financial position and earnings.
- **Production, logistics and interruptions** – HANZA conducts advanced manufacturing in several different fields at several different production facilities. The company is dependent on being able to shift manufacturing between different plants in the event of production stoppages, but also in order to be able to deliver the total solution to the customer that forms the core of HANZA's business model. In the event that the company's processes and logistics should not work according to plan, this could entail production disruptions and increased costs for the company, which could adversely affect the company's financial position and earnings.
- **Risk of disruptions in production** – HANZA's production operations consist of a chain of processes in which interruptions or disruptions, for example as a result of fire, sabotage, mechanical breakdown or IT failure in any stage of the operations, could have consequences in terms of HANZA's ability to manufacture the company's products in the scope and at the rate demanded. Such interruptions could adversely affect the company's operations, financial position and earnings.
- **Price variations in inputs** – HANZA's customer assignments often extend over long periods of time, over the course of which material prices naturally may vary. Large price increases in inputs and manufacturing materials could adversely affect the company's operations, financial position and earnings.
- **Supplier risk** – HANZA is dependent on material deliveries by the company's suppliers in order to fulfill the company's customer orders. Significant or long-term disruptions in the delivery of critical inputs and manufacturing materials could adversely affect HANZA's financial position and earnings. Some of HANZA's suppliers are what are referred to as single-source suppliers, meaning that HANZA is dependent on one supplier for all deliveries of the given raw material or component. There is a risk that the supplier will not be able to supply raw materials and components in accordance with HANZA's needs. If HANZA does not have enough of the given raw materials or components in stock, or is not able to secure deliveries from an alternate supplier, this may in turn impact HANZA's customer deliveries, which may affect HANZA's financial position and earnings.
- **Inventory obsolescence** – In order to be able to meet the company's commitments to various customers, HANZA needs to maintain a certain inventory of components and production materials. There is a risk of obsolescence in this respect: any inventory that is not used for customers could adversely affect HANZA's financial position and earnings.
- **Complaint risk** – In the event of defects in the manufacturing process, complaint claims may arise as part of various warranty obligations. Causes include, for example, machine malfunction, operator failure or component failure. Claims for financial compensation normally adhere to established industry standards. The customer may be entitled to damages in addition. This may entail significant additional costs for HANZA, which could adversely affect the company's financial position and earnings.
- **Key personnel** – Under HANZA's business model, the company takes a holistic approach to customer manufacturing, which places high demands on expertise in the field of Supply Chain Management and a number of other areas. The potential loss of any of these personnel could give rise to adverse effects for HANZA. The company's ability to recruit and retain qualified employees is crucial in ensuring the level of competence within HANZA. In the event that key personnel should leave HANZA, this could adversely affect the company's operations, financial position and earnings.
- **IT systems** – HANZA's operations require functioning IT systems. IT-related disruptions could lead to disruptions in production, forgone revenue or compensation claims from customers and/or reduced efficiency of administration and sales. In addition, the implementation of HANZA's IT system in new production facilities could lead to disruptions in the integration process, and carries the risk of other IT-related disruptions, which could adversely affect the company's operations, financial position and earnings.
- **Liability and insurance** – Under HANZA's business model, the company takes a holistic approach to the customer's production, albeit without being a product owner with end-to-end production responsibility. As a rule, HANZA is liable for manufacturing in accordance with customer specifications. In the event of a customer claim, HANZA's liability could exceed the risk against which HANZA protects itself through insurance policies, which could adversely affect the company's operations, financial position and earnings.
- **Financing risk** – HANZA may need to raise new financing or refinance certain, or all, of its outstanding liabilities in the future. The Company's ability to successfully raise new financing or to refinance the Company's current liabilities is dependent on several factors, including conditions in the financial markets in general, the Company's creditworthiness, as well as the ability to take on more debt at such a time. HANZA's access to sources of funding at a given time could thus have to occur on less favorable terms. There is also a risk that HANZA could breach the terms of existing loan agreements, which could be due to a number of different factors both within and beyond the company's control. The company's potential inability to comply with the terms of existing loan agreements could require repayment of all or part of the company's outstanding loans, which could have a material adverse effect on the company's operations and financial position.
- **Currency and interest rate risks** – HANZA's extensive international operations include significant sales in various currencies and thus carry exposure to currency risk, particularly in the euro (EUR) and US dollar (USD). Currency

risk arises from future business transactions, translation of recognized assets and liabilities as well as net investments in foreign operations. The group has exposure in its external borrowing, as the borrowing partly occurs in a currency other than the functional currency. The majority of external borrowing in the group is in SEK or EUR. In the event of exchange rate fluctuations, this could have an adverse effect on HANZA's sales and operating profit. Furthermore, because HANZA's financing partly consists of interest-bearing liabilities, the group's net income is further affected by changes in the general interest rate landscape. How quickly a change in interest rates will have an impact on net income depends on the fixed interest rate period of various loans. Changes in interest rates could adversely affect the company's operations, financial position and earnings.

- **Credit risk** – HANZA makes extensive use of customer invoice factoring, which means that the credit risk is transferred to the factoring company. For some customers, HANZA provides 30-90 days of credit, which entails credit risk in the event that a customer should be unable to meet its payment obligation. HANZA is guided by an established credit policy, and uses credit insurance policies. However, there are credit risks in HANZA's cash and cash equivalents, derivative instruments and balances on deposit with banks and financial institutions, as well as in respect of customers, including outstanding receivables and agreed transactions. Future credit losses could adversely affect the company's operations, financial position and earnings. Historically speaking, HANZA has had very low credit losses.
- **Tax** – HANZA has accumulated tax losses primarily in Finland and Sweden. Changes of ownership that entail a change in controlling influence over the company could in turn entail restrictions, in whole or in part, on the ability to utilize such losses in the future. The ability to utilize tax losses in the future may also be affected by changed legislation. The company's operations are conducted in accordance with the company's interpretation of existing tax regulations and the requirements of various tax authorities. There may be a risk that the company's interpretation of applicable laws, provisions and practices is incorrect or that such regulations are changed, possibly with retroactive effect. For this reason, a decision by a tax authority could alter HANZA's past or current tax situation, which could have an adverse effect on HANZA's operations, earnings and financial position.

SUSTAINABILITY AND ENVIRONMENTAL IMPACT

HANZA's statutory sustainability report can be found on pages 20-24 of this annual report. The group conducts operations that are subject to authorization (permitting) pursuant to Chapter 9 of the Swedish Environmental Code. The permitting requirement in Sweden applies to mechanical metalworking in which the total tank volume of cutting fluids or process oils in the metalworking machines may amount to a maximum of 150 cubic meters per year.

THE SHARE

HANZA's share has been listed on NASDAQ Stockholm's main list since March 25, 2019. For more information about the shares, please refer to the separate section on HANZA's share and ownership structure.

OWNERSHIP

The number of registered shareholders on December 31, 2019 amounted to 1,443. The largest shareholder was Färna Invest (owned by Gerald Engström) with 19 per cent. Francesco Franzé owns ten per cent and Håkan Halén owns six per cent. For more information about ownership, please refer to the separate section on HANZA's share and ownership structure.

CORPORATE GOVERNANCE

A corporate governance report follows immediately after the management report.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

For a description of guidelines for remuneration to senior executives, see note 34 “Related party transactions”. The Board of Directors' proposal to the 2020 AGM regarding new guidelines can be found on page 83.

DIVIDEND

In the year-end report, the Board of Directors proposed a dividend of SEK 0.25 per share, but due to the widespread uncertainty the Board of Directors decided on March 24 to propose to the AGM that no dividend be paid for financial year 2019.

PARENT COMPANY

The Parent Company's net sales consist exclusively of revenue from group companies amounting to SEK 21.5 million (19.8). Profit before tax amounted to SEK 4.1 million (4.9).

PROPOSED APPROPRIATION OF PROFIT

The Board of Directors proposes that no dividend be paid for financial year 2019. This proposal, published on March 24, 2020, represents a change from the proposal made upon publication of the year-end report.

The following profit (SEK) in the Parent Company is at the disposal of the AGM

Retained earnings	35,203,485
Share premium reserve	314,893,051
Profit for the year	3,486,824
Total	**353,583,360**

The Board of Directors proposes that retained funds be

carried forward in the amount of	353,583,360
Total	**353,583,360**

CORPORATE GOVERNANCE REPORT 2019

CORPORATE GOVERNANCE PRINCIPLES

Corporate governance within the HANZA Group is based on the Swedish Companies Act, Nasdaq Stockholm's regulations for issuers, the Swedish Corporate Governance Code, guidelines for good stock market practice, other applicable regulations and recommendations for companies whose shares are admitted to trading on a regulated market, the Articles of Association as well as internal governance documents. The internal governance documents mainly comprise the Board of Directors' rules of procedure, instructions for the CEO and instructions for financial reporting. In addition, HANZA has adopted a number of policy documents and manuals that set out rules and recommendations, which in turn contain principles and provide guidance with regard to the company's operations and for its employees. Companies that are listed on a regulated market are required to apply the Swedish Corporate Governance Code (the "Code") developed by the Swedish Corporate Governance Board. More information about the Code can be found at the webpage bolagsstyrning.se.

HANZA has applied the Code in full since the listing on the Nasdaq Stockholm on March 25, 2019. With the exception of the deviations described below, there have been no deviations from the Code since the listing on the Nasdaq Stockholm. Prior to the listing, the company's stock was listed on the First North Premier. Since the First North is not a regulated market, HANZA was not obligated to apply the Code prior to the listing on the Nasdaq Stockholm. Prior to the listing, HANZA also chose to apply the Code to the extent that so doing was deemed appropriate and expedient.

DEVIATIONS FROM THE CODE

Rule 2.4, second paragraph of the Code states that if more than one board member serves on the Nomination Committee, at most one of them may be dependent in relation to the company's major shareholders. Board members Francesco Franzé and Gerald Engström serve on the Nomination Committee, and are both regarded as dependent in relation to the company's major shareholders. This therefore constitutes a deviation from the said rule in the Code.

Francesco Franzé is a member of the Nomination Committee in his capacity as Chairman of the Board in accordance with the principles governing the composition of the Nomination Committee adopted at the AGM in May 2019. Gerald Engström, acting through Färna Invest AB, is the company's largest shareholder, and has announced that he wishes to represent his own holding on the Nomination Committee.

The principles governing how the Nomination Committee is to be formed are resolved on by the AGM, and the company has no formal opportunity to determine which representatives are appointed by the largest shareholders in accordance with these principles. However, the composition of the Nomination Committee has been discussed with the main owners.

Gerald Engström is the company's largest shareholder. He possesses extensive industrial experience and has in-depth knowledge of the company's operations. The composition of the Nomination Committee is not thought to affect the ability of the Nomination Committee to carry out the tasks incumbent on it, or to safeguard the interests of all shareholders. In light of the above, it has been deemed warranted to derogate from the Code in this regard.

COMPLIANCE WITH STOCK MARKET REGULATIONS AND GUIDELINES FOR GOOD STOCK MARKET PRACTICE

HANZA has not been the subject of a decision by the Nasdaq Stockholm Disciplinary Committee or a statement by the Swedish Securities Council.

AGM

The shareholders' influence within the company is exercised at the AGM, which is the company's highest decision-making body. According to HANZA's Articles of Association, shareholders who wish to attend the AGM must appear either on the printout or in another representation of the full shareholder register, having regard to the conditions, five working days before the meeting, and must notify the company no later than the date stated in the meeting notice. The latter date must not be a Sunday, other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve, nor must it fall earlier than on the fifth working day prior to the meeting. There are no restrictions with regard to how many votes each shareholder may cast at the meeting.

The AGM is held annually within six months of the end of the financial year. According to the Code, the Chairman of the Board of Directors is required to attend the AGM, as are the Board of Directors and the CEO. The Meeting Chair shall be nominated by the Nomination Committee and be elected by the meeting. The tasks of the AGM include electing the company's Board of Directors and auditors, establishing the Parent Company's and the group's balance sheets and income statements, resolving on appropriations of the Company's profit or loss in accordance with the established balance sheet, and making resolutions regarding the discharge from liability of Board members and the CEO. The AGM also determines the fees to be paid to the members of the Board of Directors and the company's auditors. Extraordinary General Meetings may be convened by the Board of Directors when the Board of Directors deems that there is reason to hold a meeting prior to the next AGM. The Board of Directors is also required to convene an Extraordinary General Meeting when an auditor or shareholder holding more than 10 per cent of the shares in the Company submits a written request that a Meeting be held to deal with a specific matter.

Notice of the AGM shall be issued by taking out an advertisement in Post- och Inrikes Tidningar and by posting a notice on the company's website. At the time of notice, information to the effect that notice has been given shall be posted in Svenska Dagbladet. The notice shall also be published in the form of a press release in accordance with Nasdaq's regulations. Notice of an AGM or

Extraordinary General Meeting in which an amendment to the Articles of Association is to be deliberated shall be issued no earlier than six and no later than four weeks in advance of the AGM. Notice of any other Extraordinary General Meeting shall be issued no earlier than six weeks before and no later than three weeks before the General Meeting. The Articles of Association do not contain provisions on special prerequisites for amending the Articles of Association.

The company will publish resolutions made at the AGM in accordance with Nasdaq's regulations. The meeting minutes shall be available on the company's website no later than two weeks after the meeting.

2020 AGM

The 2020 AGM will be held on Monday, April 27, 2020, at 4 p.m. in Danderyd.

AUTHORIZATIONS

At the AGM on May 7, 2019, in accordance with the Board of Directors' proposal, it was resolved to authorize the Board of Directors, on one or more occasions during the period up to the 2020 AGM, to resolve to increase the company's share capital by a maximum of SEK 300,000 (corresponding to 3,000,000 shares) through the issue of shares, warrants and/or convertible bonds. The authorization allows the Board of Directors to resolve to issue shares, warrants and/or convertible bonds derogating from the shareholders' preferential rights and/or with a provision regarding vesting, set-off or other terms in accordance with the Swedish Companies Act. The authorization was equivalent to approximately 9.3 per cent of the share capital at the time of issue.

The Board of Directors exercised the entire authorization in the acquisition of the RITTER Group on July 25, 2019.

NOMINATION COMMITTEE

According to the Code, listed companies must have a Nomination Committee whose mandate shall include preparing and establishing proposals for the election of Board members, the Chairman of the Board, the meeting chair and auditors. The Nomination Committee is also required to propose fees to Board members and auditors. The Nomination Committee shall consist of at least three members.

At the AGM on May 7, 2019, it was resolved to adopt an instruction and rules of procedure for the company's Nomination Committee according to which the Nomination Committee is required to consist of four members, including the Chairman of the Board of Directors. The Nomination Committee is appointed by the Chairman of the Board of Directors at the behest of the meeting; it contacts the three largest shareholders by voting rights according to Euroclear's printout of the shareholder register as of the last banking day of August, and invites them to appoint one representative each, who, together with the Chairman of the Board of Directors, constitute the Nomination Committee until a new Nomination Committee has been appointed in accordance with the mandate from the next AGM. In the event that any of the three largest shareholders do not wish to appoint a member of the Nomination Committee, the fourth largest shareholder shall be asked, and so on, until the Nomination Committee comprises four members (including the Chairman of the Board). The term of office for the nominated Nomination Committee shall run until such time as a new Nomination Committee is appointed. If a member should leave the Nomination Committee before its work is complete and if the Nomination Committee considers that there is a need to replace this member, the Nomination Committee shall appoint a new member according to the principles set out above, yet based on Euroclear's printout of the shareholder register, as soon as possible after the member has left the Nomination Committee. No fees shall be paid to the members for their work on the Nomination Committee. The Nomination Committee shall submit proposals for resolutions on the following issues for the 2020 AGM:

- Election of the meeting chair
- Determination of the number of Board members
- Determination of fees and other remuneration paid to the Board of Directors and its committees, with a breakdown as between the Chairman and other members
- Determination of fees to auditors
- Election of Board members and the Chairman of the Board of Directors and Vice Chairman of the Board of Directors
- Election of auditors, and
- Proposed principles for the composition and work of the Nomination Committee in advance of the 2020 AGM.

HANZA's Nomination Committee in advance of the 2019 AGM consisted of the following persons.

	Appointed by	Independent of the company and its management	Independent of the company's largest shareholder in terms of votes
Per Holmberg, Chairman of the Nomination Committee	Ritter Beteiligungs GmbH	Yes	Yes
Gerald Engström	Own holding	Yes	No
Massimo Franzé	Own holding	Yes	Yes
Francesco Franzé, Chairman of the Board of Directors	Own holding	Yes	No

BOARD OF DIRECTORS

The Board of Directors bears the ultimate responsibility for HANZA's organization and for managing the company's operations. The CEO manages the day-to-day operations based on guidelines and instructions issued by the Board of Directors. The CEO regularly informs the Board of Directors of events that are of importance to the group. These include, among other things, the performance of the business as well as the group's earnings, financial position and liquidity. The Board of Directors has decided to establish an Audit Committee and a Remuneration Committee. See below for a more detailed description.

Composition and independence of the Board of Directors

According to HANZA's Articles of Association, the Board of Directors is required to consist of a minimum of four and a maximum of ten members without deputies. Members are normally elected annually at the AGM to serve for the period until the end of the next AGM, but additional Board members can be elected during the year by convening an Extraordinary General Meeting. The Articles of Association do not contain any provisions relating to the appointment and dismissal of Board members.

At the 2019 AGM, Francesco Franzé, Gerald Engström, Håkan Halén, Helene Richmond and Sofia Axelsson were elected to serve as ordinary Board members of the company. Francesco Franzé was elected Chairman of the Board of Directors and Gerald Engström was elected Vice Chairman. Please see page 88 for a more detailed presentation of the Board of Directors.

According to the Code, the Board of Directors' size and composition must be such that the Board of Directors' ability to manage the company's affairs with integrity and efficiency is assured. A majority of the members of the board of Directors must be independent in relation to the company and its management team. At least two of the members who are independent in relation to the company and its management team must also be independent in relation to the company's major shareholders. In addition, at most one Board member may serve on the company's management or in the management of the company's subsidiaries. The company assesses that the composition of the Board of Directors meets the requirements of the Code. Below is an account of the company's assessment of the independence of the Board members in relation to the company and its management as well as major shareholders.

Member	Independent of the company and its management	Independent of the company's largest shareholder in terms of votes
Francesco Franzé	Yes	No
Gerald Engström	Yes	No
Håkan Halén	Yes	Yes
Helene Richmond	Yes	Yes
Sofia Axelsson	Yes	Yes

Diversity policy

The Nomination Committee applies rule 4.1 of the Code as a diversity policy in its preparation of proposals for the Board of Directors. The Nomination Committee has taken into account the need for a well-functioning board composition with regard to diversity and breadth, for instance in terms of gender, nationality, age and industry experience. The Board of Directors currently consists of three men and two women.

The Board of Directors' working methods

The Board of Directors adheres to written rules of procedure that are reviewed annually and established at the inaugural Board of Directors meeting held in conjunction with the AGM. In accordance with the Board of Directors' rules of procedure, the Board of Directors is responsible for the Company's organization and the management of its affairs, and is required to continuously assess the company's and the group's financial situation, and to continuously keep abreast of earnings performance, larger account holdings, financing conditions, liquidity and specific risks in the company. According to the rules of procedure, the Board of Directors is also responsible for establishing and following up on the company's strategy as well as its short-term and long-term business objectives.

The Board of Directors is also responsible for ensuring that the company's financial reporting and other disclosures to the stock market are characterized by openness and that they are accurate, relevant and reliable. The Board of Directors is also responsible for ensuring that the company has formalized procedures and processes in place to ensure good internal control and compliance. The Board of Directors is required to perform its duties in accordance with applicable legislation and other regulations applicable to the company.

The Board of Directors is responsible for appointing and, if necessary, dismissing the CEO. The Board of Directors is required to ensure that the CEO fulfills his duties in accordance with the Board of Directors' instructions, and to annually assess the CEO's work performance based on the short-term and long-term goals set by the Board of Directors.

In addition to the inaugural meeting, the Board of Directors is normally required to meet four to eight times a year; the meetings are scheduled based on the annual planning of the work to be done by the Board of Directors. In accordance with what has been laid down in the Board of Directors' rules of procedure, the Board of Directors evaluates its own work on an ongoing basis by holding open discussions within the Board of Directors and by conducting an annual Board of Directors evaluation. The outcome of the annual evaluation is submitted to the Nomination Committee.

The Audit Committee

The Board of Directors has set up an Audit Committee whose task is to prepare and consider matters relating to financial reporting, internal control and risk management and, if necessary, to participate in the contacts with the company's auditor in connection with the audit of the annual report and the auditors' ongoing review of the company during the financial year. The Audit Committee is also required to assist the Nomination Committee in connection with the auditor's election. The Audit Committee is a deliberating body and has no independent decision-making authority except insofar as the Board of Directors has explicitly authorized the Audit Committee to make decisions on a specific matter. The Audit Committee comprises Håkan Halén (chairman), Francesco Franzé and Sofia Axelsson (members). The main tasks of the Audit Committee are:

a) to monitor and quality-assure the company's financial reporting;
b) to continuously meet with the company's auditor for information and considerations relating to the focus, scope and content of the audit assignment and of the annual report and consolidated accounts, and to hold discussions regarding coordination between external and internal audit and the perception of the company's risks;
c) to review and monitor the auditor's impartiality and independence, and to establish guidelines for the authorized procurement of other services rendered by the company's auditor;
d) to evaluate the audit performance and to inform the Nomination Committee of the results;
e) to assist the Nomination Committee in procuring the audit, preparing the election and remuneration of the auditor, and to make a recommendation to the Nomination Committee on these matters;
f) to monitor the effectiveness, with regard to financial reporting, of the company's internal control, internal audit and risk management;
g) dealing with any disagreements between the management team and the auditor;
h) deliberations concerning the application of current accounting principles and the introduction of future accounting principles, as well as other requirements concerning accounting as stipulated by law, generally accepted accounting principles, current listing contracts or other applicable regulations.

Remuneration Committee

The Board of Directors has established a Remuneration Committee whose task is to prepare and consider issues relating to remuneration and other terms of employment for the management team, evaluation of variable remuneration programs for the management team and follow-up and evaluation of the application of the guidelines governing remuneration to senior executives as resolved on by the AGM. The Remuneration Committee is a deliberating body and has no independent decision-making authority except insofar as the Board of Directors has explicitly authorized the Remuneration Committee to make decisions on a specific matter. The Remuneration Committee consists of Francesco Franzé (Chairman) and Gerald Engström

(Member). The Remuneration Committee's tasks shall primarily be to prepare and monitor issues relating to:

a) decisions on matters regarding remuneration principles, remunerations and other terms of employment for the management team;
b) monitoring and evaluation of ongoing programs for variable remuneration for the management team and those ended during the year;
c) monitoring and evaluation of the application of the guidelines for remuneration to senior executives resolved on by the AGM and proposing guidelines for remuneration to senior executives in advance of the AGM; and
d) remuneration structures and remuneration levels that apply within the company.

Attendance at Board and Committee meetings

Board member	Board of Directors	Audit Committee	Remuneration Committee
Mikael Smedeby[1]	10 of 10	4 of 5	–
Francesco Franzé	18 of 18	5 of 5	3 of 3
Gerald Engström	18 of 18	–	1 of 1
Håkan Halén	18 of 18	10 of 10	2 of 2
Helene Richmond	18 of 18	–	2 of 2
Sofia Axelsson	18 of 18	10 of 10	–

1) Resigned from the Board of Directors at the AGM on May 7, 2019.

MAJOR SHAREHOLDERS

As of February 29, 2020, and with known changes thereafter, the following shareholders had, whether directly or indirectly, a shareholding in HANZA representing at least one tenth of the voting rights for all shares in the company:

Shareholder	Percentage of votes in HANZA,%
Färna Invest AB	19.08
Francesco Franzé	10.08

For further information about HANZA's shares and ownership structure, please refer to the section entitled “The share and ownership structure” on pages 26–27 of the annual report.

AUDITORS

The auditors are appointed by the AGM. The auditors review the company's annual report, consolidated accounts and accounts, as well as the administration of the Board of Directors and the CEO. The results of the review are reported to the shareholders in the form of the audit report, which is presented at the AGM. EY was elected to serve as the company's auditor, with Charlotte Holmstrand appointed as Chief Auditor, at the 2019 AGM. The external audit is conducted in accordance with ISA (International Standards on Auditing).

INTERNAL CONTROL

The overall purpose of internal control is to ensure, with reasonable assurance, that the company's operational strategies and targets are followed up on, and that the owners' investment is protected. In addition, internal control is meant to ensure, with reasonable assurance, that external reporting is reliable and that it is prepared in accordance with generally accepted accounting principles, that applicable laws and regulations are being complied with, and that the specific requirements applicable to listed companies are being complied with. The Board of Directors is the body that bears overall responsibility for internal control. The Swedish Companies Act and the Swedish Annual Accounts Act contain provisions according to which information on the most important elements of HANZA's system for internal control and risk management must be disclosed in HANZA's corporate governance report.

The Board of Directors' responsibility for internal control is also governed by the Code. Among other things, the Board of Directors is required to ensure that HANZA has good internal control and formalized procedures that ensure that the principles for financial reporting and internal control are being complied with, and that there are appropriate systems in place for monitoring and control of the company's operations and the risks associated with the company and its operations.

In order to maintain good internal control, the Board of Directors has prepared a number of governance documents, such as rules of procedure for the Board of Directors, CEO instructions, financial reporting instructions, a financial policy and an information policy. In addition, the Board of Directors has established an Audit Committee whose main tasks include the monitoring and quality assurance of the company's financial reporting, continuously meeting with the company's external auditor, monitoring the effectiveness of the company's internal control as regards financial reporting, and reviewing and monitoring the auditor's impartiality and independence. Within the Board of Directors, the Audit Committee also bears primary responsibility for monitoring and managing risks that may adversely affect the Company's operations.

Internal control and risk management are monitored and evaluated on an ongoing basis by means of internal and external checks as well as evaluations of the company's governance documents. The task of the Audit Committee is to monitor the effectiveness of the company's internal control and risk management. Risk assessment is performed, for example, in the form of self-evaluations by key finance personnel. Identified risks and key processes are followed up on through measures and check-up activities conducted with designated managers as well as testing to determine if checks work. In its internal control efforts, the company uses well-established control processes including assessments of the company's overall control environment, self-evaluations, establishing control activities, training in and information on internal control, as well as evaluations of the control measures' effectiveness. Feedback is provided continuously to group management, the Audit Committee and the Board of Directors.

The company has not set up a separate internal audit function. The Board of Directors conducts an annual assessment of the need for such a function and has determined that the efforts related to internal control that are ongoing internally, as undertaken particularly by the management team under the supervision of the Audit Committee, constitute an adequate review function, having regard to the company's operations and size.

RISK ASSESSMENTS

HANZA engages in continuous, active risk analysis, risk assessment and risk management in order to ensure that the risks to which the company is exposed are managed appropriately within the established frameworks. Its risk assessment takes into account, for instance, customer dependence, production, interruptions and logistics, key personnel, the business cycle, materials, complaint risk, inventory obsolescence, competition, IT, liability, suppliers, credit exposure, financial risk factors and tax risks. Identified risks are followed up on by means of established check-up activities with designated managers.

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million	Note	Jan–Dec 2019	Jan–Dec 2018
Net sales	5, 6	**2,067.7**	**1,810.6**
Change of inventories in production, finished goods and work in progress on behalf of others		-15.5	-9.6
Raw materials and consumables		-1,105.5	-996.1
Other external costs	7, 30	-262.6	-248.4
Costs of personnel	8, 31	-535.5	-445.7
Depreciation and amortization	14, 15, 30	-92.2	-59.1
Other operating income	9	8.6	9.4
Other operating expenses	9	-8.2	-7.0
Operating profit	6, 10	**56.8**	**54.1**
Profit/loss from financial items			
Financial income		0.5	–
Financial expenses		-25.0	-24.9
Financial items – net	10, 11	**-24.5**	**-24.9**
Profit/loss before tax		**32.3**	**29.2**
Income tax	12	-8.7	-8.4
Profit/loss for the year		**23.6**	**20.8**

Profit/loss for the period is in it’s entirety attributable to the Parent Company’s shareholders

Earnings per share, calculated on profit/loss attributable to the Parent Company's shareholders			
Earnings per share before dilution, SEK	13	0.73	0.74
Earnings per share after dilution, SEK	13	0.73	0.74

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Amounts in SEK million	Note	Jan–Dec 2019	Jan–Dec 2018
Profit/loss for the year		**23.6**	**20.8**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit pension plans	31	3.6	–
Tax on items that will not be reclassified to the income statement		-1.1	–
Total items that will not be reclassified to the income statement, net of tax		**2.5**	**–**
Items that can subsequently be reversed in profit or loss			
Exchange rate differences		3.6	12.9
Exchange rate difference on acquisition loan		1.3	–
Tax on items that can subsequently be reversed in profit or loss		-0.3	–
Total items that may be reclassified to the income statement, net of tax		**4.6**	**12.9**
Other comprehensive income for the year		**7.1**	**12.9**
Total comprehensive income for the year		**30.7**	**33.7**

Comprehensive income is in it’s entirety attributable to the Parent Company’s shareholders

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	2019-12-31	2018-12-31
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	14	299.2	264.5
Customer relations	14	104.5	60.0
Other intangible assets	14	8.6	5.9
Total intangible assets		**412.3**	**330.4**
Right-of-use assets	30	**143.7**	**–**
Tangible fixed assets			
Buildings and land	15	110.8	79.3
Machinery and equipment	15	167.7	190.3
Total tangible fixed assets		**278.5**	**269.6**
Financial fixed assets			
Other long-term securities holdings		0.3	0.3
Deferred tax assets	16	31.2	16.4
Financial fixed assets		**31.5**	**16.7**
Total fixed assets		**866.0**	**616.7**
Current assets			
Inventories	18		
Raw material and supplies		227.8	181.6
Work in progress		104.1	67.4
Finished products		90.3	39.4
Gods in transition		0.5	1.7
Total inventories		**422.7**	**290.1**
Accounts receivable	19	122.1	83.8
Tax receivables		6.4	3.0
Other receivables	20	21.5	15.1
Prepaid expenses and accrued income	21	17.3	9.9
Cash and cash equivalents	22	66.7	77.5
Total current assets		**656.7**	**479.4**
TOTAL ASSETS		**1,522.7**	**1,096.1**

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	2019-12-31	2018-12-31
SHAREHOLDERS EQUITY	23		
Equity attributable to the shareholders of the Parent Company			
Share capital		3.4	3.0
Other paid-in capital		439.8	376.0
Other reserves		35.6	31.0
Retained earnings including profit for the year		18.9	0.5
Total shareholders equity		**497.7**	**410.5**
LIABILITIES			
Long-term liabilities			
Post-employment benefits	31	108.9	4.5
Deferred taxes liabilities	16	45.8	28.9
Liabilities to credit institutions	24	209.9	207.2
Lease liabilities	30	92.8	–
Total long-term liabilities		**457.4**	**240.6**
Current liabilities			
Overdraft facility	24	52.1	45.3
Liabilities to credit institutions	24	97.7	68.1
Lease liabilities	30	45.5	–
Other interest-bearing liabilities	24	3.1	17.1
Accounts payable	25	231.7	219.4
Tax liabilities		17.5	–
Other liabilities	26	35.7	29.1
Accrued expenses and deferred income	27	84.3	66.0
Total current liabilities		**567.6**	**445.0**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,522.7**	**1,096.1**

CONSOLIDATED REPORT OF CHANGES IN SHAREHOLDERS' EQUITY

Amounts in SEK million	Note	Share capital	Other paid-in capital	Other reserves	Retained earnings	Total equity
OPENING BALANCE AS OF 1 JANUARY 2018		**2.2**	**310.1**	**18.1**	**-21.1**	**309.3**
Profit/loss for the year		–	–	–	20.8	20.8
Other comprehensive income						
Exchange rate differences		–	–	12.9	–	12.9
Total comprehensive income		**–**	**–**	**12.9**	**20.8**	**33.7**
Effect of implementation of IFRS 15		**–**	**–**	–	**0.8**	**0.8**
Transactions with shareholders						
Redemption of warrants		0.1	9.4	–	–	9.5
New share issue payments for not yet registred shares		–	1.2	–	–	1.2
New share issue		0.7	59.6	–	–	60.3
Issue costs		–	-4.3	–	–	-4.3
Total contributions from and distributions to shareholders, recognized directly in equity		**0.8**	**65.9**	**0.0**	**0.0**	**66.7**
CLOSING BALANCE AS OF 31 DECEMBER 2018		**3.0**	**376.0**	**31.0**	**0.5**	**410.5**
OPENING BALANCE AS OF 1 JANUARY 2019		**3.0**	**376.0**	**31.0**	**0.5**	**410.5**
Profit/loss for the year		–	–	–	23.6	23.6
Other comprehensive income						
Other comprehensive income before tax		–	–	4.9	3.6	8.5
Tax on items in other comprehensive income		–	–	-0.3	-1.1	-1.4
Total comprehensive income		**–**	**–**	**4.6**	**26.1**	**30.7**
Transactions with shareholders						
Non-cash issue		0.4	64.1	–	–	64.5
Issue costs		–	-0.3	–	–	-0.3
Dividend		–	–	–	-7.7	-7.7
Total contributions from and distributions to shareholders, recognized directly in equity		**0.4**	**63.8**	**–**	**-7.7**	**56.5**
CLOSING BALANCE AS OF 31 DECEMBER 2019		**3.4**	**439.8**	**35.6**	**18.9**	**497.7**

Development of the share capital is shown in Note 23.

CONSOLIDATED STATEMENT OF CASH FLOW

Amounts in SEK million	**Note**	**2019**	**2018**
Cash flow from operating activities			
Profit/loss after financial items	11	32.3	29.2
Depreciation and amortisation		92.2	59.1
Other non-cash items	32	4.8	4.7
Paid income tax		-1.7	-7.3
Cash flow from operating activities prior to the change in working capital		**127.6**	**85.7**
Change in working capital			
Change in inventories		15.3	6.7
Change in accounts receivables		22.1	34.5
Change in short-term receivables		-9.9	-5.5
Change in accounts payables		-25.4	6.6
Change in short-term liabilities		-7.7	-14.5
Total change in working capital		**-5.6**	**27.8**
Cash flow from operating activities		**122.0**	**113.5**
Cash flow from investing activities			
Investments in subsidiaries	33	-89.4	-144.4
Investments in intangible assets	14	-2.2	-2.9
Investments in tangible fixed assets	15, 32	-48.3	-43.6
Disposals of tangible fixed assets		2.5	1.8
Cash flow from investing activities		**-137.4**	**-189.1**
Cash flow from financing activities			
New share issue	23	–	66.7
New loans	24, 32	149.5	232.8
Repayment of borrowings	24, 32	-136.7	-204.4
Dividends paid		-7.7	–
Cash flow from financing activities		**5.1**	**95.1**
Increase/reduction in cash and cash equivalents		**-10.3**	**19.5**
Cash and cash equivalents at the beginning of the year	22	77.5	56.1
Exchange differences in cash and cash equivalents		-0.5	1.9
Cash and cash equivalents at the end of the year	22	**66.7**	**77.5**

PARENT COMPANY INCOME STATEMENT

Amounts in SEK million	Note	2019	2018
Net sales	34	**21.5**	**19.8**
Other external costs	7, 34	-11.6	-11.0
Costs of personnel	8	-8.4	-7.5
Total operating expenses		**-20.0**	**-18.5**
Operating profit		**1.5**	**1.3**
Profit/loss from financial items			
Other interest income and similar income items	11	4.2	2.2
Interest charges and similar income items	11	-1.6	-0.9
Total profit/loss from financial items		**2.6**	**1.3**
Profit/loss after net financial items		**4.1**	**2.6**
Appropriations	36	–	2.3
Profit/loss before tax		**4.1**	**4.9**
Tax on profit for the year	12	-0.6	-0.4
Profit/loss for the year		**3.5**	**4.5**

PARENT COMPANY COMPREHENSIVE INCOME STATEMENT

Amounts in SEK million	Note	2019	2018
Profit/loss for the year		**3.5**	**4.5**
Other comprehensive income, net of tax, for the year		**–**	**–**
Total comprehensive income for the year		**3.5**	**4.5**

PARENT COMPANY BALANCE SHEET

Amounts in SEK million	Note	2019-12-31	2018-12-31
ASSETS			
Fixed assets			
Financial fixed assets			
Shares in subsidiaries	35	360.5	228.3
Long-term receivables on Group companies	34	89.2	64.4
Deferred tax assets	16	4.0	4.6
Total financial fixed assets		**453.7**	**297.3**
Total fixed assets		**453.7**	**297.3**
Current assets			
Short-term receivables			
Receivables on group companies	34	–	2.4
Tax receivables		0.3	0.2
Prepaid expenses and accrued income		1.1	0.3
Total short-term receivables		**1.4**	**2.9**
Liquid funds			
Cash and cash equivalents	22	0.1	11.5
Total liquid funds		**0.1**	**11.5**
Total current assets		**1.5**	**14.4**
TOTAL ASSETS		**455.2**	**311.7**

PARENT COMPANY BALANCE SHEET

Amounts in SEK million	Note	2019-12-31	2018-12-31
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	23		
Restricted equity			
Share capital		3.4	3.0
Total restricted equity		**3.4**	**3.0**
Non-restricted equity			
Share-premium reserve		314.9	251.2
Profit and loss brought forward		35.2	38.3
Profit/loss for the year		3.5	4.5
Total non-restricted equity		**353.6**	**294.0**
Total shareholders equity		**357.0**	**297.0**
Long-term liabilities			
Liabilities to credit institutions	24	70.1	7.2
Total long-term liabilities		**70.1**	**7.2**
Current liabilities			
Liabilities to credit institutions	24	20.4	2.4
Accounts payable		0.5	1.3
Liabilities to Group companies	24, 34	4.4	–
Other liabilities		0.8	2.0
Accrued expenses and deferred income	27	2.0	1.8
Total current liabilities		**28.1**	**7.5**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**455.2**	**311.7**

PARENT COMPANY REPORT OF CHANGES IN SHAREHOLDERS' EQUITY

	Restricted equity	Unrestricted equity		Total equity
Amounts in SEK million	**Share capital**	**Share-premium reserve**	**Profit and loss brought forward including profit/ loss for the year**	
OPENING BALANCE AS OF 1 JANUARY 2018	**2.2**	**185.7**	**37.9**	**225.8**
Comprehensive income				
Profit/loss for the year	–	–	4.5	4.5
Other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**4.5**	**4.5**
Transactions with shareholders				
Redemption of warrants	0.1	10.6	–	10.7
New share issue	0.7	59.6	–	60.3
Issue costs	–	-4.3	–	-4.3
Allocation of profits	–	-0.4	0.4	0.0
CLOSING BALANCE AS OF 31 DECEMBER 2018	**3.0**	**251.2**	**42.8**	**297.0**
OPENING BALANCE AS OF 1 JANUARY 2019	**3.0**	**251.2**	**42.8**	**297.0**
Comprehensive income				
Profit/loss for the year	–	–	3.5	3.5
Other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**3.5**	**3.5**
Transactions with shareholders				
Non-cash issue	0.4	64.1	–	64.5
Issue costs	–	-0.3	–	-0.3
Dividend	–	–	-7.7	-7.7
CLOSING BALANCE AS OF 31 DECEMBER 2019	**3.4**	**314.9**	**38.7**	**357.0**

Development of the share capital is shown in Note 23.

PARENT COMPANY STATEMENT OF CASH FLOW

Amounts in SEK million	Note	2019	2018
Cash flow from operating activities			
Profit/loss after financial items		4.1	2.6
Group contributions paid		2.4	4.5
Paid income tax		–	-0.1
Cash flow from operating activities prior to the change in working capital		**6.5**	**7.0**
Change in working capital			
Change in short-term receivables		-0.8	0.6
Change in accounts payable		-0.8	0.2
Change in short-term liabilities		3.4	-1.6
Total change in working capital		**1.8**	**-0.8**
Cash flow from operating activities		**8.3**	**6.2**
Cash flow from investing activities			
Investments in subsidiaries		-82.2	–
Cash flow from investing activities		**-82.2**	**–**
Cash flow from financing activities			
New share issue	23	–	66.7
New loans	24	90.8	67.3
Repayment of borrowings	24	-9.9	-76.3
Dividends paid		-7.7	–
Change in long-term receivables on Group companies		-10.7	-59.5
Cash flow from financing activities		**62.5**	**-1.8**
Increase/reduction in cash and cash equivalents	22	**-11.4**	**4.4**
Cash and cash equivalents at the beginning of the year		11.5	7.1
Cash and cash equivalents at the end of the year	22	**0.1**	**11.5**

NOTES

NOTE 1 General information

HANZA Holding AB (Parent Company), Corporate ID no. 556748-8399, is a public limited company with its registered office in Danderyd, Sweden. The group is an industrial player and business partner in the contract manufacturing sector that offers its customers a combination of consultancy and customized manufacturing solutions within mechanics and electronics.

These consolidated accounts and this annual report were approved for publication by the Board of Directors on April 1, 2020. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be submitted for approval at the AGM on April 27, 2020.

All amounts are recognized in millions of SEK (MSEK) unless otherwise stated. Information appearing in parentheses refers to the previous year.

NOTE 2 Summary of important accounting principles

The most important accounting principles applied in the preparation of these consolidated accounts are set out below. Unless otherwise specified, these principles have been applied consistently for all years presented.

2.1 Basis for the preparation of the reports

The consolidated accounts for the HANZA Holding AB Group have been prepared in accordance with IFRS (International Financial Reporting Standards) and IFRIC interpretations as adopted by the EU, RFR (Council for Financial Reporting) 1 Supplementary Accounting Rules for Groups, and the Swedish Annual Accounts Act.

The consolidated accounts have been prepared in accordance with the cost method, except as regards financial assets and liabilities measured at fair value through income statement.

The Parent Company's accounts have been prepared in accordance with RFR 2 Accounting for Legal Entities and the Swedish Annual Accounts Act. In the event that the Parent Company applies accounting principles other than those applied by the group, this is indicated separately at the end of this note.

The preparation of financial statements in accordance with IFRS requires the use of some important estimates for accounting purposes. Furthermore, management must make certain judgments in the application of the group's accounting principles; see Note 4.

2.1.1 Changes in accounting principles and disclosures

New standards, amendments and interpretations applied by the group

A new standard, IFRS 16 Leases, is applied in the financial statements beginning on January 1, 2019.

In January 2016, the IASB published a new leasing standard that now supersedes IAS 17 Leases and related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities attributable to all leases, with a few exceptions, be recognized in the balance sheet. This accounting is based on the view that the lessee has an obligation in the future to make lease payments and has a right to use an asset in exchange. The definition of what is a lease has also changed. The standard is applicable for financial years beginning on or after January 1, 2019. The transition took place according to a simplified method whereby the liability and the right-of-use assets for existing contracts were valued at the value of residual payments at the transition date of 01-01-2019. Agreements that, at the time of the transition, had a residual maturity of less than one year have, according to the relief rule, not been included in the liability and the right of use, respectively. The 2018 comparative year has not been restated.

The material difference for HANZA is that a number of leases for production facilities and other premises, as well as certain other equipment that were previously treated as operational leases, are now recognized on the balance sheet as rights-of-use assets and lease liabilities, respectively, which increased the group's balance sheet total at the beginning of 2019 by SEK 79.7 million. In addition, assets according to financial leases which were previously included in tangible fixed assets and are now recognized as rights of use were reclassified in the amount of SEK 39.3 million. The liabilities for these financial leases ran to SEK 35.9 million and were previously included in liabilities to credit institutions, but are now recognized as independent lines in the balance sheet, along with the lease liabilities incurred upon transition.

In the income statement, the main difference is a shift in costs from other external costs to depreciation and, to a certain extent, interest expenses, where the latter shift had a positive impact on EBIT in the amount of about SEK 1.1 million in 2019. For further information about the effects of the transition and a reconciliation of the change in the balance sheet against the previous reporting of operational leases, see Note 30.

New standards and interpretations that have not yet been applied by the group

There are no IFRS or IFRIC interpretations that begin to apply on January 1, 2020 or later that are expected to have a material impact on the group.

2.2 Consolidated accounts and business combinations

Subsidiaries

Subsidiaries are all companies (including structured companies) over which the group has controlling influence. The group controls a company when it is exposed to or is entitled to a variable return from its holding in the company and has the opportunity to influence that return through its influence in the company. Subsidiaries are included in the consolidated accounts as from the date on which the controlling influence is transferred to the group. They are excluded from the consolidated accounts as from the date on which the controlling influence ceases.

The acquisition method is used for recognition of the group's business combinations. The purchase price for the acquisition

Note 2 cont.

of a subsidiary consists of the fair value of transferred assets, liabilities that the group incurs in respect of the former owners of the acquired company, and the shares issued by the group. The purchase price also includes the fair value of all assets or liabilities that result from an agreement regarding contingent consideration. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair values as of the acquisition date. For each individual acquisition, the group determines whether non-controlling interests in the acquired company are recognized at fair value or at the holding's proportionate share in the recognized value of the acquired company's identifiable net assets.

Acquisition-related expenses are recognized as expenses as incurred.

Any contingent consideration to be transferred by the group is recognized at fair value at the time of acquisition. Subsequent changes in the fair value of a contingent consideration that has been classified as an asset or liability are recognized, in accordance with IFRS 9, either in the income statement or in other comprehensive income. Contingent consideration classified as equity is not revalued and subsequent adjustments are recognized in equity.

Goodwill is initially valued as the amount by which the total purchase price and any fair value of non-controlling interests exceeds the fair value of identifiable acquired assets and assumed liabilities. If the purchase price is lower than the fair value of the acquired company's net assets, the difference is recognized directly in the income statement.

Intra-group transactions, balance sheet items, revenue and expenses on intra-group transactions are eliminated. Gains and losses resulting from intra-group transactions and which are recognized in assets are also eliminated. The accounting principles for subsidiaries have, where appropriate, been modified to ensure consistent application of the group's principles.

Changes in ownership interest in a subsidiary without a change of controlling influence

Transactions with holders without a controlling influence that do not result in loss of control are recognized as equity transactions, i.e. as transactions with the owners in their role as owners. In the event of acquisitions from holders without controlling influence, the difference between the fair value of the purchase price paid and the actual acquired share of the carrying amount of the subsidiary's net assets is recognized in equity. Gains and losses upon divestments to holders without controlling influence are also recognized in equity.

2.3 Foreign currency translation

Functional currency and reporting currency

Items included in the financial statements of the various group units are valued in the currency used in the economic environment in which the respective company primarily operates (functional currency). Swedish kronor (SEK) are used in the consolidated accounts. SEK is the group's reporting currency and the Parent Company's functional currency.

Transactions and balance sheet items

Foreign currency transactions are translated into the functional currency at the exchange rates in effect on the transaction date or the date the items are revalued. Exchange rate gains and losses arising upon payment of such transactions and upon translation of monetary assets and liabilities to a foreign currency at the closing day rate are recognized in the income statement. The exception from the foregoing is when the transactions constitute hedges that meet the conditions for hedge accounting of net investments, in which case gains/losses are recognized in other comprehensive income.

Exchange rate gains and losses attributable to loans and cash and cash equivalents are recognized in the income statement as financial revenue or expenses. All other exchange rate gains and losses are recognized in operating profit.

Group companies

The earnings and financial position of all group companies (none of which has a high-inflation currency as its functional currency) having a functional currency other than the reporting currency are translated into the group's reporting currency as follows:

(a) assets and liabilities for each of the balance sheets are translated at the closing day rate;

(b) revenue and expenses for each of the income statements are translated at the average exchange rate (insofar as this average rate represents a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, failing which revenue and expenses are translated at the transaction date rate),

(c) all exchange rate differences that arise are recognized in other comprehensive income.

Goodwill and fair value adjustments that arise upon the acquisition of a foreign operation are treated as assets and liabilities of this business and are translated at the closing day rate. Exchange rate differences are recognized in other comprehensive income.

2.4 Segment reporting

Operating segments are recognized in a manner consistent with the internal reporting that is submitted to the highest executive decision maker. The highest executive decision maker is the function responsible for the allocation of resources and for assessing the performance of the operating segments. Within the group, this function has been identified as the company's CEO.

HANZA practices a form of cluster-based segmentation that is considered to best reflect its business model, organization and the manner in which the Board of Directors and management team follow up on and assess the business. See also Note 6.

2.5 Classifications

Fixed assets and long-term liabilities essentially comprise amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities essentially comprise amounts that are expected to be recovered or paid within twelve months of the balance sheet date.

2.6 Intangible assets

Goodwill

Goodwill arises upon the acquisition of subsidiaries and refers to the amount by which the purchase price exceeds HANZA Holding's share in the fair value of identifiable assets, liabilities and contingent liabilities in the acquired company and the fair value of holdings without a controlling influence in the acquired company.

In order to test for impairment, goodwill acquired in a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from acquisition-related synergies. Each unit or group of units to which goodwill has been allocated corresponds to the lowest level in the group at which the goodwill in question is monitored in the framework of internal control. Goodwill is monitored at the operating segment level, see also Note 14.

Goodwill is tested for impairment annually or more frequently if events or changed circumstances indicate a possible impairment. The carrying amount of goodwill is compared with the recoverable amount, which is the higher of the value in use and the fair value less any selling costs. Any impairment loss is recognized as an expense immediately and is not reversed.

Customer relationships

Customer relationships have been identified upon acquisitions. These are an intangible asset. Amortization is carried out on a straight-line basis over the expected useful life, which has been assessed at 10 years. The customer relationships' residual values and useful lives are tested at the end of each reporting period

Not 2 cont.

and are adjusted if necessary. An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount.

Other intangible assets
Other intangible assets consist of software licenses and capitalized costs for software implementation. Amortization is carried out on a straight-line basis over the expected useful life, having regard to material residual values. The amortization period for other intangible assets is 3 years.

2.7 Tangible fixed assets
Tangible fixed assets are recognized at cost less depreciation and any impairment losses. The cost basis includes expenses that can be directly attributed to the acquisition of the asset.

Additional expenses are added to the asset's carrying amount or are recognized as a separate asset, whichever is appropriate, only when it is probable that the future financial benefits associated with the asset will benefit the group and the asset's cost basis can be measured in a reliable manner. The carrying amount of a replaced part is eliminated from the balance sheet. All other forms of repairs and maintenance are recognized as expenses in the income statement during the period in which they arise.

Every part of a tangible fixed asset having a cost basis that is significant in relation to the total cost basis of the asset is depreciated separately. There is no depreciation for land. Depreciation of other assets, in order to allocate their cost basis down to the calculated residual value over the calculated useful life, is made on a straight-line basis, as follows:

Buildings	25–40 years
Leasehold improvements	The contract period, yet 20 years
Machinery and other technical installations	5–10 years
Equipment, tools and installations	5–10 years

The assets' residual values and useful lives are tested at the end of each reporting period and are adjusted if necessary. An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount.

Gains and losses on the sale of a tangible fixed asset are established by a comparison between the sales proceeds and the carrying amount and are recognized in other operating income and other operating expenses, respectively, in the income statement.

2.8 Impairment of non-financial fixed assets
Intangible assets that have an indefinite useful life, such as goodwill, are not amortized but are tested annually for potential impairment. Assets that are amortized are assessed for impairment whenever events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling costs and its value in use. When assessing the need for impairment, assets are grouped at the lowest levels having essentially independent cash flows (cash-generating units). For assets (other than goodwill) that have previously been written down, a review is performed on each balance sheet date to determine whether a reversal is appropriate.

2.9 Financial instruments – general
Financial instruments are present in many different balance sheet items and are described in sections 2.9– 2.14.

2.9.1 Classification
The group classifies its financial assets and liabilities into the following categories: financial assets and liabilities measured at fair value through income statement, and assets and liabilities recognized at amortized cost. The classification is dependent on the purpose for which the financial asset or liability was acquired.

Financial assets and liabilities measured at fair value through income statement
Financial assets and liabilities measured at fair value through income statement are financial instruments that are held for trading. Derivatives are classified as held for trading unless they are identified as hedges. The group classifies derivative instruments in this category. The group had no significant derivative instruments as of 31-12-2019 or 31-12-2018. The group classifies other long-term securities holdings in this category as well. Other long-term securities holdings must be recognized at fair value and are placed in level 3. These represent a small amount for which the cost basis is considered to reflect fair value.

Assets recognized at amortized cost
Assets recognized at amortized cost are non-derivative financial assets that have fixed or determinable payments and are not listed on an active market. They are included in current assets with the exception of items having a maturity falling more than 12 months after the balance sheet date, which are classified as fixed assets. The group's assets in this class consist of accounts receivable and cash and cash equivalents (see Notes 2.11 and 2.12) as well as the financial instruments recognized among other receivables.

Liabilities recognized at amortized cost
The group's long-term and current liabilities to credit institutions, lease liabilities, other long-term liabilities, overdraft facilities, other interest-bearing liabilities, accounts payable and the portion of other current liabilities relating to financial instruments are classified as liabilities recognized at amortized cost.

2.9.2 Accounting and valuation
Purchases and sales of financial assets are recognized on the transaction date, the date on which the group undertakes to buy or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs, which applies to all financial assets not measured at fair value through income statment. Financial assets measured at fair value through income statement are initially recognized at fair value, whereas attributable transaction costs are recognized in the income statement. The fair value of other long-term securities holdings could not be calculated in a reliable manner, and the holding is thus valued at cost. Financial assets are eliminated from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the group has transferred virtually all risks and benefits associated with ownership. Financial liabilities are eliminated from the balance sheet when the obligation set out in the agreement has been fulfilled or otherwise extinguished.

Financial assets and liabilities measured at fair value through income statement are recognized at fair value after the acquisition date. Loan receivables and accounts receivable as well as other financial liabilities are recognized after the acquisition date at amortized cost using the effective interest method.

Gains and losses as a result of changes in fair value relating to the category of financial assets and liabilities measured at fair value through income statement, are recognized in the income statement in the period in which they arise and are included in net financial items, since they arise from financing activities.

2.9.3 Offsetting of financial instruments
Financial assets and liabilities are set off and recognized in a single net amount on the balance sheet only when there is a legal right to set off the carrying amounts and there is the intent to settle them in a single net amount or to simultaneously liquidate the asset and settle the liability. The legal right must not be dependent on future events and it must be legally binding on the

Not 2 cont.

company and the counterparty in both normal business operations and in the event of suspension of payments, insolvency or bankruptcy.

No offsettable financial instruments have been identified in the 31-12-2019 and 31-12-2018 financial statements.

2.9.4 Impairment of financial instruments

Assets recognized at amortized cost (loan receivables and accounts receivable)

At the end of each reporting period, the Group assesses whether there is objective evidence indicating that there is a need to impair a financial asset or group of financial assets. A financial asset or group of financial assets has a need for impairment and is written down only if there is objective evidence of a need for impairment as a result of one or more events occurring after the asset was initially recognized and as a result of this event having an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated in a reliable manner.

The impairment is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted to the financial asset's original effective interest rate. The asset's carrying amount is written down and the impairment amount is recognized in the consolidated income statement under other external costs. If the need for impairment should decrease in a subsequent period and this decrease is objectively attributable to an event that occurred after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement under other external costs.

2.10 Derivative instruments

Derivative instruments are financial instruments that are recognized on the balance sheet on the transaction date and are measured at fair value, both initially and upon subsequent revaluations. The gain or loss arising upon revaluation is recognized in operating profit in the income statement when the requirements for hedge accounting are not met.

The fair value of a derivative instrument is classified as fixed assets or long-term liabilities when the residual maturity of the hedged item is longer than 12 months, and as current assets or current liabilities when the residual maturity of the hedged item is less than 12 months.

2.11 Accounts receivable

Accounts receivable are financial instruments that consist of amounts to be paid by customers for goods and services sold in the course of operating activities. If payment is expected within one year, they are classified as current assets. If not, they are recognized as fixed assets.

Accounts receivable are initially recognized at fair value, which means that expected credit losses must be taken into account based on historical experience. Since HANZA's credit losses have historically been very low, the nominal value is thought to reflect the fair value. Accounts receivable are then valued at the amounts that are expected to be received, i.e. less any provision for impairment.

The group's companies have entered into agreements regarding the divestment and mortgaging of customer invoices (factoring). Divested accounts receivable are eliminated from the balance sheet in cases where the control passes to the buyer upon sale. For these, the guarantees provided are recognized as a contingent liability. In cases where control remains with the group, these accounts receivable are recognized as assets and the loans raised are recognized as current liabilities to credit institutions. The mortgaged accounts receivable are then also recognized under pledged collateral. Mortgaged accounts receivable are eliminated from the balance sheet when the right to receive cash flows from the account receivable has expired or been transferred and the group has transferred control to the buyer. Costs for factoring are recognized as a financial expense.

2.12 Cash and cash equivalents

Cash and cash equivalents are financial instruments and include bank balances in both the balance sheet and the cash flow statement.

2.13 Accounts payable

Accounts payable are financial instruments and refer to obligations to pay for goods and services acquired from suppliers in the course of operating activities. Accounts payable are classified as current liabilities if they fall due within one year. If not, they are recognized as long-term liabilities.

Accounts payable are initially recognized at fair value and subsequently at amortized cost.

2.14 Borrowing

Liabilities to credit institutions are initially recognized at fair value, net of transaction costs. Borrowing is then recognized at amortized cost, and any difference between the amount received (net of transaction costs) and the repayment amount is recognized in the income statement distributed over the loan period, using the effective interest method.

Convertible loans are divided into an interest-bearing debt component that is recognized in the same way as liabilities to credit institutions, and a separate equity component.

Borrowing is classified under current liabilities unless the group has an unconditional right to defer payment of the liability for at least 12 months after the end of the reporting period.

Overdraft facilities are recognized on a separate balance sheet line, among current liabilities.

2.15 Inventories

Inventories have been valued at the lower of either their cost basis or net realizable value as of the balance sheet date. Net realizable value refers to the estimated sales price of the goods, less selling costs.

2.16 Current and deferred tax

The tax expense for the period includes current and deferred tax. The current tax expense is calculated on the basis of the tax rules that have been enacted or substantively enacted as of the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable revenue.

Deferred tax is recognized, according to the balance sheet method, for temporary differences that arise between the tax value of assets and liabilities and their carrying amounts in the consolidated accounts. No deferred tax is recognized in cases where the company is able to control the timing of the realization of the temporary differences and it is not considered probable that this will happen in the foreseeable future. Deferred income tax is calculated using tax rates that have been enacted or announced as of the balance sheet date and that are expected to apply when the deferred tax asset in question is realized or when the deferred tax liability is settled.

Deferred tax assets arising from loss carryforwards are recognized to the extent that it is probable that there will be future tax surpluses against which the losses can be utilized.

Deferred tax assets and tax liabilities are offset when there is a legal right of set-off for current tax assets and tax liabilities, the deferred tax assets and tax liabilities relate to taxes charged by one and the same tax authority, and relate to either the same taxpayers or different taxpayers, and there is an intention to settle balances by netting.

2.17 Provisions

A provision is recognized on the balance sheet when there is an existing legal or constructive obligation as a result of an event that has occurred, and it is probable that an outflow of resources will be required in order to settle the obligation, and a reliable estimate can be made of the amount. Provisions are made in the amount that represents the best estimate of what will be required in order to settle the existing obligation. When settlement is

Note 2 cont.

expected to take place more than 12 months into the future, the provision is calculated by discounting the expected future cash flow.

2.18 Employee benefits

(a) Short-term benefits

Short-term employee benefits are calculated without discounting and are recognized as an expense at the time the related services are received.

(b) Post-employment benefits

Group companies have various plans for post-employment benefits, including defined-benefit and defined-contribution pension plans.

A defined-contribution pension plan is a pension plan according to which the group pays fixed contributions to a separate legal entity. The group does not have any legal or constructive obligations to make additional contributions if this legal entity does not have sufficient assets to pay all benefits to employees related to the employees' service during the current or previous periods. A defined-benefit pension plan is a pension plan that is not defined-contribution.

A characteristic of defined-benefit plans is that they specify a lump sum for the pension benefit that an employee is to receive after retirement, usually based on one or more factors such as age, seniority and salary.

Following the acquisition of Ritter Elektronik GmbH, the group has a material defined-benefit pension plan in Germany, as described in Note 31. Aside from that, the group only has material defined-benefit pension commitments through an insurance policy with Alecta. This pension plan is recognized as a defined-contribution pension plan, see note 31.

For defined-contribution pension plans, the group makes contributions to public or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been made. The contributions are recognized under costs of personnel when they fall due for payment. Prepaid contributions are recognized as an asset to the extent that cash repayment or reduction of future payments may accrue to the benefit of the group.

(c) Termination benefits

Termination benefits are payable when an employee's employment is terminated by the group before the normal retirement date or when an employee accepts voluntary retirement in exchange for such benefits. The group recognizes termination benefits at the earliest of the following times: (a) when the group is no longer able to withdraw the offer of such benefits; and (b) when the company recognizes expenses for a restructuring that falls within the scope of IAS 37 and which involves the payment of severance pay. In the event that the company has made an offer to encourage voluntary redundancy, termination benefits are calculated on the basis of the number of employees who are expected to accept the offer. Benefits that fall due more than 12 months after the end of the reporting period are discounted to present value.

2.19 Share-based payment

The group did not make any share-based payments in 2019 or 2018.

2.20 Revenue recognition

When HANZA has a binding agreement with a customer, the performance commitments and transaction price are identified in accordance with this agreement. The transaction price is measured at the fair value of what will be received, and corresponds to the amounts received for goods sold less any discounts, returns and VAT. The group recognizes revenue when the performance commitment has been fulfilled.

Sale of goods

Upon the sale of goods, which consist of components, subsystems and finished products, the performance commitment is considered to have been fulfilled upon delivery of goods to the customer, in accordance with the delivery terms. Cases where there is an agreement with the customer regarding buffer stock of finished components or products represent an exception to the foregoing. In these cases, the performance commitment is considered to have been fulfilled already when the component or product is placed into buffer stock and is thus available to the customer. For more in-depth information on assessments that affect the size and timing of the revenue, see Note 5 Revenue.

Sales of services

For the sale of consulting services, revenue is recognized over time, provided that HANZA is entitled to compensation for work performed even if a project should be canceled ahead of time. If there is no such entitlement, the revenue is recognized when the project has been completed and the right of remuneration has arisen.

Interest income

Interest income is recognized in revenue using the effective interest method.

2.21 Leasing

HANZA has applied IFRS 16 Leases since 01-01-2019. According to IFRS 16 Leases, all leased assets, with some exceptions, are to be recognized as rights of use, and the liabilities under these agreements are to be recognized as lease liabilities in the balance sheet. The exceptions are when the underlying asset has a low value or when the lease period is less than 1 year. At the beginning of the lease period, the right of use asset and the lease liability are valued at the discounted present value of future lease payments. Each lease payment is divided between debt amortization and financial expenses. The interest component of the financial expenses is recognized in the income statement distributed over the lease period, so that an amount corresponding to a fixed interest rate for the liability recognized during the given period is allocated to each accounting period. Right of use assets where the ownership of the leased item is expected to pass to the lessee at the end of the lease period are amortized according to the same principles as those for other tangible fixed assets, see 2.7. Right of use assets where the ownership of the leased item is not expected to pass to the lessee are amortized over the contract period.

Until 2018, leases where a material part of the risks and benefits of ownership were retained by the lessor were recognized as operational leases. Payments made during the lease period (less any incentives from the lessor) were expensed in the income statement on a straight-line basis over the lease period.

Leases relating to fixed assets where the group essentially held the financial risks and benefits associated with ownership were classified as financial leases in 2018. At the beginning of the lease period, financial leases were recognized on the balance sheet at the lower of the fair value of the leased item and the present value of the minimum lease payments.

Each lease payment was divided between debt amortization and financial expenses. Corresponding payment obligations, less financial costs, were included among the balance sheet items for liabilities to credit institutions. The interest component of the financial expenses was recognized in the income statement distributed over the lease period so that an amount corresponding to a fixed interest rate for the liability recognized during the given period was allocated to each accounting period. Fixed assets held under finance leases were amortized according to the same principles as those for other tangible fixed assets, see 2.7.

2.22 Government grants

Government grants are recognized at fair value when there is reasonable assurance that the grant will be received and the

Not 2 cont.

company will fulfill the conditions associated with the grant. Grants intended to cover investments in tangible fixed assets or intangible assets reduce the asset's cost basis and thus the depreciable amount.

2.23 Cash flow statement

The cash flow statement is prepared according to the indirect method. This means that operating profit is adjusted for transactions that have not resulted in incoming or outgoing payments during the period and for any revenue and expenses that are attributed to the cash flows of investment or financing activities.

2.24 Share capital

Common shares are classified as equity. Transaction costs that can be directly attributed to the issue of new common shares or options are recognized, net of tax, in equity as a deduction from the issue proceeds.

2.25 Parent Company accounting principles

The Parent Company applies the Swedish Annual Accounts Act and RFR 2 (Council for Financial Reporting) Accounting for Legal Entities. The most important differences between the accounting principles for the group and the Parent Company are set out below.

Presentation formats

The income statement and balance sheet follow the presentation format of the Swedish Annual Accounts Act. The statement of changes in equity also adheres to the group's presentation format, but must contain the columns specified in the Swedish Annual Account Act. This also entails a difference in terms compared to the consolidated accounts, primarily regarding financial revenue and expenses and equity.

Shares in subsidiaries

Shares in subsidiaries are recognized at cost less any impairment losses. The cost basis includes acquisition-related costs and any additional consideration.

When there is an indication that shares in subsidiaries have decreased in value, the recoverable amount is calculated. If this amount is lower than the carrying amount, an impairment loss is recognized. Impairment losses are recognized in the item “Profit from shares in group companies”.

Financial instruments

IFRS 9 is not applied in the Parent Company, and financial instruments are valued at cost using the lowest value principle.

Leases

IFRS 16 Leases is not applied in the Parent Company. The balance sheet is not affected by leases entered into and lease fees are expensed on an ongoing basis as other external costs.

Guarantees/financial guarantees

The Parent Company has signed guarantees in favor of subsidiaries. According to IFRS, such a liability is classified as a financial guarantee contract. For these contracts, the Parent Company applies the relief rule set out in RFR 2 p2, and thus recognizes the guarantee as a contingent liability. A provision is made when the company assesses that it is likely that a payment will be required in order to settle a commitment.

Group contributions

The Parent Company reports group contributions, both those that have been received and those that have been made, as appropriations.

NOTE 3 Financial risk management

3.1 Financial risk factors

Through its operations, the group is exposed to a variety of financial risks: market risk (currency risk, interest rate risk at fair value and interest rate risk in cash flow), credit risk and liquidity risk. The group's overall risk management policy focuses on the unpredictability of the financial markets and strives to minimize potential adverse effects on the group's financial performance. The group uses derivative instruments to hedge certain risk exposures.

Risk management is handled by group management in accordance with policies established by the Board of Directors. Group Finance identifies, evaluates and hedges financial risks in close cooperation with the group's operating units. The Board of Directors draws up written policies for both overall risk management and for specific areas, such as currency risk, interest rate risk, credit risk, the use of derivative instruments and non-derivative financial instruments, as well as the investment of excess liquidity.

The following is a description of the group's estimated risk exposure and the accompanying risk management measures.

(a) Market risk

(i) Currency risk

The group operates internationally and is exposed to currency risks arising from various currency exposures, especially regarding the euro (EUR), Czech koruna (CZK), Polish zloty (PLN), US dollar (USD) and Chinese yuan (CNY). Currency risk arises through future business transactions, recognized assets and liabilities, as well as net investments in foreign operations. The group has exposure in its external borrowing, as the borrowing partly occurs in a currency other than the functional currency. Translation exposure in other financial receivables and liabilities is considered minor, as these items are essentially nominated in the individual group companies' functional currencies.

The Board of Directors has introduced a policy requiring group companies to manage their currency risk vis-à-vis their functional currency. Currency risks arise when future business transactions or recognized assets or liabilities are expressed in a currency other than the unit's functional currency. These currency risks are primarily managed by using the same currency for material purchasing as for invoicing or by incorporating currency clauses in contracts with customers or material suppliers. In cases where there is a remaining currency risk that cannot be managed as outlined above, the group companies use futures if the exposure is material. The group's risk management policy is to hedge between 60-70 per cent of expected cash flows in each major currency for the following 12 months. There were only immaterial currency hedging measures in place as of December 31, 2019 and December 31, 2018.

The group has a number of holdings in foreign operations (EUR, CZK, PLN and CNY) whose net assets are exposed to currency risks. Currency exposure arising from the net assets in the group's foreign operations is partly managed through lending to the subsidiaries. The lending is regarded as part of the investment when settlement is not planned or is unlikely to occur in the foreseeable future and exchange rate differences are recognized in other comprehensive income. In the acquisition of Ritter, currency exposure was also managed by raising acquisition loans in the acquisition currency, EUR. Exchange rate differences on this loan are recognized in other comprehensive income as it is considered to be part of the acquisition. Hedging of net assets in subsidiaries does not go beyond lending to the subsidiaries.

If the Swedish krona had weakened by 1 per cent relative to the EUR with all other variables remaining constant, profit for the year, as of December 31, 2019, would have been impacted by SEK 0.1 (-0.1) million. In the event of a corresponding weakening relative to PLN, profit for the year would have been impacted by SEK 0.1 (0.1) million, whereas a weakening relative to CNY would have affected profit by SEK -0.1 (0.0). A strengthening or weakening of the Swedish krona relative to CZK would have had only a marginal effect on profit for the year as of December 31, 2019, as in previous years. A strengthening or weakening of the Swedish krona relative to CZK or CNY would have had only a marginal effect on profit for the year as of December 31, 2019, as in previous years.

(ii) Interest rate risk with respect to cash flows and fair values

Because the group does not hold any material interest-bearing assets, the group's revenue and cash flow from operating activities are essentially independent of changes in market interest rates. The group's interest rate risk arises from long-term borrowing. Borrowing at variable interest rates exposes the group to interest rate risk with regard to cash flow, which is partially neutralized by cash balances that earn variable interest rates. Borrowing at fixed interest rates exposes the group to interest rate risk with regard to fair value.

The group analyzes its exposure to interest rate risk dynamically. Different scenarios are simulated, taking into account refinancing, sales of existing positions, alternative financing and hedging. On the basis of these scenarios, the group calculates the impact on profit/loss that a specified interest rate change would have. The same interest rate change is used for all currencies for each simulation. The scenarios are only simulated for those liabilities that constitute the largest interest-bearing positions.

Performed simulations show that the effect on profit/loss of a 1 per cent change in interest rates would be a maximum increase of SEK 3.0 million (2.6) and a decrease of SEK 3.0 million (2.6), respectively.

(b) Credit risk

Credit risk is managed at group level, with the exception of credit risk related to outstanding accounts receivable. Each group company is responsible, with the support of the group's central financial function, for following up on and analyzing the credit risk of each new customer before offering standard payment and delivery terms. Credit risk arises from cash and cash equivalents, derivative instruments and balances on deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and agreed transactions. Only banks and financial institutions that have received a least credit rating of “A” by independent valuators are accepted. If customers' creditworthiness is assessed by independent valuators, these assessments are used. In cases where there is no independent credit assessment, a risk assessment of the customer's creditworthiness that takes into account its financial position, as well as past experience and other factors, is performed. Individual risk limits are determined on the basis of internal or external credit assessments in accordance with the limits set by the Board of Directors. The utilization of credit limits is monitored regularly. In case of low creditworthiness, advance payments may be demanded from the customer. See Note 19 for further disclosures regarding accounts receivable.

(c) Liquidity risk

Cash flow forecasts are prepared by the group's operating companies and are aggregated by Group Finance. Group Finance closely monitors rolling forecasts of group liquidity reserves to ensure that the group has sufficient cash balances to meet the needs of its operating activities while retaining sufficient scope in agreed credit facilities that have not been drawn on (see Note 24) so that the group does not exceed loan limits or loan terms (where applicable) for any of the group's loan facilities. Such forecasts take into account the group's debt restructuring plans, compliance with loan terms, fulfillment of internal balance sheet-based earnings measures and, where applicable, external supervisory or legal requirements – for example, currency restrictions.

The business has positive cash flow. Acquisitions made during the year, primarily the acquisition of RITTER in July, were partly

Not 3 cont.

financed by increased borrowing. This led to an increase in interest-bearing net debt. Subsequent to this HANZA's financial position was shored up again, but interest-bearing net debt is still higher than at the beginning of the year. All in all, it is thus assessed that HANZA will be able to finance its ongoing operations.

Surplus liquidity in the group's operating companies in excess of the portion required to manage working capital needs is transferred to Group Finance. Surplus liquidity is used primarily to reduce the balance of overdraft credits. In the alternative, Group Finance invests surplus liquidity in interest-bearing current accounts, fixed-term deposits, money market instruments and marketable securities, depending on which instrument has the appropriate maturity or sufficient liquidity to meet the scope requirement as determined by the aforementioned forecasts. On the balance sheet date, the group had liquid funds in an amount of SEK 66.7 million (77.5) and unutilized overdraft facilities in the amount of SEK 69.8 million (57.4) for managing the liquidity risk.

The following tables analyze the group and the Parent Company's non-derivative financial liabilities, broken down by the time remaining, as of the balance sheet date, until contractual maturity. The amounts stated in the table are the contractual, non-discounted cash flows.

SEK million

Group 31 December 2019	**Less than 6 months**	**Between 6 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Liabilities to credit institutions and lease liabilities	81.8	61.9	112.5	190.6	29.2
Overdraft facility	–	52.1	–	–	–
Other interest-bearing debt	3.1	–	–	–	–
Accounts payable	231.7	–	–	–	–
Other short-term liabilities	11.3	–	–	–	–
Total	**327.9**	**114.0**	**112.5**	**190.6**	**29.2**

SEK million

Group 31 December 2018	**Less than 6 months**	**Between 6 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Liabilities to credit institutions and lease liabilities	34.5	34.5	65.3	152.5	2.6
Overdraft facility	–	45.3	–	–	–
Other interest-bearing debt	17.3	–	–	–	–
Accounts payable	219.4	–	–	–	–
Other short-term liabilities	6.1	–	–	–	–
Total	**277.3**	**79.8**	**65.3**	**152.5**	**2.6**

SEK million

Parent Company 31 December 2019	**Less than 6 months**	**Between 6 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Liabilities to credit institutions	9.8	10.9	22.2	43.9	9.6
Accounts payable	0.5	–	–	–	–
Other short-term liabilities	0.1	–	–	–	–
Total	**10.4**	**10.9**	**22.2**	**43.9**	**9.6**

SEK million

Parent Company 31 December 2018	**Less than 6 months**	**Between 6 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**
Liabilities to credit institutions	1.2	1.2	2.5	5.3
Accounts payable	1.3	–	–	–
Other short-term liabilities	0.1	–	–	–
Total	**2.6**	**1.2**	**2.5**	**5.3**

3.2 Management of capital

The group's goal with respect to the capital structure is to safeguard the group's ability to continue its operations, so that it can continue to generate a return to shareholders and to benefit other stakeholders, and to maintain an optimal capital structure in order to keep costs down.

In order to maintain or adjust the capital structure, the group may modify the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets in order to reduce liabilities.

Like other companies in the industry, the group assesses its capital based on its net debt/equity ratio. This key ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowing, lease liabilities and provisions for pension liabilities, less cash and cash equivalents.

The net debt/equity ratio as of December 31 was as follows:

	2019	**2018**
Borrowings (Note 24)	362.8	337.7
Lease liability (Note 30)	138.3	–
Provisions for pensions (Note 31)	108.9	4.5
Less: Cash and cash equivalents (Note 22)	-66.7	-77.5
Net debt	**543.3**	**264.7**
Total equity	497.7	410.5
Net debt/equity ratio, %	**109**	**64**

Net debt increased by SEK 79.7 million at the beginning of the year due to the introduction of IFRS 16, as lease liabilities that were previously off-balance sheet were posted. The remaining increase is due to acquisitions made during the year which added borrowing, lease liabilities and provisions for pension liabilities in acquired companies in an amount of SEK 169.2 million and were partly financed by acquisition loans in an amount of SEK 92.2 million.

Not 3 cont.

3.3 Calculation of fair value
All financial assets are recognized on the balance sheet at amortized cost with the exception of other long-term securities holdings that are to be recognized at fair value in level 3. The cost basis of these amounts to only SEK 0.3 million. The group has no indications that this does not constitute a reasonable fair value valuation.

All financial liabilities are recognized on the balance sheet at amortized cost, with the exception of other interest-bearing liabilities on the balance sheet date, which in 2019 comprise a reserve for additional consideration for the Toolfac acquisition. This must be recognized at fair value in level 3. The additional consideration is based on Toolfac's sales and earnings in 2019, and it was therefore possible to make a reliable calculation of the reserve in the financial statements as of 31-12-2019, whereby the reserve has been reduced by SEK 1.1 million, which has been recognized in the consolidated income statement. In the previous year as well, the amount comprised a reserve for additional consideration, in this case for Wermech. The change in debt during the year is described in Note 24.

The Group's borrowing consists of a large number of contracts entered into at different times and having different maturities. Essentially, these loans have variable interest rates. Against the background of the foregoing, carrying amounts can be considered to give a good approximation of fair values. The fair value of short-term borrowing corresponds to its carrying amount, as the effect of discounting is immaterial.

Accounts receivable, accounts payable and other current receivables and liabilities have a residual useful life of less than one year. The carrying value is considered to reflect fair value.

NOTE 4 Important estimates and assessments

Estimates and assessments are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are considered reasonable under prevailing circumstances.

Important accounting estimates and assessments
The group makes estimates and assumptions about the future. The accounting estimates that result from these will rarely correspond to the actual result, by definition. The estimates and assumptions that entail a significant risk of material adjustments in the carrying amounts of assets and liabilities during the next financial year are outlined in main terms below.

(a) Testing for impairment of goodwill
Each year, the group examines whether there is any need for impairment of goodwill in accordance with the accounting principle described in Note 2.6. Recoverable amounts for cash-generating units have been determined through a calculation of value in use. For these calculations, certain estimates must be made about future cash flows, among other things. Further information about the estimates is presented in Note 14. The group's goodwill at year-end amounted to SEK 299.2 million (264.5).

(b) Valuation of Customer Relationships
Customer relationships worth SEK 54.0 million (66.0) were identified in the acquisitions completed during the year. The planned depreciation period of the customer relationships is 10 years. The initial valuation of the customer relationships is based on a present value calculation of future profit contributions by the acquired company's customers. In order to perform the present value calculation and to determine the depreciation period, certain estimates about, among other things, the customers' long-term purchasing levels from HANZA are required. On the balance sheet date, the book value of customer relationships amounted to SEK 104.5 million (60.0).

(c) Valuation of tax losses carryforward
Each year, the group assesses whether there is any need for impairment of deferred tax assets relating to tax losses carryforward. In addition, the group investigates whether it is appropriate to capitalize new deferred tax assets relating to this year's tax loss carryforwards, or previous loss carryforwards for which the probability that they can be utilized has increased. Deferred tax assets are only recognized for losses carryforward for which it is likely that they can be utilized against future taxable profits and against taxable temporary differences. HANZA has recognized deferred tax assets for the loss carryforwards present in Sweden, Germany, the Czech Republic and to some extent in Finland and China, as it is considered probable that these losses carryforward can be utilized against future profits. See also Note 16. Losses carryforward for which deferred tax is not recognized amounted to SEK 54.4 million (82.5) as of December 31, 2019.

(d) Valuation of deferred tax liability
No income tax is payable on reported earnings in Estonia. Instead, tax (currently 20.0 per cent) is levied on gross dividends when retained earnings are distributed. HANZA is able to control the timing of the distribution and assesses that it is unlikely that reversal will occur in the foreseeable future, for which reason no deferred tax liability is recognized. This assessment is reviewed on an annual basis. On the balance sheet date, distributable funds in the Estonian companies amounted to SEK 139.2 million (165.9).

(e) Valuation of post-employment benefits
Recognition of debt and costs for defined-benefit pensions is based on actuarial calculations that are in turn based on significant assumptions regarding, among other things, the discount rate, future salary increases, staff turnover and remaining life expectancy. Changes in these assumptions may primarily affect the recognized liability, which at year-end amounted to SEK 108.9 million (4.5). Operating profit and profit for the year are affected by changes in the assumptions to a minor extent, as changes due to changed actuarial assumptions are recognized in other comprehensive income. See Note 31 for a sensitivity analysis regarding the actuarial assumptions.

(f) Recognition of divested accounts receivable
Part of HANZA's financing operations involves selling accounts receivable to an external party. Because control in these cases has been transferred to the external party, these accounts receivable have been removed from the balance sheet. See Note 19 Accounts receivable for further information.

NOTE 5 Revenue

Description of revenue from contracts with customers

Revenue from the sale of goods

An agreement that is binding on both HANZA and the customer in terms of quantity and price is normally concluded when the customer has placed an order confirmed by HANZA. Such an order is in turn based on some type of framework agreement, yet these are not binding in terms of quantities.

HANZA's revenue comes primarily from the production of products that can be components, subsystems or finished products. The products are manufactured to customer specifications, but HANZA is involved in tailoring the manufacturing process. HANZA's performance obligations is to produce and deliver a specified quantity of a product, and is considered to have been fulfilled when control of the product has passed to the customer, which is usually upon delivery. An order may include one or more products, and may thus contain one or more performance obligations. A performance obligations is almost always fulfilled at a single point in time.

Certain contracts where there is an agreement with the customer regarding buffer stock of a product represent an exception to the principle that the performance obligations is fulfilled upon delivery. In these cases, the performance obligations is considered to have been fulfilled already when the component or product is placed into buffer stock and is thus available to the customer. On the balance sheet date, the sales value of buffer stock where the performance obligations was already considered to have been fulfilled was SEK 18.7 million (16.3).

The transaction price is measured at the fair value of what will be received, and corresponds to the amounts received for goods sold less any discounts, returns and VAT. On each order the prices are specified per product, which forms the basis for allocating the transaction price to performance obligations. The group bases its assessments of returns on historical outcomes and in so doing takes into account the type of customer, the type of transaction and special circumstances in each individual case. Customers are only entitled to return products that do not meet requirements specified in advance. There is no right of return due to the customer no longer having a use for the product. Assessments of future discounts are made individually based on agreements with each customer. HANZA incurs no warranty obligations for its products, as these are manufactured according to the customer's detailed specifications.

As of the balance sheet date, there were no performance obligations that extend more than one year into the future.

Revenue from services

A consultancy agreement usually comprises a single performance obligations and the transaction price can be identified based on the agreement. Usually, HANZA is entitled to compensation for work performed even if a project should be canceled prematurely. In these cases the revenue is recognized over time. In other cases the revenue is recognized when the consulting services are supplied in accordance with the agreement and the performance obligations is thereby fulfilled.

HANZA's consulting services are an important part of HANZA's overall range, but the revenues from these services accounted for only a minor part of the group's sales. HANZA has therefore chosen not to report these separately.

Contractual assets and contractual liabilities on the balance sheet date

The contractual assets as of the balance sheet date amounted to SEK 18.6 million (16.3). The group has no contractual liabilities.

Group-wide disclosures

The group's revenue essentially relates to the sale of goods.

No individual customer accounts for 10 per cent or more of the group's revenue.

The payment terms in HANZA's agreements with customers vary from 30 to 120 days. However, accounts receivable are largely sold to external parties, which means that the credit terms according to the contracts have little impact on the group's balance sheet. There are no financing agreements where the customer is entitled to postpone payment by paying interest.

The group has no binding production agreements that extend more than one year into the future.

Allocation of revenue

Revenue broken down by segment, geographic market and manufacturing technology is shown in Note 6 Segment disclosures.

NOTE 6 Segment reporting

The CEO is the group's highest executive decision maker. Company management has defined the operating segments based on the information that is processed by the CEO and used as a basis for allocating resources and evaluating performance.

As of 2018, HANZA practices a form of cluster-based segmentation that is considered to best reflect its business model, organization and the manner in which the Board of Directors and management team follow up on and assess the business. The CEO assesses the business on the basis of an organization organized into clusters, primarily at the EBITA level, where amortization of intangible assets is not allocated to the clusters. Also, some costs for group-wide business development are also not allocated to the clusters. These are presented below as Business Development. Interest income and interest expenses are not allocated to the segments, since they are affected by measures taken by central financial management, which handles the group's cash liquidity.

During 2019, operations were conducted in 5 clusters whose reporting is broken down into the following reportable segments:

- *Nordic* – Manufacturing clusters located within or close to HANZA's primary geographical customer markets, which currently comprise Sweden, Finland and Norway. These Clusters currently comprise Sweden and Finland. Operations in these areas are characterized by a high degree of automation and close cooperation with customer development depart*ments.*
- *Rest of World* – Manufacturing clusters outside of HANZA's primary geographical customer markets, yet close to important end customer markets. These Clusters currently comprise the Baltics (near the Nordic region), Central Europe (close to Germany, etc.) and China (in China). The operations are characterized by high labor content, extensive complex assembly, and a focus on efficient logistics. During the year, the segment has seen the addition of RITTER, with production in Germany and the Czech Republic and a mainly German customer base. The German operations have, like the Nordic segment, distribution to customers in the nearby geographical area, but otherwise feature a degree of automation that is more similar to the Rest of World segment.
- *Business development* – Costs and revenue that are not allocated to the Manufacturing Clusters, which are mainly group-wide functions inside the Parent Company, as well as group-wide adjustments that are not allocated to the other two segments.

Revenue

Sales between segments take place on market terms. Revenue from external parties that is reported to group management is valued in the same way as in the income statement.

Profit by segment	2019 Nordic	2019 Rest of the world	2019 Business development	2019 Total	2018 Nordic	2018 Rest of the world	2018 Business development	2018 Total
Revenue								
Segment revenue	975.1	1,130.6	0.1	2,105.8	921.6	953.0	-0.3	1,874.3
Less sales between segments	-8.5	-29.6	–	-38.1	-11.2	-52.5	–	-63.7
Revenue from external customers	**966.6**	**1,101.0**	**0.1**	**2,067.7**	**910.4**	**900.5**	**-0.3**	**1,810.6**
Profit/loss								
EBITA	62.7	20.9	-15.7	67.9	67.4	3.9	-10.0	61.3
Amortization of intangible assets	-7.8	-3.3	–	-11.1	-6.4	-0.8	–	-7.2
Financial items – net				-24.5				-24.9
Profit/loss before tax				**32.3**				**29.2**
EBITA excluding non-recurring items								
EBITA	62.7	20.9	-15.7	67.9	67.4	3.9	-10.0	61.3
Adjustment for non-recurring items, see below	-1.1	7.5	11.8	18.2	–	10.9	6.4	17.3
EBITA excluding non-recurring items	**61.6**	**28.4**	**-3.9**	**86.1**	**67.4**	**14.8**	**-3.6**	**78.6**
Non-recurring items in operating income								
Revaluation of additional purchase price	1.1	–	–	1.1	–	–	-0.8	-0.8
Transaction costs	–	-0.3	-8.1	-8.4	–	–	-0.3	-0.3
Costs for change of listing	–	–	-3.7	-3.7	–	–	-5.3	-5.3
Write-down assets China	–	-3.0	–	-3.0	–	–	–	–
Write-down of inventory	–	–	–	–	–	-10.9	–	-10.9
Amortization of over-value in inventory identified in the acquisition of RITTER	–	-4.2	–	-4.2	–	–	–	–
Total non-recurring items	**1.1**	**-7.5**	**-11.8**	**-18.2**	**–**	**-10.9**	**-6.4**	**-17.3**

Note 6 cont.

Profit by segment	2019 Nordic	2019 Rest of the world	2019 Business develop-ment	2019 Total	2018 Nordic	2018 Rest of the world	2018 Business develop-ment	2018 Total
Other profit/loss information								
Depreciations and amortizations	-47.3	-43.6	-1.3	-92.2	-30.7	-27.8	-0.6	-59.1
Wtire-downs[1]	-0.7	-7.4	–	-8.1	-0.1	-10.9	–	-11.0

1) Write-downs 2019 refers mainly to fixed assets in China and write-down of inventory values and previous year substantially to write-down of inventory values.

Balance information and investments per segment in SEK million	Assets		Investments[2]		Liabilities	
	2019	2018	2019	2018	2019	2018
Nordic	757.1	660.8	24.7	24.1	434.6	321.9
Rest of the world	837.5	453.4	25.5	37.5	498.2	256.7
Business development	116.2	73.5	0.3	0.8	280.3	198.6
Eliminations	-188.1	-91.6	–	–	-188.1	-91.6
Total Group	**1,522.7**	**1,096.1**	**50.5**	**62.4**	**1,025.0**	**685.6**

2) Investments refers to investments in tangible and intangible fixed assets.

Net sales and fixed assets per geographic market

Group	Net sales 2019	Net sales 2018	Fixed assets[1] 2019	Fixed assets[1] 2018
Sweden	618.8	870.9	374.2	346.1
Finland	455.4	415.8	68.8	24.2
Estonia	74.3	101.0	192.4	159.0
Germany	368.7	46.1	109.2	–
Poland	34.6	36.2	25.6	25.7
Czech Republic	26.2	20.0	47.5	24.0
Other EU	110.0	44.4	–	–
Norway	148.7	145.8	–	–
North America	86.3	91.1	–	–
Rest of the world	144.7	39.3	16.8	21.0
Total	**2,067.7**	**1,810.6**	**834.5**	**600.0**

1) Excluding financial instruments and deferred tax assets.

Revenue by manufacturing technology

Up to 2017 the segments were the manufacturing technologies Mechanics and Electronics. Distribution of revenue on these technologies are reported below.

Revenue from external customers by manufacturing technology	2019	2018
Mechanics	1,367.8	1,274.6
Electronics	699.8	536.3
Business development	0.1	-0.3
Total Group	**2,067.7**	**1,810.6**

NOTE 7 Fees to auditors

Audit services refer to audit of the consolidated financial statements, the accounts and the administration of the Board of Directors and the President & CEO of the company; other tasks incumbent on the company's auditor; and advice or other assistance prompted by observations from such audits or the performance of other such tasks. All other is other services.

	Group		Parent Company	
Group	**2019**	**2018**	**2019**	**2018**
EY				
Audit assignments	2.8	1.6	0.7	0.5
Audit activities other than audit assignments	0.5	0.1	0.5	–
Tax consultancy services	0.1	0.1	0.1	0.1
Other consultancy services	0.1	1.5	0.1	1.4
Total	**3.5**	3.3	**1.4**	2.0
Other auditors				
Audit assignments	0.3	0.2	–	–
Total	**0.3**	**0.2**	**–**	**–**
Total	**3.8**	**3.5**	**1.4**	**2.0**

Other auditors refers to local auditors in Poland, Czech Republic and China.

NOTE 8 Remunerations to employees etc.

Salaries and other remuneration and social costs

Group 2019	Salaries and remunerations	(of which bonus)	Social security fees	(of which pension costs)	Total wages and social costs
Board of Directors, CEO and other senior executives	19.7	0.3	8.9	3.9	28.6
Other employees	380.9	6.9	126.0	26.9	506.9
Group total	**400.6**	**7.2**	**134.9**	**30.8**	**535.5**

Group 2018	Salaries and remunerations	(of which bonus)	Social security fees	(of which pension costs)	Total wages and social costs
Board of Directors, CEO and other senior executives	15.7	–	9.0	4.0	24.7
Other employees	308.4	3.1	112.6	17.8	421.0
Group total	**324.1**	**3.1**	**121.6**	**21.8**	**445.7**

For further information about remunerations to Board of Directors and senior executives, see Note 34 Transactions with related parties.

Distribution by sex of board members and top management in the Group (including subsidiaries)	2019		2018	
Group	**Number on balance sheet date**	**Of which Women**	**Number on balance sheet date**	**Of which Women**
Board of Directors in Parent Company	5	2	6	2
Managing directors and other top management and board members in subsidiaries	19	5	13	3
Group total	**24**	**7**	**19**	**5**

Note 8 cont.

Board of Directors in subsidiaries consists almost exclusively of employees in the group which also are included in top management at different levels. These are therefore reported together in which each person is only counted once.

Average number of employees with distribution by country	2019		2018	
Parent Company	**Average number of employees**	**Of which women**	**Average number of employees**	**Of which women**
Sweden	**2**	**–**	**2**	**–**
Subsidiaries				
Sweden	375	142	359	123
Estonia	734	273	725	243
Finland	102	16	67	4
China	115	61	73	31
Poland	121	108	129	107
Czech Republic	87	29	52	14
Germany	67	16	–	–
Total subsidiaries	**1,601**	**645**	**1,405**	**522**
Group total	**1,603**	**645**	**1,407**	**522**

In 2019 the Parent Company had 2 male employees (2) who are both included in the category senior executives. Wages and remunerations paid to Board of Directors, CEO and senior executives amounted to SEK 5.3 million (4.7) of which bonuses SEK 0.3 million (-). Pension costs to Board of Directors and CEO amounted to SEK 1.1 million (1.3) and other social security fees according to contracts amounted to SEK 2.0 million (1.5). No wages or remunerations have been paid out in the Parent Company to the category other employees.

NOTE 9 Other operating income and operating expenses

Group

Other operating income	2019	2018
Profit on disposal of fixed assets	0.6	1.6
Revaluation of additional purchase price, see note 33	1.1	–
Exchange gains	4.5	5.5
Other items	2.4	2.3
Total other operating income	**8.6**	**9.4**

Other operating expenses	2019	2018
Loss on disposal of fixed assets	-2.8	-0.2
Revaluation of additional purchase price, see note 33	–	-0.8
Exchange losses	-3.9	-5.4
Other items	-1.5	-0.6
Total other operating expenses	**-8.2**	**-7.0**

NOTE 10 Exchange gains and losses

	Group		Parent Company	
Exchange gains and losses in income statement	**2019**	**2018**	**2019**	**2018**
In operating income	0.6	0.1	0.0	0.0
In net financial items	-1.2	-6.4	1.5	–
Total exchange gains and losses	**-0.6**	**-6.3**	**1.5**	**0.0**

NOTE 11 Income from financial items

	Group	
Financial income	**2019**	**2018**
Interest income	0.5	–
Total financial income	**0.5**	**–**
Financial expenses		
Interest expenses	-18.6	-14.1
Net exchange gains and losses	-1.2	-6.4
Cost sold accounts receivable	-5.2	-4.3
Other financial expenses	–	-0.1
Total financial expenses	**-25.0**	**-24.9**
Total financial items – net	**-24.5**	**-24.9**

Paid interest during the year amounts to SEK 18.2 million (14,1).

	Parent Company	
Other interest income and similar income items	**2019**	**2018**
Interest income from Group companies	2.7	2.2
Exchange gains and losses – net	1.5	–
Other interest income and similar income items	**4.2**	**2.2**
Interest charges and similar income items		
Interest expenses, external	-1.6	-0.9
Interest charges and similar income items	**-1.6**	**-0.9**
Total net financial assets – Parent Company	**2.6**	**1.3**

Interest income from Group companies refers mainly to Hanza AB SEK 1.8 million (2.1) and HANZA Metalliset oy SEK 0.8 million (-).

NOTE 12 Income tax/tax on profit for the year

Tax cost in income statement	Group		Parent Company	
Current tax:	**2019**	**2018**	**2019**	**2018**
Current tax on profit for the year	-11.0	-7.8	–	–
Adjustments for prior years	0.3	0.1	–	–
Total current tax	**-10.7**	**-7.7**	**–**	**–**
Deferred tax (see Note 16)				
Arise and reverse of temporary differences	2.0	-1.3	-0.6	-0.2
Changes due to changed tax rates	–	0.6	–	-0.2
Total deferred tax	**2.0**	**-0.7**	**-0.6**	**-0.4**
Total income tax	**-8.7**	**-8.4**	**-0.6**	**-0.4**

Reconciliation of tax cost to profit/loss before tax
Income tax in the income statement differs from the theoretical amount which should have appeared if the Swedish tax rate had been applied on the consolidated profit/loss, as follows:

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Profit/loss before tax	32.3	29.2	4.1	4.9
Tax according to Swedish tax rate	-6.9	-6.4	-0.9	-1.1
Tax effects from				
Diverging tax rates abroad	0.5	-1.8	–	–
Non taxable income	0.9	1.1	0.3	0.9
Non deductible costs	-3.3	-1.5	–	–
Tax losses carried forward for which no deferred tax has been recognized	-0.3	-0.5	–	–
Adjustments for prior years	0.3	0.1	–	–
Changes due to changed tax rates	0.1	0.6	–	-0.2
Tax cost	**-8.7**	**-8.4**	**-0.6**	**-0.4**

The weighted average tax rate for the group is 27 per cent (28) and 14 per cent (22) for the Parent Company. Part of the group's operations are conducted in Estonia where profits are not taxed until distribution in the form of dividends. The tax rate for the Estonian operations has therefore been set at 0 per cent for calculation purposes. The effective tax rate and the tax effect of deviating tax rates abroad therefore vary depending on the proportion of pre-tax profit stemming from Estonia and from entities where the company has judged that further deferred tax assets cannot be posted due to uncertainty regarding the ability to utilize the losses in the future (see also note 16).

NOTE 13 Earnings per share

Before dilution

Earnings per share before dilution is calculated by dividing profit/loss attributable to the Parent Company's shareholders by the weighted average number of outstanding ordinary shares for the period.

Values used in calculation	2019	2018
Profit/loss attributable to the Parent Company's shareholders, SEK million	23.6	20.8
Weighted average number of outstanding common shares	32,125,760	27,907,850
Earnings per share before dilution, SEK	**0.73**	**0.74**

After dilution

In calculation of earnings per share after dilution the weighted average number of outstanding common shares, is adjusted for diluting effects from all potential new common shares. The Parent Company had during 2018 and in the beginning of 2019, warrants that could have a diluting effect. For further information about warrants see note 23.

Values used in calculation	2019	2018
Profit/loss attributable to the Parent Company's shareholders, SEK million	23.6	20.8
Weighted average number of outstanding common shares	32,125,760	27,907,850
Adjustment for calculated dilution from warrants	617	225,907
Weighted average number of shares after dilution	**32,126,377**	**28,133,757**
Calculated earnings per share after dilution, SEK	**0.73**	**0.74**

NOTE 14 Intangible assets

Group 2019	Goodwill	Customer relations	Other intangible assets	Total
Accumulated acquisition values				
Opening balance	**264.5**	66.0	11.0	341.5
Investments	–	–	2.2	2.2
Sold and scrapped	–	–	-0.2	-0.2
Acquisition of companies	33.5	54.0	2.1	89.6
Exchange rate differences	1.2	-0.3	0.3	1.2
Closing balance	**299.2**	**119.7**	**15.4**	**434.3**
Accumulated amortizations				
Opening balance	–	-6.0	-5.1	-11.1
Sold and scrapped	–		0.2	0.2
This years amortizations	–	-9.2	-1.9	-11.1
Exchange rate differences	–	–	–	–
Closing balance	**–**	**-15.2**	**-6.8**	**-22.0**
Closing value	**299.2**	**104.5**	**8.6**	**412.3**

Note 14 cont.

Group 2018	Goodwill	Customer relations	Other intangible assets	Total
Accumulated acquisition values				
Opening balance	**147.6**	–	8.3	155.9
Investments	–	–	2.9	2.9
Sold and scrapped	–	–	-0.6	-0.6
Acquisition of companies	113.3	66.0	–	179.3
Exchange rate differences	3.6	–	0.4	4.0
Closing balance	**264.5**	**66.0**	**11.0**	**341.5**
Accumulated amortizations				
Opening balance	–	–	-4.5	-4.5
Sold and scrapped	–	–	0.8	0.8
This years amortizations	–	-6.0	-1.2	-7.2
Exchange rate differences	–	–	-0.2	-0.2
Closing balance	**–**	**-6.0**	**-5.1**	**-11.1**
Closing value	**264.5**	**60.0**	**5.9**	**330.4**

The group has no accumulated impairment losses. Other intangible assets consist mainly of capitalized software licensing costs and capitalized software implementation costs.

Testing for impairment of goodwill

As shown in Note 6, Segment Information, the CEO assesses the performance of the business on the basis of an organization divided into clusters, where reported segments comprise the Nordic Region and Rest of World. Goodwill is monitored by the company at the operating segment level. The following table presents a summary of goodwill broken down by operating segment, along with the assumptions used in the impairment test.

Cluster 2019	Goodwill 2019-12-31	Annual volume growth %	Long-term growth rate, %	Discount rate, %
Sweden	180.9	3.9	2.0	8.7
Finland	8.5	1.3	2.0	8.7
Baltics	54.1	4.8	2.0	9.3
Central Europe	41.7	4.9	2.0	10.8
China	14.0	10.6	2.0	13.1
Total	**299.2**			

Cluster 2018	Goodwill 2019-12-31	Annual volume growth %	Long-term growth rate, %	Discount rate, %
Sweden	180.3	2.8	2.0	8.7
Finland	8.5	5.6	2.0	8.7
Baltics	53.6	4.0	2.0	9.3
Central Europe	8.3	3.1	2.0	10.8
China	13.8	9.8	2.0	13.1
Total	**264.5**			

The recoverable amount for a cash-generating unit (CGU) has been determined on the basis of calculations of value in use. These calculations are based on estimated future pre-tax cash flows based on financial budgets approved by company management covering a five-year period. The company has determined that the annual volume growth for each CGU over the five-year forecast period represents an important assumption. The sales volume in a given period is the main factor determining earnings and thus cash flow performance. Annual volume growth is based on previous performance and the company's expectations as regards market developments. The average growth rate according to these budgets is shown in the column headed Annual volume growth above.

Cash flows beyond the five-year period are extrapolated using the estimated growth rate, which is shown in the column headed Long-term growth rate. The long-term growth rate used is in line with the forecasts found in industry reports, and does not exceed the long-term growth rate for the manufacturing industry where the CGU in question operates.

Note 14 cont.

Future cash flows are discounted using interest rates developed specifically for each cash-generating unit. The discount rate used is set out above. The discount rate is stated before tax and reflects specific risks in effect for the various operating segments. The impairment test has not resulted in the identification of any need for impairment.

Sensitivity analysis
The table below shows the impairment needs that would have arisen in 2019 if the budgeted EBIT-margin used in the calculation had been reduced by 25 per cent and if the cost of capital used in the preparation of the discount rate had been 3 per centage-points higher. The analyses were performed separately with the other assumptions intact.

	2019		**2018**	
Cluster	**25% lower EBIT-margin**	**3 %-points higher cost of capital**	**25% lower EBIT-margin**	**3 %-points higher cost of capital**
Sweden	–	–	–	–
Finland	–	–	-4.3	–
Baltics	–	–	-40.0	-8.2
Central Europe	-4.0	-2.5	–	–
China	-6.0	-5.3	-5.2	–
Total	**-10.0**	**-7.8**	**-49.5**	**-8.2**

NOTE 15 Tangible fixed assets

Group 2019	Buildings and land	Leasehold improvements	Machinery and technical installations	Equipment, tools and installations	Total
Accumulated acquisition values					
Opening balance	92.7	3.7	457.7	54.2	**608.3**
Reclassified to right-of-use assets (note 30)	–	–	-71.9	–	**-71.9**
Investments	7.8	0.1	37.5	2.9	**48.3**
Acquisition of companies	24.3	–	24.4	3.3	**52.0**
Sold and scrapped	–	-1.8	-18.6	-3.2	**-23.6**
Reclassifications	2.5	-0.1	-10.3	0.5	**-7.4**
Exchange rate differences	1.7	0.1	3.5	0.2	**5.5**
Closing balance	**129.0**	**2.0**	**422.3**	**57.9**	**611.2**
Accumulated depreciations					
Opening balance	-14.2	-2.9	-278.5	-43.1	**-338.7**
Reclassified to right-of-use assets	–	–	32.6	–	**32.6**
Sold and scrapped	–	1.8	15.4	2.7	**19.9**
This years depreciations	-4.2	-0.3	-34.9	-4.4	**-43.8**
Exchange rate differences	-0.3	-0.1	-2.2	-0.1	**-2.7**
Closing balance	**-18.7**	**-1.5**	**-267.6**	**-44.9**	**-332.7**
Closing value	**110.3**	**0.5**	**154.7**	**13.0**	**278.5**

Group 2018	Buildings and land	Leasehold improvements	Machinery and technical installations	Equipment, tools and installations	Total
Accumulated acquisition values					
Opening balance	90.6	3.6	352.5	46.1	**492.8**
Investments	0.2	–	57.5	1.8	**59.5**
Acquisition of companies	–	–	49.4	4.9	**54.3**
Sold and scrapped	-0.3	–	-10.0	–	**-10.3**
Reclassifications	-1.2	–	0.3	0.9	**0.0**
Exchange rate differences	3.4	0.1	8.0	0.5	**12.0**
Closing balance	**92.7**	**3.7**	**457.7**	**54.2**	**608.3**
Accumulated depreciations					
Opening balance	-10.0	-2.4	-236.6	-38.0	**-287.0**
Sold and scrapped	0.3	–	6.2	–	**6.5**
This years depreciations	-4.1	-0.4	-42.9	-4.5	**-51.9**
Reclassifications	–	–	0.2	-0.2	**0.0**
Exchange rate differences	-0.4	-0.1	-5.4	-0.4	**-6.3**
Closing balance	**-14.2**	**-2.9**	**-278.5**	**-43.1**	**-338.7**
Closing value	**78.5**	**0.8**	**179.2**	**11.1**	**269.6**

Previous year assets according to non-cancellable financial lease contracts at a value of SEK 39.3 million, where included in machinery and technical installations. These are reclassified above and are in 2019 reported as right-of-use assets. See note 30.

NOTE 16 Deferred taxes

Deferred tax assets and liabilities
Changes in deferred tax assets and liabilities during the year, and to which balance sheet items they are related are shown in the following tables:

2019	Deferred tax assets: Tax losses carried forward	Deferred tax assets: Other	Deferred tax assets: Total	Deferred tax liabilities: Fixed assets	Deferred tax liabilities: Other	Deferred tax liabilities: Total	Deferred taxes net
Opening balance	16.2	0.2	16.4	-28.6	-0.3	-28.9	**-12.5**
Acquisition of companies	3.8	12.2	16.0	-17.5	-1.5	-19.0	**-3.0**
Reported in income statement	0.5	-0.5	0.0	1.6	0.4	2.0	**2.0**
Reported in other comprehensive income	–	-1.1	-1.1	–	–	0.0	**-1.1**
Exchange rate differences	–	-0.1	-0.1	0.1	–	0.1	**0.0**
Closing balance	**20.5**	**10.7**	**31.2**	**-44.4**	**-1.4**	**-45.8**	**-14.6**
Of which expected to be used/due							
– after more than 12 months	11.9	10.5	22.4	-41.4	-1.0	-42.4	**-20.0**
– within 12 months	8.6	0.2	8.8	-3.0	-0.4	-3.4	**5.4**

2018	Deferred tax assets: Tax losses carried forward	Deferred tax assets: Other	Deferred tax assets: Total	Deferred tax liabilities: Fixed assets	Deferred tax liabilities: Other	Deferred tax liabilities: Total	Deferred taxes net
Opening balance	16.0	0.7	16.7	-3.0	-0.4	-3.4	13.3
Acquisition of companies	–	–	0.0	-25.2	–	-25.2	-25.2
Reported in income statement	0.1	-0.5	-0.4	-0.4	0.1	-0.3	-0.7
Exchange rate differences	0.1	–	0.1	–	–	–	0.1
Closing balance	**16.2**	**0.2**	**16.4**	**-28.6**	**-0.3**	**-28.9**	**-12.5**
Of which expected to be used/due							
– after more than 12 months	10.5	–	10.5	-27.2	–	-27.2	-16.7
– within 12 months	5.7	0.2	5.9	-1.4	-0.3	-1.7	4.2

No set-off as between deferred tax assets and tax liabilities has been performed in the years in question.

Deferred tax assets and liabilities in Sweden were recalculated in 2018 due to a decision to gradually reduce the corporate tax rate to 21.4% from 2019 and further down to 20.6% starting in 2021. The effect, which amounted to SEK +0.6 million, was included in the line presented in the income statement. See also Note 12 Income Tax/Tax on Profit for the Year.

Deferred tax assets
Deferred tax assets are recognized for tax loss carryforwards to the extent that it is probable that they can be availed through future taxable profits. The group did not recognize deferred tax assets amounting to SEK 10.9 million (17.3), relating to losses amounting to SEK 54.4 million (82.5), which can be utilized against future taxable profit. The loss carryforwards do not lapse at any set time in the future. These losses are predominantly located in Finland but also in Sweden. Last year there were also unposted losses in China, but because these operations are being wound up, the losses made in these operations, were this year considered as lost.

Other deferred tax assets in 2019 relate mainly to temporary differences in provisions for post-employment employee benefits in Germany.

Deferred tax relating to untaxed earnings in Estonia
No income tax is payable on reported earnings in Estonia. Instead, a tax of 20.0 per cent is levied on gross dividends when retained earnings are distributed. HANZA is able to control the timing of the distribution and assesses that it is unlikely that distribution will occur in the foreseeable future. No deferred tax liability has therefore been recognized for undistributed profits. On the balance sheet date, distributable profits in the Estonian companies amounted to SEK 139.2 million (165.9), corresponding to a tax liability of SEK 27.8 million (33.2).

Parent Company
In the Parent Company deferred tax assets amount to SEK 4.0 million (4.6) which relates to tax losses carried forward.

NOTE 17 Financial instruments by category

Carrying amounts of the Group's financial instruments by category are reported below. No essential deviations between carrying amounts and fair values have been identified. See also note 3.3 Calculation of fair value.

Group 2019-12-31	Financial assets measured at amortized cost	Financial assets at fair value through income statement	Total
Other long-term securities holdings	–	0.3	0.3
Accounts receivable	122.1	–	122.1
Other receivables	11.0	–	11.0
Cash and cash equivalents	66.7	–	66.7
Total	**199.8**	**0.3**	**200.1**

	Financial liabilities measured at amortized cost	Financial liabilities at fair value through income statement	Total
Liabilities to credit institutions	307.6	–	307.6
Lease liabilities	138.3	–	138.3
Overdraft facility	52.1	–	52.1
Other interest-bearing liabilities*	–	3.1	3.1
Accounts payable	231.7	–	231.7
Other liabilities	11.3	–	11.3
Total	**741.0**	**3.1**	**744.1**

*) Refers to reserve for additional consideration for the Toolfac acquisition which is recognized at fair value in level 3. See note 24 och note 33 for further information.

Group 2018-12-31	Financial assets measured at amortized cost	Financial assets at fair value through income statement	Total
Other long-term securities holdings	–	0.3	0.3
Accounts receivable	83.8	–	83.8
Other receivables	4.2	–	4.2
Cash and cash equivalents	77.5	–	77.5
Total	**165.5**	**0.3**	**165.8**

	Financial liabilities measured at amortized cost	Financial liabilities at fair value through income statement	Total
Liabilities to credit institutions	275.3	–	275.3
Overdraft facility	45.3	–	45.3
Other interest-bearing liabilities*	–	17.1	17.1
Accounts payable	219.4	–	219.4
Other liabilities	6.1	–	6.1
Total	**546.1**	**17.1**	**563.2**

*) Refers to reserve for additional consideration for the Wermland Mechanics Group acquisition which is recognized at fair value in level 3. See note 24 och note 33 for further information.

NOTE 18 Inventories

Group	2019-12-31	2018-12-31
Inventory value before reserves for obsolescence	438.9	302.1
Obsolescence reserves	-16.2	-12.0
Inventories net value	**422.7**	**290.1**

Cost of obsolescence write-downs in 2019 amounted to SEK 5,1 million (10,9).

Value of inventory valuated at net sales value was SEK 0.0 million (1,0) on the balance sheet date.

NOTE 19 Accounts receivable

Group	2019-12-31	2018-12-31
Accounts receivable	103.8	68.0
Less: reserves for doubtful accounts	-0.3	-0.5
Accounts receivable – net	**103.5**	**67.5**
Contract receivables	18.6	16.3
Total receivables from contracts with customers	**122.1**	**83.8**

Age analysis of outstanding accounts receivables after reservations for doubtful accounts appears below.

Age analysis	2019-12-31	2018-12-31
Not due	58.8	43.7
Due 1–30 days	27.5	13.2
Due 31–60 days	6.0	4.9
Due > 60 days	11.2	5.7
Total	**103.5**	**67.5**

Change in reserve for doubtful accounts	2019	2018
Opening balance	-0.5	-0.9
Reserves added in acquisitions	-0.3	–
Reservations for doubtful accounts	–	-0.1
Reversed reserves	0.5	–
Receivables written off during the year as not collectable		0.5
Closing balance	**-0.3**	**-0.5**

Accounts receivable are initially valued at nominal value, as HANZA's credit losses have historically been very low. When assessing credit risk, all accounts receivable are estimated according to an approach that takes into account expected credit losses over the next 12 months. Costs for changing the provision for bad debts are included in the income statement item Other external costs.

There is no collateral or other guarantees for the accounts receivable outstanding as of the balance sheet date.

A material part of the group's accounts receivable are sold to external parties. Because control in these cases has been transferred to the external parties, these accounts receivable have been removed from the balance sheet. On the balance sheet date, the value of sold accounts receivable that have not yet been settled by customers amounted to SEK 234.1 million (195.7). In certain cases accounts receivable can be factored, but there was no factoring debt on the balance sheet date or at the beginning of the year; see also note 24 Borrowing and note 28 Assets pledged.

NOTE 20 Other receivables

Group	2019-12-31	2018-12-31
VAT receivables	10.5	10.9
Receivables on suppliers	2.0	1.9
Other receivables	9.0	2.3
Group total	**21.5**	**15.1**

NOTE 21 Prepaid expenses and accrued income

Group	2019-12-31	2018-12-31
Prepaid rents	3.9	2.6
Prepaid leasing fees	0.8	1.3
Prepaid material costs	1.2	0.2
Prepaid borrowing costs	1.2	–
Other prepaid costs	9.1	4.9
Other accrued income	1.1	0.9
Group total	**17.3**	**9.9**

NOTE 22 Cash and cash equivalents

Group and Parent Company

Cash and cash equivalents consists in it's entirety of fully available bank balances.

NOTE 23 Paid-in capital

Outstanding shares, share capital and other paid-in capital	Number of outstanding shares	Share capital	Other paid-in capital	Total
As of 31 December 2017	**22,324,008**	**2.2**	**310.1**	**312.3**
Preferential rights issue	6,697,200	0.7	55.3	56.0
Redemption of warrants	848,510	0.1	9.4	9.5
As of 31 December 2018	**29,869,718**	**3.0**	**374.8**	**377.8**
Redemption of warrants	110,210	0.0	1.2	1.2
Non-cash issue January	1,000,000	0.1	14.3	14.4
Non-cash issue July	3,000,000	0.3	49.5	49.8
As of 31 December 2019	**33,979,928**	**3.4**	**439.8**	**443.2**

The share capital on the balance sheet day consisted of 33,979,928 shares with a quota of SEK 0,10.

The shares voting value is 1 vote/share.

All shares issued by the Parent Company are fully paid.

Non-cash issues

On 31 January Toolfac was acquired. A part of the purchase price consisted of shares, in which the number of shares increased by 1,000,000 and the share capital increased by SEK 100,000. On 25 July RITTER was acquired. A part of the purchase price consisted of shares, in which the number of shares increased by 3,000,000 and the share capital increased by SEK 300,000.

Warrants

The annual general meeting in May 2016 decided on a warrants programme for 1,001,000 warrants with rights, after restatement for the preferential rights issue, to subscribe for 1.07 shares at SEK 11.14 from 1 November 2018 until 31 December 2018. Of these 896,000 warrants were subscribed.

During November and December 2018 redemption was called upon for all warrants. As of 31 December 2018, 848,510 new shares had been issued at the price of SEK 11.14. A minor remaining part of the warrants programme was registered in January 2019 in which the number of shares increased by 110,210 and the share capital by SEK 11,021.

Reserves

The reserves in equity consist in their entirety in exchange reserves in foreign currencies.

NOTE 24 Borrowings

Group

Changes in borrowings are shown in the tables below. In addition to the borrowings below the Group had on the balance sheet day, lease liabilities at a value of SEK 138.3 million. Information about these is presented in Note 30. In the comparison year financial lease liabilities at a value of SEK 35.9 million were included in liabilities to credit institutions.

2019	Liabilities to credit institutions	Overdraft facilities	Other interest-bearing liabilities	Total borrowings
Opening balance	275.3	45.3	17.1	337.7
Reclassified to lease liabilities (note 30)	-35.9	–	–	-35.9
Repayment of borrowings	-75.8	-15.0	-17.2	-108.0
New loans	117.5	21.1	4.0	142.6
Acquisition of companies	25.0	–	–	25.0
Capitalized interest	–	–	0.3	0.3
Revaluation through income statement	–	–	-1.1	-1.1
Exchange rate differences	1.5	0.7	–	2.2
Closing balance	**307.6**	**52.1**	**3.1**	**362.8**
Of which – long-term	209.9	–	–	209.9
– short-term	97.7	52.1	3.1	152.9

2018	Liabilities to credit institutions	Overdraft facilities	Other interest-bearing liabilities	Total borrowings
Opening balance	127.2	68.8	2.1	198.1
Repayment of borrowings	-172.4	-33.2	-2.1	-207.7
New loans	246.4	2.3	15.8	264.5
Acquisition of companies	70.4	5.9	–	76.3
Capitalized interest	0.4	–	0.5	0.9
Revaluation through income statement	–	–	0.8	0.8
Exchange rate differences	3.3	1.5	–	4.8
Closing balance	**275.3**	**45.3**	**17.1**	**337.7**
Of which – long-term	207.2	–	–	207.2
– short-term	68.1	45.3	17.1	130.5

The Groups interest bearing debt has an average interest rate of 4.2 per cent (4.4) per year.

Liabilities to credit institutions

The Groups borrowings from credit institutions are decentralized so that the loans mainly are raised in each subsidiary. The loans are raised in each subsidiary's local currency. Thereby the Group has it's borrowings from credit institutions in SEK, EUR, CZK, CNY och PLN. The borrowings consist of a major number of contracts split on bank loans, hire-purchase contracts on machines, lease contracts and factoring. A summary of the loans split on currency, type and maturity dates are shown in the table below.

			Due		
2019-12-31 Type of borrowings	**Currencies**	**Recognized value**	**Within 1 year**	**Between 2 and 5 years**	**Later than 5 years**
Bank loans	SEK, EUR, CNY, CZK, PLN	303.6	96.5	191.9	16.6
Hire-purchase agreement	SEK	4.0	1.2	2.8	–
Total		**307.6**	**97.7**	**193.3**	**16.6**

			Due		
2018-12-31 Type of borrowings	**Currencies**	**Recognized value**	**Within 1 year**	**Between 2 and 5 years**	**Later than 5 years**
Bank loans	SEK, EUR, CNY, CZK, PLN	231.6	51.8	175.1	4.7
Hire-purchase agreement	SEK	7.8	3.4	4.4	–
Leasing	SEK, EUR, PLN	35.9	13.0	22.9	–
Total		**275.3**	**68.2**	**202.4**	**4.7**

Note 24 cont.

Liabilities related to financial leasing
Lease liabilities are recognized separately on the balance sheet following implementation of IFRS 16 as of January 1, 2019, and information on 2019 lease liabilities can be found in note 30 Lease contracts. Because the comparative year has not been recalculated, the 2018 lease liabilities are recognized above.

Overdraft facility
The group has overdraft facilities in the currencies SEK, EUR, CZK and PLN totaling SEK 121.9 million (102.7). These facilities are distributed among ten (nine) different subsidiaries and are renegotiated at different times. Of the overdraft facilities, SEK 52.1 million (45.3) had been utilized as of December 31, 2019. The weighted average of the interest rates on overdrafts availed is 2.6 per cent (2.4).

Other interest-bearing liabilities
Additional consideration amounts related to the acquisitions of Wermech 2018 and Toolfac 2019 are the main items recognized under other interest-bearing liabilities. These are financial liabilities measured at fair value through profit or loss in level 3. The change in these liabilities is presented in the table below.

The additional consideration for the acquisition of Toolfac in early 2019 was estimated at SEK 4.1 million. The amount was discounted to SEK 4.0 million at 3.50% interest. Since the additional consideration was based on the company's performance in 2019, it was possible to perform a reliable valuation as of 31-12-2019 according to which the liability was reduced by SEK 1.1 million, which is recognized in the company's income statement. The debt was settled during Q1 2020.

Additional consideration was calculated in the amount of SEK 16.5 million upon the acquisition of Wermech in early 2018. The amount was discounted to SEK 15.8 million at 3.75% interest. Because the additional consideration was based on the acquired company's 2018 sales, it was possible to perform a reliable valuation as of December 31, 2018 according to which the liability was increased by SEK 0.8 million, which was charged to the company's income statement. The debt was settled during Q1 2019.

Change in financial liabilities valued at fair value via the income statement in level 3	**2019-12-31**	**2018-12-31**
Opening balance	17.1	–
Initial discounted value at acquisition	4.0	15.8
Repayment of borrowings	-17.2	–
Capitalized interest	0.3	0.5
Revaluation through income statement	-1.1	0.8
Closing balance	**3.1**	**17.1**

Parent Company 2019-12-31	**Liabilities to credit institutions**	**Liabilities to Group companies**	**Other interest-bearing liabilities**	**Total borrowings**
Opening balance	9.6	–	–	9.6
Repayment of borrowings	-9.9	–	–	-9.9
New loans	90.8	–	–	90.8
Other changes	–	4.4	–	4.4
Closing balance	**90.5**	**4.4**	**0.0**	**94.9**
Of which – long-term	70.1	–	–	70.1
– short-term	20.4	4.4	–	24.8

Parent Company 2018-12-31	**Liabilities to credit institutions**	**Liabilities to Group companies**	**Other interest-bearing liabilities**	**Total borrowings**
Opening balance	16.5	3.3	2.1	21.9
Repayment of borrowings	-74.2	–	-2.1	-76.3
New loans	67.3	–	–	67.3
Other changes	–	-3.3	–	-3.3
Closing balance	**9.6**	**0.0**	**0.0**	**9.6**
Of which – long-term	7.2	–	–	7.2
– short-term	2.4	–	–	2.4

NOTE 25 Accounts payable

Group
All the Group's accounts receivables are due within 3 months.

Accounts receivables split on currencies	2019-12-31	2018-12-31
EUR	120.7	108.6
SEK	66.3	69.1
USD	30.6	27.5
PLN	1.4	1.6
CZK	2.7	1.7
CNY	7.1	7.3
Other	2.9	3.6
Total	**231.7**	**219.4**

NOTE 26 Other liabilities

Group	2019-12-31	2018-12-31
VAT liabilities	6.7	7.5
Employee taxes withhold	17.7	15.5
Prepayments from customers	4.0	–
Other short-term liabilities	7.3	6.1
Group total	**35.7**	**29.1**

Other short-term liabilities consist largely of personnel related liabilities such as determined social security fees to be paid in the following month.

NOTE 27 Accrued expenses and prepaid income

Group	2019-12-31	2018-12-31
Accrued wages	21.4	13.9
Accrued vacation costs	32.6	24.8
Accrued social security fees	12.1	12.5
Accrued material costs	2.4	5.2
Accrued costs for consultants and audit	2.2	1.1
Other accrued expenses and prepaid income	13.6	8.5
Group total	**84.3**	**66.0**

Parent Company	2019-12-31	2018-12-31
Accrued wages	0.2	–
Accrued vacation costs	0.7	0.5
Accrued social security fees	0.5	0.5
Other accrued expenses and prepaid income	0.6	0.8
Parent Company total	**2.0**	**1.8**

NOTE 28 Assets pledged

Group	2019-12-31	2018-12-31
For liabilities to credit institutions and bank overdraft:		
Property mortgages	135.4	95.5
Floating charges	290.0	278.2
Machines with ownership reservations	64.1	23.5
Shares in subsidiaries	396.8	261.1
Pledged accounts receivables and inventory (see also note 24)	34.6	27.3
Leased machines and vehicles	–	35.0
Total	**920.9**	**720.6**

Parent Company	2019-12-31	2018-12-31
For liabilities to credit institutions:		
Shares in subsidiaries	132.1	–
Total	**132.1**	**–**

NOTE 29 Contingent liabilities

Group	2019-12-31	2018-12-31
Issued guarantees	62.5	44.0
Total	**62.5**	**44.0**

Parent Company	2019-12-31	2018-12-31
Guarantee commitment	128.0	166.7
Total	**128.0**	**166.7**

NOTE 30 Lease contracts

Group
The group rents most of its production premises, warehouses and the offices used in its operations, as well as some production machinery, forklift trucks, certain IT equipment and a number of cars. The production machinery and the cars were already recognized on last year's balance sheet as tangible fixed assets and liabilities to credit institutions in accordance with the rules for financial leasing. On January 1, 2019, HANZA implemented IFRS 16, according to which all leases are recognized on the balance sheet, with certain exceptions, as rights of use and lease liabilities. As a result, premises, forklift trucks and certain IT equipment were added to the balance sheet as of 01-01-2019. In the year previous these were recognized as operating leases, as presented at the end of this note. The leases for premises usually contain clauses that stipulate automatic renewal unless a party terminates the agreement. However, extension periods have been included in the valuation of the leases in only a few cases, as it is common for one of the parties to terminate the lease in order to renegotiate the rent, after which a new lease is concluded.

Subletting only occurs in exceptional cases and at marginal amounts.

Note 30 cont.

Right-of-use assets 2019	Buildings and premises	Machinery and technical installations	Equipment, tools and cars	Total
Reclassified from tangible assets (note 15)	–	39.3	–	39.3
Added assets at adoption of IFRS 16	78.4	1.1	0.2	79.7
Extensions and revaluations of existing contracts	1.4	–	–	1.4
Investments	11.9	11.3	1.9	25.1
Acquisition of companies	24.7	10.1	0.9	35.7
Sold and scrapped	-7.1	-0.6	-0.7	-8.4
This years depreciation	-25.8	-8.9	-2.6	-37.3
Reclassifications	–	3.5	3.9	7.4
Exchange rate differences	0.6	0.2	–	0.8
Closing balance	**84.1**	**56.0**	**3.6**	**143.7**

Lease liabilities	2019	2018
Reclassified from liabilities to credit institutions (note 24)	35.9	–
Added liabilities at adoption of IFRS 16	79.7	–
Extensions and revaluations of existing contracts	1.4	–
Amortizations	-45.9	–
New contracts	37.3	–
Terminated contracts	-8.4	–
Acquisition of companies	35.7	–
Capitalized interest	1.8	–
Exchange rate differences	0.8	–
Closing balance	**138.3**	**–**
Of which – short-term within 1 year	45.5	–
– long-term 1–2 years	37.6	–
– long-term 2–5 years	48.6	–
– later than 5 years	6.6	–

Future leasing fees, undiscounted cash flows	2019	2018
Due within 1 year	46.1	–
Due after more than 1 year but within 2 years	38.9	–
Due after more than 2 years but within 5 years	53.0	–
Due after more than 5 years	10.1	–
Total paid leasing fees	**148.1**	**–**

Paid leasing fees	2019
Leasing fees referring to contracts recognized in the balance sheet	41.9
Leasing fees referring to contracts shorter than 1 year	2.2
Leasing fees referring to contracts of smaller value	1.7
Total paid leasing fees	**45.8**

Operational leasing in 2018 and adoption of IFRS 16

Costs for operational leasing in the Group amounted in 2018 to SEK 29.7 million.

As of 31 December 2018 the following future minimileases according to non-cancellable operational contracts were reported:

Group	2018-12-31
Within 1 year	28.1
Later than 1 but within 5 years	58.9
Later than 5 years	1.7
Group total	**88.7**

The operational future leasing fees above are reconciled to the balance sheet effect of IFRS 16 as follows:

Group	2018-12-31
Future operational leasing fees as of 31 December 2018	88.7
Deduction of short-term contracts	-2.4
Deduction of fees for contracts of smaller value	-6.8
Deduction due to discounting	-4.2
Added due to likely extensions[1]	4.4
Added liabilities at adoption of IFRS 16	**79.7**
Previously recognized lease liability according to IAS 17	35.9
Total lease liability as of 1 January 2019	**115.6**

1) Added fees due to likely extensions above refer to contracts where the Group has deemed it likely that the contract will be extended after the non-cancellable period at the adoption. Fees for these periods were not included in future leasing fees above but included in the calculation of lease liability according to IFRS 16.

NOTE 31 Post-employment benefits

Group

Sweden

In Sweden there are individual defined-contribution pension agreements, agreements under the defined-contribution ITP 1 plan, and agreements under the ITP 2 plan. The ITP 2 plan's defined-benefit pension commitments for retirement and family pension are assured through a policy with Alecta. According to a statement by the Swedish Financial Reporting Board, UFR 10 Recognition of the ITP 2 pension plan as financed through a policy with Alecta, this is a defined-benefit plan that includes several employers. For the 2019 financial year, the company did not have access to the information needed to be able to report its proportional share of plan obligations, plan assets and costs, as a result of which it was not possible to recognize the plan as a defined-benefit plan. The ITP 2 pension plan, which is assured through a policy with Alecta, is therefore recognized as a defined-contribution plan. The premium for the defined-benefit retirement and family pension is calculated individually and depends, among other things, on salary, previously vested pension and the expected remaining period of service. Expected contributions for the next reporting period for ITP 2 insurances that have been taken out with Alecta run to SEK 2.9 million (contributed in 2019: SEK 2.9 million). The group's share of total contributions to the plan is negligible.

The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance obligations, calculated in accordance with Alecta's actuarial methods and assumptions, which do not tally with IAS 19. The collective consolidation level should normally be allowed to vary between 125 and 155 per cent. If Alecta's collective consolidation level falls below 125 per cent or exceeds 155 per cent, measures must be taken to create the conditions needed for the consolidation level to revert to the normal range. In the event of low consolidation, one measure may be to increase the agreed price for taking out a new policy and increasing existing benefits. In the event of high consolidation, one measure may be to introduce premium reductions. At the end of 2019, Alecta's surplus, in the form of the collective consolidation level, ran to 148 per cent (142).

There is a PRI plan in a Swedish subsidiary. This is recognized as a defined-benefit plan, but because it is minor in scope it is recognized in accordance with the pension fund's own valuation without recalculation in accordance with IAS 19.

Germany

The acquisition of RITTER Elektronik GmbH in July 2019 added a defined-benefit pension plan that covers 351 people, of whom 168 are active in the company, with the remainder being paid-up policyholders and pensioners. The plan, which is managed by an outside manager, covers the majority of the employees, yet not those hired in 2018 or later. At year-end, the funding ratio for the plan amounted to 24 per cent.

Other countries

In other countries where HANZA operates, there are defined-contribution pension plans that in some cases cover all employees and in other cases only certain groups of employees.

Total pension costs in income statement	**2019**			**2018**		
	Germany	**Other**	**Total**	**Germany**	**Other**	**Total**
Pension costs for defined contribution plans	0.5	28.8	29.3	–	21.3	21.3
Pension costs for defined benefit plans	1.1	0.4	1.5	–	0.5	0.5
Total pension costs	**1.6**	**29.2**	**30.8**	**–**	**21.8**	**21.8**

Defined benefit pensions

Recognition in the balance sheet	**2019**			**2018**		
	Germany	**Other**	**Total**	**Germany**	**Other**	**Total**
Defined benefit obligations, funded plans	137.0	–	137.0	–	–	0.0
Defined benefit obligations, unfunded plans	–	4.9	4.9	–	4.5	4.5
Plan assets, fair value	-33.0	–	-33.0	–	–	0.0
Provisions for pensions	**104.0**	**4.9**	**108.9**	**–**	**4.5**	**4.5**

Note 31 cont.

Change in defined benefit pension obligations	2019 Present value of defined benefit pension plans	2019 Plan assets, fair value	2019 Net	2018 Present value of defined benefit pension plans	2018 Plan assets, fair value	2018 Net
Opening balance	**4.5**	**–**	**4.5**	**4.0**	**–**	**4.0**
Acquisition of companies	140.0	-31.5	108.5	–	–	–
Items in income statement						
Current service cost	1.5	–	1.5	0.5	–	0.5
Interest costs	1.0	-0.2	0.8	–	–	–
	2.5	**-0.2**	**2.3**	**0.5**	**–**	**0.5**
Revaluation in other comprehensive income:						
Actuarial gains/losses (-/+) from changes in demographic assumptions	-0.2	–	-0.2	–	–	–
Actuarial gains/losses (-/+) from changes in financial assumptions	-2.6	–	-2.6	–	–	–
Return on plan assets		-0.8	-0.8	–	–	–
	-2.8	**-0.8**	**-3.6**	**–**	**–**	**–**
Other changes:						
Employer contributions	-0.2	-0.3	-0.5	–	–	–
Employee contributions	–	–	0.0	–	–	–
Benefit payments	-1.1	-0.4	-1.5	–	–	–
Exchange differences	-1.0	0.2	-0.8	–	–	–
Closing balance	**141.9**	**-33.0**	**108.9**	**4.5**	**–**	**4.5**

Plan assets
The plan assets are fully invested in a German pension fund.

Actuarial assumptions and sensitivity analysis
A number of actuarial assumptions are used in valuing the defined-benefit pension plans. The most important of these assumptions are set out below. In cases where a sensitivity analysis is presented, other assumptions are assumed to be unchanged.

Discount rate
A discount rate of 0.75 per cent was used in calculating the German pension debt. This is based on AA-rated corporate bonds with maturities corresponding to the pension obligations.

If the discount rate used had been 0.5 percentage points higher, the liability would have been lower by SEK 5.7 million, while if it had been 1 percentage point lower, the liability would have been higher by SEK 6.2 million.

Demographic assumptions
The Heubeck 2018 G table was used in the calculation of the German pension plan. A reasonable increase in life expectancy could increase the liability by SEK 2.3 million.

Parent company
The parent company has 2 employees who are covered by individual defined-contribution pension agreements.

NOTE 32 Cash flow analysis

Group

Other non-cash items	2019	2018
Result from disposal of fixed assets	2.2	-1.4
Revaluation of additional purchase price	-1.1	0.8
Unrealized exchange differences	1.2	3.8
Other	2.5	1.5
Total	**4.8**	**4.7**

Cash flow from investments in tangible fixed assets	2019	2018
Acquisitions according to note 15	-48.3	-59.5
Less: Acquisitions through financial leasing[1]	–	15.9
Cash flow	**-48.3**	**-43.6**

Cash flow from new loans	2019	2018
New loans according to note 24	142.6	264.5
New liability referring to additional purchase price	-4.0	-15.8
Investments transferred to lease contracts	10.9	–
Less: New financial lease contracts[1]	–	-15.9
Cash flow	**149.5**	**232.8**

Cash flow from amortizations	2019	2018
Repayment of borrowings according to note 24	-108.0	-207.7
Repayment of borrowings of leasing according to note 30	-45.9	–
Additional purchase price paid, which is reported under investments in subsidiaries in the cash flow	17.2	–
Less: Lease contracts terminated without cash flow effect[1]	–	3.3
Cash flow	**-136.7**	**-204.4**

1) After the adoption of IFRS 16 lease liabilities are no longer reported in Note 24 Borrowings. Hence, no explanation items exist between note 24 and cash flow for 2019.

NOTE 33 Acquisitions of subsidiaries

Acquisitions during the year
HANZA Holding has during 2019 made two acquisitions. Toolfac Oy ("Toolfac") was acquired in January and in July Ritter Elektronik GmbH ("RITTER") was acquired.

On 31 January 2019, HANZA Holding acquired all shares in Toolfac Oy, with domicile in Iisalmi, Finland. The company conducts manufacturing with a focus on machining. Toolfac's sales for 2018 were approximately SEK 80 million. The total purchase price is capped at SEK 34.1 million, consisting of a cash component in the amount of SEK 15.6 million that was paid upon entry into possession, 1,000,000 shares in HANZA Holding valued at SEK 14.4 million and a variable additional purchase price of no more than SEK 4.1 million, payable during the first quarter of 2020. The expected additional purchase price has been estimated at SEK 4.1 million in the acquisition analysis, which was discounted to SEK 4.0 million. As per 31 December, the liability relating to the additional purchase price has decreased by SEK 1.1 million which is reported under other operating income. An external valuation of Toolfac's property identified a surplus value of SEK 6.5 million. The remaining surplus value of the acquisition, SEK 8.8 million before deferred tax, has been linked to customer relations. The deferred tax liability for these items is SEK 3.0 million. The acquisition analysis is conclusive. The table on next page summarises the purchase price for Toolfac and the fair value of the acquired assets and assumed liabilities that were recognised on the acquisition date.

On 25 July 2019, HANZA Holding acquired all shares in RITTER Elektronik GmbH with domicile in Remscheid, Germany and with subsidiary RITTER Electro CZ with domicile in Zabreh, Czech Republic. The company has one production unit in Remscheid, Germany with about 180 employees, which offers manufacturing of electronics, mechanics and final assembly, and one production unit in Zabreh, Czech Republic, with about 110 employees, offering manufacturing of electronics, mechanics and advanced final assembly. RITTER's sales for 2018 were approximately SEK 430 million. The total purchase price amounts to SEK 126.6 million, consisting of a cash component in the amount of SEK 76.6 million that was paid upon entry into possession and 3,000,000 shares in HANZA Holding valued at SEK 50.0 million. In the acquisition, an intangible asset in the form of customer relations was identified in the amount of SEK 45.2 million. The customer relations will be amortized on a straight-line basis over 10 years. Deferred tax liability related to this item amounts to SEK 14.3 million. The German company has significant defined benefit pensions which HANZA previously only had to a marginal extent. The pension liability has been valued according to IAS 19 R at acquisition and will be reported as post-employment benefits. In inventory a surplus value of SEK 4.2 million was identified in work in progress. This surplus value has been expensed on a straight-line basis during 2019. In addition, goodwill in the amount of SEK 33.5 million is reported in the acquisition. This goodwill mainly consists of synergies with the other HANZA units in Central Europe and presence on the German market. This goodwill is not tax deductible. The acquisition analysis for RITTER is still preliminary. The table below summarises the purchase price for RITTER and the fair value of the acquired assets and assumed liabilities that were recognized on the acquisition date.

Note 33 cont.

Purchase price, SEK million	Toolfac	RITTER
Cash and cash equivalents paid upon entry into possession	15.6	76.6
Equity instruments 1,000,000 ordinary shares	14.4	50.0
Conditional additional purchase price due in Q1 2020	4.0	–
Total estimated purchase price	**34.0**	**126.6**
Reported amounts of identifiable acquired assets and assumed liabilities		
Cash and cash equivalents	4.1	15.9
Intangible fixed assets	8.8	47.3
Right-of-use assets	–	35.7
Buildings and land	8.2	16.1
Machinery and equipment	20.3	7.4
Deferred tax assets	–	16.0
Inventories	15.8	128.4
Accounts receivable and other receivables	5.7	59.9
Deferred tax liability	-3.2	-15.8
Post-employment benefits	–	-108.5
Lease liabilities	–	-35.7
Borrowings	-14.9	-10.1
Accounts payable and other liabilities	-10.8	-63.5
Total identified net assets	**34.0**	**93.1**
Goodwill	–	33.5
Total net assets transferred	**34.0**	**126.6**
Cash flow effect from acquisitions	**-11.5**	**-60.7**

In the years cash flow from investments in subsidiaries, is the payment of the variable additional purchase price of SEK 17.2 million referring to Wermech which is described below, also included.

HANZA's business model aims to coordinate factories with various manufacturing technologies into what are referred to as Manufacturing Clusters within certain geographical areas. Following an acquisition, production is reallocated in order to optimise the manufacturing process, material logistics and cost-efficiency from the Manufacturing Cluster's perspective. In addition, administration, IT, marketing, sales etc. are also coordinated within the respective Manufacturing Cluster in order to make a positive impact on the acquired company's profitability. This integration, which commences immediately after the acquisition, impacts individual factories' financial reports, for which reason an acquired company's reports following an acquisition are no longer comparable to the situation that would have prevailed if the company had remained independent.

Hence the acquired companies' net sales during 2019 is expected to be positively affected by the fact that they are a part of HANZA Group, see also "Market Performance" above. The table below shows reported net sales and EBIT from the acquired units.

Net sales and EBIT in the acquired companies, SEK million	Toolfac	RITTER
Date of acquisition	2019-01-31	2019-07-25
Net sales before acquisition	6.7	284.5
Net sales after acquisition	67.8	189.6
Total net sales if the company had been held for the full period	**74.5**	**474.1**
EBIT before acquisition	0.3	29.9
EBIT after acquisition	6.6	22.3
Total EBIT if the company had been held for the full period	**6.9**	**52.2**

EBIT above shows the results reported by the companies but does not include from the acquisitions added amortisation of identified surplus values integration costs or transaction costs.

Accounts receivables in Toolfac at the date of acquisition, were reported at nominal value without any reserves for doubtful accounts. All accounts receivables that existed at the acquisition have been paid during 2019. No credit losses have been booked in the company after the acquisition.

In RITTER existed at the balance sheet date accounts receivables of SEK 0.7 million that remained from the acquisition. For these there was a reserve for doubtful accounts of SEK 0.3 million that also remained from the acquisition. No credit losses have been booked in the company after the acquisition.

In total, HANZA's result for 2019 has been charged with transaction costs of SEK 8.4 million (0.3) of which 2.0 refers to the acquisition on Toolfac and 6.4 the acquisition of RITTER.

Acquisition 2018

On 1 February 2018, HANZA Holding acquired all shares in Wermland Mechanics Group AB (Wermech). The company owns the subsidiary Wermland Mechanics Töcksfors AB, which manufactures custom-made sheetmetal components at plants in Töcksfors and Svanskog in Värmland. In 2017, Wermech posted sales of SEK 366.2 million, with an operating profit of SEK 27.3 million.

The total purchase price was capped at SEK 167.5 million, consisting of a fixed component in the amount of SEK 145.0 million that was paid upon entry into possession, and a variable additional purchase price of no more than SEK 22.5 million, payable during the first quarter of 2019. The variable additional purchase price formed a financial liability in level 3 and was based on the company's performance in 2018. The expected additional purchase price was estimated at SEK 16.5 million in the acquisition analysis, which was discounted to SEK 15.8 million. In the year end closing 2018 the liability was, based on the 2018 closing in the purchased company, increased by SEK 0.8 million which was charged to the income statement. In the acquisition, an intangible asset in the form of customer relations was identified in the amount of SEK 66.0 million. In addition, goodwill in the amount of SEK 113.3 million was reported in the acquisition. This goodwill mainly consists of expected synergies with the other HANZA units in Sweden and technical knowledge in the acquired company. This goodwill is not tax deductible.

In the table below the purchase price for Wermech and the fair value of the acquired assets and assumed liabilities that were recognized on the acquisition date are summarized.

Purchase price, SEK million	
Cash and cash equivalents paid upon entry into possession	145.0
Conditional additional purchase price paid in Q1 2019	15.8
Total estimated purchase price	**160.8**
Reported amounts of identifiable acquired assets and assumed liabilities	
Cash and cash equivalents	0.6
Intangible fixed assets	66.0
Tangible fixed assets	54.3
Inventories	29.1
Accounts receivable and other receivables	62.8
Deferred tax liability	-25.2
Borrowings	-76.3
Accounts payable and other liabilities	-63.8
Total identified net assets	**47.5**
Goodwill	113.3
Total net assets transferred	**160.8**
Cash flow effect from acquisitions	**-144.4**

Note 33 cont.

Wermech forms part of the HANZA Group as from 1 February 2018. In January 2018, the company posted sales of SEK 33.4 million and an operating profit of SEK 2.4 million. As of the acquisition date, Wermech is reporting external sales of SEK 368.6 million, with a reported operating profit of SEK 30.3 million. Accounts receivables in the acquired company at the date of acquisition, were reported at nominal value without any reserves for doubtful accounts. All accounts receivables that existed at the acquisition were paid during 2018. No credit losses were booked in the company in 2018.

The main part of the transaction costs for the acquisition in 2018 were charged to the result already in 2017. During 2018 transaction costs of SEK 0.3 million was charged to the result.

NOTE 34 Transactions with related parties

The group's related parties include the largest shareholders, the Board of Directors, the CEO and other senior executives, as well as their family members. As for the parent company, all group subsidiaries are also included in the circle of related parties. The parent company's transactions with these are recognized separately at the end of this note.

The largest shareholder is Gerald Engström who owned, as of the balance sheet date, just over 19% of the shares and votes in HANZA Holding AB through his fully-owned company Färna Invest. RVM Systems AS is a fully-owned subsidiary of Färna Invest, to which HANZA sold manufacturing services as presented below. The sales have been conducted on market terms.

The following transactions with external related parties have taken place:

Sales to and purchases from related parties	2019	2018
Sales to:		
RVM Systems AS	49.5	44.1
Purchase of services from:		
Audit firm Lindahl (employer to Mikael Smedeby, chairman of the board up to 7 May 2019)	0.8	2.4

The former Chairman of the board, Mikael Smedeby, was active at Advokatfirman Lindahl. The Hanza Group has used Lindahl for legal consulting services on market terms. The stated amount for 2019 relates to purchases up to 7 May.

Board members Gerald Engström, Francesco Franzé and Håkan Halén guaranteed a preferential rights issue during Q1 2018. The terms of this guarantee are described in the prospectus published in connection with the preferential rights issue.

Other than that, there have been no transactions between the HANZA Group and related parties that have materially affected the group's position and earnings during the year.

Remuneration to senior executives

Guidelines

Remunerations are paid to the Chairman and members of the board in accordance with the decision of the AGM. Remuneration for work on the Audit Committee is payable as from 2019. No special emolument is paid for work on the Remuneration Committee.

Remuneration to the CEO and other senior executives consists of basic salary, pension and a benefit in the form of a company car. Other senior executives are considered those persons who, together with the CEO, constitute the group management team. There were a total of 5 such persons (5).

2019 Amounts in SEK thousands	Basic salary/ Board remuneration	Variable remuneration	Pension cost	Other benefits	Total
Chairman of the board Mikael Smedeby (up to May)	110	–	–	–	110
Chairman of the board Francesco Franzé (from May, previously vice chairman)	305	–	–	–	305
Board member Gerald Engström	172	–	–	–	172
Board member Håkan Halén	205	–	–	–	205
Board member Helene Richmond	172	–	–	–	172
Board member Sofia Axelsson	188	–	–	–	188
CEO and president Erik Stenfors	2,211	–	560	76	2,847
Other senior executives (5 people)	6,579	311	2,192	331	9,413
Total	**9,942**	**311**	**2,752**	**407**	**13,412**

Note 34 cont.

2018 Amounts in SEK thousands	Basic salary/ Board remuneration	Variable remuneration	Pension cost	Other benefits	Total
Chairman of the board Mikael Smedeby	320	–	–	–	320
Vice chairman Francesco Franzé	160	–	–	–	160
Board member Gerald Engström	160	–	–	–	160
Board member Håkan Halén	160	–	–	–	160
Board member Helene Richmond	160	–	–	–	160
Board member Sofia Axelsson (from May)	110	–	–	–	110
CEO and president Erik Stenfors	2,003	–	531	86	2,620
Other senior executives (5 people)	6,388	–	2,071	253	8,712
Total	**9,461**	**–**	**2,602**	**339**	**12,402**

The group's senior executives only have defined-contribution pension plans. Pension cost refers to the cost that affected the profit for the year. For further pension disclosures, see below.

The Chairman of the board has not received any remuneration in addition to director's fees.

Share-based payment and warrants

During November and December 2018, warrants were exercised under a warrant program dating from 2016, which involved the issue of 958,720 new shares at a price SEK 11.14. The average share price in November and December 2018 was SEK 15.79. There were no outstanding options in the company in 2019.

Pensions

The retirement age for the CEO is 65. The pension premium shall amount to 25 per cent of pensionable salary. Pensionable salary refers to basic salary and the average of variable remuneration over the past three years.

For other senior executives the retirement age is 65. The pension agreements stipulate that pension payments must adhere to a premium scale established by the company.

Severance pay

A mutual notice period of six months applies as between the company and the CEO. Severance pay equivalent to six months' salary is payable in the event of involuntary termination of employment. The severance pay is not offset against other income. No severance pay is payable in the event of resignation by the CEO.

A mutual notice period of three to six months applies as between the company and other senior executives. In one case there is a severance pay agreement amounting to six monthly salaries.

The parent company's receivables on, liabilities to and transactions with group subsidiaries

Receivables from and liabilities to group companies

On the balance sheet date, the parent company had long-term receivables from HANZA AB amounting to SEK 58.6 million (64.4) and from HANZA Metalliset oy amounting to SEK 30.6 million (-). These receivables consist of intra-group loans that bear market interest rates. At year-end, the parent company had no current receivables (SEK 2.4 million last year) from other subsidiaries. The parent company's current liabilities to subsidiaries amounted to SEK 4.4 million (-). These comprise operating receivables and liabilities of a temporary nature.

The parent company's sales to and purchases from group companies

Services to group companies are bought and sold on standard commercial terms and have amounted as below.

SEK million	2019	2018
Sales of services to subsidiaries	21.5	19.8
Purchase of services from group companies	2.2	1.0

NOTE 35 Shares in subsidiaries

Parent Company	2019	2018
Opening acquisition values	228.3	228.3
Acquisition of RITTER Elektronik GmbH[1]	132.2	–
Closing value	**360.5**	**228.3**

					Closing value	
Name	**Corporate ID**	**Domicile**	**Proportion of equity[2], %**	**Number of share**	**2019-12-31**	**2018-12-31**
Directly owned subsidiaries						
Holding companies						
HANZA AB	556746-2436	Årjäng	100	128,205	139.1	139.1
Manufacturing companies						
HANZA KA Åtvidaberg AB	556404-2371	Åtvidaberg	100	227,292	21.1	21.1
HANZA Metalliset Oy	0735704-5	Heinävesi, Finland	100	1,626	68.1	68.1
HANZA GmbH[1]	HRB17168	Remscheid, Germany	100	1	132.2	-
					360.5	**228.3**

Name	Corporate ID	Domicile	Proportion of equity[2], %	Number of share
Indirectly owned subsidiaries				
Manufacturing companies				
HANZA ALFARAM ELECTRIC (SUZHOU) CO.,LTD	9132059472801435XQ	Suzhou, China	100	1
HANZA Elektromekan AB	556253-8289	Årjäng, Sweden	100	20,000
HANZA Mechanics Sweden AB	556497-3237	Årjäng, Sweden	100	2,210
HANZA Mechanics Tartu AS	10019012	Tartu, Estonia	100	75,000
HANZA Poland Sp. z.o.o	0000302360	Wolów, Poland	100	175
HANZA Mechanics Narva AS	11011627	Narva, Estonia	100	1,000
HANZA Mechanics Kunovice s.r.o	26217465	Kunovice, Czech Republic	100	1
HANZA Toolfac Oy	1895668-4	Iisalmi, Finland	100	199
HANZA Wermech AB	556560-4187	Årjäng	100	1,000
RITTER Electro CZ, spol. s r.o	25862839	Ostrava, Czech Republic	100	1
Subsidiaries for group internal services				
HANZA Shared Service Center AB	556893-0449	Årjäng, Sweden	100	500
HANZA Shared Service Tartu OÜ	12775321	Tartu, Estonia	100	1
Dormant subsidiaries				
HANZA Alfaram Finland Oy	1065763-9	Kaarina, Finland	100	55
HANZA Finland Oy	2072052-3	Kempele, Finland	100	11,203
HANZA Finland, Vaasa Oy	1505141-7	Vasa, Finland	100	2,400
HANZA Mechanics Ma'anshan	91340500587233283M	Ma'anshan, China	100	1
HANZA Tarkon Sweden AB	556833-2257	Stockholm, Sweden	100	100,000

1) Name at acquisition was RITTER Elektronik GmbH.
2) Proportion of votes correspond to proportion of equity.

NOTE 36 Appropriations

Parent company appropriations previous year, consisted of group contributions from the Swedish subsidiary HANZA Elektromekan AB amounting to SEK 2.3 million. No appropriations were made in 2019.

NOTE 37 Events after the end of the year

- In March, HANZA decided to split the group's manufacturing clusters in Central Europe into two units in order to increase its focus on the German market. Germany will thus form its own cluster, and the Central Europe Cluster will comprise the factories in Poland and the Czech Republic.
- As part of HANZA's organizational development, certain group functions are being decentralized, as part of which Global Strategic Sourcing and Strategic HR will be moved to HANZA's manufacturing clusters. The sales function, which has recently been shored up through recruitment at the cluster level, is being revised and moved out to the respective clusters. The change is expected to be implemented in Q2 2020.
- Thomas Lindström, Head of Business Solutions & Marketing, as well as Petra Duprez, Head of Strategic HR, will be leaving the company in Q2 2020, at their own request. HANZA's Group management team now consists of Erik Stenfors, CEO, Lars Åkerblom, CFO and Andreas Nordin, COO.
- On March 24, HANZA's Board of Directors decided, due to the general uncertainty associated with the spread of coronavirus, to amend its proposal to the AGM to the effect that no dividend should be paid for the 2019 financial year. The earlier proposal was for SEK 0.25 per share.

At the time of this annual report's publication, there is an ongoing outbreak of coronavirus which, together with the measures taken to limit the spread of infection, may have major impacts on the entirety of HANZA's manufacturing and sales market. It is not yet possible to assess the effects that this will have on the company's operations and financial performance. The Board of Directors and the management team are monitoring developments closely in order to be able, quickly and efficiently, to cope with any changes that arise in the company's business environment.

NOTE 38 Proposed appropriation of profit

The Board of Directors proposes that no dividend be paid for financial year 2019. This proposal, published on March 24, 2020, represents a change from the proposal made upon publication of the year-end report.

The following profit (SEK) in the parent company is at the disposal of the AGM

Retained earnings	35,203,485
Share premium reserve	314,893,051
Profit for the year	3,486,824
Total	**353,583,360**

The Board of Directors proposes that retained funds be

Carried forward in the amount of	353,583,360
Total	**353,583,360**

DECLARATION

The annual report and the consolidated financial statements have been approved for publication by the Board of Directors on April 1, 2020. The consolidated income statement and balance sheet will be submitted for approval at the AGM on April 27, 2020.

The Board of Directors and the President and CEO declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position, results of operations and cash flows.

The annual report has been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent company's financial position and results of operations.

The statutory Management Report of the Group and the Parent company provides a fair review of the development of the Group's and the Parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent company and the companies included in the Group.

The annual report and the consolidated financial statements also contains the Groups and the Parent company's sustainability report according to the Annual Accounts Act, Chapter 6, Section 11, see pages 20–24.

Stockholm April 1, 2020

Francesco Franzé
Chairman of the board

Gerald Engström
Vice chairman of the board

Sofia Axelsson
Board member

Håkan Halén
Boardmember

Helene Richmond
Board member

Erik Stenfors
President and CEO

Our audit report was issued on April 1, 2020

Ernst & Young AB

Charlotte Holmstrand
Authorized Public Accountant
Auditor in charge

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

Below is the board's proposal to the 2020 AGM regarding guidelines for remuneration to senior executives

The scope and applicability of the guidelines
These guidelines extend to the CEO and the persons who at any given time are part of the company's management team and report directly to the CEO. To the extent that a board member of the company should perform work on behalf of the company alongside his board mandate, these guidelines must also apply to any remuneration paid to the board member for such work. The guidelines must apply to such remuneration as is agreed upon, and to changes made to already agreed remuneration once the guidelines have been adopted by the 2020 AGM. The transfer of securities and the granting of rights to acquire securities from the company in the future must be equated with remuneration. The guidelines shall apply until such time as new guidelines have been adopted by the general meeting. The guidelines do not extend to remuneration resolved upon by the general meeting, such as director's fees and share-based incentive programs. Executives who maintain a post as a member or deputy of the Board of Directors of a group company must not receive separate board remuneration for this.

How the guidelines contribute to the company's business strategy, long-term interests and sustainability
HANZA is an industrial operator and strategic business partner in the contract manufacturing sector, which means that the company develops and machines products on behalf of a product-owning company. By bringing together different manufacturing technologies locally, HANZA creates shorter lead times and increased profitability for the company's customers. The company's business strategy is (in short) the following: HANZA must strive to become a unique value-creating manufacturing partner for its customers. This is to be achieved by developing manufacturing clusters and manufacturing consulting services in order to create sustainable solutions that increase customer profitability and growth.

In order for the company's business and sustainability strategy to be implemented successfully and for the company's long-term interests to be safeguarded, it is necessary for the company to be able to recruit and retain a management team possessing the skills and capacity to achieve established goals. These guidelines contribute to the company's business strategy, long-term interests and sustainability by enabling the Company to offer senior executives competitive remunerations.

Forms of remuneration
The company's remuneration system must be market-based and competitive. Remuneration may be paid in the form of fixed cash salary, variable remuneration, pension and other customary benefits.

Fixed salary must be fixed individually for each executive and based on the executive's position, responsibilities, skills, experience and performance.

Variable remuneration must be related to the outcome of the company's targets and strategies, and must be based on predetermined, measurable criteria that are designed to promote long-term value creation. The proportion of total remuneration that consists of variable remuneration must be able to vary depending on the position, and must be proportionate to the responsibilities and powers of the given senior executive. However, the variable remuneration may correspond to a maximum of 45 per cent of annual fixed salary for the CEO and 30 per cent of annual fixed salary for other senior executives. The variable remuneration must not be pensionable insofar as not otherwise governed by the provisions of mandatory collective agreements. The Board of Directors must have the opportunity, as governed by law or agreement and with the limitations that follow therefrom, to claw back in whole or in part any variable remuneration paid on erroneous grounds.

Pension benefits must be granted on market terms in line with the benefits accorded to equivalent executives in the market, and must be defined-contribution unless the executive is covered by a defined-benefit pension in accordance with the provisions of mandatory collective agreements. The pension premiums for defined-contribution pensions may amount to a maximum of 30 per cent of the executive's annual fixed salary.

Miscellaneous benefits may include company car benefits, occupational health care, life and health insurance and other similar benefits. Miscellaneous benefits must constitute a minor proportion of total remuneration and may amount to a maximum of 8 per cent of the executive's annual fixed salary.

Consultancy fees must be market-based.

For employment relationships that are subject to laws and regulations in a country other than Sweden, reasonable adjustments are permitted as regards pensions and other benefits in order to comply with mandatory rules or established local practice, although in so doing the general purpose of these guidelines must be accommodated to the greatest extent possible.

Criteria for payment of variable remuneration
The criteria that form the basis for the payment of variable remuneration must be established annually by the Board of Directors in order to ensure that the criteria are in line with the company's current business strategy and performance targets. The criteria can be individual or collective, financial or non-financial in nature, and must be designed in such a way that they promote the company's business strategy, sustainability strategy and long-term interests, which means that the criteria must have a clear link to the company's business strategy and objectives.

The financial criteria that form the basis of any variable remuneration must be based on relevant key figures such as earnings (EBIT), sales performance, cash flow, tied-up capital, etc., and their composition may vary depending on the phase that the Board of Directors considers the company to be in.

The non-financial criteria that form the basis for any variable remuneration must be linked to clear and measurable business-related targets, such as the conclusion of agreements that are material to the company, activities carried out in accordance with the company's business plan, expansions/establishments, and achieved objectives within the framework of the company's sustainability management.

The period that forms the basis for the assessment of whether or not the criteria have been met (the measurement period) must comprise at least one year. The assessment of the extent to which the criteria have been met must be performed by the Remuneration Committee when the measurement period has ended. The assessment of whether financial criteria have been met must be based on the latest financial information published by the company. The decision regarding payment of variable remuneration is made by the Board of Directors after deliberation in the Remuneration Committee.

Notice period and severance pay
A mutual notice period of six months shall apply with respect to the CEO. In the event of termination by the Company, a severance sum shall be payable in an amount not exceeding the fixed cash salary for one year.

For senior executives other than the CEO, the mutual notice period shall be six months. Any severance pay may not exceed an amount corresponding to the senior executive's fixed salary for six months.

Deviation from the guidelines
The Board of Directors may resolve to temporarily deviate from the guidelines if there are special reasons for so doing in an individual case and where a departure is necessary in order to cater to the company's long-term interests and sustainability, or in order to ensure the company's financial viability. Such special reasons include, for example, where a deviation is deemed necessary in order to recruit or retain key personnel, or in exceptional circumstances, such as when the company achieves a certain desired result in a shorter time than planned, when the company succeeds in concluding a certain agreement in a shorter time and on better terms than foreseen, or when the company increases in value or grows its sales or profits to a greater extent than expected.

AUDITOR'S REPORT

To the annual general meeting of the shareholders of Hanza Holding AB, corporate identity number 556748-8399

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Hanza Holding AB (publ) for the year 2019 with exception for the corporate governance statement on pages 33–36. The annual accounts and consolidated accounts of the company are included on the pages 28–82 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 33–36. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

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

Revenues

Description of the key audit matter

The turnover for 2019 amounts to 2067,7 MSEK for the group. The revenues of the group primarily consist of revenues from sales of goods such as components, underlying systems and finished composited products to customers in many different countries. The products are produced according to the client's specifications but Hanza is involved in tailoring the manufacturing process. This means that the price model, manufacturing process and delivery terms are individual for each single customer agreement. The revenue process requires a well working process, including orders, invoicing, deliveries and delivery terms. These conditions are delivered by several subsidiaries which requires guidelines and procedures but also assessments by management to determine appropriate method and period to ensure correct revenue recognition. In our opinion revenues is a key audit matter considering the volume of transactions and that revenues constitute the most significant financial item for the company.

For further information about the revenues, see Accounting principles and note 6 distribution by geographical market and note 6 segment reporting.

How our audit addressed this key audit matter
We have performed an audit of the group's principles for revenue recognition to verify compliance with IFRS. We have performed analytical review of revenues divided into different product offerings and geographical markets. Test of details of delivery documents have been performed in order to ensure that revenues have been reported in the correct period. In addition, we have also performed data analytics on revenues. We have assessed the adequacy of the disclosures related to revenues.

Goodwill and shares in subsidiaries
Description of the key audit matter
Intangible assets amount to 412,3 MSEK as of December 31, 2019 whereof 299,2 MSEK are accounted for as goodwill. Goodwill represents 19,6 % of the group's total assets. Refer to note 14 and the description of Hanza's intangible assets on page 48–49. Shares in subsidiaries amount to 360,5 MSEK in the parent company as of December 31, 2019. Refer to note 35 and the description of shares in subsidiaries on page 47–48. Goodwill and intangible assets with an indefinite useful lives are subject to annual impairment test. Hanza performs impairment test at least annually, and when there are indications of a decline in asset value, to make sure that the reported value not exceeds the recoverable value of the assets. The shares in subsidiaries are assessed on an ongoing basis during the year if there are indications of a decline in value and if so, the asset's recoverable value is calculated.

The recoverable values for goodwill and shares in subsidiaries are determined based on a present value calculation of future cash flows for each cash generating unit and are based on expected outcome from a number of factors based on management's business plans and forecasts. A description of the impairment test can be found in note 2 (accounting principles) and in the section "goodwill" on page 48 and "significant estimates and judgements" on page 55 for goodwill and note 35 for shares in subsidiaries. Changes in managements assumptions regarding the recoverable value such as future cash flows, growth, discount rate and investment needs could lead to an impairment requirement with significant financial impact on the group. We have therefore considered valuation of goodwill and shares in subsidiaries as a key audit matter in our audit.

How our audit addressed this key audit matter
We have evaluated and tested management's process for impairment test of goodwill and shares in subsidiaries and reviewed future prognoses and performed sensitivity analysis on key assumptions. We have, with support from our valuation experts, audited Hanza's model and method for impairment of goodwill and shares in subsidiaries and evaluated the reasonableness in the assumptions related to the discount rate by using data for comparable companies and applied long-term growth. We have also reviewed the provided disclosures in the annual report.

Inventory
Description
The group's inventories amount to 422,7 MSEK in 2019. In the group´s production units there are stocks of raw materials, work in progress and finished goods. In order to offer short and safe delivery times and to provide customized solutions, most customers have a certain amount of stock that can be used for suborder.

It is demanding to accurately account for the acquisition cost when purchasing, manufacturing and logistics processes are complex. In the product calculations there are a number of trade-offs that need to be made by the company management that have an impact on the reported values. Important areas are method determination, determination of normal production and index for distributing direct and indirect costs. The valuation also includes assessments such as for example estimation of the net realizable value when applying the lower of cost or market principle and assessing the inventory obsolescence. In light of this, we have assessed that the valuation of inventories is a key audit matter in our audit.

How our audit addressed this key audit matter
We have reviewed the process for calculations of product estimates since this is central in the valuation of the inventory. We have performed review and walkthrough of the group's processes for purchases of raw materials, production, inventory and obsolescence assessment.

We have taken part of the group's considerations regarding inventory obsolescence and their assessment of slow-moving products. We have also participated at physical inventory counts and performed our own sampling counts on the most significant warehouses in order to confirm both quantity and volume to test the assessment of obsolescence. We have performed price testing of raw materials, analyzes of stock turnover rate and control of slow-moving products as well as samplings of receipts and deliveries.

Other Information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 20–24. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing

Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hanza Holding AB for the year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 33–36 has been prepared in accordance with the Annual Accounts Act.

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

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

Ernst & Young AB, was appointed auditor of Hanza Holding AB by the general meeting of the shareholders on the 7 May 2019 and has been the company's auditor since the 3 June 2016.

Stockholm April 1, 2020

Ernst & Young AB
Charlotte Holmstrand
Authorized Public Accountant

BOARD OF DIRECTORS

FRANCESCO FRANZÉ
Chairman of the Board since 2019, elected 2015.
Chairman of the Remuneration Committee and member of the Audit Committee. Previous positions include Group Management of Husqvarna Group, Senior VP Industrial Operations of Electrolux Group as well as site manager at several manufacturing units abroad.
Born: 1964
Education: Master of Science in Mechanical Engineering at the Royal Institute of Technology (KTH).
Other assignments:
Chairman of the Board of Stresa AG, Panarea AB and The Barbecue Company AB. Board member of Adrian Michel AG, Toni Lauenberger AG and Technischen Werkstatt Amacher AG.
Holding: 3,425,000 shares.
Independent of the company and its management, but not of the company's significant shareholders.

GERALD ENGSTRÖM
Vice chairman of the Board 2019, elected 2017.
Member of the Remuneration Committee. Founder of Systemair. Previous positions include CEO and President of Systemair AB and CEO of Ziehl-ebm AB.
Born: 1948
Education: Upper secondary school qualification in Engineering, Business studies at Stockholm University.
Other assignments:
CEO of Färna Invest AB. Chairman of the Board of Systemair AB, and Camina Heating Systems AB. Board member of Färna Herrgård AB, Bluefish Pharmaceuticals AB (publ), Masbohallen AB, Ljungarps Mekaniska AB and Coppersmith's AB.
Holding: 6,482,687 shares through the related company Färna Invest AB.
Independent of the company and its management, but not of the company's significant shareholders.

HELENE RICHMOND
Member of the Board since 2017.
CEO, Enertech AB. Previous position as manager in SKF Group.
Born: 1960
Education: Master of Science in Mechanical Engineering at Lund University.
Other assignments:
Board member of NIBE Industrier AB.
Holding: 39,000 shares.
Independent of the company, its management and the significant shareholders.

HÅKAN HALÉN
Member of the Board since 2015.
Chairman of the Audit Committee. Previous positions as Vice President and CFO of Hexagon AB.
Born: 1954
Education: Master of Science (Econ.) at Stockholm University.
Other assignments: Chairman of the Board of Halén Invest AB and Gallerians Bilvård Sthlm AB.
Holding: 1,997,470 shares.
Independent of the company, its management and the significant shareholders.

SOFIA AXELSSON
Member of the Board since 2018.
Member of the Audit Committee. VP Consumer unit, Husqvarna Group. Previously CEO and President of Svedberg.
Born: 1973
Education: Master of Science in Public Finance/Business Administration at Gothenburg University.
Other assignments:
Board member of Herenco AB.
Holding: 4,000 shares.
Independent of the company, its management and the significant shareholders.

AUDITORS

REGISTERED AUDIT FIRM
Ernst&Young AB

PRINCIPAL AUDITOR
CHARLOTTE HOLMSTRAND
Authorized Auditor, Ernst&Young AB
Born: 1976
Auditor for HANZA since 2016
Number of shares: No shares.

Information on shareholdings as of December 31, 2019 with subsequent known transactions

GROUP MANAGEMENT

ERIK STENFORS
CEO and President of HANZA Group
Employed: 2008
Born: 1966
Education: Master of Science in engineering physics at The Royal Institute of Technology (KTH).
Background: R&D Manager, Minec Systems AB, founder/CEO NOTE AB, founder Wonderful Times Group AB, founder and CEO HANZA Holding AB.
Number of shares: 440,000 shares privately and through company

LARS ÅKERBLOM
Chief Financial Officer (CFO)
Executive Vice President
Employed: 2010
Born: 1965
Education: Master of Science (economy), Uppsala University and Auditor's Exam from the Association of Authorized Public Accountants (FAR).
Background: Authorized Public Accountant and Market area Manager at KPMG, CFO at listed Pricer and Nocom (now IAR), CFO Scandinavian Biogas, Financial Manager Sweco AB, CFO and CEO at Wonderful Times Group AB.
Number of shares: 110,210 shares.

THOMAS LINDSTRÖM
Head of Business Solutions
Senior Vice President
Employed: 2010
Born: 1972
Education: Engineer and studies in Business Management at IHM Business School.
Background: European Sales Manager at Mydata Automation AB (current Micronic-Mydata), Sales Manager at Dassault Systems Sweden AB.
Number of shares: 8,500 shares.

BENGT EMESTEN
Head of Sourcing & Logistics
Senior Vice President
Employed: 2013
Born: 1960
Education: Economist
Background: Founder of contract manufacturer Qcom AB (current Flextronics International Poland) and vice CEO Note Components AB.
Number of shares: 8 570 shares.

PETRA DUPREZ
Head of Human Resources
Senior Vice President
Employed: 2017
Born: 1965
Education: Bachelor's degree in Personnel and Personnel management at Stockholm University and a diploma in Organizational management at the Gestalt Academy of Scandinavia AB.
Background: Head of Corporate Social Responsibility and Vice President HR Getinge Group
Number of shares: No shares.

ANDREAS NORDIN
Chief Operating Officer (COO)
Senior Vice President
Employed: 2017
Born: 1970
Education: Master of Science in Mechanical Engineering at The Royal Institute of Technology (KTH).
Background: CEO of Ericsson AB's factories in Estonia, Brazil and Mexico.
Number of shares: No shares.

Information on shareholdings as of December 31, 2019 with subsequent known transactions

DEFINITIONS, ALTERNATIVE PERFORMANCE MEASUREMENTS AND TERMS

KEY RATIOS ACCORDING TO IFRS –
Definitions EBIT refers to earnings before interest and taxes and is the same as operating profit.

ALTERNATIVE PERFORMANCE MEASUREMENTS –
Definitions, reconciliation and motives
The alternative performance measurements below are used in this annual report. Reconciliation tables for alternative performance measurements and motives for using each measurement are published on the company's web page.

Business development costs include costs incurred in special projects to develop the Group which are not related to the operating activities, such as acquisitions, disposals and listing costs.

Business development segment EBITA includes business development costs. EBITA and EBIT are equal for this segment.

Capital employed is balance sheet total minus non-interest-bearing provisions and liabilities.

Capital turnover on average operating capital, refers to net sales divided by average operating capital.

EBITA refers to earnings before interest, taxes and amortization of intangible assets.

EBITDA refers to earnings before interest, taxes, depreciation and amortization of tangible and intangible assets.

EBITDA margin is EBITDA divided by net sales.

Equity per share is equity on the balance sheet date, adjusted for not registered equity, divided by the registered number of shares on the balance sheet date.

Equity ratio is shareholders' equity divided by the balance sheet total.

Gross margin refers to net sales less cost of raw materials and consumables and change in inventories in production, finished goods and work in progress on behalf of others, divided by net sales.

Net debt/equity ratio is net interest-bearing debt divided by shareholders' equity.

Net debt in relation to EBITDA is net interest-bearing debt at year end divided by EBITDA.

Net interest-bearing debt is interest-bearing liabilities, including provisions for post-employment benefits, less cash in hand and similar assets and short-term investments.

Non-recurring items are revenue and expense items in the operating profit which only by way of exception occurs in the operations. To non-recurring items are referred revenues and expenses such as acquisition costs, revaluation of additional purchase prices, profit or loss on disposal of buildings and land, debt concession, costs of larger restructurings such as moving of whole factories and larger write-downs.

Operating capital is the balance sheet total less cash and cash equivalents, financial assets and non-interest-bearing liabilities.

Operating margin (EBIT margin) is operating profit divided by net sales.

Operating profit from operational segments (operating EBIT) is operating profit before business development costs.

Operational EBITA margin refers to operational segments EBITA divided by net sales.

Operational net debt is interest-bearing liabilities, excluding provisions for post-employment benefits and lease liabilities related to buildings and premises, less cash in hand and similar assets and short-term investments.

Operational segments EBITA (operational EBITA) is EBITA before business development costs.

Return on capital employed is EBIT plus financial income divided by average capital employed.

Return on operating capital is operating EBITA divided by average operating capital.

TERMS – Definitions established by HANZA
CORE (Cluster Operational Excellence) is a method used by HANZA to develop the factories operationally, which are carried out in shape of projects.

Manufacturing cluster
HANZA gathers a number of contract manufacturing technologies within certain geographical areas called manufacturing clusters. Se also Strategies and Objectives page 12.

MCS (Material Compliance Services) is a service developed by HANZA which helps the customer to secure that a product fulfils regulations regarding included components.

MIG (Manufacturing Solutions for Increased Growth & Earnings) is an advisory service developed by HANZA which analyses and gives advices on improvements in the customers complete manufacturing and logistic chain.

ADDRESSES

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