HANZA

ALL YOU NEED IS ONE™

Annual Report 2020

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- Interim report for the period January to March 2021: **April 26, 2021**
- Interim report for the period January to June 2021: **July 27, 2021**
- Interim report for the period January to September 2021: **November 9, 2021**

Annual general meeting

HANZA Holding AB:s 2021 AGM will be held on **April 26, 2021**.

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 offers a combination of advisory services and manufacturing solutions, which enables increased growth and profitability for customers. HANZA's manufacturing solutions are mainly conducted in own factories, but also through collaborations with strategic manufacturing partners.

By gathering expertise and different manufacturing technologies, HANZA takes a holistic approach and creates added value for the customer by reducing the number of contacts the customer needs to have. Complete and collected contract manufacturing strengthens the customer's control over the production chain and promotes efficiency in production. Our top competencies are found in several areas such as design and product development, PCB assembly, cabling, sheet metal processing, machining, final assembly and testing, logistics and more.

Strengths and advantages

HANZA's wide and integrated range of both design and manufacturing processes provide high flexibility, capacity and quality control in accordance with various customer's agreements, whose demand can vary considerably and on short notice. HANZA has a clear competitive advantage as the customer only needs to use one contract manufacturer with integrated operations, instead of having to work with several parties and with own synchronization including final assembly and delivery to customer. Customers who take advantage of HANZA's experience in product development from an early stage can significantly lower their total cost and get a more efficient manufacturing process.

Ability to adjust operations according to demand and needs

Temporary fluctuations and systematic changes in market demand may cause significant variations in customers' order volumes. Thus, HANZA's production and sales to different customers can be difficult to forecast. By controlling the manufacture of both the product's various components and the final assembly within the Group and the relevant cluster, HANZA can quickly adapt production according to different situations and the customer's capacity needs. Freed resources from one production can be allocated to a parallel production for another customer within the same factory. By gathering resources within the same manufacturing cluster, HANZA can also share staff and skills between different factories, as and when demand varies.

Short lead times

HANZA has created an organization that meets the customer's requirements for clear communication and short lead times. HANZA builds up the customer's own production unit in a so-called "Business unit", where all the resources required for each specific project are gathered, such as project management, planning, purchasing, production, quality and more.

Total solutions

In addition to contract manufacturing, HANZA also offers qualified advisory services; a service product within manufacturing solutions – Manufacturing Solutions for Increased Growth and Earnings ("MIG"). With MIG, the customer's production chains are analyzed and improved, which creates a foundation for higher growth and improved profitability. HANZA thus becomes a strategic business partner that can assist throughout the product life cycle. HANZA builds prototypes, provides customer feedback on industrial design and layout seen from a production aspect, assembly, delivery and after sales. HANZA has extensive experience in production technology and industrialization for everything from low-volume products to volume production in a large number of industries. Together with the company's customers, it is decided 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

Different customers' operations often require a high pace, which places high demands on the dynamism and flexibility of their partners. HANZA focuses on speed, simplicity and efficiency to meet customer needs.

Manufacturing clusters

HANZA currently has operations in six manufacturing clusters; Sweden, Finland, Germany, Baltics, Central Europe (Poland and the Czech Republic) and China. These are reported, based on primary customer markets divided into the following segments:

- **Main markets** – Manufacturing clusters located within or close to HANZA's primary geographical customer markets, which today comprise Sweden, Finland, Norway and Germany. Today, HANZA's manufacturing clusters in Sweden, Finland and Germany are therefore included. HANZA's operations in these areas are characterized by proximity to customers' own factories and close cooperation with the customers' development departments.
- **Other markets** – Other manufacturing clusters outside HANZA's primary geographic customer markets. Today, it comprises HANZA's manufacturing clusters in the Baltics, Central Europe and China. Operations are characterized by a high work content, extensive complex assembly, and proximity to important end customer areas.
- **Business development** – mainly group wide functions within the parent company, as well as group wide projects and functions not allocated to the other two segments.

HANZA's six manufacturing clusters

Main markets

Sweden
Employees: **358**
Factories: **4**

Finland
Employees: **85**
Factories: **2**

Germany
Employees: **119**
Factories: **1**

Other markets

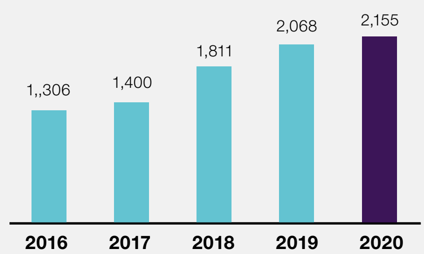
The Baltics
Employees: **643**
Factories: **3**

Central Europe
Employees: **256**
Factories: **3**

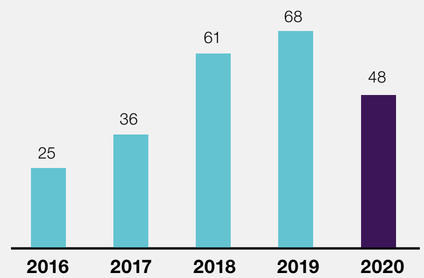
China
Employees: **82**
Factories: **1**

The above refers to the average number of employees during 2020 and the number of factories at the end of the year. In March 2021, another factory with just over 100 employees in Finland was added through acquisitions.

Sales development
(SEK MILLION)

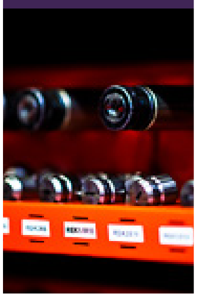


EBITDA development
(SEK MILLION)

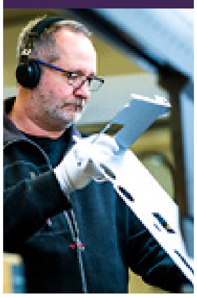


Our manufacturing solutions are primarily based on the following technologies

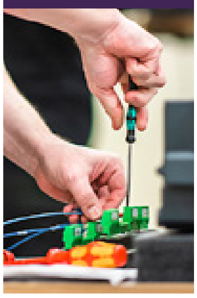
Logistics



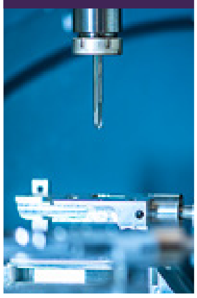
Sheet and heavy mechanics



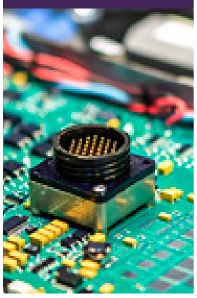
Cable Harnesses



Machining



PCB assembly



Final assembly and test

Customers
Among HANZA's customers are leading companies such as ABB, Epiroc, Getinge, GE, Oerlikon, SAAB and Siemens.

Responsible business
A production located in HANZA's manufacturing clusters means that the customer enjoys both environmental benefits and high-quality products with safer supply and logistics chains compared to traditional contract manufacturing. In this way, sustainability is an integral part of HANZA's strategy and long-term business.

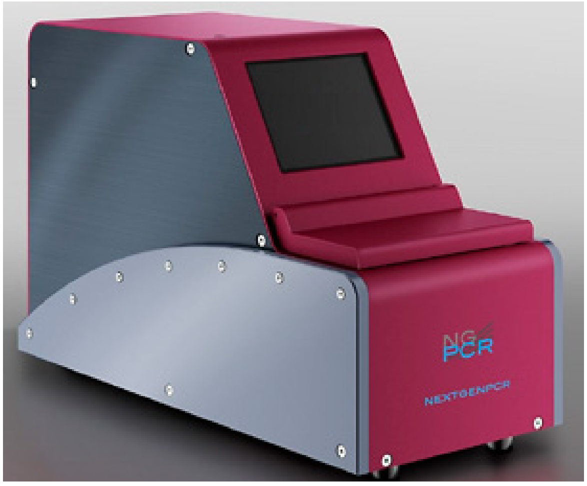
The year in brief

2020 was largely characterized by the pandemic and actions to adapt HANZA to the same, but also by new business and a decision on expansion in Estonia. Some of the Group's customers were affected by significant sales declines and an action program was launched. At the same time new customers have been added and sales to certain existing customers have increased. Helped by the volumes added at the acquisition of RITTER, HANZA can, despite the pandemic, show sales of just over four percent and a positive result before tax.

Equity ratio **%**	**33.6**
Sales **SEK MILLION**	**2,155**
Average number of employees	**1,543**

Selected material events

- In June, a so called MIG analysis was completed in Finland, where the customer received a proposal for a more efficient supply chain with one for the customer double digit percentage reduction of the manufacturing cost.
- During the spring, HANZA was commissioned to develop a complete DNA analyzer for a leading company in molecular diagnostics, which includes the design of mechanics, electronics, cabling and software. The development is expected to be completed during the first quarter of 2021 and then put into volume production.
- During the second quarter, HANZA signed a production agreement with a new customer in logistics management, and received a new, larger project from an existing industrial customer.
- In November, HANZA signed an agreement with the German KHS group for the complete development of a mechatronics system that will be ready for production during the first half of 2021.
- During the fourth quarter, HANZA received awards from four different global customers thanks to good dependability and high-quality deliveries during a challenging period.



Development of DNA analyzer includes design of mechanics, electronics, cabling and software.

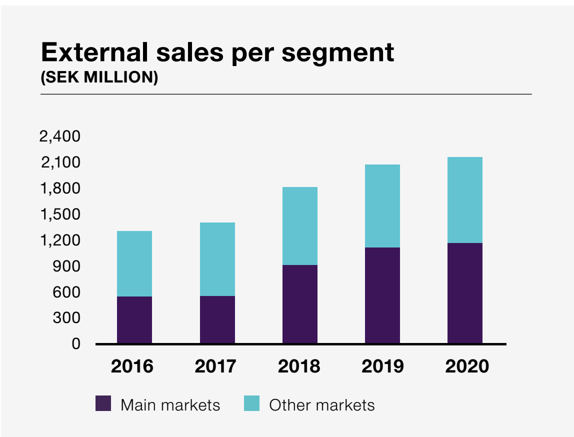
For the German KHS Group, HANZA will develop a mechatronics system that will be manufactured during the first half of 2021.

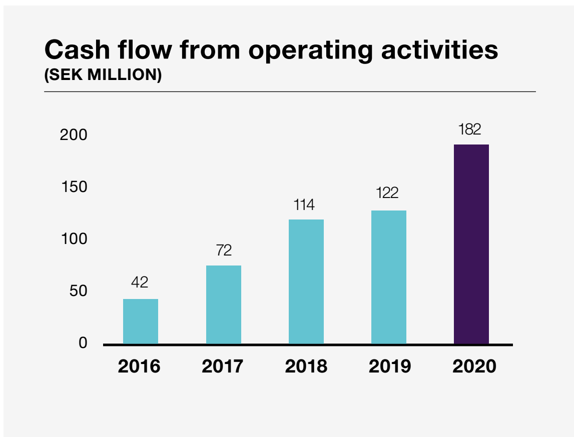
Action program
In April 2020, to meet uncertain demand in some customer segments, HANZA initiated an action program in which the electronics factory in Åtvidaberg was phased out and the factory in Narva was refined to only focus on heavy mechanics. In total, approx. 90 persons were affected, and the result (EBIT) during the second quarter was charged with SEK 27.5 million.

Development of the Group structure following acquisitions
Following the acquisition of RITTER, HANZA's manufacturing cluster in Central Europe comprised of factories in Germany, Poland and the Czech Republic. On April 1, 2020, this cluster was divided into two units:

- The factory in Germany is the starting point for a new, separate manufacturing cluster aimed at customers in the so-called DACH area (Germany, Austria and Switzerland).
- The factories in Poland and the Czech Republic constitute HANZA's new cluster Central Europe, with production for both the Nordic region and DACH.

Decision of investment in new factory
In December, HANZA decided to expand capacity in the Baltics by building a new production facility of just over 12,000 m2 in Tartu, Estonia. The total investment amounts to approx. SEK 80 million and is financed with a combination of own funds and bank loans. Work has begun and the opening is planned to take place in the first quarter of 2022.





Positive prospects following a challenging period

In the 2019 annual report, we described how the start of the pandemic affected HANZA, the market and society in general at the time. Then, the pandemic that came to dominate the entire financial year of 2020, accelerated. This year's CEO word is about how HANZA has been affected by the crisis, what the Group looks like today and our strategy for the future.

Financial development

HANZA has experienced good growth since the company was founded in 2008, on average about 20 percent annually (CAGR) through a combination of acquisitions and organic growth. During 2020, this trend was broken when some of the Group's largest customers were affected by significant sales declines. Above all, sales volumes from our largest customer decreased by just over SEK 100 million, corresponding to approximately 5 percent of the HANZA Group's sales. This customer – gained through the acquisition of German RITTER – is active in the textile industry, an industry that was hit hard by the lockdowns.

When sales declined, we immediately launched an action program where we, among other things, consolidated electronics volumes in Sweden and mechanics volumes in Estonia. The program was carried out according to plan and caused further impact on sales as we discontinued volumes of around SEK 100 million annually. Additionally, a weakened euro exchange rate has negatively affected the comparison with last year by approx. SEK 17 million. On the other hand, we have new and existing customers that have had a positive effect on sales. In total, growth in 2020 was approx. 4 percent, which can be compared with customers' forecasts at the beginning of 2020 which showed double-digit growth.

Profitability was affected by the rapid decline in sales. Our first, and also largest, manufacturing cluster in Sweden was hit hard in terms of earnings and as we have earlier described, the operating margin decreased to 6 percent during the third quarter of 2020. Sweden accounts for about a third of HANZA's sales and during the fourth quarter of 2020 sales were still approx. 12 percent lower than the corresponding quarter last year. In light of this, it is pleasing that in Sweden during the fourth quarter of 2020 we were again able to show an operating margin of just over 9 percent.

The margin recovery shows the strength of our cluster model. The size and breadth of technologies in Sweden make it possible to act as volumes decrease. This is, however, harder in those parts of HANZA that are under construction and have not yet reached Sweden's scope. In our Main markets segment, it was therefore challenging in both Finland and Germany. In our segment Other markets, it was primarily our factory in Narva that was affected. There, we responded to the sharp economic downturn by refining the Narva factory to heavy mechanics, a specialization that will have a negative effect also on 2021, but which is positive in the long run. Our long-term focus is important for the construction of HANZA.

Cash flow is crucial to fast growing companies, and it is of course even more important during a crisis. We have previously described that this is a continuous focus area and we have for a long time shown strong cash flows. This was also the case in 2020, with a cash flow amounting to SEK 182 million (122). Our operating net debt could therefore be reduced by as much as 23 percent, from SEK 350 million to SEK 271 million. HANZA continues to be financially strong, even during the pandemic.

Important environmental work

The virus outbreak has temporarily overshadowed the great challenge of our time, to reduce carbon dioxide emissions. This important issue will continue to be prioritized and we see how well HANZA's business model supports the global climate trend. Like other manufacturers, we work with performance measures to reduce consumption and emissions, but our major contribution comes through the work of streamlining our customers' supply chains. It is an operation that creates customer value; a green supply chain provides competitive advantages for the product companies, both in terms of cost and the environment.

Looking ahead

During the pandemic, we have received several great recognitions and awards for maintaining high delivery accuracy and quality in difficult conditions. We have also taken on new contracts and our existing customers are essentially stable companies, whose volumes will return once the virus has released its hold on the world. Furthermore, we see how disruptions in the global and complex supply chains influence product companies to reconsider their manufacturing strategy, which is positive for HANZA.

We therefore estimate that 2020 will only be a dent in our growth curve.

For this reason, in December 2020 we decided to expand our capacity in the Baltics by investing approx. SEK 80 million in the build of a new production facility for complex assembly of just over 12,000 m^2 in Tartu, Estonia, directly adjacent to our existing sheet metal factory. Work has already begun, and the opening is planned to take place in the first quarter of 2022.

In terms of results, we announced at the end of 2019 that we had reached a point in our development work where our segment Other markets will increase its

operating margin significantly. And despite major impact by Covid-19, the segment is also showing rising margins. Work on increasing margins for Other markets will continue, while returning volumes will support the Main markets segment to regain earlier, higher margins.

HANZA will also grow through acquisitions, which are a fundamental part of our business model. But here it is important to distinguish between HANZA and classic manufacturers. A contract manufacturer of a certain technology that acquires another factory with the same technology does grow – but does not increase customer value. However, we do not acquire manufacturers to become a larger, but to become a better manufacturing partner.

HANZA has increased by 100 skilled employees in a modern production facility in Joensuu, close to HANZA's other factories in Finland. The acquisition specializes in the manufacture of sheet metal structures, with high competence in welding and painting. Levyprofiili meets all our acquisition parameters regarding geography, technology, customer portfolio, corporate culture and financial position.

The pandemic will have a continued impact also in 2021, with the entire manufacturing industry experiencing challenges from component and material shortages as a result of an increase in demand. But we note that HANZA is navigating well through the pandemic. We have seen how well our mature manufacturing clusters have handled volume fluctuations. Furthermore, the global trends with increased regional production and an increased focus on sustainability are completely in line with our business model.

Our strategy ahead is primarily to strengthen our development clusters and thereby increase the margin at Group level. We look forward to the coming years with confidence.

Erik Stenfors, CEO and President

The manufacturing map is being redrawn

The climate crisis is the greatest challenge of our time, and its mitigation is something we must all take responsibility for. Ever stringent sustainability goals have necessitated that product owning companies review their supply chains and sharpen their focus on the product's total cost. Trade wars, natural disasters and in particular, the ongoing pandemic, have resulted in ever more companies seeking to relocate their manufacturing in proximity to their end markets, so as to minimize the risks, costs and environmental impact.

Contract manufacturing expanded mainly during the 1990s, when product companies began outsourcing the production of various components for their end products, such as circuit boards, turned parts or chassis plates. Today, it is commonplace for several contract manufacturers to produce different parts of a customer's products. The main reasons for major product companies to outsource their manufacturing to contract manufacturers are:

- **Cost reduction:** Product companies bypass the need to invest in the equipment and machinery required for the manufacture of the products/components that can be made by contract manufacturers.
- **Improved resource allocation:** The product company's primary proficiency is usually its ability to market and sell its products. Outsourcing their production to a contract manufacturer allows for the product company to focus on its customer relationships.
- **Increased innovation and quality:** When seeking a third-party manufacturer to produce a component or a complete product under a proprietary brand, product companies will first ensure that the contract manufacturer has the capacity to deliver the required quality. Consequently, the contract manufacturer that wins the assignment is usually specialized in the manufacture of the specific component or product.

The manufacturing map is being redrawn by the following trends:

Regionalization – manufacture in proximity to the end market. Manufacturing is being relocated as a consequence of new comprehensive cost analyses. Contract manufacturing was previously assigned essentially to low cost countries, for example, in Asia. An emerging middle class in these countries has entailed increased payroll expenses and as a consequence, higher production costs. Due to the combination of higher costs with more highly set sustainability goals, many customers are choosing to return their production to their home markets ("backsourcing").

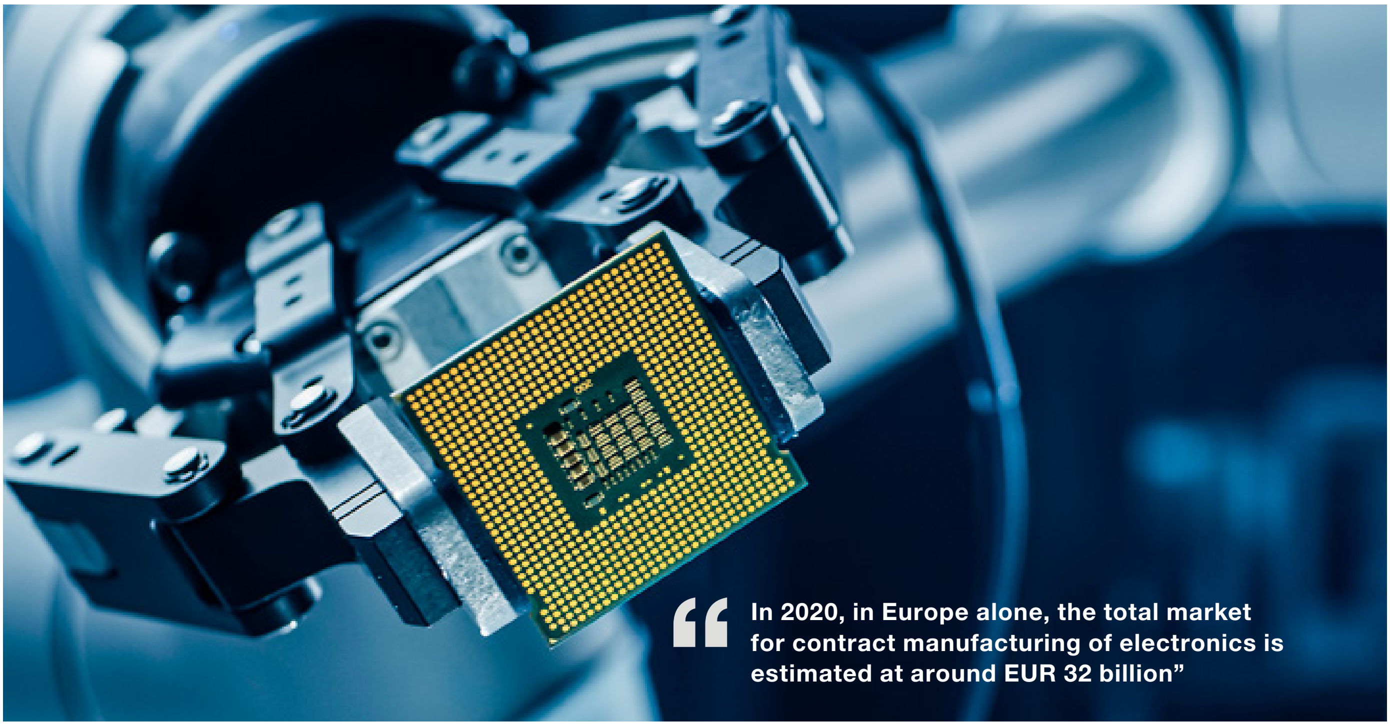
Furthermore, extraordinary developments such as the current pandemic have highlighted the vulnerability of complex supply chains. HANZA developed its manufacturing clusters with the overall costs in mind, as well as to meet increasing demands for the relocation of manufacturing. Consequently, HANZA's clusters, for example in China, are aimed at producing goods for delivery within China, rather than for export to Europe.

Contract manufacturers are becoming manufacturing experts – The stricter focus of product companies on shorter lead times – from product development to market launch – has increased the need to engage contract manufacturers from the onset of the production process. It is usual for contract manufacturers to be involved in discussions about choosing the materials and manufacturing processes best suited for specific products. This imposes stringent requirements on contract manufacturers to maintain a broad expertise in manufacturing techniques, production efficiency and various forms of quality assurance testing. To meet these requirements, HANZA has developed a special service product, Manufacturing Solutions for Increased Growth & Earnings ("MIG"), which not only converges all of the production technologies of a manufacturer, but analyzes and adapts the customer's entire production and logistics chains. HANZA has thus developed into an intellectual assets company in the field of complex manufacturing, which further provides it with a special competitive advantage.

Focus on total cost – business relationships between product companies and contract manufacturers have traditionally focused on yielding the lowest cost per manufactured component. Today, more and more product companies are proceeding from the concept of total cost, i.e. the customer strives to have the lowest possible cost for the manufacture of the complete product, throughout the product's lifecycle. The contract manufacturer market comprises numerous players with little differentiation between them. To avoid being forced to compete solely on the basis of price, several contract manufacturers have expanded their offerings to include such expertise as logistics and component development.

HANZA has taken this a step further, by offering customers the manufacture of entire systems, including product development, as well as logistics, after market and spare parts services.

New, enabling technologies – New technologies such as AI, 5G, IoT and additive manufacturing characterize the societies of today.



Rapid development is driving growth, increasing safety and contributing to solutions that support sustainability efforts. HANZA invests continuously in automation, which minimizes the risks and speeds up manufacturing processes.

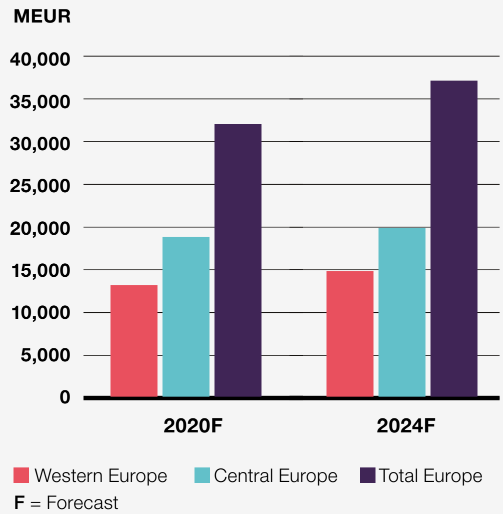
Higher set sustainability targets – The climate crisis is the greatest challenge of our time and it is an issue that all manufacturing companies must assume responsibility for mitigating. Consumer demands for sustainable manufacturing are also assuming an ever greater role. To live up to these increasingly stringent sustainability targets, it is evident that manufacturing must be streamlined, optimized and undertaken in proximity to the end market. This provides the basis for HANZA's business model of leveraging manufacturing clusters. In addition to the environmental advantages gained, choosing processes with lower carbon emissions and efficient energy consumption usually generates cost benefits.

Component shortages – Due to the continued impact of the Covid-19 pandemic, the current demand for components far exceeds their availability, which has, in turn, resulted in component shortages. Lead times and costs have escalated, and sourcing must be planned carefully in order to meet manufacturing and business needs.

Market size

HANZA's overall market comprises contract manufacturers operating within various segments and manufacturers with proprietary products, which makes it difficult to estimate the market's size. Although there is no available information about the overall market, there is reliable information about the existing market for the contract manufacturing of electronics. HANZA is of the opinion that the electronics market is the dominant submarket that is common to most products, and thus serves as a relevant indicator of growth and trends within the overall contract manufacturing market.

Markets trends for contract manufacturing of electronics



Source: Reed Electronics Research
The European EMEA Industry – A Strategic Overview of the EMEA Electronic Manufacturing Services Industry 2019-2024

Market for the contract manufacturing of electronics

The total market for the contract manufacturing of electronics has grown rapidly, in pace with increased globalization. In Europe alone, it was estimated at approximately EUR 32 billion for 2020. The European market is expected to grow to approximately EUR 37 billion by 2024. The diagram shows the estimated trend of the European market for the contract manufacturing of electronics between 2020 and 2024.

Strategies and objectives

HANZA’s strategy is divided into four different parts that should contribute to meeting the challenging goals set by management.

Business consultation

Most people today know that the manufacturing industry stands for a very large part of the world’s global emissions and negative environmental impact, therefore the industry must switch to more sustainable solutions for the future. Many companies have over the years built up complex manufacturing solutions for their products involving many subcontractors scattered across the world. It is easy to lose control of your total cost, lead times and quality – but above all its environmental impact. HANZA has developed a 360-degree advisory service that analyzes companies’ manufacturing strategies and proposes changes regarding total cost, lead times, capital tied up, sustainability and much more. This creates possibilities for faster growth with higher profitability for companies.

Manufacturing clusters

To manufacture companies’ products often requires several specific manufacturing technologies such as sheet metal processing, machining, electronics, cabling and assembly. The traditional procedure is to purchase these technologies individually from different contract manu-

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:

Advisory services
– 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.

Responsible enterprise

Sustainability is integrated in HANZA's business concept and strategy and taken into account in all strategic decisions.

Sustainability work is structured in three areas with clear objectives, metrics and activities, which contributes to HANZA's long-term business and a positive societal development.

The areas are:

- Contribution to global environmental efforts
- Long-term and sustainable relationships
- Employees and local communities

See more on page 16, sustainability

facturers and ship these details around the world before finally assembling the product. HANZA, on the other hand, has built up its own manufacturing clusters in strategic geographical areas, where complete products can be manufactured without being shipped around. This creates benefits such as shorter lead times, more control over quality, easier handling for the customer and less logistics and therefore less negative environmental impact. This can be performed with high competitiveness due to reduced ancillary costs and a consolidated factory setup.

Customer portfolio

HANZA's customers should possess a sufficiently interesting business with regards to volume, turnover, potential and technology breadth for HANZA to be able to create added value compared to other manufacturers. It is important for both the customer and the supplier that a mutual balance, where both parties become important to each other, is created. Only then, you can challenge each other to develop and create new competitive models and methods of manufacturing. HANZA works with customers of varying sizes and in different industrial segments, herefore there is a good spread of risk.

Acquisition

An important part of the company's strategy is acquisitions. The growth target of an average of ten percent per year is to be achieved with a combination of organic growth and acquisitions, therefore possible candidates for acquisitions are being evaluated on an ongoing basis. The logic for an interesting acquisition contains one or more of:

1. Expansion to new geographical areas.
2. The introduction of a new strategic manufacturing technology for HANZA or
3. Expansion in a new customer- or industry segment.

Thanks to its manufacturing clusters, HANZA can quickly create consolidation effects on acquisitions, which contributes to higher margins. At the same time, interesting growth opportunities for both existing and new customers are created.

Expanded cooperation to save lives

Getinge is a global supplier of innovative solutions for operating rooms, intensive care units, sterile centers as well as Life-Science companies and institutions.

Getinge offers products and solutions designed to improve clinical outcomes and optimize workflows. The business is conducted by over 10,800 employees in more than 35 countries. To always stay a step ahead, Getinge is in constant search of the latest technologies and the best cooperations in order to keep achieving success. As part of the company's focus on quality and efficiency, Getinge turned to HANZA already in 2015 for help with streamlining the supply chain and production. The initial deal was signed with Getinge's Critical Care facility in Solna. Over the years, the collaboration has been expanded, and HANZA today delivers specialized parts and modules to a number of Getinge facilities around the world – several of which are used in Getinge's portfolio of anesthesia products.

Examples of products where HANZA-manufactured parts are used:

- Ventilators and anesthesia machines
- Operating tables
- Washers-Disinfectors
- Sterile transfer systems DPTE®

A large demand for ventilators

Due to the Covid-19 pandemic, one of the most relevant products that HANZA manufactures is "Mobile Carts"; mobile trolleys used for ventilators. There is currently great demand for ventilators around the world, and HANZA is very proud to, together with Getinge, contribute to saving lives.

"At the beginning of the year we could, together with Getinge, see that we quickly needed to plan for an increased volume to be able to contribute to care systems around the world, to give them the best possibilities to care for the increased proportion of sick patients as a result of the coronavirus", says Andreas Nordin, Senior Vice President and Chief Operational Officer at HANZA. "The key to success lies in that HANZA can deliver ready made modules or sub-modules as our manufacturing clusters consist of factories with production of different types of products that can then be assembled into a module".

"We need large global suppliers such as HANZA who can provide our facilities around the world with specific mechanical parts and assembly", says Alexander Colmelet, Global Category Director Metal, Sourcing & Purchasing at Getinge. "HANZA can provide us with quality parts and simpler assembly from one single location here in Europe, which both means cost savings and helps us to provide parts in a more environmentally friendly way".

Open and transparent dialogue

The collaboration has continued to grow, which makes HANZA even more significant for Getinge's continued plans. "HANZA has helped us reduce costs for many parts, not just by moving production from other countries, but also thanks to support early in the design process", says Alexander Colmelet. "We have an open and transparent dialogue regarding our goals and work closely with ongoing global follow-up to together reach both Getinge's and HANZA's "wanted position". HANZA supports us well in this and is a valuable partner."

Getinge facts

- Founded in 1904
- CEO & President Mattias Perjos
- More than 10,800 employees worldwide
- Sales in more than 125 countries
- SEK 29.9 billion in revenue in 2020
- Head office located in Gothenburg
- Listed on the Nasdaq Stockholm large cap list since 1993

“At the beginning of the year we could, together with Getinge, see that we quickly needed to plan for an increased volume to be able to contribute to care systems around the world”

Responsible enterprise

HANZA is confident that its business model, strategy and stakeholder collaborations contribute to positive social development and the attainment of global sustainability goals.

Compared with traditional contract manufacturing, customers who assign production to HANZA manufacturing clusters benefit from environmental gains and high quality products with safer delivery and logistics chains. Sustainability is thus integral to HANZA's strategy and long-term business.

Comprehensive sustainability governance

Sustainability issues are highly prioritized at HANZA, and are aimed at strengthening efforts relating to the company's impact on the environment, employees, human rights and other social aspects, as well as ethics, corruption and data security. The company's Code of Conduct, which is based on the UN Global Compact's ten principles serves as a guideline for how HANZA should act as a sound business partner, employer and private sector player.

Group-wide policies, quality assured processes and management systems provide our operations with unambiguous instructions for the responsible management of facilities and employees. In 2020, a sustainability framework was established, comprising a plan for the governance and monitoring of the Group's most important sustainability issues.

To secure the quality-assured governance of HANZA's environment and its work environment initiatives at the Group's 14 factories, significant investments were made in the past few years to develop and strengthen the management system. The factories have gradually been certified and by no later than June 2021, we expect the management systems of 12 factories to be certified under ISO 14001 and ISO 45001. A further two factories are scheduled for certification in 2022.

Development of sustainability work

HANZA's sustainability efforts are developed continuously. We pursue internal process improvements and leverage newly acquired factories, alongside stakeholder dialogs to bring the company's attention to crucial new issues. Long-term quantifiable targets will gradually be established at a Group level. HANZA's goal is to offer very high sustainability standards across the Group.

HANZA's stakeholders	Key issues	Dialogue
Customers	Superior quality	Business transactions
	Delivery reliability	Customer surveys
	Low environmental impact – direct and indirect	
	Social responsibility – employees and subcontractors	
	Sound business ethics, data security	
Employees	Sound and healthy work environment	Employee surveys
	Social commitment	Career-development meetings
	Secure employment	Ongoing dialogue
Investors	Financial stability, return on investment	Annual General Meeting
	Customer satisfaction	Investor events
	Transparency, communication	Press releases and financial reports
	Environmentally and socially beneficial operations, regulatory compliance	
Society	Low environmental impact – waste, consumption, emissions	Regulatory dialogue
	Sound business ethics	Meetings with municipal management
	Communication	

The governance and monitoring of HANZA's sustainability efforts fall within three areas:

- **HANZA's contributions to global environmental efforts**
- **HANZA's long-term and sustainable relationships**
- **HANZA's employees and local communities**

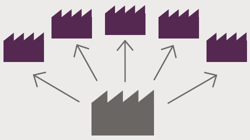
HANZA continuously monitors the efforts in these areas and measures performance by means of key metrics, to create a more rational, sustainable and attractive manufacturing industry.

HANZA's contribution to global environmental work

Risks/Opportunities	• The world is facing environmental challenges pertaining to resource consumption and emissions. Everyone must do their part to ensure reasonable living conditions for future generations. The most substantial threat is from climate-impacting emissions, which is why the world must strive to become fossil-free. • Products manufactured by HANZA contribute to an environmental footprint through the use of finite resources, such as raw materials, water and energy, as well as emissions – mainly carbon dioxide and certain heavy metals. The environmental footprint is mainly attributable to subcontractors related to HANZA's manufacturing and transports. • Competitiveness is strengthened through customer demand for sustainable suppliers, traceability in manufacturing processes as well as their own requirement to reduce their carbon footprint caused by aspects such as goods transportation.		
Key sustainability issues	**Reduce consumption of natural resources and energy**	**Reduce own emissions, such as CO_2 and heavy metals**	**Help customers to reduce emissions – primarily through transports**
Results for 2020	**Energy consumption** • Total within HANZA: 29.201 MWh • Per employee: 18.9 MWh • Energy cost/sales ratio: 1.15% Water consumption: Total within HANZA: 39.084 m^3	**Waste generated:** • Total volume: 1.127 tonnes of which hazardous waste: 495 tonnes • Waste/Renewal management cost: 0.11%	See illustration: "Environmental gains in HANZA's regional manufacturing clusters"
Value generation	**Investors:** Improved profitability through reduced energy and materials consumption. Reduced sustainability risks **Society:** Reduced consumption of water, material and energy resources, increased proportion renewable energy. More modern industry	**Society:** Increased environmental gains through minimized carbon footprint, responsible handling of chemicals and waste **Customers:** Traceable goods.	**Customers and society:** Increased environmental gains, more modern industry.
Contribute to the attainment of the UN's global goals in 2020			

Environmental gains in HANZA's regional manufacturing clusters

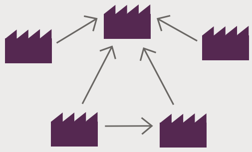
HANZA's clusters



External supplier

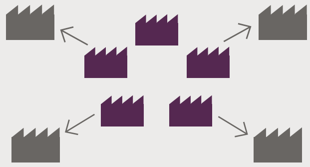
Input materials and subcomponents – HANZA's manufacturing processes involve high materials contents (electronics 70-75%, mechanical 40-45%). HANZA can reduce its carbon emissions by imposing environmental requirements and procuring from fewer suppliers and sourcing in bulk for the entire cluster.

HANZA's clusters



Short internal transports – processing steps are undertaken within the cluster, which minimizes carbon emissions in the course of production, as opposed to transportation across the world, as with traditional contract manufacturing.

HANZA's clusters



Customer deliveries – are essentially made in geographical proximity to the cluster, which results in shorter transports, thereby minimizing carbon emissions from finished products.

Environmental-management system

In 2020, the Group-wide environmental-management system was incorporated into HANZA's Group Management System and rolled out to the Group's production units. Twelve of the Group's 14 factories are scheduled for certification under ISO 14001:2015 in 2021, and the remaining two factories in 2022. The management system includes measurements of and targets for the Group's energy consumption and waste management. At each individual factory, specific environmental issues are identified, such as activities that are subject to permit requirements, hazardous emissions and environmental risks. Opportunities to reduce or recover materials, as well as replace environmentally hazardous materials with eco friendly ones are given due consideration. At each factory, targets are set, which are followed-up on annually.

Governance of environmental issues

The Group's overall energy and water consumption, and its waste generation, was reported for the first time for the year 2020.

The Group's environmental work is governed by its Group-wide environmental policy and purchasing policy (optimized for the environment), compliance with environmental regulations (RoHS global directives, REACH, Conflict Minerals), as well as the installed environmental-management system. HANZA has an appointed a Head of Environmental Issues.

Reduced resource consumption

At all of the factories, work is conducted continuously to minimize product defects and to reduce materials wastage through recycling and quality controls conducted on a regular basis. The aim is to reduce the overall consumption of materials in the course of production. In our production processes, we strive to reduce the use of materials that generate hazardous emissions.

HANZA's energy consumption mainly consists of heating for its factories and offices, as well as power supply to production machinery. Since energy consumption is a crucial function of production volumes, the company has invested in energy optimized machinery in several factories in 2020. Additional investments in machinery will be made on a continuous basis. A new production facility of slightly more than 12,000 m^2 is being constructed in Estonia in 2021, which will provide HANZA with more energy-efficient premises and thereby yield some tangible energy savings as of 2022.

Reduced emissions to the environment

HANZA's primary impact on the climate is caused by goods transportation and the energy consumption at its factories. This impact is dominated by the transportation of subcontractors' input materials to the clusters, as well as as by final deliveries to customers. Business trips account for a very minor portion of the Group's overall environmental footprint.

Keeping manufacturing operations within regional clusters is one of HANZA's most important investments in mitigating climate change and reducing carbon emissions. Manufacturing clusters minimize transport requirements. Some products are manufactured to completion in production units that are geographically close to each other, allowing for shorter and fewer transports throughout the manufacturing process, compared with traditional contract manufacturing. Furthermore, overall transports to and from the clusters are reduced. HANZA sources its materials in bulk from a handful of suppliers. Finished products are delivered to customers that are mostly in geographic proximity to the cluster (see figure below). In 2020, the company launched special initiatives to measure the environmental impact from opitmizing the efficiency of customers' manufacturing chains.

We strive to use fossil free energy in our factories. In 2020, one of HANZA's factories in Finland, Metalliset, became the first in the Group to make a complete switch to using green energy.

HANZA's waste management pertains to residual materials from production and heavy metals. At the Group level, the objective has been to maintain or reduce the costs of waste management relative to the Group's sales.

HANZA's long-term and sustainable relationships

Risks/Opportunities	• HANZA's prerequisites for growth are based on the company being perceived as financially stable, and having the capacity to meet customer demands and generate added value, while guaranteeing high integrity and customer confidentiality. • Customers impose stringent requirements on their suppliers regarding accuracy in quality and delivery precision, as well as sustainability, ethical behavior and a long-term approach. The risk of corruption and unethical behavior must be minimized in our interactions with customers and suppliers. • HANZA has a vital community role in the districts where it conducts production operations.			
Key sustainability issues	**Financial stability & QCD (quality, expenses, delivery precision)**	**Added value generated**	**Safeguarded business ethics**	**Secure data**
Results for 2020	Outcome in relation to financial targets: • Sales growth of 10% Not achieved • Average operating margin of 6% Not achieved • Equity/Assets ratio of 30% Achieved • Dividend of ~30% of net profit for the year Achieved	HANZA received recognition from four different global customers for its delivery precision and high quality during a challenging period.	• All subsuppliers are assessed based on the Supplier Code of Conduct. • There were no incidents pertaining to corruption or bribery.	There were no incidents where data was threatened.
Value generation	**Investors:** Return on investment, published transparent sustainability data. **Customers:** Long-term approach Resource- efficient production, quality, delivery reliability. **Employees:** Long-term employer.		**Investors, customers, society:** Reduced sustainability risks, improved business ethics.	**Investors, customers, society:** Increased data security.
Contribute to the attainment of the UN's global goals in 2020				

Financial stability, QCD and added value

Following HANZA's initial establishment phase from 2009 to 2013, when it assembled various manufacturing technologies, and the next period from 2014 to 2017, when production was gathered into geographic clusters, HANZA shifted its focus in 2017 to the streamlining of its manufacturing clusters and expansion into new customer markets. In 2019, the Group launched CORE (Cluster Operational Excellence), an efficiency enhancement program aimed at optimizing QCD (quality, cost, delivery precision) and cluster capacities and, in particular, newly acquired factories.

In 2018 HANZA defined its cluster organization and turned to a cluster based external segment reporting.

Group-wide measurements are made continuously to improve controls and quality assurance processes at the factories. HANZA also monitors the Group's delivery reliability.

The pandemic has highlighted deficiencies in the complex global manufacturing chains of numerous companies, to the advantage of regional manufacturing clusters that adhere to HANZA's model. Consequently, there has been a high demand for the company's consultancy services, through which customers receive support in streamlining and optimizing their manufacturing and logistics.

Safeguarded business ethics

HANZA acts in accordance with well defined policies on business ethics, and duly considers how and with whom it conducts business. HANZA's values, leadership and its Code of Conduct, jointly provide the foundation for its employees' actions. The Code is unambiguously communicated to every employee and is included in the introductory course for all new employees.

HANZA has enacted a global anticorruption policy with the aim of never arousing any cause for suspicion of irregularities or corruption within the operations. An insider policy clarifies the management of share price related information. The whistleblowing function, HANZA Hotline, allows for employees to anonymously report their concerns about deviations from policies and rules, and any other irregularities within the company.

In 2020, no incidents of corruption were reported or in any other manner discovered or processed. Due to the pandemic, a follow-up of the anticorruption policy and Code of Conduct among all company's employees that was scheduled for the year could not be fully implemented. The ambition is for all employees to confirm compliance with the scope of the company's guidelines.

Supplier assessments

HANZA evaluates its sourcing process and imposes requirements on its subcontractors based on its Supplier Code of Conduct. On the whole, this entails that suppliers subscribe to the same sustainability values as HANZA with respect to the environment, labor law, human rights, business ethics and corruption. Breaches of the Code are reported to HANZA's Head of Sourcing & Logistics.

In 2021, the purchasing process will be complemented by special assessment criteria pertaining to climate impact.

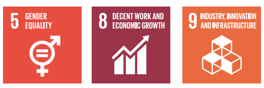
Investments in data security

Customer and personal data is always handled with confidentiality and integrity. HANZA guarantees the correct, legal and fair handling of such data and adheres to the GDPR.

The company has also taken significant measures to protect customers' drawings and other production documentation, in response to the increased hacking of government agencies and major corporations. Implementation has commenced on a system for managing information security pursuant to the ISO27001 standard. In 2020, HANZA introduced obligatory self-testing on the subject of information security for all employees. The information security system is scheduled for a certification review in 2021.

The company has a Head of Information Security and a policy in place for the protection of personal data.

HANZA's employees and local communities

Risks/Opportunities	• A total of 1,637 employees in Estonia, Finland, Sweden, Germany, the Czech Republic, Poland and China are primarily assigned to manufacturing positions in the company's six manufacturing clusters. Risks exist in relation to employee health and safety, as well as how employees are treated within the operations. • HANZA's competitiveness, innovation and profitability increases when its employees are satisfied and healthy, which in turn helps to improve the company's performance. Our diversity further contributes to positive results. • The supply of new skilled employees is facilitated by a focus on sustainability efforts. • HANZA's long-term approach in the localities where it is active and its role as an essential employer improves employee retention rates and helps to create mutual trust between the company and local community.		
Key sustainability issues	**Employee development**	**High level of diversity and equal treatment**	**HANZA's role in local communities**
Results for 2020	• Employee sickness absence: 5.1% • Workplace accident 32 (36) • Lost time injury frequency rate: 12.5% • Conducted career-developme-nt meetings and competence charting: 72%	• Average age: 43 years • Gender distribution – entire Group: 62% men, 38% women • Gender distribution – management: 74% men, 26% women	• Number of factories: 14 • Average no. of employees by country: Estonia 643 Sweden 358 Poland 118 China 82 Finland 85 Czech Republic 138 Germany 119
Value generation	**Investors:** Improved competitiveness. **Employees:** Employment under sound terms and conditions, safe and secure work environment, long-term employer.	**Employees, investors and society:** Solid diversity, strengthened innovativeness.	**Society:** Sustainable industrialization of locations where HANZA is an essential employer.
Contribute to the attainment of the UN's global goals in 2020			

Employee development

HANZA's employees contribute significantly to the development of the company. HANZA's values, Group wide policies such as Code of Conduct and HR Policy, and its leadership program provide the basis for leveraging employee performance and establishing a global HANZA culture.

Mutual trust is critically incumbent upon unambiguous communication about the company's ambitions. Internal communication takes place through channels such as the Group-wide intranet and internal magazine, HANZA United. Employee training is conducted in the local language and to a greater extent via e-learning.

An employee survey is normally conducted annually to monitor commitment levels and employee satisfaction, the workplace climate and harassment, if any. As a consequence of the pandemic, no Group-wide survey was conducted in 2020, but the survey will be conducted in the first half of 2021.

Annual career-development meetings help to gauge parameters such as competencies and development needs. In 2020, 72 per cent of such scheduled meetings were conducted. The goal in a pandemic free year is for meetings to be conducted with 98 per cent of the Group's employees.

Secured work environment, health, safety

As an industrial manufacturing player in a factory environment, HANZA strives to create safe work environments throughout the Group, and to minimize accidents through continuous efforts, such as fire prevention, evacuation indicators and safety videos.

In 2020, the Group wide work-environment system (part of the HANZA Group Management System) was rolled out to the factories. In 2021, 12 factories are scheduled for certification under ISO 45001 and an additional two factories are scheduled for certification in 2022.

Within the framework of the work environment system, HANZA conducts monthly follow-ups on internal HR key ratios. These systematic efforts are aimed at preventing occupational injuries and creating a healthier and safer work environment. When local key ratios deviate from their targets, obligatory measures are taken at the local production facility. Consequently, every factory measures the number of workplace accidents, incidents, absences from work-related injuries (LTIFR – Lost Time Injury Frequency Rate), sickness absences and other absences. In addition, health and safety risks are assessed, and the factories create action programs to manage and minimize the risks through, for example, obligatory training initiatives pertaining to safety and directives linked to safety procedures and evacuation. In 2020, 32 workplace accidents occurred within HANZA, compared with 36 accidents in 2019.

Action programs were also created to fulfill local regulations and laws pertaining to work environment issues. Work is conducted continuously to offer improved functional premises. Adaptive measures include preventive healthcare subsidies in Sweden, as well as a health week in Estonia.

In 2020, a range of measures were taken at production facilities to protect employees from the pandemic and minimize contagion. Information is continuously disseminated about protective social distancing. HANZA's policies, guidelines and work-environment management system was rolled out to recently acquired production facilities during the year.

Certification of our systematic work environment management continued in 2021, as well as follow-up measures pertaining to employee health and safety, such as continuous training.

High level of diversity and equal treatment

HANZA strives for diversity and equal-employment conditions for comparable assignments, and applies a Group-wide anti-discrimination policy. HANZA's internal Code of Conduct states that the right to freely associate with unions is self-evident, and that pay structures and terms and conditions are to be based on collective agreements, legal requirements or industry standards. HANZA's whistleblowing function, HANZA Hotline, allows for employees to anonymously report any perceived improprieties and concerns about infringements of policies and regulations, harassment or abuse of positions of trust.

In 2020, two incidents of discrimination were reported and processed within the Group.

HANZA's role in local communities

HANZA strives to build sustainable social infrastructure wherever it has operations. These locations usually consist of communities where HANZA is an essential employer and thereby a significant private sector player for the support of local inhabitants.

HANZA seeks to secure competitive and long-term production. As a part of this initiative, the company conducts dialogs with national and local decisionmakers and capital providers. The aim is not only to achieve functioning agreements, but to clarify HANZA's long-term commitments to the local region.

HANZA's clusters include factories that were acquired at a time when factories were weighed down by weak profitability and liquidity problems, and closures were inevitable. HANZA's continued operations have helped to sustain employment in several rural districts, a trend known as the Countryside model. In some cases, sustained operations were enabled through cooperation with local banks with a focus on the district's profitability.

HANZA's development of certain clusters has resulted in a broadening of its operations, as well as the need to develop or discontinue minor production units. In 2020, HANZA expanded its operations in several local districts, which increased the number of employees in, for example, Germany and the Czech Republic, while operations in two locations were discontinued. As an example production at Åtvidaberg was synchronized with HANZA's operations in Årjäng. To retain employment opportunities in Åtvidaberg, HANZA arranged for the former factory managers to take over the operations and employees, as well as minor production runs.

A sustainable employer

In 2020, HANZA had a strong focus on further developing the organization in order to make it even more scalable. This includes, among other things, that certain functions such as sales and HR, have been decentralized and several clusters have been strengthened through the recruitment of key positions. Due to the pandemic, an action program was implemented during the year, where some production has been moved and consolidated. In total, we now have just over 1,600 employees in 14 factories divided between seven countries (six clusters).

HANZA's processes and policies for the employees

Work on our staff development processes is ongoing, and the processes are being followed up on as part of our key ratio follow-up. In 2020 we continued to work on mapping employees in connection with performance reviews as well as updating skills requirements and existing skills. We constantly strive to look after our internal skills and offer development opportunities to employees. HANZA also has a Code of Conduct which describes how the management and our employees act in relation to our surroundings and to each other. The purpose is to define our social responsibility, ethical commitment and position in gender equality issues and how our employees should address issues of a principled nature. HANZA protects the rights of employees, opposes discrimination and harassment, and promotes diversity in the workplace.

Due to the pandemic, the annual employee survey was postponed and is now planned to be carried out in April 2021.

HANZA's strategy

Since the HR function has been largely decentralized, the various clusters have individually begun the development of goals and initiatives adapted to their own business. The Swedish cluster has focused on strengthening the cluster management and have in addition to appointing a new cluster president, also recruited both a sales manager and a purchasing manager. Work has started on developing an internal leadership program based on the existing HR handbook and there is ongoing work to implement HANZA's values. In 2021, the focus will be on developing internal communication.

Due to its size, the Baltic cluster has a continuous focus on both employee and employer branding, where you work closely with universities and vocational colleges to attract competence from an early stage. Internally, about 40 different trainings have been arranged, in which a total of 245 employees have participated. To reduce the risk of accidents in the factories, safety videos have been produced and translated into three languages.

In HANZA's German cluster, important positions such as cluster president, site manager and controller have been filled, and in connection with strengthening the local management team, programs have been developed to streamline leadership and to further train employees. Key staff have been recruited also in other clusters to strengthen the local organization. At the global level the main focus has been on dealing with the pandemic and the effects of it, and to coordinate follow-up of key ratios.

Communication

In September 2020, a decision was made to update HANZA's graphic profile and visual identity. The project was completed at the end of the year and is expected to be launched externally in the spring 2021. An updated version of HANZA's website was also included in the work that going forward will play an even larger role as a communication channel to our stakeholders. Internally, our internal magazine "HANZA United", which is published quarterly, 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, group-wide projects or the like.

Our intranet has today 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. The intranet also offers training in the form of e-learning in several areas, such as comprehensive introductory training, training in our ERP system and IT security. Regarding social media we are active with ads and posts on both LinkedIn and Facebook and provide updates via Facebook and Instagram.

Health and Safety

The work with health and safety continues and during the year we have worked to coordinate and align group activities, starting in the clusters. More about this in the sustainability report on pages 16–21. The work in health and security is mainly carried out at the local level with consideration of Group policies and directives, for example in connection with safety routines and evacuation for each facility. The central goal in HANZA's work environment efforts is a zero vision for occupational injuries.

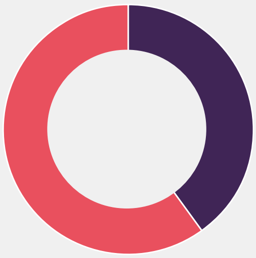
Follow-up of key ratios for employees

HANZA continuously monitors key figures for employees with regards to health and safety as well as development of our employees, and follow-up of staff turnover and actions related to this. The key ratios that we follow up internally are sick leave, occupational injuries and incidents, staff

HANZA protects the rights of employees, counteracts discrimination and harassment, and promotes diversity in the workplace.

turnover, overtime and completed performance reviews. With regards to completed performance reviews, this is a strategic goal that will be maintained and in 2021 be developed to also include factory workers. During the year, we had a total of 32 accidents in our factories, compared to 36 in 2019, something we will continue to focus on reducing in 2021. Ahead of 2020 it was decided to keep four of five key ratios, with one addition regarding accidents where we will also follow up LTIFR (Lost Time Injury Frequency Rate), that is, the extent to which an accident has led to absence.

Breakdown per gender

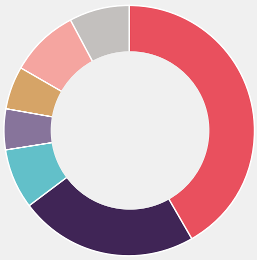


- Women. 38%
- Men 62%

Average age

43yrs

Average number of employees per country

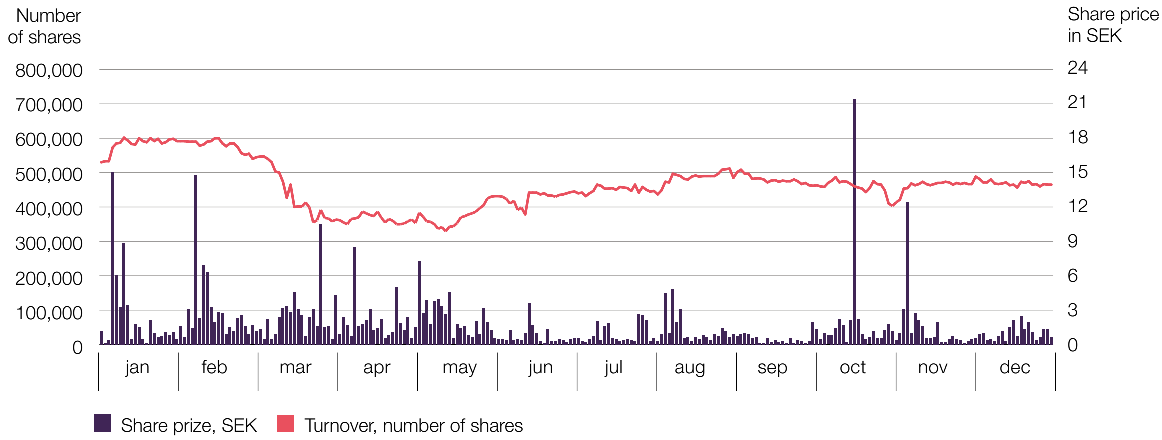


- Estonia. 643
- Sweden 358
- Poland 118
- China. 82
- Finland. 85
- Czech Republic 138
- Germany 119

The shares and ownership structure

HANZA's shares have been listed on the Nasdaq Stockholm Small Cap since March 25, 2019. Prior to that, the shares were listed on the Nasdaq First North Premier since 2014. The share price at year-end was SEK 13,95 (15.65).

Share price and turnover 2020



At the start of the year, the number of shares was 33,979,928 and the share capital SEK 3,397,993. No changes in number of shares or share capital have occurred during the year.

Share capital development

Year	Event	Quotient value SEK	Increase in share capital SEK	Number of shares	Total number of shares
2018	At beginning of year	0.1			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 April 27, 2020, 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 2021 AGM, to resolve to increase the company's share capital by SEK 330,000 (corresponding to 3,300,000 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 9.7 per cent of the share capital at the time of issue. The board of directors exercised part of the authorization in the acquisition of SLP in March 2021 as 1 800 000 new shares were issued.

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, so called lock-up

Ownership

The number of shareholders at year-end amounted to 1,772 (1,434). The largest shareholders are listed below.

Ownership structure 2020-12-30	Number of shares[1]	Capital (%)	Votes (%)
Färna Invest AB[2]	6,757,194	19.89	19.89
Francesco Franzé[3]	3,438,838	10.12	10.12
Clearstream Bankings S.A	3,231,814	9.51	9.51
Försäkringsaktiebolaget, AVANZA Pension	2,697,917	7.94	7.94
Nordnet Pensionsförsäkring AB	2,695,209	7.93	7.93
Håkan Halén	2,057,470	6.05	6.05
SHB Luxembourg cl acct Sweden	1,751,654	5.15	5.15
Eugen Steiner	1,160,000	3.41	3.41
Protector Forsikring ASA	1,100,000	3.24	3.24
UBS Switzerland AG	547,975	1.61	1.61
10 largest shareholders, total	**25,438,071**	**74.86**	**74.86**
Other board members	43,000	0.13	0.13
Other senior executives	560,210	1.65	1.65
Other shareholders	7,938,647	23.36	23.36
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 2,160,000. In addition to the foregoing, Francesco Franzé owns 1,278,838 shares in the company through an endowment insurance. Francesco Franzé's total holding amounts to 3,438,838 shares.

Source: Euroclear

agreements. At the end of 2020 were these agreements expired. At the acquisition of SLP in March 2021 the sellers entered into agreements not to sell or otherwise transfer received HANZA shares before April 1 2022.

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 manoeuvre. Business development permitting, the dividend must correspond to approximately 30 percent of profit after tax. For the fiscal year 2019, the board of directors at first proposed a dividend of SEK 0.25 per share. A proposal that later was withdrawn due to the uncertainty around the covid pandemic. The board has proposed to the AGM 2021 a dividend of 0.25 SEK per share. The Board's proposal is based on the fact that no dividend was paid in 2019, that the company has proved financially strong through the pandemic and that liquidity allows a dividend.

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 2020.

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, GE, Getinge, Oerlikon, Saab and Siemens. The group is operationally divided into two main divisions, Main markets and Other markets, which constitute the group's reportable segments in its financial reporting. Main markets are manufacturing clusters located in or near HANZA's primary geographical customer markets, which currently consist of Sweden, Finland, Norway and Germany. These clusters currently comprise Sweden, Finland and Germany. The operations in these areas are characterized by closeness to the customers factories and close collaboration with customer development departments. Other markets are manufacturing clusters outside of HANZA's primary geographical customer areas. These clusters currently consist of the Baltics, Central Europe and China. The operations are characterized by heavy labour input, complex, extensive monitoring, and closeness to important end-customer areas, how the nature of the production services varies, how processes (primarily automation) vary, and how they are distributed. 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 GmbH. HANZA AB, HANZA Metalliset Oy and HANZA 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, thin sheet, 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.

Phase 3: Focus on profitability and consulting

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. Also the acquisition in 2019 of RITTER, a German complete manufacturer with production facilities in Germany and the Czech Republic, was made in this phase to apply HANZA's business model on new customers and market areas.

Material events during 2020

Developing the Group structure

HANZA's manufacturing cluster in Central Europe, which previously comprised factories in Germany, Poland and the Czech Republic, was on April 1, 2020, divided into two units: The factory in Germany is the starting point for a separate manufacturing cluster aimed at customers in the so-called DACH area (Germany, Austria and Switzerland).

The factories in Poland and the Czech Republic constitute HANZAs new cluster Central Europe, with production for both the Nordic region and DACH.

In parallel, a decentralization of select Group functions was carried out, which led to a reduction in the company's group management from six to three persons.

Action program

In April 2020, to meet uncertain demand in some customer segments, HANZA initiated an action program in which the electronics factory in Åtvidaberg was phased out and the factory in Narva was refined to only focus on heavy mechanics. In total, approx. 90 persons were affected, and the result (EBIT) during the second quarter was charged with SEK 27.5 million.

Selected material events

In June, a so-called MIG analysis was completed in Finland, where the customer received a proposal for a more efficient supply chain including a double-digit percentage reduction of the manufacturing cost.

During the spring, HANZA was commissioned to develop a complete DNA analyzer for a leading company in molecular diagnostics, which includes the design of mechanics, electronics, cabling and software. The development is expected to be completed during the first quarter of 2021 and then put into volume production.

During the second quarter, HANZA signed a production agreement with a new customer in logistics management, and received a new, larger project from an existing industrial customer.

In November, HANZA signed an agreement with the German KHS Group for the complete development of a mechatronics system that will be ready for production during the first half of 2021.

During the fourth quarter, HANZA received awards from four different global customers thanks to good dependability and high-quality deliveries during a challenging period.

Other events

In May, an incentive program was offered to Group Management, where all 850,000 warrants were acquired to a total amount of SEK 365,000. Each warrant entitles the holder to subscribe for one share at a subscription price of SEK 20 from June 1, 2023 to September 30, 2023.

In December, HANZA decided to expand capacity in the Baltics by building a new production facility of just over 12,000 m^2 in Tartu, Estonia. The total investment amounts to approx. SEK 80 million and is financed with a combination of own funds and bank loans. Work has begun and the opening is planned to take place in the first quarter of 2022.

Events after the end of the year

On 19 March 2021 all shares in Suomen Levyprofiili Oy (SLP), a successful Finnish manufacturer of sheet metal mechanics, with just over 100 employees in Joensuu, Finland, were acquired. The purchase price of approximately SEK 33 million consists of a cash fixed purchase price, a cash additional purchase price, and a share part of 1.8 M shares in HANZA issued with the support of the Annual General Meeting's authorization. The share capital is thus increased by SEK 180,000 and the number of shares in HANZA after the issue amounts to 35,779,928. The new issue entails a dilution of approx. 5.5%. Furthermore, HANZA will take over a shareholder loan to SLP of approximately SEK 15 million upon accession. The purchase price is calculated to SEK 48 million in total, giving a valuation of SLP, including the shareholder loan, corresponding to approx. 3.4 times EBITDA and an EV / EBITDA multiple of about 5. Integration of the company with HANZAs present operations in Finland, has been started and the costs are estimated at approximately SEK 6 million and are mainly to be charged to the first quarter of 2021.

At the time of the publishing of this annual report, the Covid-19 pandemic is still ongoing and could entail major consequences in the future, in all of the areas pertaining to HANZA's production operations and markets. The specific aspects of impact that this will have on the company's operations and financial performance is still impossible to assess. The Board of Directors and the company's management is closely monitoring developments, in order to rapidly and efficiently manage any change of operational circumstances that may arise.

Five-year overview

MSEK	2020	2019	2018	2017	2016
Net sales	2,154.9	2,067.7	1,810.6	1,399.7	1,305.8
Operating profit	31.3	56.8	54.1	35.7	25.2
Profit/loss after tax	-1.4	23.6	20.8	16.4	1.9
Balance sheet total	1,414.20	1 527.9	1,096.10	769.8	755.6
Equity	474.9	497.7	410.5	309.3	268.8
Equity ratio, %	33.6	32.6	37.5	40.2	35.6

Market performance

Although HANZA's market is mainly concentrated in the Nordic region and Germany, the company also has customers in the rest of Europe, Asia and the United States. Economic cycles are usually reflected in HANZA's sales, due to its customers operating within a wide range of industries. However, HANZA has a special opportunity to seize new market share during recessions – at a time when product companies take on new challenges to optimize efficiency and regionalize their supply chains.

Demand in the Nordic markets was strengthened in late 2020, while lockdowns in the rest of Europe subdued demand more and more severely over time. HANZA is of the opinion that the pandemic will dominate the Group's demand for much of 2021 and that opportunities to launch new customer projects will be impacted by the limited prospects of visiting the Group's factories and customers. Concurrent to this, HANZA sees the potential to seize new market share, while the pandemic strengthens the trend toward regionalization, customer proximity and full-product manufacture. This new development is reinforcing an already existing trend that was driven by issues such as trade barriers, transport costs, delivery time and environmental aspects.

The Board of Directors has analyzed the Group's financial targets in light of the pandemic and deemed that they remain realistic and should thus be adhered to. This means that the Group's growth target continues to be an average sales increase of at least 10 percent annually over a business cycle, which is measured as net change, i.e. the total volume added by new customers, corporate acquisitions, discontinued volumes and exchange-rate differences. Consequently, HANZA's margin of 6 percent after the amortization and impairment of intangible assets (EBIT) will also remain unchanged.

Sales and profit

Net sales for the year amounted to SEK 2,154.9 million (2,067.7). The Main market segment increased to SEK 1,164.7 million (1,112.7) The Other market segment increased to SEK 989.9 million (954.9). Compared to 2019 sales has increased as the two acquisitions made in 2019 (RITTER in July and Toolfac in January) have been owned the whole 2020. But it has been affected negatively by the Covid pandemic. When sales declined, we immediately launched an action program where we, among other things, consolidated electronics volumes in Sweden and mechanics volumes in Estonia. The program was carried out according to plan and caused further impact on sales as we discontinued volumes of around SEK 100 million annually. Additionally, a weakened euro exchange rate has negatively affected the comparison with last year by approx. SEK 17 million. On the other hand, we have new and existing customers that have had a positive effect on sales. In total, growth in 2020 was approx. 4%, which can be compared with customers' forecasts at the beginning of 2020 which showed double-digit growth.

EBITDA amounted to SEK 138.6 million (149.0), which corresponds to an EBITDA margin of 6.4% (7.2). Depreciations, amortizations and write-downs during the period amounted to SEK 107.3 million (92.2), of which, amortization and write-down of intangible assets of SEK 16.5 million (11.1) and the writedowns of tangible fixed assets, in connection with the action program, of SEK 7.5 million (-). The gross margin amounted to 44.3% (45.8). The Group's EBITA amounted in the year to SEK 47.8 million (67.9), which corresponds to an operating margin of 2.2% (3.3). The result is charged by the Group's action program of SEK 27.5 million of which EBITA is charged with SEK 24.7 million. The SEK 24.7 million is distributed with SEK 9.5 million to Main markets and SEK 15.2 million to Other markets. The Main market segment reports EBITA of SEK 41.5 million (80.4), which corresponds to an operating margin of 3.6% (7.2). The Other market segment shows EBITA of SEK 9.7 million (3.2), which corresponds to an operating margin of 1.0% (0.3). The business development segments EBITA amounted for the year to SEK 1.0 million (0.3). EBITA for the Business Development segment amounted to SEK -3.4 million (-15.7).

The Groups EBIT amounted to SEK 31.3 million (56.8). Net financial income amounted to SEK -22.4 million (-24.5). Of this, net interest amounts to SEK -17.5 million (-18.1). Currency rate gains and losses net amounted to SEK 0.8 million (-1.2). Other financial costs amounted to SEK -5.7 million (-5.2). Profit before tax amounted to SEK 8.9 million (32.3). Profit after tax amounted to SEK -1.4 million (23.6). Profit per share before and after dilution amounts to SEK -0.04 (0.73).

Cash flow and investments

Cash flow from operating activities remains positive and amounted to SEK 181.8 million (122.0). Changes in working capital amounted 75.5 million (-5.6).

Cash flow from investment activities amounted to SEK -60.0 million (-137.4). Cashflow from acquisition of subsidiaries to SEK -3.1 million (-89.4).

Total acquisitions of tangible fixed assets amounted to SEK 82.4 million (61.5) in the quarter. The difference from investments in the cash flow statement consists of acquisitions of machinery and equipment through leasing.

Cash flow from financing activities amounted to SEK -63.2 million (5.1) and consists of new loans and repayments and a minor issue of warrants.

Financial position

Shareholder's equity at the end of the period amounted to SEK 474.9 million (497.7) whereas the equity ratio was 33.6% (32.6). The balance sheet total amounted to SEK 1,414.2 million (1,527.9). Cash and cash equivalents amounted to SEK 121.2 million (66.7). The interest-bearing net debt amounted to SEK 450.4 million (543.3). The interest-bearing net debt has decreased by SEK 92.9 million in 2020, mainly attributable to the strong cash flow. In the spring HANZA negotiated new terms and conditions for borrowing, so called covenants, with the company's larger creditors. The new terms concern the size of the net debt in relation to EBITDA and are adapted to the effects of covid-19. During the fourth quarter the levels for 2021 were agreed upon.

Employees

During the year, the average number of employees in the Group was 1,543 (1,603). The number of employees at the end of the period was 1,637 compared to 1,771 at the start of the year, which is explained by the employee reductions which HANZA has performed.

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 2020 the ten largest customers accounted for 48 per cent (53) 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.
- *Sustainability risks* – Sustainability risks, primarily risks pertaining to the environment, social aspects, ethics and integrity, are addressed in the sustainability section on pages 16–21. There is a risk that the company may not succeed in some aspect of its future sustainability efforts, which could result in substantial direct mitigation costs and indirectly impact the company's sales and earnings for the year, since the company's reputation with respect to sustainability has repercussions on its capacity to attract customers and employees.
- *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 extremely 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

Sustainability report

Pursuant to the Annual Accounts Act, HANZA must submit a sustainability report, which the company, as of this year, has chosen to do so by integrating it into the Administration Report, with reference to other sections of the annual report comprising statutory disclosures. A substantial sustainability section describes our sustainability efforts and provides analyses of the risks and their management, as well as the reporting of specific key performance indicators. In particular, our business model forms an essential subsection of the sustainability report. The corporate governance report describes the Group's efforts with policies and other governance instruments. There is also a description of the Board of Directors' and company management's comprehensive work with risk assessments. The following table references the various statutory components of a sustainability report.

Content	Page
Business model	13
Governance, policies and follow-up	33
Overall risk assessment	29–31, 36
Sustainability risks	17, 19, 20
Environment	17–18
Social relations	20–21
Personnel	20–23
Human rights	19–21
Business ethics and anticorruption	19–20

Operations with permitting requirements

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 shares have 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 shares and ownership structure.

Ownership

The number of registered shareholders on December 31, 2020 amounted to 1,772. The largest shareholder was Färna Invest (owned by Gerald Engström) with 19.9 per cent. Francesco Franzé owns 10.1 per cent and Håkan Halén owns 6.1 per cent. For more information about ownership, please refer to the separate section on HANZA's shares and and ownership structure.

Corporate governance

A corporate governance report follows immediately after the management report.

Guidelines for remuneration to senior executives

The guidelines for remuneration to senior executives below, were approved by the AGM on 27 April 2020. No changes in the guidelines will be proposed to the AGM 2021.

The remunerations are regarded 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.

Dividend

The board has proposed to the AGM on 26 April 2021 a dividend of SEK 0.25 to be paid. The Board's proposal is based on the fact that no dividend was paid in 2019, that the company has proved financially strong through the pandemic and that liquidity allows a dividend.

Parent Company

The Parent Company's net sales consist exclusively of revenue from group companies amounting to SEK 21.1 million (21.5). Profit before tax amounted to SEK -114.8 million (4.1). The result includes write-down of shares in subsidiaries of SEK 127.1 million.

Proposed appropriation of profit

The board of directors proposes a dividend for financial year 2020 of SEK 0.25 per share (-) corresponding to a total dividend of SEK 8.5 million (-) based on the number of outstanding shares as of 31 March 2021. Proposed record date is 28 April 2021.

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

Retained earnings	38,753,145
Share premium reserve	315,231,561
Profit for the year	-117,432,267
Total	**236,552,439**

The board of directors proposes that retained funds be

Paid as dividend to the shareholders, 0.25 SEK per share, in total	8,494,982
Carried forward in the amount of	228,057,457
Total	**236,552,439**

The boards statement over the proposed dividend

The board of directors proposes a dividend to the shareholders of SEK 0.25 per share (-) corresponding to SEK 8.5 million (-). The proposed dividend compose 3.6 per cent of the profits on the balance sheet day and decreases the groups equity ratio from 33.6 to 33.2 per cent calculated on the balance sheet date. The Board is of the opinion that the proposed dividend is consistent with the prudence concept in the Swedish Companies act regarding demand on the company's¨ equity, investment needs, liquidity and financial position and the risks associated to the type and size of the operations.

Corporate Governance Report

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 website bolagsstyrning.se.

With the exception of the deviations described below, there have been no deviations from the Code during 2020.

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 in addition to the conditions stated in the Swedish Companies Act, 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.

2021 AGM

The 2020 AGM will be held on Monday, April 26, 2021. Due to the continuous spread of the corona virus and with the background of the insecurity around which restrictions and recommendations which will apply for gatherings at the time of the AGM, the board of HANZA has decided that the AGM will be conducted solely by voting in advance, so called postal voting. There will be no possibility to physical attendance, neither personally nor through representatives, at the AGM. For further information about the AGM and how voting in advance of the AGM is carried out, appears in the notice of the AGM.

Authorizations

At the AGM on April 27, 2020, 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 2021 AGM, to resolve to increase the company's share capital by a maximum of SEK 330,000 (corresponding to 3,300,000 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 9.7 per cent of the share capital at the time of issue. The board of directors exercised part of the authorization in the acquisition of SLP in March 2021 as 1 800 000 new shares were issued.

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 April 27, 2020, 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 2021 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 2022 AGM.

HANZA's Nomination Committee in advance of the 2021 AGM has 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	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.

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 2020 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.

For a more detailed presentation of the board of directors and CEO, including information about holding of shares and other securities in the company and significant positions outside the company, see page 86.

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. To these, have in 2020 meetings in connection with quarterly reports and investments, been added. 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:

- to monitor and quality-assure the company's financial reporting;
- 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;
- 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;
- to evaluate the audit performance and to inform the Nomination Committee of the results;
- 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;
- to monitor the effectiveness, with regard to financial reporting, of the company's internal control, internal audit and risk management;
- dealing with any disagreements between the management team and the auditor;
- 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:
- decisions on matters regarding remuneration principles, remunerations and other terms of employment for the management team;
- monitoring and evaluation of ongoing programs for variable remuneration for the management team and those ended during the year;
- 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
- 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
Francesco Franzé	14/14	6/6	3/3
Gerald Engström	14/14	–	3/3
Håkan Halén	14/14	6/6	–
Helene Richmond	14/14	–	–
Sofia Axelsson	14/14	5/6	–

Major shareholders

As of December 31, 2020, and with up to February 28, 2021 known changes, 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	19.89
Francesco Franzé	10.12

For further information about HANZA's shares and ownership structure, please refer to the section entitled "Shares and ownership structure" on pages 24-25 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. At the 2020 AGM, EY was elected to serve as the company's auditor for the time up to the end of the AGM 2021. EY has appointed authorized public accountant Charlotte Holmstrand as Chief Auditor. 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 2020	Jan–Dec 2019
Net sales	5, 6	**2,154.9**	**2,067.7**
Change of inventories in production, finished goods and work in progress on behalf of others		-52.0	-15.5
Raw materials and consumables		-1,147.9	-1,105.5
Other external costs	7, 30	-263.9	-262.6
Costs of personnel	8, 31	-562.1	-535.5
Depreciation, amortizations and write-downs	14, 15, 30	-107.3	-92.2
Other operating income	9	15.8	8.6
Other operating expenses	9	-6.2	-8.2
Operating profit	6, 10	**31.3**	**56.8**
Profit/loss from financial items			
Financial income		0.8	0.5
Financial expenses		-23.2	-25.0
Financial items – net	10, 11	**-22.4**	**-24.5**
Profit/loss before tax		**8.9**	**32.3**
Income tax	12	-10.3	-8.7
Profit/loss for the year		**-1.4**	**23.6**

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	-0.04	0.73
Earnings per share after dilution, SEK	13	-0.04	0.73

Consolidated Comprehensive Income Statement

Amounts in SEK million	Note	Jan–Dec 2020	Jan–Dec 2019
Profit/loss for the year		**-1.4**	**23.6**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit pension plans	31	-4.7	3.6
Tax on items that will not be reclassified to the income statement		1.5	-1.1
Total items that will not be reclassified to the income statement, net of tax		**-3.2**	**2.5**
Items that can subsequently be reversed in profit or loss			
Exchange rate differences from recalculation of foreign subsidiaries		-20.1	3.6
Exchange rate difference on acquisition loan		2.0	1.3
Tax on items that can subsequently be reversed in profit or loss		-0.4	-0.3
Total items that may be reclassified to the income statement, net of tax		**-18.5**	**4.6**
Other comprehensive income for the year		**-21.7**	**7.1**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-23.1**	**30.7**

Comprehensive income is in it's entirety attributable to the parent company's shareholders

Consolidated Balance Sheet

Amounts in SEK million	Note	31.12.2020	31.12.2019
ASSETS			
Fixed assets			
Goodwill	14	297.9	302.8
Customer relations	14	90.7	104.5
Other intangible assets	14	7.1	8.6
Buildings and land	15	101.0	110.8
Machinery and equipment	15	168.6	167.7
Right-of-use assets	30	137.8	143.7
Other long-term securities holdings		0.3	0.3
Deferred tax assets	16	26.9	32.8
Total fixed assets		**830.3**	**871.2**
Current assets			
Inventories	18		
Raw material and supplies		219.5	227.8
Work in progress		77.1	104.1
Finished products		43.6	90.3
Gods in transition		2.2	0.5
Total inventories		**342.4**	**422.7**
Accounts receivables	19	76.8	122.1
Tax receivables		4.4	6.4
Other receivables	20	20.2	21.5
Prepaid expenses and accrued income	21	18.9	17.3
Cash and cash equivalents	22	121.2	66.7
Total current assets		**583.9**	**656.7**
TOTAL ASSETS		**1,414.2**	**1,527.9**

Consolidated Balance Sheet

Amounts in SEK million	Note	31.12.2020	31.12.2019
EQUITY	23		
Equity attributable to the equity holder of the parent company			
Share capital		3.4	3.4
Other paid-in capital		440.1	439.8
Other reserves		17.1	35.6
Retained earnings		14.3	18.9
Total equity		**474.9**	**497.7**
LIABILITIES			
Long-term liabilities			
Post-employment benefits	31	110.3	108.9
Deferred taxes liabilities	16	43.4	45.8
Liabilities to credit institutions	24	174.6	209.9
Lease liabilities	24, 30	80.9	92.8
Total long-term liabilities		**409.2**	**457.4**
Current liabilities			
Overdraft facility	24	44.2	52.1
Liabilities to credit institutions	24	81.5	97.7
Lease liabilities	24, 30	43.1	45.5
Other interest-bearing liabilities	24	37.0	3.1
Accounts payable	25	199.9	231.7
Tax liabilities		9.9	17.5
Other liabilities	26	33.1	35.7
Accrued expenses and deferred income	27	81.4	89.5
Total current liabilities		**530.1**	**572.8**
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES		**1,414.2**	**1,527.9**

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 2019		**3.0**	**376.0**	**31.0**	**0.5**	**410.5**
Profit/loss for the period		–	–	–	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**
OPENING BALANCE AS OF 1 JANUARY 2020		**3.4**	**439.8**	**35.6**	**18.9**	**497.7**
Profit/loss for the period		–	–	–	-1.4	-1.4
Other comprehensive income						
Other comprehensive income before tax		–	–	-18.1	-4.7	-22.8
Tax on items in other comprehensive income		–	–	-0.4	1.5	1.1
Total comprehensive income		**–**	**–**	**-18.5**	**-4.6**	**-23.1**
Transactions with shareholders						
Warrant issue		–	0.3	–	–	0.3
Issue costs		–	–	–	–	0.0
Total contributions from and distributions to shareholders, recognized directly in equity		**–**	**0.3**	**–**	**–**	**0.3**
CLOSING BALANCE AS OF 31 DECEMBER 2020		**3.4**	**440.1**	**17.1**	**14.3**	**474.9**

Development of the share capital is shown in Note 23.

Consolidated Statement of Cash Flows

Amounts in SEK million	**Note**	**2020**	**2019**
Cash flows from operating activities			
Profit/loss after financial items	32	8.9	32.3
Depreciation, amortizations and write-downs		107.3	92.2
Other non-cash items	32	1.3	4.8
Paid income tax		-11.2	-1.7
Cash flows from operating activities prior to the change in working capital		**106.3**	**127.6**
Change in working capital			
Change in inventories		64.8	15.3
Change in accounts receivables		41.7	22.1
Change in short-term receivables		1.4	-9.9
Change in accounts payables		-24.9	-25.4
Change in short-term liabilities		-7.5	-7.7
Total change in working capital		**75.5**	**-5.6**
Cash flows from operating activities		**181.8**	**122.0**
Cash flows from investing activities			
Acquisition of subsidiaries	33	-3.1	-89.4
Investments in intangible assets	14	-3.5	-2.2
Investments in tangible fixed assets	15	-56.4	-48.3
Disposals of tangible fixed assets		3.0	2.5
Cash flows from investing activities		**-60.0**	**-137.4**
Cash flows from financing activities			
New share issue	23	0.3	–
New loans	24, 32	97.0	149.5
Repayment of borrowings	24, 32	-160.5	-136.7
Dividends paid		–	-7.7
Cash flows from financing activities		**-63.2**	**5.1**
Increase/reduction in cash and cash equivalents		**58.6**	**-10.3**
Cash and cash equivalents at the beginning of the year	22	66.7	77.5
Exchange differences in cash and cash equivalents		-4.1	-0.5
Cash and cash equivalents at the end of the year	22	**121.2**	**66.7**

Parent Company Income Statement

Amounts in SEK million	Note	2020	2019
Operating income	34	**21.1**	**21.5**
Other external costs	7, 34	-10.5	-11.6
Costs of personnel	8	-8.6	-8.4
Total operating expenses		**-19.1**	**-20.0**
Other operating income		0.4	–
Other operating expenses		-0.2	–
Operating profit		**2.2**	**1.5**
Profit/loss from financial items			
Profit/loss from group companies	11, 35	-127.1	–
Other interest income and similar income items	11	7.6	4.2
Interest charges and similar income items	11	-2.3	-1.6
Total profit/loss from financial items		**-121.8**	**2.6**
Profit/loss after net financial items		**-119.6**	**4.1**
Appropriations	36	4.8	–
Profit/loss before tax		**-114.8**	**4.1**
Tax on profit for the period	12	-2.6	-0.6
Profit/loss for the year		**-117.4**	**3.5**

Parent Company Comprehensive Income Statement

Amounts in SEK million	Note	2020	2019
Profit/loss for the year		**-117.4**	**3.5**
Other comprehensive income, net of tax, for the year		**–**	**–**
Total comprehensive income for the year		**-117.4**	**3.5**

Parent Company Balance Sheet

Amounts in SEK million	**Note**	**31.12.2020**	**31.12.2019**
ASSETS			
Fixed assets			
Financial fixed assets			
Shares in subsidiaries	35	319.4	360.5
Long-term receivables on group companies	34	18.8	89.2
Deferred tax assets	16	1.6	4.0
Total financial fixed assets		**339.8**	**453.7**
Total fixed assets		**339.8**	**453.7**
Current assets			
Short-term receivables			
Receivables on group companies	34	5.3	–
Tax receivables		0.3	0.3
Other short-term receivables		2.5	–
Prepaid expenses and accrued income		1.5	1.1
Total short-term receivables		**9.6**	**1.4**
Liquid funds			
Cash and cash equivalents	22	1.3	0.1
Total liquid funds		**1.3**	**0.1**
Total current assets		**10.9**	**1.5**
TOTAL ASSETS		**350.7**	**455.2**

Parent Company Balance Sheet

Amounts in SEK million	Note	31.12.2020	31.12.2019
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity	23		
Restricted equity			
Share capital		3.4	3.4
Total restricted equity		**3.4**	**3.4**
Non-restricted equity			
Share-premium reserve		315.2	314.9
Profit and loss brought forward		38.7	35.2
Profit/loss for the year		-117.4	3.5
Total non-restricted equity		**236.5**	**353.6**
Total equity		**239.9**	**357.0**
Untaxed reserves			
Tax allocation reserves		0.5	–
Total untaxed reserves		**0.5**	**–**
Long-term liabilities			
Liabilities to credit institutions	24	47.0	70.1
Total long-term liabilities		**47.0**	**70.1**
Current liabilities			
Liabilities to credit institutions	24	20.6	20.4
Other interest-bearing liabilities	24	1.7	–
Accounts payable		0.9	0.5
Tax liabilities		0.3	–
Liabilities to group companies	24, 34	36.6	4.4
Other liabilities		1.1	0.8
Accrued expenses and deferred income	27	2.1	2.0
Total current liabilities		**63.3**	**28.1**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**350.7**	**455.2**

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 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**
OPENING BALANCE AS OF 1 JANUARY 2020	**3.4**	**314.9**	**38.7**	**357.0**
Comprehensive income	**–**			
Profit/loss for the year	–	–	-117.4	-117.4
Other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**-117.4**	**-117.4**
Transactions with shareholders				
Warrant issue	–	0.3	–	0.3
Issue costs	–	–	–	–
CLOSING BALANCE AS OF 31 DECEMBER 2020	**3.4**	**315.2**	**-78.7**	**239.9**

Development of the share capital is shown in Note 23.

Parent Company Statement of Cash Flows

Amounts in SEK million	Note	2020	2019
Cash flows from operating activities			
Profit/loss after financial items		-119.6	4.1
Write-downs	11	127.1	–
Other non-cash items	32	-2.3	–
Group contributions paid		–	2.4
Cash flows from operating activities prior to the change in working capital		**5.2**	**6.5**
Change in working capital			
Change in short-term receivables		-0.4	-0.8
Change in accounts payables		0.4	-0.8
Change in short-term liabilities		0.3	3.4
Total change in working capital		**0.3**	**1.8**
Cash flows from operating activities		**5.5**	**8.3**
Cash flows from investing activities			
Investments in subsidiaries		–	-82.2
Cash flows from investing activities		**–**	**-82.2**
Cash flows from financing activities			
New share issue	23	0.3	–
New loans	24	33.9	90.8
Repayment of borrowings	24	-20.5	-9.9
Dividends paid		–	-7.7
Change in long-term receivables on group companies		-18.0	-10.7
Cash flows from financing activities		**-4.3**	**62.5**
Increase/reduction in cash and cash equivalents	22	**1.2**	**-11.4**
Cash and cash equivalents at the beginning of the year		0.1	11.5
Cash and cash equivalents at the end of the year	22	**1.3**	**0.1**

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 March 31, 2021. 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 26, 2021.

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 profit or loss.

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

The definition of a business in IFRS 3, which governs if an acquisition is handled as a business combination or an asset acquisition has been changed. The change is expected to lead to lightly improved possibilities to handle acquisitions as asset acquisitions. The change is applied by HANZA for the first time in the fiscal year 2020 but does not affect this year's closing since no acquisitions have been made. Each acquisition is classified separately and hence it is not possible to judge if the change will affect future acquisitions. The acquisitions HANZA has made in the last years should have been classified as business combinations even with the new accounting principles.

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, 2021 or later that are expected to have a material impact on the group or the parent company.

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 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

Note 2 cont.

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 Note 6 as well.

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 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
Expenditures to improve another's property	The contract period, yet not exceeding 20 years
Machinery and other technical facilities	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 car-

Note 2 cont.

rying 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 profit or loss, 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 profit or loss
Financial assets and liabilities measured at fair value through profit or loss 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 31-12-2020 or 31-12-2019. 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 profit or loss. Financial assets measured at fair value through profit or loss 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 profit or loss 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 profit or loss, 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 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 31-12-2020 and 31-12-2019 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 expected future credit losses connected to assets recognized at amortized cost. If needed the Group recognize an impairment for expected credit losses. The group applies the simplified approach for impairment of accounts receivables, i.e. the impairment corresponds to lifetime expected credit losses. To measure the expected future losses the accounts receivables have been grouped based on credit risk characteristics and overdue dates. The Group uses forward-looking variables for expected impairment losses. Expected Impairment for expected losses are recognized in the consolidated income statement under other external expenses.

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. For assessment of future credit losses forward-looking parameters regarding the industry and the customers stability, are used.

Note 2 cont.

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 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.

Note 2 cont.

2.19 Share-based payment
The group did not make any share-based payments in 2020 or 2019.

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 Classifications
Leased assets, with some exceptions, are to be recognized as right-of-use assets, 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 depreciated 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 depreciated over the contract period.

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

In connection with the covid-19 pandemic HANZA has had the possibility to use different types of government grants. The most important are temporarily reduced social security fees and postponed payments of taxes and social security fees. In cases where fees have been reduced the actual cost has been booked. Hence, the grants become cost reductions. Postponed payments of taxes and fees are interest-bearing and treated as other interest-bearing liabilities. In those cases where grants have been paid out, they are recognized as other operating income and are reported separately in Note 9.

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.

Changes in accounting principles
In the closing for the year that starts on 1 January 2020 no new standards or accounting principles are applied. There are neither any new standards that begin to apply on 1 January 2021 or later that are expected to have any material impact on the parent company.

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 expenses.

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 group does not apply hedge accounting in cases where hedges are used to mitigate financial risks.

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, 2020 and December 31, 2019.

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 5 per cent relative to the EUR with all other variables remaining constant, profit for the year, as of December 31, 2020, would have been impacted by SEK -1.5 (0.7) million. In the event of a corresponding weakening relative to PLN, profit for the year would have been impacted by SEK 0.5 (0.4) million, whereas a weakening relative to CNY would have affected profit by SEK -0.1 (0.6). 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, 2020, 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 3.1 million (3.0) and a decrease of SEK 3.1 million (3.0), 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. Generated cash flow in the year has mainly been used for machine investments and repayment of loans.

Note 3 cont.

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 121.2 million (66.7) and unutilized overdraft facilities in the amount of SEK 85.7 million (69.8) 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.

Group 31 December 2020	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	63.3	63.2	107.1	162.4	7.0
Overdraft facility	–	44.2	–	–	–
Other interest-bearing liabilities	37.0	–	–	–	–
Accounts payable	199.9	–	–	–	–
Other short-term liabilities	24.3	–	–	–	–
Total	**324.5**	**107.4**	**107.1**	**162.4**	**7.0**

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 liabilities	3.1	–	–	–	–
Accounts payable	231.7	–	–	–	–
Other short-term liabilities	11.3	–	–	–	–
Total	**327.9**	**114.0**	**112.5**	**190.6**	**29.2**

Parent Company 31 December 2020	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	10.4	10.5	21.3	28.6	–
Other interest-bearing liabilities	1.7	–	–	–	–
Accounts payable	0.9	–	–	–	–
Other short-term liabilities	0.1	–	–	–	–
Total	**13.1**	**10.5**	**21.3**	**28.6**	**–**

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**

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 leverage 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 leverage ratio as of December 31 was as follows:

	2020	2019
Borrowings (Note 24)	337.3	362.8
Lease liability (Note 24)	124.0	138.3
Provisions for pensions (Note 31)	110.3	108.9
Less: Cash and cash equivalents (Note 22)	-121.2	-66.7
Net debt	**450.4**	**543.3**
Total equity	474.9	497.7
Net debt/equity ratio, %	**95**	**109**

The change in the year is explained by reduced liabilities, as positive cash flows from operations partly have been used to repay liabilities to credit institutions and bank overdrafts.

Note 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.

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 general 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 297.9 million (302.8).

(b) Valuation of Customer Relationships
In the acquisitions completed in 2018 and 2019, intangible assets in the form of customer relationships were identified. 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 90.7 million (104.5).

(c) Valuation of loss carryforwards
Each year, the group assesses whether there is any need for impairment of deferred tax assets relating to tax loss carryforwards. 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 loss carryforwards 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 and to some extent in Finland, Czech Republic and China, as it is considered probable that these loss carryforwards can be utilized against future profits. See further Note 16.

(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 118.2 million (139.2).

(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 110.3 million (108.9). 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 more 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 commitment 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 commitments. A performance commitment 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 commitment is fulfilled upon delivery. 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. On the balance sheet date, the sales value of buffer stock where the performance commitment was already considered to have been fulfilled was SEK 23.3 million (18.6).

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 commitments. 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 commitments that extend more than one year into the future.

Revenue from services

A consultancy agreement usually comprises a single performance commitment 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 commitment 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 recognize these separately.

Contractual assets and contractual liabilities on the balance sheet date

The contractual assets as of the balance sheet date amounted to SEK 23.3 million (18.6). 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.

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.

HANZA divide the operations into so called manufacturing clusters and applies a financial segment classification based on primary customer markets. Operations were conducted in 6 clusters whose reporting is broken down into the following reportable segments:

- *Main markets* – Manufacturing clusters located in or near HANZA's primary geographical customer markets, which currently consist of Sweden, Finland, Norway and Germany. These clusters currently comprise Sweden, Finland and Germany. The operations in these areas are characterized by closeness to the customers factories and close collaboration with customer development departments.
- *Other markets* – Manufacturing clusters outside of HANZA's primary geographical customer areas. These clusters currently consist of the Baltics, Central Europe and China. The operations are characterized by heavy labour input, complex, extensive monitoring, and closeness to important end-customer areas.
- *Business development* – Costs and revenues not allocated to the Manufacturing Clusters, which primarily consist of Group-wide functions within the parent company, as well as Group-wide adjustments not allocated to the other two segments.

Ritter that was acquired in July 2019 with operations in Germany and Czech Republic was during 2019, organizationally included in cluster Central Europe and thereby included in former cluster

Note 6 cont.

Rest of the world. From the beginning of 2020, the organization has been developed so that the production units in the acquisition have been split into two different manufacturing clusters. Thereby has Germany come to form an own manufacturing cluster reported in segment Main markets (former Nordic), while the unit in Czech Republic is reported in Other markets (former Rest of the world), see definitions above. The values for 2019 have been recalculated in which revenue from external customers of SEK 146.1 million and EBITA of SEK 17.7 million has been redistributed from Other markets (Former Rest of the world) to Main markets (former Nordic).

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.

	2020				2019			
Profit by segment	**Main markets**	**Other markets**	**Business development**	**Total**	**Main markets**	**Other markets**	**Business development**	**Total**
Revenue								
Segment revenue	1,168.8	1,016.3	0.3	2,185.4	1,121.2	984.8	0.1	2,106.1
Less sales between segments	-4.1	-26.4	–	-30.5	-8.5	-29.9	–	-38.4
Revenue from external customers	**1,164.7**	**989.9**	**0.3**	**2,154.9**	**1,112.7**	**954.9**	**0.1**	**2,067.7**
Profit/loss								
EBITA	41.5	9.7	-3.4	47.8	80.4	3.2	-15.7	67.9
Amortization of intangible assets				-16.5				-11.1
Financial items - net				-22.4				-24.5
Profit/loss before tax				**8.9**				**32.3**
EBITA excluding items affecting comparability								
EBITA	41.5	9.7	-3.4	47.8	80.4	3.2	-15.7	67.9
Adjustment for items affecting comparability, see below	9.5	15.2	-2.5	22.2	3.4	3.0	11.8	18.2
EBITA excluding items affecting comparability	**51.0**	**24.9**	**-5.9**	**70.0**	**83.8**	**6.2**	**-3.9**	**86.1**
Items affecting comparability								
Revaluation of acquisition purchase price	–	–	2.5	2.5	1.1	–	–	1.1
Transaction costs	–	–	–	–	-0.3	–	-8.1	-8.4
Costs for change of listing	–	–	–	–	–	–	-3.7	-3.7
Write-down of assets	–	–	–	–	–	-3.0	–	-3.0
Action programme covid-19*	-9.5	-15.2	–	-24.7	–	–	–	–
Amortization of over-value in inventory identified in the acquisition of RITTER	–	–	–	–0.0	-4.2	–	–	-4.2
Total items affecting comparability	**-9.5**	**-15.2**	**2.5**	**-22.2**	**-3.4**	**-3.0**	**-11.8**	**-18.2**
Cashflow information – Non-cash items								
Depreciations and amortizations	-61.0	-34.8	-1.2	-97.0	-52.9	-38.0	-1.3	-92.2
Write-downs of fixed assets	–	-10.3	–	-10.3	–	–	–	–
Other non-cash items	-2.7	–	1.4	-1.3	-1.3	-2.4	-1.1	-4.8

* In April 2020, to meet uncertain demand in some customer segments, HANZA initiated an action program in which the electronics factory in Åtvidaberg was phased out and the factory in Narva was refined to only focus on heavy mechanics. In total, approx. 90 persons were affected, and the result (EBIT) during the second quarter was charged with SEK 27.5 million.

Note 6 cont.

Balance information and investments per segment	Assets		Investments[1]		Liabilities	
	2020	2019	2020	2019	2020	2019
Main markets	1,045.2	1,063.8	47.7	25.7	601.4	626.8
Other markets	526.2	536.4	12.1	24.5	261.4	311.6
Business development	87.9	116.2	–	0.3	321.6	280.3
Eliminations	-245.1	-188.5			-245.1	-188.5
Total Group	**1,414.2**	**1,527.9**	**59.8**	**50.5**	**939.3**	**1,030.2**

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

Net sales and fixed assets per geographic market	Net sales		Fixed assets[2]	
	2020	2019	2020	2019
Sweden	870.4	618.8	377.8	374.2
Finland	396.6	455.4	70.4	68.8
Estonia	46.8	74.3	174.0	192.4
Germany	308.1	368.7	96.5	112.8
Poland	42.0	34.6	24.9	25.6
Czech Republic	31.2	26.2	43.4	47.5
Other EU	120.7	110.0	–	–
Norway	164.4	148.7	–	–
Other Europe	14.3	3.2	–	–
Nort America	74.3	86.3	–	–
Rest of the world	86.1	141.5	16.1	16.8
Total	**2,154.9**	**2,067.7**	**803.1**	**838.1**

2) Excluding financial instruments and deferred tax assets.

Revenue from external customers split on manufacturing technology and segment.

	2020				2019			
	Main markets	Other markets	Business develop-ment	Total	Main markets	Other markets	Business develop-ment	Total
Mechanics	635.4	674.3	–	1,309.7	684.5	683.3	–	1,367.8
Electronics	529.3	315.6	–	844.9	428.2	271.6	–	699.8
Business development	–	–	0.3	0.3	–	–	0.1	0.1
Total Group	**1,164.7**	**989.9**	**0.3**	**2,154.9**	**1,112.7**	**954.9**	**0.1**	**2,067.7**

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	**2020**	**2019**	**2020**	**2019**
EY				
Audit assignments	3.3	2.8	1.1	0.7
Audit activities other than audit assignments	0.2	0.5	0.2	0.5
Tax consultancy services	0.3	0.1	0.1	0.1
Other consultancy services	–	0.1	–	0.1
Total	**3.8**	3.5	**1.4**	1.4
Other auditors				
Audit assignments	0.4	0.3	–	–
Total	**0.4**	**0.3**	**–**	**–**
Total	**4.2**	**3.8**	**1.4**	**1.4**

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

NOTE 8 Remunerations to employees etc.

Salaries, renumerations and social costs

Group 2020	Salaries and renumerations	(of which bonus)	Social security fees	(of which pension costs)	Total wages and social costs
Board of directors, CEO and other senior executives	14.3	0.2	6.0	2.5	20.3
Other employees	408.1	1.9	133.7	26.6	541.8
Group total	**422.4**	**2.1**	**139.7**	**29.1**	**562.1**

Group 2019	Salaries and renumerations	(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**

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)

	2020		2019	
Group	**Number on balance sheet date**	**Of which Women**	**Number on balance sheet date**	**Of which Women**
Bord of directors in parent company	5	2	5	2
Managing directors and other top management and board members in subsidiaries	18	4	19	5
Group total	**23**	**6**	**24**	**7**

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.

Note 8 cont.

Average number of employees with distribution by country	2020		2019	
Parent Company	**Average number of employees**	**Of which women**	**Average number of employees**	**Of which women**
Sweden	**2**	**–**	**2**	**–**
Subsidiaries				
Sweden	356	118	375	142
Estonia	643	234	734	273
Finland	85	15	102	16
China	82	50	115	61
Poland	118	100	121	108
Czech Republic	138	48	87	29
Germany	119	28	67	16
Total subsidiaries	**1,541**	**593**	**1,601**	**645**
Group total	**1,543**	**593**	**1,603**	**645**

In 2020 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 5.5 million (5.3) of which bonuses SEK 0.0 million (0.3). Pension costs to board of directors and CEO amounted to SEK 1.5 million (1.1) and other social security fees according to contracts amounted to SEK 1.6 million (2.0). 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	**2020**	**2019**
Profit on disposal of fixed assets	1.0	0.6
Revaluation of acquisition purchase price, see Note 33	2.5	1.1
Government grants	3.3	–
Exchange gains	3.8	4.5
Other items	5.2	2.4
Total other operating income	**15.8**	**8.6**

Other operating expenses	**2020**	**2019**
Loss on disposal of fixed assets	-1.0	-2.8
Exchange losses	-4.5	-3.9
Other items	-0.7	-1.5
Total other operating expenses	**-6.2**	**-8.2**

NOTE 10 Exchange gains and losses

	Group		Parent Company	
Exchange gains and losses in income statement	**2020**	**2019**	**2020**	**2019**
In operating income	-0.7	0.6	-0.2	0.0
In net financial items	0.8	-1.2	6.0	1.5
Total exchange gains and losses	**0.1**	**-0.6**	**5.8**	**1.5**

NOTE 11 Income from financial items

Financial income	Group 2020	Group 2019
Interest income	–	0.5
Net exchange gains and losses	0.8	–
Total financial income	**0.8**	**0.5**
Financial expenses		
Interest expenses	-17.5	-18.6
Net exchange gains and losses	–	-1.2
Cost sold accounts receivables	-5.7	-5.2
Total financial expenses	**-23.2**	**-25.0**
Total financial items – net	**-22.4**	**-24.5**

Profit/loss from Group Companies	Parent Company 2020	Parent Company 2019
Write-down of shares in subsidiaries, see Note 35	-38.6	–
Expensed shareholder contributions to subsidiaries	-88.5	–
Total profit/loss from Group Companies	**-127.1**	**–**
Other interest income and similar income items		
Interest income from Group Companies	1.6	2.7
Exchange gains and losses – net	6.0	1.5
Other interest income and similar income items	**7.6**	**4.2**
Interest charges and similar income items		
Interest expenses, external	-1.8	-1.6
Interest expenses to Group Companies	-0.5	–
Interest charges and similar income items	**-2.3**	**-1.6**
Total net financial assets – Parent Company	**-121.8**	**2.6**

Expensed shareholder contributions refers to HANZA Metalliset oy.

Interest income from group companies refers to HANZA AB SEK 1.4 million (1.8) and HANZA Metalliset oy SEK 0.2 million (0.8).

Interest expenses to group companies refers to HANZA GmbH.

NOTE 12 Income tax/tax on profit for the year

Tax cost in income statement	Group		Parent Company	
Current tax:	**2020**	**2019**	**2020**	**2019**
Current tax on profit for the year	-5.4	-11.0	-0.3	–
Adjustments for prior years	-0.3	0.3	–	–
Total current tax	**-5.7**	**-10.7**	**-0.3**	**–**
Deferred tax (see Note 16)				
Arise and reverse of temporary differences	-4.9	2.0	-2.3	-0.6
Changes due to changed tax rates	0.3	–	–	–
Total deferred tax	**-4.6**	**2.0**	**-2.3**	**-0.6**
Total income tax	**-10.3**	**-8.7**	**-2.6**	**-0.6**

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 (21.4%) had been applied on the consolidated profit/loss, as follows:

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
Profit/loss before tax	8.9	32.3	-114.8	4.1
Tax according to Swedish tax rate	-1.9	-6.9	24.6	-0.9
Tax effects from:				
Diverging tax rates abroad	-1.3	0.5	–	–
Non taxable income	1.1	0.9	–	0.3
Non deductible costs	-2.9	-3.3	–27.2	–
Tax losses carried forward for which no deferred tax has been recognized	-5.0	-0.3	–	–
Adjustments for prior years	-0.6	0.3	–	–
Changes due to changed tax rates	0.3	0.1	–	–
Tax cost	**-10.3**	**-8.7**	**-2.6**	**-0.6**

The weighted average tax rate for the group is 115 per cent (27) and 1 per cent (14) 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).

Changes due to changed tax rates refers to revaluation of deferred taxes in Sweden, see 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	2020	2019
Profit/loss attributable to the parent company's shareholders, SEK million	-1.4	23.6
Weighted average number of outstanding common shares	33,979,928	32,125,760
Earnings per share before dilution, SEK	**-0.04**	**0.73**

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 in the beginning of 2019, warrants that could have a diluting effect. A new warrant programme was issued in May 2020 but has not so far, had any dilution effect. For further information about warrants see Note 23.

Values used in calculation	2020	2019
Profit/loss attributable to the parent company's shareholders, SEK million	-1.4	23.6
Weighted average number of outstanding common shares	33,979,928	32,125,760
Adjustment for calculated dilution from warrants	–	617
Weighted average number of shares after dilution	**33,979,928**	**32,126,377**
Calculated earnings per share after dilution, SEK	**-0.04**	**0.73**

NOTE 14 Intangible assets

Group 2020	Goodwill	Customer relations	Other intangible assets	Total
Acculumated acquisition values				
Opening balance	302.8	119.7	15.4	437.9
Investments	–	–	3.5	3.5
Sold and scrapped	–	–	-0.3	-0.3
Exchange rate differences	-4.9	-2.0	-0.7	-7.6
Closing balance	**297.9**	**117.7**	**17.9**	**433.5**
Accumulated amortizations				
Opening balance	–	-15.2	-6.8	-22.0
This year's amortizations	–	-12.1	-1.6	-13.7
Exchange rate differences	–	0.3	0.4	0.7
Closing balance	–	-27.0	-8.0	**-35.0**
Accumulated write-downs				
This year's write-downs	–	–	-2.8	-2.8
Closing balance	–	–	-2.8	**-2.8**
Closing value	**297.9**	**90.7**	**7.1**	**395.7**

This year's write-downs refers to capitalized software implementation costs in Narva that no longer are expected to generate future cashflows.

Note 14 cont.

Group 2019	Goodwill	Customer relations	Other intangible assets	Total
Acculumated 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	37.1*	54.0	2.1	93.2
Exchange rate differences	1.2	-0.3	0.3	1.2
Closing balance	**302.8**	**119.7**	**15.4**	**437.9**
Accumulated amortizations				
Opening balance	–	-6.0	-5.1	-11.1
Sold and scrapped	–	–	0.2	0.2
This year's amortizations	–	-9.2	-1.9	-11.1
Exchange rate differences	–	–	–	–
Closing balance	**–**	**-15.2**	**-6.8**	**-22.0**
Closing value	**302.8**	**104.5**	**8.6**	**415.9**

* Goodwill from the acquisition of RITTER has been recalculated from SEK 33.5 million to SEK 37.1 million per 30 June 2020. See Note 33.

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 Main markets and Other markets (previous year Nordic 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 2020	Goodwill 31.12.2020	EBITA margin, %	Annual volume growth, %	Long-term growth rate, %	Discount rate, %
Sweden	179.4	5.7	2.3	2.0	8.7
Finland	8.3	2.0	7.8	2.0	8.7
Germany	28.4	7.1	2.3	2.0	10.9
Baltics	52.8	4.0	5.2	2.0	9.3
Central Europe	15.3	4.7	3.4	2.0	10.8
China	13.7	5.3	14.0	2.0	13.1
Total	**297.9**				

Cluster 2019	Goodwill 31.12.2019	EBITA margin, %	Annual volume growth, %	Long-term growth rate, %	Discount rate, %
Sweden	180.9	7.0	3.9	2.0	8.7
Finland	8.5	5.6	1.3	2.0	8.7
Baltics	54.1	4.9	4.8	2.0	9.3
Central Europé*	45.3	4.8	4.9	2.0	10.8
China	14.0	4.4	10.6	2.0	13.1
Total	**302.8**				

*During 2019 Germany was included in cluster Central Europe.

The recoverable amount for a cash-generating unit 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 cash-generating unit over the five-year forecast period represents an important assumption.

The EBITA margin and 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.

Note 14 cont.

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.

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 2020 if the budgeted EBITA 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 centege-points higher. The analyses were performed separately with the other assumptions intact.

	2020		2019	
Cluster	**25% lower EBIT-margin**	**3 %-points higher cost of capital**	**25% lower EBIT-margin**	**3 %-points higher cost of capital**
Sweden	–	–	–	–
Finland	–	–	–	–
Germany*	-25.5	-18.0	n.a.	n.a.
Baltics	–	–	–	–
Central Europé*	–	–	-4.0	-2.5
China	-6.1	-5.3	-6.0	-5.3
Total	**-31.6**	**-23.3**	**-10.0**	**-7.8**

*During 2019 Germany was included in cluster Central Europe.

I cluster Sweden, Finland, Baltics or Central Europe a reasonable change in assumptions would not result in any impairment requirements.

In cluster Germany the recoverable amount exceeds the value of goodwill allocated to the cluster by SEK 21.2 million (No comparison values are reported as Germany was not impairment tested separately in 2019). An assumption of 25 per cent lower EBITA margin would lead to impairment requirements of SEK 25.5 million. An assumption of 3 per centage-points higher cost of capital would lead to impairment requirements of SEK 18.0 million. Impairment requirements arise either when the EBITA margin assumption is set 11.4 per cent lower or the assumption for cost of capital is set 1.5 per centage-points higher than in the performed impairment test.

In cluster China the recoverable amount exceeds the value of goodwill allocated to the cluster by SEK 0.6 million (0.7). An assumption of 25 per cent lower EBITA margin would lead to impairment requirements of SEK 6.1 million (6.0). An assumption of 3 per centage-points higher cost of capital would lead to impairment requirements of SEK 5.3 million (5.3). Impairment requirements arise either when the EBITA margin assumption is set 3 per cent lower or the assumption for cost of capital is set 0.3 per centage-points higher than in the performed impairment test.

NOTE 15 Tangible fixed assets

Group 2020	Buildings and land	Leasehold improvements	Machinery and technical installations	Equipment, tools and installations	Total
Acculumated acquisition values					
Opening balance	129.0	2.0	422.3	57.9	**611.2**
Investments	0.3	–	54.3	1.8	**56.4**
Sold and scrapped	–	–	-39.1	-21.6	**-60.7**
Reclassifications	0.6	–	7.7	1.3	**9.6**
Exchange rate differences	-6.6	–	-11.1	-0.9	**-18.6**
Closing balance	**123.3**	**2.0**	**434.1**	**38.5**	**597.9**
Accumulated depreciations					
Opening balance	-18.7	-1.5	-267.6	-44.9	**-332.7**
Sold and scrapped	–	–	36.8	20.4	**57.2**
This year’s depreciations	-4.7	-0.1	-35.6	-4.8	**-45.2**
Reclassifications	–	–	-12.1	0.3	**-11.8**
Exchange rate differences	1.2	–	7.4	0.7	**9.3**
Closing balance	**-22.2**	**-1.6**	**-271.1**	**-28.3**	**-323.2**
Accumulated write-downs					
This year’s write-downs	-0.5	–	-4.4	-0.4	**-5.3**
Exchange rate differences	–	–	0.2	–	**0.2**
Closing balance	**-0.5**	**0.0**	**-4.2**	**-0.4**	**-5.1**
Closing value	**100.6**	**0.4**	**158.8**	**9.8**	**269.6**

This year’s write-downs refers to machinery and tools in Narva that no longer are expected to generate future cashflows.

Group 2019	Buildings and land	Leasehold improvements	Machinery and technical installations	Equipment, tools and installations	Total
Acculumated 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 year’s 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**

At the beginning of 2019 assets held through uncancelable financial lease agreements amounted to SEK 39.3 million where included in machinery and technical installations. These were reclassified above and are from 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 temporary differences they are related are shown in the following tables:

2020	Deferred tax assets: Tax losses carried forward	Deferred tax assets: Other temporary differences	Deferred tax assets: Total	Deferred tax liabilities: Fixed assets	Deferred tax liabilities: Other temporary differences	Deferred tax liabilities: Total	Deferred taxes net
Opening balance	20.5	12.3	32.8	-44.4	-1.4	-45.8	**-13.0**
Reported in income statement	-2.1	-4.4	-6.5	3.6	-1.7	1.9	**-4.6**
Reported in other comprehensive income	–	1.5	1.5	–	–	–	**1.5**
Exchange rate differences	-0.4	-0.5	-0.9	0.4	0.1	0.5	**-0.4**
Closing balance	**18.0**	**8.9**	**26.9**	**-40.4**	**-3.0**	**-43.4**	**-16.5**
Of which expected to be used/due							
– after more than 12 months	16.2	8.7	24.9	-32.9	-2.5	-35.4	**-10.5**
– within 12 months	1.8	0.2	2.0	-7.5	-0.5	-8.0	**-6.0**

2019	Deferred tax assets: Tax losses carried forward	Deferred tax assets: Other temporary differences	Deferred tax assets: Total	Deferred tax liabilities: Fixed assets	Deferred tax liabilities: Other temporary differences	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	13.8*	17.6	-17.5	-1.5	-19.0	**-1.4**
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	–	–	–	**-1.1**
Exchange rate differences	–	-0.1	-0.1	0.1	–	0.1	**0.0**
Closing balance	**20.5**	**12.3**	**32.8**	**-44.4**	**-1.4**	**-45.8**	**-13.0**
Of which expected to be used/due							
– after more than 12 months	11.9	12.1	24.0	-41.4	-1.0	-42.4	**-18.4**
– within 12 months	8.6	0.2	8.8	-3.0	-0.4	-3.4	**5.4**

* Deferred tax assets from the acquisition of RITTER has been recalculated from SEK 12.2 million to SEK 13.8 million per 30 June 2020. See Note 33.

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

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 15.0 million (10.9), relating to losses amounting to SEK 74.3 million (54.4), 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, Czech Republic and China.

Other deferred tax assets in 2020 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 118.2 million (139.2), corresponding to a tax liability of SEK 23.6 million (27.8).

Parent Company
In the parent company deferred tax assets amount to SEK 1.6 million (4.0) 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 31.12.2020	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 receivables	76.8	–	76.8
Other receivables	16.7	–	16.7
Cash and cash equivalents	121.2	–	121.2
Total	**214.7**	**0.3**	**215.0**

	Financial liabilities measured at amortized cost	Financial liabilities at fair value through income statement	Total
Liabilities to credit institutions	256.1	–	256.1
Lease liabilities	124.0	–	124.0
Overdraft facilities	44.2	–	44.2
Other interest-bearing liabilities	37.0	–	37.0
Accounts payables	199.9	–	199.9
Other liabilities	24.3	–	24.3
Total	**685.5**	**–**	**685.5**

Group 31.12.2019	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 receivables	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 facilities	52.1	–	52.1
Other interest-bearing liabilities*	–	3.1	3.1
Accounts payables	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 and Note 33 for further information.

NOTE 18 Inventories

Group	31.12.2020	31.12.2019
Inventory value before reserves for obsolescence	363.1	438.9
Obsolescence reserves	-20.7	-16.2
Inventories net value	**342.4**	**422.7**

Cost of obsolescence write-downs in 2020 amounted to SEK 4.1 million (5.1).

Value of inventory valuated at net sales value was SEK 33.0 million (0.0) on the balance sheet date.

NOTE 19 Accounts receivables

Group	31.12.2020	31.12.2019
Accounts receivables	53.6	103.8
Less: reserves for doubtful accounts	-0.1	-0.3
Accounts receivables –net	**53.5**	**103.5**
Contract receivables	23.3	18.6
Total receivables from contracts with customers	**76.8**	**122.1**

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

Age analysis	31.12.2020	31.12.2019
Not due	39.7	58.8
Due 1–30 days	8.6	27.5
Due 31–60 days	1.2	6.0
Due > 60 days	4.0	11.2
Total	**53.5**	**103.5**

Change in reserve for doubtful accounts	2020	2019
Opening balance	-0.3	-0.5
Reserves added in acquisitions	–	-0.3
Reversed reserves	–	0.5
Receivables written off during the year as not collectable	0.2	–
Closing balance	**-0.1**	**-0.3**

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 expenses.

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 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. On the balance sheet date, the value of sold accounts receivable that have not yet been settled by customers amounted to SEK 261.7 million (234.1). 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 Pledged collateral.

NOTE 20 Other receivables

Group	31.12.2020	31.12.2019
VAT receivables	7.9	10.5
Receivables on suppliers	3.8	2.0
Receivable revaluated acquisition purchase price	2.5	–
Other receivables	6.0	9.0
Group total	**20.2**	**21.5**

Parent company

Other short-term receivable in the parent company refers to receivable revaluated acquisition purchase price

NOTE 21 Prepaid expenses and accrued income

Group	31.12.2020	31.12.2019
Prepaid rents	3.0	3.9
Prepaid leasing fees	0.2	0.8
Prepaid material costs	2.4	1.2
Prepaid borrowing costs	1.2	1.2
Other prepaid costs	10.5	9.1
Other accrued income	1.6	1.1
Group total	**18.9**	**17.3**

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 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**
Warrant issue		–	0.3	0.3
As of 31 December 2020	**33,979,928**	**3.4**	**440.1**	**443.5**

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.

No dividends have been paid during the year. Previous year SEK 0.25 per share was paid.

Non-cash issues

On 31 January 2019 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 2019 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 April 2020 decided on a warrants programme for 850,000 warrants with rights to subscribe for one share at SEK 20.00 from 1 June 2023 until 30 September 2023. All warrants were subscribed, which added capital of SEK 0.3 million to the company after minor issuing costs.

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.

2020	Liabilities to credit institutions	Overdraft facilities	Lease liabilities	Other interest-bearing liabilities	Total borrowings
Opening balance	307.6	52.1	138.3	3.1	501.1
Repayments	-88.8	-19.8	-51.3	-3.7	-163.6
New loans	43.7	12.9	28.8	37.8	123.2
Capitalized interest	–	–	1.7	–	1.7
Changes in existing lease contracts	–	–	9.4	–	9.4
Exchange rate differences	-6.4	-1.0	-2.9	-0.2	-10.5
Closing balance	**256.1**	**44.2**	**124.0**	**37.0**	**461.3**
Of which – long-term	174.6	–	80.9	–	255.5
– short-term	81.5	44.2	43.1	37.0	205.8

2019	Liabilities to credit institutions	Overdraft facilities	Lease liabilities	Other interest-bearing liabilities	Total borrowings
Opening balance	239.4	45.3	35.9	17.1	337.7
Added at adaption of IFRS 16	–	–	79.7	–	79.7
Repayments	-75.8	-15.0	-45.9	-17.2	-153.9
New loans	117.5	21.1	37.3	4.0	179.9
Acquisition of companies	25.0	–	35.7	–	60.7
Capitalized interest	–	–	1.8	0.3	2.1
Revaluation through Income statement	–	–	–	-1.1	-1.1
Changes in existing lease contracts	–	–	-7.0	–	-7.0
Exchange rate differences	1.5	0.7	0.8	–	3.0
Closing balance	**307.6**	**52.1**	**138.3**	**3.1**	**501.1**
Of which – long-term	209.9	–	92.8	–	302.7
– short-term	97.7	52.1	45.5	3.1	198.4

The Groups interest bearing debt has an average interest rate of 3.9 per cent (4.2) 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 and PLN. The borrowings consist of a major number of contracts split on bank loans and hire-purchase contracts on machines. A summery of the loans split on currency, type and maturity dates are shown in the table below.

31.12.2020			Due		
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	247.3	79.0	166.5	1.8
Hire-purchase agreement	SEK	8.8	2.5	6.3	–
Summa		**256.1**	**81.5**	**172.8**	**1.8**

31.12.2019			Due		
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	190.5	16.6
Hire-purchase agreement	SEK	4.0	1.2	2.8	–
Total		**307.6**	**97.7**	**193.3**	**16.6**

Note 24 cont.

Liabilities related to financial leasing
Information about maturity dates etc. for lease liabilities are found in Note 30.

Overdraft facility
The group has overdraft facilities in the currencies SEK, EUR, CZK and PLN totaling SEK 129.9 million (121.9). These facilities are distributed among ten (nine) different subsidiaries and are renegotiated at different times. Of the overdraft facilities, SEK 44.2 million (52.1) had been utilized as of December 31, 2020. The weighted average of the interest rates on overdrafts availed is 2.6 per cent (2.6).

Other interest-bearing liabilities
Postponement of payments of social security fees in Sweden and Finland, which have been granted as a support to the business world in connection to the corona pandemic, are reported in other interest-bearing liabilities 2020.

Other interest-bearing liabilities 2019 and at the beginning of the year referred to additional consideration amounts related to the acquisitions of Wermech 2018 and Toolfac 2019. 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 was recognized in the company's income statement. The debt was settled during Q1 2020 without further effect on the income statement.

Changes in financial liabilities at fair value through income statement in level 3	**2020**	**2019**
Opening balance	3.1	17.1
Initial discounted value at acquisition	–	4.0
Repayments	-3.1	-17.2
Capitalized interest	–	0.3
Revaluation through income statement	–	-1.1
Closing balance	**–**	**3.1**

Parent Company 31.12.2020	**Liabilities to credit institutions**	**Liabilities to group companies**	**Other interest-bearing liabilities**	**Total borrowings**
Opening balance	90.5	4.4	–	94.9
Repayments	-20.5	–	–	-20.5
New loans	–	32.2	1.7	33.9
Other changes	-2.4	–	–	-2.4
Closing balance	**67.6**	**36.6**	**1.7**	**105.9**
Of which – long-term	47.0	–	–	47.0
– short-term	20.6	36.6	1.7	58.9

Parent Company 31.12.2019	**Liabilities to credit institutions**	**Liabilities to group companies**	**Other interest-bearing liabilities**	**Total borrowings**
Opening balance	9.6	–	–	9.6
Repayments	-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

NOTE 25 Accounts payables

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

Accounts receivables split on currencies	31.12.2020	31.12.2019
SEK	60.1	66.3
CNY	6.1	7.1
CZK	1.3	2.7
EUR	100.9	120.7
PLN	3.2	1.4
USD	24.1	30.6
Other	4.2	2.9
Total	**199.9**	**231.7**

NOTE 26 Other liabilities

Group	31.12.2020	31.12.2019
VAT liabilities	2.9	6.7
Employee taxes withhold	15.8	17.7
Prepayments from customers	6.1	4.0
Other short-term liabilities	8.3	7.3
Group total	**33.1**	**35.7**

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	31.12.2020	31.12.2019
Accrued wages	15.6	21.4
Accrued vacation costs	30.3	32.6
Accrued social security fees	13.0	12.1
Accrued material costs	4.3	2.4
Accrued costs for consultants and audit	2.8	2.2
Other accrued expenses and prepaid income	15.4	18.8
Group total	**81.4**	**89.5**

Parent Company	31.12.2020	31.12.2019
Accrued wages	0.2	0.2
Accrued vacation costs	0.7	0.7
Accrued social security fees	0.6	0.5
Other accrued expenses and prepaid income	0.6	0.6
Parent company total	**2.1**	**2.0**

NOTE 28 Assets pledged

Group	31.12.2020	31.12.2019
For liabilities to credit institutions and bank overdraft:		
Property mortgages	149.5	135.4
Floating charges	260.3	290.0
Machines with ownership reservations	95.6	64.1
Shares in subsidiaries	396.5	396.8
Pledged inventory	30.6	34.6
Total	**932.5**	**920.9**

Parent Company	31.12.2020	31.12.2019
For liabilities to credit institutions:		
Shares in subsidiaries	132.1	132.1
Total	**132.1**	**132.1**

NOTE 29 Contingent liabilities

Group	31.12.2020	31.12.2019
Issued guarantees	77.6	62.5
Total	**77.6**	**62.5**

Parent Company	31.12.2020	31.12.2019
Guarantee commitment	103.9	128.0
Total	**103.9**	**128.0**

The guarantees issued by the group or the parent company are not expected to result in any outflow of resources.

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.

Subletting only occurs in exceptional cases and at marginal amounts.

Right-of-use assets 2020	Buildings and premises	Machinery and technical installations	Equipment, tools and cars	Total
Opening balance	84.1	56.0	3.6	143.7
Extensions and revaluations of existing contracts	11.8	-0.1	-0.2	11.5
Investments	–	22.0	4.2	26.2
Sold and scrapped	–	–	-2.1	-2.1
This year's depreciation	-26.5	-9.1	-2.5	-38.1
This year's write-downs	–	-2.1	–	-2.1
Reclassifications	–	-1.2	3.4	2.2
Exchange rate differences	-1.0	-2.5	–	-3.5
Closing balance	**68.4**	**63.0**	**6.4**	**137.8**

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 year's 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, this year's changes	2020	2019
Opening balance	138.3	35.9
Added liabilities at adoption of IFRS 16	–	79.7
Extensions and revaluations of existing contracts	11.5	1.4
Repayments	-51.3	-45.9
New contracts	28.8	37.3
Terminated contracts	-2.1	-8.4
Acquisition of companies	–	35.7
Capitalized interest	1.7	1.8
Exchange rate differences	-2.9	0.8
Closing balance	**124.0**	**138.3**

	2020		2019	
Lease liabilities, maturity dates	**Nominal values**	**Discounted values**	**Nominal values**	**Discounted values**
Short-term within 1 year	43.8	43.1	46.1	45.5
Long-term 1 – 2 years	27.8	27.0	38.9	37.6
Long-term 2 – 5 years	52.7	49.3	53.0	48.6
Long-term later than 5 years	5.0	4.6	10.1	6.6
Total future leasing fees	**129.3**	**124.0**	**148.1**	**138.3**

Lease liabilities are, in the balance sheet, reported at discounted present values. The table above also shows the nominal values, which are the undiscounted future cashflows.

Note 30 cont.

Total cost of leasing in the consolidated income statement	2020	2019
Leasing fees referring to contracts shorter than 1 year (included in Other external costs)	-2.8	-2.2
Leasing fees referring to contracts of smaller value (included in Other external costs)	-2.4	-1.7
This year's depreciation of right-of-use assets	-38.1	-37.3
This year's interest cost on lease liability	-2.7	-3.0
Total cost of leasing in the income statement	**-46.0**	**-44.2**

The Group has no lease contracts with variable leasing fees.

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 2020 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 2.5 million (contributed in 2020: SEK 2.5 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 2020, Alecta's surplus, in the form of the collective consolidation level, ran to 148 per cent (148).

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 translation in accordance with IAS 19.

Germany

In the German subsidiary HANZA GmbH there is a defined-benefit pension plan that covers 327 people (351), of whom 164 (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 23 per cent (24).

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	2020			2019		
	Germany	Other	Total	Germany	Other	Total
Pension costs for defined contribution plans	0.2	25.5	25.7	0.5	28.8	29.3
Pension costs for defined benefit plans	3.1	0.3	3.4	1.1	0.4	1.5
Total pension costs	**3.3**	**25.8**	**29.1**	**1.6**	**29.2**	**30.8**

Defined benefit pensions

Recognition in the balance sheet	2020			2019		
	Germany	Sweden	Total	Germany	Sweden	Total
Defined benefit obligations, funded plans	136,3	–	136.3	137.0	–	137.0
Defined benefit obligations, unfunded plans	–	5.4	5.4	–	4.9	4.9
Plan assets, fair value	-31,4	–	-31.4	-33.0	–	-33.0
Provisions for pensions	**104,9**	**5.4**	**110.3**	**104.0**	**4.9**	**108.9**

Note 31 cont.

Change in defined benefit pension obligations	2020 Present value of defined benefit pension plans	2020 Plan assets, fair value	2020 Net	2019 Present value of defined benefit pension plans	2019 Plan assets, fair value	2019 Net
Opening balance	**141.9**	**-33.0**	**108.9**	**4.5**	**–**	**4.5**
Acquisition of companies	–	–	–	140.0	-31.5	108.5
Items in income statement						
Current service cost	3.4	–	3.4	1.5	–	1.5
Interest costs	1.2	-0.3	0.9	1.0	-0.2	0.8
	4.6	**-0.3**	**4.3**	**2.5**	**-0.2**	**2.3**
Revaluation in other comprehensive income:						
Actuarial gains/losses (-/+) from changes in demographic assumptions	-2.7	–	-2.7	-0.2	–	-0.2
Actuarial gains/losses (-/+) from changes in financial assumptions	5.2	–	5.2	-2.6	–	-2.6
Return on plan assets	–	2.2	2.2	–	-0.8	-0.8
	2.5	**2.2**	**4.7**	**-2.8**	**-0.8**	**-3.6**
Other changes:						
Employer contributions	–	-1.6	-1.6	-0.2	-0.3	-0.5
Benefit payments	-1.9	–	-1.9	-1.1	-0.4	-1.5
Exchange differences	-5.4	1.3	-4.1	-1.0	0.2	-0.8
Closing balance	**141.7**	**-31.4**	**110.3**	**141.9**	**-33.0**	**108.9**

Plan assets
The plan assets are fully invested in a German pension fund with assets at market value.

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 0.42 per cent (0.75) 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 5.4 million, while if it had been 0.5 percentage point lower, the liability would have been higher by SEK 5.9 million.

Demographic assumptions
The Heubeck 2018 G table was used in the calculation of the German pension plan. A increase in life expectancy with one year would increase the liability by SEK 2.5 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	2020	2019
Result from disposal of fixed assets	–	2.2
Revaluation of acquisition purchase price	-2.5	-1.1
Unrealized exchange differences	1.1	1.2
Other	2.7	2.5
Total	**1.3**	**4.8**

Paid interest during the year amounts to SEK 17.4 million (18.2).

Cash flow from new loans	2020	2019
New loans according to Note 24	123.2	179.9
New lease contracts without cash flow effect	-28.8	-37.3
New liability referring to additional purchase price	–	-4.0
Investments transferred to lease contracts	2.6	10.9
Cash flow	**97.0**	**149.5**

Cash flow from amortizations	2020	2019
Repayments according to Note 24	-163.6	-153.9
Additional purchase price paid, which is reported under investments in subsidiaries in the cash flow	3.1	17.2
Cash flow	**-160.5**	**-136.7**

Parent Company
Other non-cash items in the parent company refers to unrealized exchange gains on EUR loans.

NOTE 33 Acquisitions of subsidiaries

Acquisitions during the year
HANZA Holding has not carried out any acquisitions during 2020. In February, a liability referring to an additional purchase price from the acquisition of Toolfac oy amounting to SEK 3.1 million was settled. The liability was settled without any effect on the income statement.

The acquisition analysis of RITTER Elektronik GmbH was determined on 30 June, 2020, in which the acquisition balances were adjusted and intermediate periods were recalculated. Subsequently an agreement was achieved with the vendor of the company on reduction of the purchase price of SEK 2.5 million. See further under acquisitions 2019 below.

Acquisitions 2019
On 31 January 2019, HANZA Holding acquired all shares in Toolfac Oy, with domicile in Iisalmi, Finland (later changed to HANZA Toolfac oy). The company conducts manufacturing with a focus on machining. Toolfac's sales for 2018 were approximately SEK 80 million. The total purchase price was 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 was 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 was decreased by SEK 1.1 million which was 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 8.7 million before deferred tax, was linked to customer relations. The deferred tax liability for these items amounted to 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 (later changed to HANZA GmbH and HANZA Czech Republic Zábřeh S.R.O). 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 amounted 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 are amortized on a straight-line basis over 10 years. Deferred tax liability related to this item amounted 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 was valued according to IAS 17 R at acquisition and is reported as post-employment benefits. In inventory a surplus value of SEK 4.2 million was identified in work in progress. This surplus value was expensed on a straight-line basis during 2019. In addition, goodwill in the amount of SEK 33.5 million was 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 will not be not tax deductible.

The acquisition analysis was at the beginning of the year still preliminary but was determined as of June 30th, 2020, in which the items accrued liabilities and prepaid income were increased by SEK 5.3 million and deferred tax assets were increased by SEK 1.7 million. Goodwill in the acquisition thereby increased by SEK 3.6 million. The balance sheets at the beginning of the year has been recalculated which affects the comparison values. Also, the equity ratio as of that date is marginally affected. Income statements for 2019 is not affected by the changes. The

Note 33 cont.

purchase price and determined fair value of the acquired assets and assumed liabilities on the acquisition date are shown in the table on next page.

An agreement was achieved in the last quarter of 2020 on reduction of the purchase price for RITTER of SEK 2.5 million which is reported as other operating income in 2020.

Purchase price, SEK million	Toolfac	RITTER
Cash and cash equivalents paid upon entry into possession	15.6	76.6
Equity instruments 1,000,000 and 3,000,000 ordinary shares, respectively	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	–	17.7*
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	-68.8*
Total identified net assets	**34.0**	**89.5**
Goodwill	–	37.1*
Total net assets transferred	**34.0**	**126.6**
Cash flow effect from acquisitions	**-11.5**	**-60.7**

* Items have been recalculated as of 30 June 2020 as explained above.

The cash flow from investments in subsidiaries 2019 also included the payment of the variable additional purchase price of SEK 17.2 million referring to Wermech which was acquired in 2018.

The table below shows reported net sales and EBIT from the in 2019 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.

Acquisitions after the balance sheet date

On 19 March 2020, all shares in Suomen Levyprofiili Oy (SLP), with domicile in Joensuu, Finland were acquired. The company performs manufacturing in sheet metal mechanics with net sales of about SEK 150 million per year and just over 100 employees.

The total purchase amounts to approximately SEK 48 million consisting of the shares in SLP at approximately SEK 33 million and take over of a shareholder loan to SLP of approximately SEK 15 million. On the acquisition date 1.8 million shares in HANZA valued at SEK 27 million were issued and cash of SEK 19 million for the loan of SEK 14 million and SEK 5 million for the shares was paid. The remaining purchase price is dependent on certain conditions and is estimated at SEK 2 millions to be paid in cash. Acquisition analysis is not yet prepared at the issuing date of this annual report.

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. Where the parent company is concerned, 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 under 20% of the shares and votes in HANZA Holding AB through his wholly-owned company Färna Invest. RVM Systems AS is a wholly-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	2020	2019
Sales to:		
RVM Systems AS	58.5	49.5
Purchase of services from:		
Advokatfirman Lindahl (employer to Mikael Smedeby, chairman of the board up to 7 May 2019)	–	0.8

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.

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

Complete guidelines for remuneration to senior executives appear in the management report, pages 30-31.

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 and the Remuneration Committee are also paid.

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, up to April, a total of 5 such people and after that 2 people (5).

2020 Amounts in SEK thousands	Basic salary/ Board remuneration	Variable remuneration	Pension cost	Other benefits	Total
Chairman of the board Francesco Franzé	400	–	–	–	400
Vice chairman of the board Gerald Engström	187	–	–	–	187
Boardmember Håkan Halén	225	–	–	–	225
Boardmember Helene Richmond	175	–	–	–	175
Boardmember Sofia Axelsson	200	–	–	–	200
CEO and president Erik Stenfors	2,530	–	630	83	3,243
Other senior executives (5 people of which 3 only part of the year)	5,224	–	1,596	245	7,065
Total	**8,941**	**–**	**2,226**	**328**	**11,495**

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
Boardmember Gerald Engström	172	–	–	–	172
Boardmember Håkan Halén	205	–	–	–	205
Boardmember Helene Richmond	172	–	–	–	172
Boardmember 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.

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

In the second quarter 850,000 warrants were issued to the company's senior executives at market value consideration. Each warrant entitles the holder to subscribe for one share in the company at SEK 20.00 from 1 June 2023 until 30 September 2023.

Pensions

The retirement age for the CEO is 65. The pension premium shall amount to 25 per cent of pensionable salary which is the basic salary.

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. For the company's CFO there is an extant 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 18.8 million (58.6) (and previous year also 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 current receivables from other subsidiaries amounting to SEK 5.3 million (-) which comprise operating receivables of a temporary nature. Further, the parent company had short-term liabilities to HANZA GmbH amounting to SEK 36.5 million (4.4). These comprise short-term loans.

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	2020	2019
Sales of services to subsidiaries	21,1	21,5
Purchase of services from group companies	2,2	2,2

NOTE 35 Shares in subsidiaries

Parent Company	2020	2019
Opening acquisition values	360.5	228.3
Acquisition of RITTER Elektronik GmbH[1]	–	132.2
Reduction of purchase price for RITTER Elektronik Gmbh[1]	-2.5	–
Write-down of shares in HANZA KA Åtvidaberg AB	-10.5	–
Write-down of shares in HANZA Metalliset oy	-28.1	–
Closing value	**319.4**	**360.5**

The value of the shares in HANZA KA Åtvidaberg has been written-down to net worth as the operations have been terminated. The value of the shares in HANZA Metalliset oy has been written-down to recoverable amount through calculation of value in use.

Name	Identity number	Domicile	Proportion of equity[3], %	Number of share	Closing value 31.12.2020	Closing value 31.12.2019
Directly owned subsidiaries						
Holding companies						
HANZA AB	556746-2436	Årjäng, Sweden	100	128,205	139.1	139.1
Manufacturing companies						
HANZA KA Åtvidaberg AB	556404-2371	Åtvidaberg, Sweden	100	227,292	10.6	21.1
HANZA Metalliset Oy	0735704-5	Heinävesi, Finland	100	1,626	40.0	68.1
HANZA GmbH[1]	HRB30263	Remscheid, Germany	100	1	129.7	132.2
					319.4	**360.5**

Name	Identity number	Domicile	Proportion of equity[3], %	Antal aktier
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, Sweden	100	1,000
HANZA Czech Republic s.r.o[2]	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 Tarkon Sweden AB	556833-2257	Stockholm, Sweden	100	100,000

1) Name at acquisition RITTER Elektronik GmbH. Later changed to HANZA GmbH
2) Previously RITTER Electro CZ, spol. S.r.o
3) Proportion of votes correspond to proportion of equity

NOTE 36 Appropriations

Parent company appropriations consisted of the following items:

	2020	2019
Group contributions from the Swedish subsidiares	5.3	–
Provisions to tax allocation reserve	-0.5	–
Total appropriations	**4.8**	**–**

NOTE 37 Events after the end of the year

On 19 March 2021 all shares in Suomen Levyprofiili Oy (SLP), a successful Finnish manufacturer of sheet metal mechanics, with just over 100 employees in Joensuu, Finland, were acquired. The purchase price of approximately SEK 33 million consists of a cash fixed purchase price, a cash additional purchase price, and a share part of 1.8 M shares in HANZA issued with the support of the Annual General Meeting's authorization. The share capital is thus increased by SEK 180,000 and the number of shares in HANZA after the issue amounts to 35,779,928. The new issue entails a dilution of approx. 5.5%. Furthermore, HANZA will take over a shareholder loan to SLP of approximately SEK 15 million upon accession. The purchase price is calculated to SEK 48 million in total, giving a valuation of SLP, including the shareholder loan, corresponding to approx. 3.4 times EBITDA and an EV / EBITDA multiple of about 5. Integration of the company has been started and the costs are estimated at approximately SEK 6 million and are mainly to be charged to the first quarter of 2021.

NOTE 38 Proposed appropriation of profit

The board of directors proposes a dividend for financial year 2020 of SEK 0.25 per share (-) corresponding to a total dividend of SEK 8.5 million (-) based on the number of outstanding shares as of 31 March 2021. Proposed record date is 28 April 2021.

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

Retained earnings	38,753,145
Share premium reserve	315,231,561
Profit for the year	-117,432,267
Total	**236,552,439**

The board of directors proposes that retained funds be

Paid as dividend to the shareholders, 0.25 SEK per share, in total	8,494,982
Carried forward in the amount of	228,057,457
Total	**236,552,439**

The boards statement over the proposed dividend
The board of directors proposes a dividend to the shareholders of SEK 0.25 per share (-) corresponding to SEK 8.5 million (-). The proposed dividend compose 3.6 per cent of the profits on the balance sheet day and decreases the groups equity ratio from 33.6 to 33.2 per cent calculated on the balance sheet date. The Board is of the opinion that the proposed dividend is consistent with the prudence concept in the Swedish Companies act regarding demand on the company's equity, investment needs, liquidity and financial position and the risks associated to the type and size of the operations.

Declaration

The annual report and the consolidated financial statements have been approved for publication by the board of directors on March 31, 2021. The consolidated income statement and balance sheet will be submitted for approval at the AGM on April 26, 2021.

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 Administration 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.

Stockholm March 31, 2021

Francesco Franzé
Chairman of the board

Gerald Engström
Vice chairman of the board

Sofia Axelsson
Boardmember

Håkan Halén
Boardmember

Helene Richmond
Boardmember

Erik Stenfors
President and CEO

Our audit report was issued on March 31, 2021

Ernst & Young AB

Charlotte Holmstrand
Authorized Public Accountant
Auditor in charge

Auditor's report

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

This is a translation from the Swedish original.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of HANZA Holding AB (publ) except for the corporate governance statement on pages 33-36 and the statutory sustainability report on page 31 for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 27-81in 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 2020 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 2020 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 and the statutory sustainability report on page 31. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

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

Revenues

Description of the key audit matter

Net sales for 2020 amounts to 2154,9 MSEK for the group. The group's revenues refer in all material aspects to sales of goods, which consist of components, subsystems and finished products to customers in several different countries. The products are produced according to the customers' specification, but HANZA is involved in tailoring the manufacturing process. This means that the price model, manufacturing process and delivery terms differ for each individual customer agreement. Revenue recognition requires a well-functioning process, including orders, invoicing and deliveries as well as delivery terms. These conditions apply to several of the subsidiaries, which requires guidelines and routines as well as assessments by the management to determine the appropriate method and period for correct revenue recognition. We consider revenues as a key audit matter in our audit, due to the volume of transactions and that revenue constitutes the most significant financial item for the company in terms of amount.

For information on revenues, see Accounting principles, Note 5 Revenues and Note 6 distribution by geographic market and Note 6 segment reporting.

How the key audit matter was addressed in our audit

We have conducted a review of the group's principles for revenue recognition to verify compliance with IFRS. We have conducted an analytical review of revenues divided into different production offers and geographical markets. Detailed tests of delivery documents have been carried out to ensure that revenue has been recognized in the correct period as well as data analytical review regarding revenue recognition.

Goodwill and shares in subsidiaries

Description of the key audit matter

Intangible assets amount to 395.7 MSEK as of December 31, 2020, of which 297.9 MSEK constitutes of goodwill. Goodwill accounts for 21% of the group's total assets. See also Note 14 and description of HANZA's intangible assets on pages 48–49. Shares in subsidiaries amount to 319.4 MSEK in the parent company as of December 31, 2020. See also Note 35 and description of shares in subsidiaries on pages 47–48.

Goodwill and intangible assets with indefinite useful lives shall be tested for impairment annually. HANZA tests at least annually, and in the event of an indication of impairment, that reported values do not exceed the asset's recoverable amount. Shares in subsidiaries are assessed on an ongoing basis during the year if there are indications of impairment and if this is the case, the asset's recoverable amount is calculated.

The recoverable amounts for goodwill and shares in subsidiaries are determined through a discounted cash flow valuation per cash-generating unit and are based on the expected outcome of factors based on management's business plans and forecasts. A description of the impairment test is given in Note 2 (accounting principles) and in the section "goodwill" on page 48 and "important estimates and assessments" on page 54 for goodwill and note 35 for shares in subsidiaries. Changes in management's assumptions that is the basis for assessing the recoverable amounts such as future cash flows, growth, discount rate and investment needs could lead to an impairment need arising with a significant financial impact on the group. We have therefore assessed that the valuation of goodwill and shares in subsidiaries are key audit matters in our audit.

How the key audit matter was addressed in our audit

We have evaluated and tested the management's process for preparing impairment tests for goodwill and shares in subsidiaries, evaluated forecasts and performed sensitivity analyzes on key assumptions. With the support from our valuation specialists, we have reviewed HANZA's model and method for conducting impairment tests for goodwill and shares in subsidiaries and evaluated the reasonableness of assumptions about discount rates, using data for comparable companies and applied long-term growth. We have also assessed the information provided in the annual report.

Inventories

Description of the key audit matter

The group's inventories amount to 342.4 MSEK in 2020. In the group's production units, there are stocks of raw materials and supplies, goods under construction, finished goods and goods in transit. In order to offer short and secure delivery times and to provide customized solutions, several customers have a certain amount of stock that can be used for call-offs.

It is demanding to make an accurate account of the acquisition cost when purchasing, manufacturing and logistics processes are complex. In the product calculations, there are several assessments that need to be made by the management that have an impact on the reported values. Important areas are determination of method, determination of normal production and allocation keys for direct and indirect costs. The valuation also includes assessments such as an estimation of the net sales value when applying the lowest value principle and assessment of the obsolescence of inventories.

How the key audit matter was addressed in our audit

HANZA's process for calculating product calculations is central to the valuation of inventories and hence this has been reviewed. A review of the group's processes for purchasing raw materials, manufacturing as well as warehousing and obsolescence assessment has been performed.

We have performed price tests of raw materials, review of calculations, analyzes of inventory turnover rates and tests of accruals of in- and outbound deliveries.

We have assessed the company's considerations regarding obsolescence in inventories and their assessment of slow moving products. We have also participated in stock takings and carried out our own control counting's at the most significant storage locations in order to confirm both numbers and volumes to test the assessment of obsolescence.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-26 and 86-92. The remuneration report for the financial year 2020 also constitutes other information. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

A further description of our responsibilities for the audit of the annual accounts and the consolidated accounts is located at Revisorsinspektionen's (the Swedish Inspectorate of Auditors) website at:

http://www.revisorsinspektionen.se/rn/showdocument/docu ments/rev_dok/revisors_ansvar.pdf. This description forms part of our auditor's report.

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 (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the 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.

A further description of our responsibilities for the audit of the administration is located at at Revisorsinspektionen's (the Swedish Inspectorate of Auditors) website at: http://www.revisorsinspektionen.se/rn/showdocument/docu ments/rev_dok/revisors_ansvar.pdf. This description forms part of our auditor's report.

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 standard RevR 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.

The auditor´s opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on page 31, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Ernst & Yong AB, Charlotte Holmstrand, Box 7850 103 99 Stockholm, was appointed auditor of HANZA Holding AB by the general meeting of the shareholders on the 27 April 2020 and has been the company's auditor since the 3 of June 2016.

Stockholm, 31 mars 2021

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: 3,459,768 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: 6,957,194 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.
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 YOU. by J AB.
Holding: 2,057,470 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.

Information on shareholdings as of December 31, 2020 with subsequent known transactions.

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.

Group management

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, 250,000 warrants

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 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, as well as 250,000 warrants.

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, as well as 350,000 warrants.

Information on shareholdings as of December 31,2020 with subsequent known transactions.

Key ratios

	2020	2019	2018	2017	2016
Key ratios according to IFRS					
Net sales, SEK million	2,154.9	2,067.7	1,810.6	1,399.7	1,305.8
Operating profit (EBIT), SEK million	31.3	56.8	54.1	35.7	25.2
Profit/loss for the year, SEK million	-1.4	23.6	20.8	16.4	1.9
Earnings per share before dilution, SEK[1]	-0.04	0.73	0.74	0.69	0.08
Dividend per share. SEK[2]	0.25	–	0.25	–	–
Cash flow from operating activities, SEK million	181.8	122.0	113.5	72.0	41.6
Average number of employees	1,543	1,603	1,407	1,305	1,346
Alternative performance measurements					
EBITDA, SEK million	138.6	149.0	113.2	79.1	72.7
EBITDA margin, %	6.4	7.2	6.3	5.7	5.6
Operational segments EBITA, SEK million	51.2	83.6	71.3	40.1	30.0
Operational EBITA margin	2.4	4.0	3.9	2.9	2.3
EBITA, SEK million	47.8	67.9	61.3	36.0	24.9
EBITA margin, %	2.2	3.3	3.4	2.6	1.9
Operating margin, %	1.5	2.7	3.0	2.6	1.9
Operating capital, SEK million[3]	925.3	1,041.0	675.2	455.3	499.2
Return on operating capital, %	4.9	7.9	10.8	7.5	5.0
Capital turnover on operating capital, times	2.2	2.4	3.2	2.9	2.6
Return on capital employed, %	2.9	6.2	8.5	6.9	4.7
Operational net debt, SEK million	270.7	350.2	260.2	142.0	226.7
Net interest-bearing debt, SEK million	450.4	543.3	264.7	146.0	230.4
Net debt/equity ratio, times	0.9	1.1	0.6	0.5	0.9
Net debt in relation to EBITDA, times	3.2	3.6	2.3	1.8	3.2
Equity ratio, %[3]	33.6	32.6	37.5	40.2	35.6
Equity per share at end of period, SEK[1]	13.97	14.65	13.70	12.79	11.98

1) Previous year's values have been recalculated due to the fund issue elements of preferential rights issue 2018.
2) 2020, proposed dividend.
3) 2019 values are recalculated due to adjustment of the acquisition analysis of RITTER Elektronik GmbH, see note 33.

The alternative performance measurements above are considered relevant to give a picture of HANZA's operational profitability, the distribution between internal and external financing, return on capital provided and the company's financial risk. Reconciliation tables for alternative performance measurements are published on the company's web page.

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.

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

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.

EBITDA refers to earnings before interest, taxes, depreciation, amortization and write-downs of tangible and intangible items.

EBITDA margin is EBITDA divided by net sales.

EBITA refers to earnings before interest, taxes and amortization and write-downs of intangible items.

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.

Items affecting comparability are revenue and expense items in the operating profit which only by way of exception occurs in the operations. To items affecting comparability 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.

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

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

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.

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

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.

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

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

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

Net interest-bearing debt is interest-bearing liabilities, including provisions for post-employment benefits, less cash in hand.

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

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

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

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.

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.

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

Manufacturing cluster HANZA gathers a number of contract manufacturing technologies within certain geographical areas called manufacturing clusters.

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