

A background image showing a group of business professionals in a meeting. A woman in the center is looking at a laptop held by a man on the right. Another person is partially visible on the left. The scene is brightly lit, possibly from a window, creating a professional and collaborative atmosphere.

# Q1

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**INTERIM REPORT**  
JANUARY - MARCH 2020

*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 interim report, the Swedish version shall prevail.*

## INTERIM REPORT 1 JANUARY – 31 MARCH 2020

### Organizational development and a challenging end to the period

#### FIRST QUARTER (1 January – 31 March 2020)

- Net sales amounted to SEK 599.1 million (497.7)
- Operating profit before amortizations of intangible fixed assets (EBITA) amounted to SEK 20.4 million (19.5). EBIT amounted to SEK 16.8 million (17.3).
- Profit after tax amounted to SEK 6.4 million (9.1), which corresponds to SEK 0.19 per share (0.30).
- Cash flow from operating activities amounted to SEK 67.6 million (36.6).

#### MATERIAL EVENTS DURING THE PERIOD

- In January, HANZA decided to phase out a smaller production unit in Ma'anshan, China, and at the same time broaden its operations in Suzhou, China, following an agreement with one of the Group's major German customers to move some production from Germany to HANZA's factory in Suzhou. A provision for closing-down costs (approx. SEK 3 million) was made in 2019.
- During the period, HANZA was affected by covid-19 through factory closures in China, shortage of components and volume reductions in certain customer segments. Future uncertainty in the global economy has also led to increased provisions for inventories and accounts receivable at the end of the quarter.

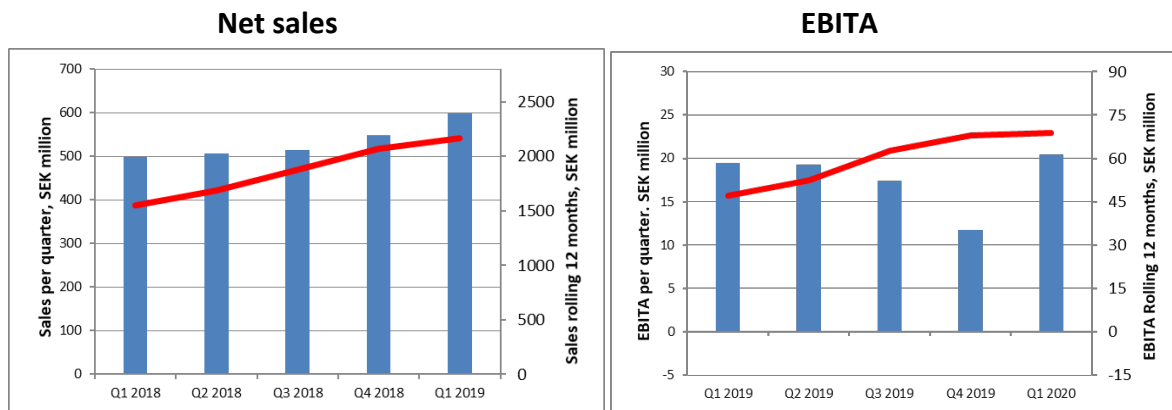
#### MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

- To face the effects of covid-19, in April HANZA initiated an action program that may result in redundancies for up to 90 people: Firstly, notice of termination has been given to all employees in Åtvidaberg, as HANZA prepares to consolidate the electronics production in Sweden to the factory in Årjäng. Additionally, notice of termination has been given to staff in Estonia where a similar consolidation of mechanics production is taking place. Costs for redundancies and adjustments of asset values are estimated to amount to a maximum of SEK 25 million, most of which are not affecting cashflow.
- To intensify marketing, HANZA's manufacturing cluster Central Europe is split into two units as of April 1, 2020:
  - The factory in Germany will be the starting point for a manufacturing cluster of its own, focusing on customers in the so-called DACH area (Germany, Austria and Switzerland)
  - The factories in Poland and the Czech Republic will make up HANZA's future cluster in Central Europe, with manufacturing for both the Nordic countries and the DACH region.

Concurrently, certain Group functions are decentralized, which results in a reduction of the company's Group management.

- HANZA applies a financial segment classification based on primary customer markets and joint group functions. Because of the changed organization, an adjusted segment reporting is introduced from January 2020, where the segments are named Main markets, Other markets and Business development (previously Nordic, Rest of the world and Business development):
  - The new separated manufacturing cluster Germany is reported in the Main market segment, together with Sweden and Finland.
  - The other manufacturing clusters are reported in Other markets.
  - The segment business development is unchanged. See further definition below.

In this report all comparison figures for 2019 have been adjusted according to the new segment classification, see further note 4, revenue and segment information.



The graphs illustrate net sales and operating profit per quarter (bars), and on a rolling 12-month basis (lines) up to and including the quarter reported.

## CEO COMMENT

During the quarter, it became clear that the corona outbreak has evolved into what is usually referred to as a "black swan", i.e. an unpredictable and rare event that creates extreme consequences. In contrast to many other crises, covid-19 has developed in two directions, both towards the society and towards the economy. Our main priority has been to protect our employees and we promptly introduced a number of measures to minimize the risk of infection in our production facilities. The work has been successful, and so far we have no confirmed cases of the corona virus in the HANZA group. Furthermore, we have introduced real-time management through a specific corona group that provides daily updates in order to be able to act quickly on e.g. government decisions and material disruptions.

### Financial Impact

During the quarter, covid-19 has negatively impacted HANZA in waves. First, through the Chinese authorities' measures to deal with the outbreak of the virus, which led to the closure of our factory in China and created some component shortages in Europe. Then, by the extensive spread of infection in the rest of the world, which resulted in a rapid slowdown of the economy and a decrease in demand in certain customer segments. Still, profitability increased from the previous quarter, due to the activities carried out in our business plan "Strategy 2022" (which we have described in previous reports). We also continue to create a good cash flow, which has enabled further reduction of our interest-bearing net debt by approx. SEK 30 million during the first quarter.

### Measures

We see a continued impact on the global economy due to covid-19 and we expect there will be further volume reductions in quarter two. Hence, we launched an action program in April aimed at reducing our fixed costs - and thus the risk of falling revenues - without having to limit our unique offering with complete manufacturing. Among other things, we are streamlining HANZA's production facilities to embrace only specific technologies within the respective production clusters, which regrettably results in redundancies in Sweden and Estonia of approx. 90 people. We are also implementing other measures such as short-term work in Germany and Poland. However, HANZA's structure with manufacturing clusters provides a greater opportunity to meet varying demand than classic contract manufacturers, due to the possibility of sharing resources between different manufacturing units. Furthermore, our financial position is strong, and we are ready to face and manage challenges, even if the downturn turns out to be long-lasting.

### The future - from global to regional supply chains

One effect of the pandemic is that weaknesses and risks in global supply chains have become apparent, and thereby increased the need to streamline the manufacturing industry. That is, an increased need that is in line with HANZA's offering of complete regional manufacturing close to the customer. Therefore, the pandemic creates new opportunities for HANZA in the long term.

Finally, I want to take the opportunity to praise all the teams in HANZA, who work hard to ensure continuity during a period that is unique and challenging. This means that we can keep our business going, while keeping our workplace safe. We are extremely grateful and proud of all the employees at HANZA!

SEK million	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Key ratios according to IFRS</b>			
Net sales	599.1	497.7	2,067,7
Operating profit (EBIT)	16.8	17.3	56,8
Amortisation of intangible assets	-3.6	-2.2	-11,1
Cash flow from operating activities	67.6	36.6	122,0
<b>Alternative performance measurements</b>			
Operational segments EBITA	21.2	25.0	83,6
Business development segment EBITA	-0.8	-5.5	-15,7
EBITA	20.4	19.5	67,9
Operating margin (EBITA)	3.4%	3.9%	3,3%
Net interest-bearing debt *)	513.4	359.5	543,3
Operational net debt	317.3	284.0	350,2
Equity ratio *)	32.1%	34.2%	32,7%

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

## MARKET DEVELOPMENT

HANZA's customer markets are mainly the Nordics and Germany, but customers are also found in the rest of Europe, Asia and the USA. Because HANZA's customers have a wide industry spread, the business cycle is usually reflected in HANZA's sales. However, HANZA has a special opportunity to gain new market shares during a recession, as product companies may experience a sudden need to streamline their supply chain.

The National Institute of Economic Research has changed the description of the business cycle from seeing a strengthening (January) to seeing a decrease that is more rapid than during the financial crisis (March). Similar developments are reported from Germany. HANZA confirms this picture by noting that demand in some segments today is significantly below the customer's forecasts from the beginning of the year.

HANZA does not provide any sales or earnings forecasts, but generally expects that the economy and demand will continue to weaken in 2020. At the same time, HANZA sees opportunities to gain new market shares in the long term, as the pandemic has amplified the trend of "backsourcing" from China (i.e. production in China for Europe, returning to Europe). A trend that has already been driven by customs charges, transport costs, delivery times, environmental aspects and more.

The Group's growth target continues to be an average sales increase of at least 10% per year over a business cycle, which is measured as the net change, that is, the sum of additional volumes from new customers, company acquisitions, discontinued volumes and currency fluctuations.

## SALES AND PROFIT

### First quarter

Net sales amounted to SEK 599.1 million (497.7). Exchange rates have positively impacted sales by approx. SEK 6 million. In the first quarter of 2020, the Main market segment shows net sales of SEK 337.8 million (249.2), an increase of 36% which mainly is explained by performed acquisitions. The Other market segment shows net sales of SEK 261.3 million (248.4), an increase of 5% explained by acquisitions. Sales increased as a result of acquisitions, new customers and contracts and decreased due to the effects of covid-19, as the volumes to some customer segments has decreased significantly.

EBITDA for the quarter amounted to SEK 41.5 million (38.9), which corresponds to an EBITDA margin of 6.9% (7.8). Depreciations and amortizations during the period amounted to SEK 24.7 million (21.6), of which amortization of intangible assets amounted to SEK 3.6 million (2.2).

The Group's operating profit before amortizations of intangible fixed assets (EBITA) amounted to SEK 20.4 million (19.5), which corresponds to an operating margin of 3.4% (3.9). The operating margin is marginally impacted by currency fluctuations. The EBITA margin in the Main market segment amounts to 5.6% (6.7) and in the Other markets segment to 0.8% (3.3). The market in both segments are negatively affected by covid-19.

In the Business Development segment, we report costs for special Group development projects not linked to HANZA's operations, such as acquisitions, divestments, listing expenses, development of service products etc. In the fourth quarter, EBITA for the Business Development segment amounted to SEK -0.8 million (-5.5).

EBIT for the Group amounted to SEK 16.8 million (17.3). The gross margin amounted to 46.5% (45.3). Other external costs amounted to SEK 79.1 million (62.9) and personnel costs amounted to SEK 158.1 million (123.5). The change in gross margin and increased costs are linked to the acquired companies.

Net financial income amounted to SEK -7.3 million (-5.9). Of this, interest net amounts to SEK -4.6 million (-4.3). The increased interest costs are attributable to the increased net debt following the acquisition of RITTER and lower interest rates on the loans. Currency rate gains and losses net amounted to SEK -1.4 million (-0.3). Other financial costs amounted to SEK -1.3 million (-1.3).

Profit before tax amounted to SEK 9.5 million (11.4). Profit after tax amounted to SEK 6.4 million (9.1). Profit per share before and after dilution amounts to SEK 0.19 (0.30) for the quarter.

## CASH FLOW AND INVESTMENTS

Cash flow from operating activities remains positive and amounted to SEK 67.6 million (36.6) in the first quarter. The working capital decreased by SEK 39.7 million (3.3) during the period.

Cash flow from investment activities in the first quarter amounted to SEK -21.6 million (-49.4) of which investments in fixed assets were SEK -18.5 million (20.7) net and acquisitions of subsidiaries to SEK -3.1 million (-28.7) which refers to settlement of additional purchase price for Toolfac.

Total investments in tangible fixed assets amounted to SEK 20.7 million (21.1) in the quarter. The difference from cash flows are due to investments in machinery and inventories through leasing.

Cash flow from financing activities for the first quarter was SEK -20.9 million (-26.4) and consists of new loans and amortizations.

## FINANCIAL POSITION

Shareholder's equity at the end of the period amounted to SEK 523.9 million (438.0) whereas the equity ratio was 32.1% (34.2). The total assets amounted to SEK 1,632.7 million (1,280.9). Cash and cash equivalents amounted to SEK 97.0 million (91.6) at the end of the period. The interest-bearing net debt amounted to SEK 513.4 million (359.5). The difference compared to last year is explained by acquisitions. The interest-bearing net debt has decreased by SEK 29.9 million during the first quarter 2020.

## DIVIDEND

The insecurity in the economy after the virus outbreak has caused the board to propose that no dividend should be paid out for the financial year 2019. This proposal, presented on 24 March 2020, is a change compared to the proposal when the year-end report was published (SEK 0.25).

## THE SHARE

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

## EMPLOYEES

During the quarter, the average number of employees in the Group was 1,683 (1,447). The number of employees at the end of the period was 1,751. At the start of the year, the number was 1,771.



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### **THE PARENT COMPANY**

The parent company's net sales, which consist exclusively of income from Group companies, amounted to SEK 5.3 million (4.3) in the quarter. Profit before tax in the quarter amounted to SEK -3.5 million (-2.7). There have been no investments in the parent company during the quarter.

### **MATERIAL RISKS AND UNCERTAINTIES**

The risk factors that are most material to HANZA are the financial risks and changes in the market, which currently are mainly driven by the outbreak of covid-19. For more information about risks and uncertainties, please refer to Note 3 in the company's 2019 annual report. In excess of the risks with an accelerating pandemic, there have been no material changes in risks since the preparation of the 2019 annual report.

### **RELATED PARTY TRANSACTIONS**

There have been no transactions between the HANZA Group and related parties during the quarter affecting the Group's position or earnings, beyond customary payments of remunerations to the Board of Directors and Group management salaries.

The interim report gives a true and fair view of parent company and Group operations, as well as their position and earnings, and describes the material risks and uncertainties faced by the parent company and the companies forming part of the Group.

Stocksund, April 27, 2020

On behalf of the Board

Erik Stenfors, CEO



## FINANCIAL REPORTS

### CONSOLIDATED INCOME STATEMENT

Amount in SEK millions	Note	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Net sales</b>	<b>4</b>	<b>599.1</b>	<b>497.7</b>	<b>2,067.7</b>
Change of inventories in production, finished goods and work in progress on behalf of others		2.1	16.4	-15.5
Raw materials and consumables		-322.9	-288.8	-1 105.5
Other external costs		-79.1	-62.9	-262.6
Costs of personnel		-158.1	-123.5	-535.5
Depreciation		-24.7	-21.6	-92.2
Other operating income	5	2.8	0.9	8.6
Other operating expenses	5	-2.4	-0.9	-8.2
<b>Operating profit</b>	<b>4</b>	<b>16.8</b>	<b>17.3</b>	<b>56.8</b>
<b>Profit/loss from financial items</b>				
Financial income				0.5
Financial expenses		-7.3	-5.9	-25.0
<b>Financial items – net</b>	<b>6</b>	<b>-7.3</b>	<b>-5.9</b>	<b>-24.5</b>
<b>Profit/loss before tax</b>		<b>9.5</b>	<b>11.4</b>	<b>32.3</b>
Income tax	7	-3.1	-2.3	-8.7
<b>Profit/loss for the period</b>		<b>6.4</b>	<b>9.1</b>	<b>23.6</b>
Earnings per share before dilution, SEK		0.19	0.30	0.73
Earnings per share after dilution, SEK		0.19	0.30	0.73

The number of shares before and after dilution are presented in Note 8.

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT**

Amount in SEK millions	Note	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Profit/loss for the period</b>		<b>6.4</b>	<b>9.1</b>	<b>23.6</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to the income statement</b>				
Remeasurement of defined benefit pension plans		1.2	-	3.6
Tax on items that will not be reclassified to the income statement		-0.4	-	-1.1
<b>Total items that will not be reclassified to the income statement, net of tax</b>		<b>0.8</b>	<b>-</b>	<b>2.5</b>
<b>Items that can subsequently be reversed in profit or loss</b>				
Exchange rate differences		21.1	4.0	3.6
Exchange rate difference on acquisition loan		-2.7	-	1.3
Tax on items that can subsequently be reversed in profit or loss		0.6	-	-0.3
<b>Total items that may be reclassified to the income statement, net of tax</b>		<b>19.0</b>	<b>4.0</b>	<b>4.6</b>
<b>Other comprehensive income for the period</b>		<b>19.8</b>	<b>4.0</b>	<b>7.1</b>
<b>Total comprehensive income for the period</b>		<b>26.2</b>	<b>13.1</b>	<b>30.7</b>

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

**CONDENSED CONSOLIDATED BALANCE SHEET**

Amount in SEK millions	Note	2020-03-31	2019-03-31	2019-12-31
<b>ASSETS</b>				
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Goodwill		306.9	265.8	299.2
Other intangible assets		114.4	72.3	113.1
<b>Intangible assets</b>		<b>421.3</b>	<b>338.1</b>	<b>412.3</b>
<b>Right-of-use assets</b>		<b>145.1</b>	<b>109.4</b>	<b>143.7</b>
<b>Tangible fixed assets</b>		<b>289.7</b>	<b>271.5</b>	<b>278.5</b>
<b>Financial fixed assets</b>				
Other long-term securities holdings		0.3	0.3	0.3
Deferred tax assets		29.4	14.2	31.2
<b>Financial fixed assets</b>		<b>29.7</b>	<b>14.5</b>	<b>31.5</b>
<b>Total fixed assets</b>		<b>885.8</b>	<b>733.5</b>	<b>866.0</b>
<b>Current assets</b>				
Inventories		448.6	322.6	422.7
Accounts receivable		151.4	102.6	122.1
Other receivables		30.0	20.1	27.9
Prepaid expenses and accrued income		19.9	10.5	17.3
Cash and cash equivalents		97.0	91.6	66.7
<b>Total current assets</b>		<b>746.9</b>	<b>547.4</b>	<b>656.7</b>
<b>TOTAL ASSETS</b>		<b>1,632.7</b>	<b>1,280.9</b>	<b>1,522.7</b>

**CONDENSED CONSOLIDATED BALANCE SHEET, cont'd**

Amount in SEK millions	Note	2020-03-31	2019-03-31	2019-12-31
<b>SHAREHOLDERS' EQUITY</b>				
Shareholders' equity attributable to the parent company's shareholders		523.9	438.0	497.7
<b>LIABILITIES</b>				
<b>Long-term liabilities</b>				
Post-employment benefits	9	115.2	4.7	108.9
Non-interest-bearing long-term liabilities		45.3	31.7	45.8
Liabilities to credit institutions	3	198.9	211.9	209.9
Lease liabilities		89.1	74.9	92.8
<b>Total long-term liabilities</b>		<b>448.5</b>	<b>323.2</b>	<b>457.4</b>
<b>Current liabilities</b>				
Overdraft facility	3	61.2	62.6	52.1
Liabilities to credit institutions	3	98.6	59.4	97.7
Lease liabilities		47.4	33.6	45.5
Other interest-bearing liabilities		-	4.0	3.1
Accounts payable		297.5	250.7	231.7
Other liabilities		54.1	28.0	53.2
Accrued expenses and deferred income		101.5	81.4	84.3
<b>Total current liabilities</b>		<b>660.3</b>	<b>519.7</b>	<b>567.6</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,632.7</b>	<b>1,280.9</b>	<b>1,522.7</b>

## CONDENSED CONSOLIDATED REPORT OF CHANGES IN SHAREHOLDERS' EQUITY

Amount in SEK millions	Note	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Opening balance</b>		497.7	410.5	<b>410.5</b>
Profit/loss for the period		6.4	9.1	23.6
<b>Other comprehensive income</b>		19.8	4.0	7.1
<b>Total comprehensive income</b>		26.2	13.1	<b>30.7</b>
<b>Transactions with shareholders</b>				
Non-cash issue		-	14.5	64.5
Issue costs		-	-0.1	-0.3
Dividend		-	-	-7.7
<b>Total contributions from and distributions to shareholders, recognized directly in equity</b>		-	<b>14.4</b>	<b>56.5</b>
<b>Closing balance</b>		<b>523.9</b>	<b>438.0</b>	<b>497.7</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Amount in SEK millions	Note	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Cash flows from operating activities</b>				
Profit/loss after financial items		9.5	11.4	32.3
Depreciation and amortisations		24.7	21.6	92.2
Other non-cash items		-2.1	-0.1	4.8
Paid income tax		-4.2	0.4	-1.7
<b>Cash flows from operating activities prior to the change in working capital</b>		<b>27.9</b>	<b>33.3</b>	<b>127.6</b>
<b>Total change in working capital</b>		<b>39.7</b>	<b>3.3</b>	<b>-5.6</b>
<b>Cash flows from operating activities</b>		<b>67.6</b>	<b>36.6</b>	<b>122.0</b>
<b>Cash flows from investing activities</b>				
Investments in subsidiaries	9	-3.1	-28.7	-89.4
Investments in fixed assets		-18.9	-20.8	-50.5
Disposals of tangible fixed assets		0.4	0.1	2.5
<b>Cash flows from investing activities</b>		<b>-21.6</b>	<b>-49.4</b>	<b>-137.4</b>
<b>Cash flows from financing activities</b>				
New loans		15.6	45.9	149.5
Repayment of borrowings		-36.5	-19.5	-136.7
Dividends paid		-	-	-7.7
<b>Cash flows from financing activities</b>		<b>-20.9</b>	<b>26.4</b>	<b>5.1</b>
<b>Increase/reduction in cash and cash equivalents</b>		<b>25.1</b>	<b>13.6</b>	<b>-10.3</b>
Cash and cash equivalents at the beginning of the period		66.7	77.5	77.5
Exchange differences in cash and cash equivalents		5.2	0.5	-0.5
<b>Cash and cash equivalents at the end of the period</b>		<b>97.0</b>	<b>91.6</b>	<b>66.7</b>

## CONDENSED PARENT COMPANY INCOME STATEMENT

Amount in SEK millions	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Operating income</b>	<b>5.3</b>	<b>4.3</b>	<b>21.5</b>
<b>Operating expenses</b>	<b>-5.1</b>	<b>-7.6</b>	<b>-20.0</b>
Other operating income	0.1	-	-
<b>Operating profit</b>	<b>0.3</b>	<b>-3.3</b>	<b>1.5</b>
<b>Profit/loss from financial items</b>			
Other interest income and similar income items	0.6	0.7	4.2
Interest charges and similar income items	-4.4	-0.1	-1.6
<b>Total profit/loss from financial items</b>	<b>-3.8</b>	<b>0.6</b>	<b>2.6</b>
<b>Profit/loss before tax</b>	<b>-3.5</b>	<b>-2.7</b>	<b>4.1</b>
Tax on profit for the period	-	-	-0.6
<b>Profit/loss for the period</b>	<b>-3.5</b>	<b>-2.7</b>	<b>3.5</b>

There are no parent company items that are recognized in comprehensive income, for which reason total comprehensive income is consistent with the profit/loss for the period.

**CONDENSED PARENT COMPANY BALANCE SHEET**

Amount in SEK millions	Note	2020-03-31	2019-03-31	2019-12-31
<b>ASSETS</b>				
<b>Fixed assets</b>				
Financial fixed assets		459.8	336.2	453.7
<b>Total fixed assets</b>		<b>459.8</b>	<b>336.2</b>	<b>453.7</b>
<b>Current assets</b>				
Current receivables		1.7	2.9	1.4
Cash and cash equivalents		8.7	1.1	0.1
<b>Total current assets</b>		<b>10.4</b>	<b>4.0</b>	<b>1.5</b>
<b>TOTAL ASSETS</b>		<b>470.2</b>	<b>340.2</b>	<b>455.2</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Shareholders' equity		353.5	308.6	357.0
Long-term liabilities		68.6	22.3	70.1
Current liabilities		48.1	9.3	28.1
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>470.2</b>	<b>340.2</b>	<b>455.2</b>



## NOTES

### **Note 1      General information**

All amounts are reported in millions of SEK (SEK millions) and refers to The Group unless otherwise stated. Information in brackets refers to the corresponding period of the preceding year. The interim information on pages 5 to 7 forms an integral part of this financial report.

### **Note 2      Basis for the preparation of reports and accounting principles**

HANZA Holding AB (publ) applies IFRS (International Financial Reporting Standards), as adopted by the European Union. This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The interim report for the parent company has been prepared in accordance with chapter 9 of the Swedish Annual Reports Act, and with RFR 2, Accounting for legal entities.

HANZA has from 1 January 2020 adjusted the segment classification which is described in note 4. Aside from this, the accounting principles are in accordance with the principles that were applied in the previous financial year. For more information on these, please refer to Note 2 of the company's 2019 annual report.

### **Note 3      Financial instruments - Fair value of financial liabilities valued at amortized cost**

The Group's borrowing consists of a large number of notes taken out at different times and with different maturities. Substantially all the loans carry a floating rate of interest. Against the background of the foregoing, the reported values may be deemed to provide a good approximation of fair values as the discount effect is not material.

### **Note 4      Revenue and segment information**

#### **Description of revenue from contracts with customers**

HANZA's revenue is attributable primarily to the production of components, subsystems and finished composite products according to the customer specifications, but where HANZA has been involved in customising the manufacturing process. HANZA's performance obligations are deemed to have been met when the component or composite product is delivered to the customer. Exceptions from the foregoing are cases where there is an agreement with the customer regarding a buffer stock of finished components or products. In these cases, the performance obligation is deemed to have been met at the time the component or product is placed in buffer stock, meaning that it is available to the customer.

The breakdown of external revenue by segment, which is in line with the Group's cluster-based organisation, is set out in the segment information section below. In addition, the recognition of external revenue is divided into the manufacturing technologies 'Mechanics' and 'Electronics' further below.

### Description of segment reporting

HANZA divide the operations into so called manufacturing clusters and applies a financial segment classification based on primary customer markets. Operational reporting is broken down into the following 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 characterised 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 Rest of the world. Since 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, Germany has come to form its 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.

Transactions between segments are made on market terms.

### Revenues by segment

SEK millions	Jan - Mar 2020			Jan - Mar 2019		
	Segment revenues	Less sales between segments	Income from external customers	Segment revenues	Less sales between segments	Income from external customers
Main markets	339.0	-1.2	337.8	249.9	-0.7	249.2
Other markets	266.5	-5.2	261.3	260.3	-11.9	248.4
Business development	-	-	-	0.1	-	0.1
<b>Total</b>	<b>605.5</b>	<b>-6.4</b>	<b>599.1</b>	<b>510.3</b>	<b>-12.6</b>	<b>497.7</b>

**Profit by segment**

Segment results are reconciled to profit/loss before tax as follows:

SEK millions	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>EBITA</b>			
Main markets	19.0	16.7	80.4
Other markets	2.2	8.3	3.2
Business development	-0.8	-5.5	-15.7
<b>Total EBITA</b>	<b>20.4</b>	<b>19.5</b>	<b>67.9</b>
Amortisation of intangible assets	-3.6	-2.2	-11.1
<b>Operating profit</b>	<b>16.8</b>	<b>17.3</b>	<b>56.8</b>
Financial items – net	-7.3	-5.9	-24.5
<b>Profit/loss before tax</b>	<b>9.5</b>	<b>11.4</b>	<b>32.3</b>
<b>Non-recurring items</b>			
Revaluation of additional purchase price	-	-	1.1
Transaction costs	-	-2.0	-8.4
Costs for change of listing	-	-3.5	-3.7
Write-down assets China	-	-	-3.0
Amortization of over-value in inventory identified in the acquisition of RITTER	-	-	-4.2
<b>Total</b>	<b>-</b>	<b>-5.5</b>	<b>-18.2</b>
<b>EBITA per segment excluding non-recurring items</b>			
Main markets	19.0	16.7	83,8
Other markets	2.2	8.3	6,2
<b>Total</b>	<b>21.2</b>	<b>25.0</b>	<b>90.0</b>
Business development	-0.8	0.0	-3.9
<b>Total</b>	<b>20.4</b>	<b>25.0</b>	<b>86.1</b>
Non-recurring items	-	-5.5	-18.2
<b>EBITA</b>	<b>20.4</b>	<b>19.5</b>	<b>67.9</b>

**Revenue from external customers by manufacturing technology**

SEK millions	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
Mechanics	355.9	362.2	1,367.8
Electronics	243.2	135.4	699.8
Business development	-	0.1	0.1
<b>Total</b>	<b>599.1</b>	<b>497.7</b>	<b>2,067.7</b>

No single customer accounts for 10% or more of the Group's revenue.

**Note 5 Other operating income and operating expenses**

SEK millions	Jan - Mar	Jan - Mar	Jan - Dec
Other operating income	2020	2019	2019
Profit on disposal of fixed assets	0.1	0.1	0.6
Revaluation of additional purchase price	-	-	1.1
Exchange gains	1.5	0.4	4.5
Other items	1.2	0.4	2.4
<b>Total other operating income</b>	<b>2.8</b>	<b>0.9</b>	<b>8.6</b>

**Other operating expenses**

Loss on disposal of fixed assets	-	-	-2.8
Exchange losses	-1.4	-0.8	-3.9
Other items	-1.0	-0.1	-1.5
<b>Total other operating expenses</b>	<b>-2.4</b>	<b>-0.9</b>	<b>-8.2</b>

**Note 6 Financial income and expenses – Net financial items**

SEK millions	Jan - Mar	Jan - Mar	Jan - Dec
Financial income	2020	2019	2019
Interest income	-	-	0.5
<b>Total financial income</b>	<b>-</b>	<b>-</b>	<b>0.5</b>
<b>Financial expenses</b>			
Interest expenses	-4.6	-4.3	-18.6
Net exchange gains and losses	-1.4	-0.3	-1.2
Other financial expenses	-1.3	-1.3	-5.2
<b>Total financial expenses</b>	<b>-7.3</b>	<b>-5.9</b>	<b>-25.0</b>
<b>Total financial items - net</b>	<b>-7.3</b>	<b>-5.9</b>	<b>-24.5</b>

**Note 7 Income tax**

The effective tax rate for the quarter was 33 percent (20). A part of the Group's operations derives from Estonia, where profits are only taxed upon distribution of dividends. The parent company rules over the dividends and there are currently no plans or needs to take dividends, which would result in taxes, from the Estonian companies. The Estonian tax rate has therefore been set at 0 percent for purposes of the calculation. The effective tax rate therefore varies according to the proportion of pre-tax profits stemming from Estonia and from units where the company has deemed that deferred tax assets cannot be booked due to insecurity about the possibility to use the tax losses in the future.

**Note 8 Number of shares**

The table below shows the average numbers of shares before and after dilution, that have been used in the calculation of earnings per share. The number of shares at the end of the period is also shown.

Number of shares	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
Weighted average number of shares before dilution	33,979,928	30,493,578	32,125,760
Adjustment upon calculation of earnings per share after dilution:			
Warrants	-	2,502	617
Weighted average number of shares after dilution	33,979,928	30,496,080	32,126,377
Number of shares at the end of the period	33,979,928	30,979,928	33,979,928

**Note 9 Acquisitions of subsidiaries**

HANZA Holding have not done any acquisitions during the first quarter of 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.

**KEY RATIOS**

	Jan - Mar 2020	Jan - Mar 2019	Jan - Dec 2019
<b>Key ratios according to IFRS</b>			
Net sales, SEK millions	599.1	497.7	2,067.7
Earnings per share before dilution, SEK	0.19	0.30	0.73
Earnings per share after dilution, SEK	0.19	0.30	0.73
Average number of employees	1,683	1,447	1,603
<b>Alternative performance measurements</b>			
EBITDA margin, % <sup>*)</sup>	6.9%	7.8%	7.2%
Operating margin, %	2.8%	3.5%	2.7%
Operational segments EBITA, SEK millions	21.2	25.0	83.6
Operational EBITA margin, %	3.5%	5.0%	4.0%
Operating capital, SEK millions <sup>*)</sup>	1,037.3	797.5	1,041.0
Return on operating capital, % <sup>*)</sup>	2.0%	2.7%	7.9%
Capital turnover on operating capital, times <sup>*)</sup>	0.6	0.7	2.4
Net interest-bearing debt, SEK millions <sup>*)</sup>	513.4	359.5	543.3
Net debt/equity ratio, times <sup>*)</sup>	1.0	0.8	1.1
Operational net debt, SEK millions	317.3	284.0	350.2
Equity ratio, % <sup>*)</sup>	32.1%	34.2%	32.7%
Equity per share at end of period, SEK	15.42	14.14	14.65

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



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## **FORTHCOMING DISCLOSURES**

The interim report for the period January-June 2020 will be presented on 28 July 2020

The interim report for the period January-September 2020 will be presented on 3 November 2020

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## 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 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.

**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 and amortization of tangible and intangible items

**EBITDA margin** is EBITDA divided by net sales

**EBITA** refers to earnings before interest, taxes and amortization 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.

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

**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/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 and similar assets and short-term investments

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

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

When earning measures are presented on a **rolling 12-months basis** they refer to the total for the last 12 months up to the presented period

- **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.

## ABOUT HANZA

HANZA is a global knowledge-based manufacturing company that modernizes and streamlines the manufacturing industry.

Through supply-chain advisory services and our own factories grouped into regional manufacturing clusters, we offer secure deliveries, increased profitability and sustainable manufacturing solutions for our customers.

HANZA was founded in 2008 and in 2019 had sales exceeding SEK 2 billion. The company has production facilities in seven countries: Sweden, Finland, Germany, Estonia, Poland, the Czech Republic and China. Among our clients are leading product companies such as ABB, Epiroc, GE, Getinge, Oerlikon, Saab and Siemens.

For more information please go to: [www.hanza.com](http://www.hanza.com)

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