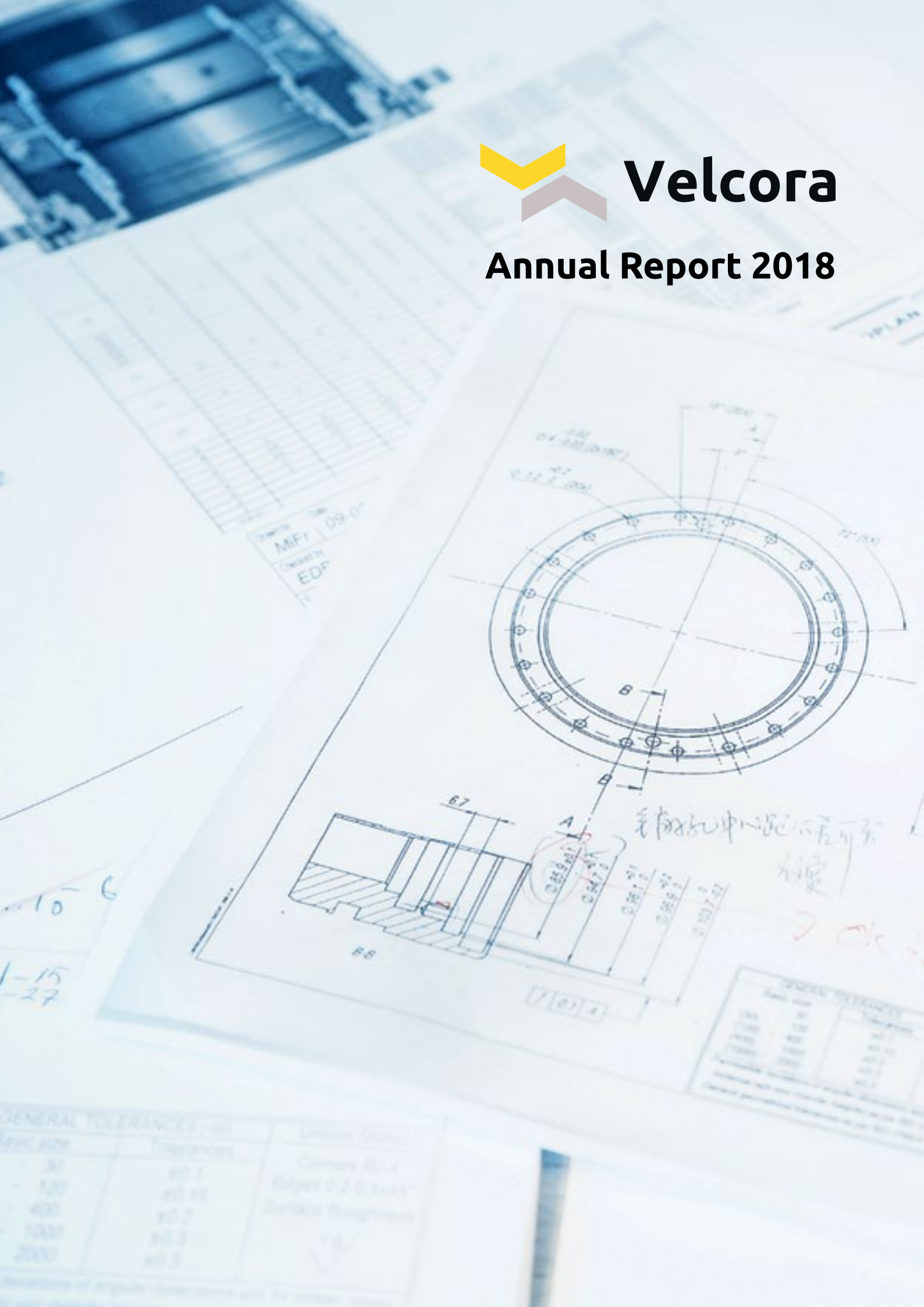
# Velcora

## Annual Report 2018



**Velcora Holding AB (publ)**
CIN 556987-4463

Annual report and consolidated financial statements for the financial year 1/1/2018 – 12/31/2018

The Board of Directors in Velcora Holding AB (publ) CIN 556987-4463 ("Velcora", the "Company" or the "Parent Company" and together with its subsidiaries the "Group", the "Velcora Group" or "Industrial Group Velcora") (the "Board") and the CEO submit the following annual report and consolidated financial statements for the Parent Company and the Group for 2018 (the "Annual Report").

Unless otherwise specified, all amounts are reported as TSEK.

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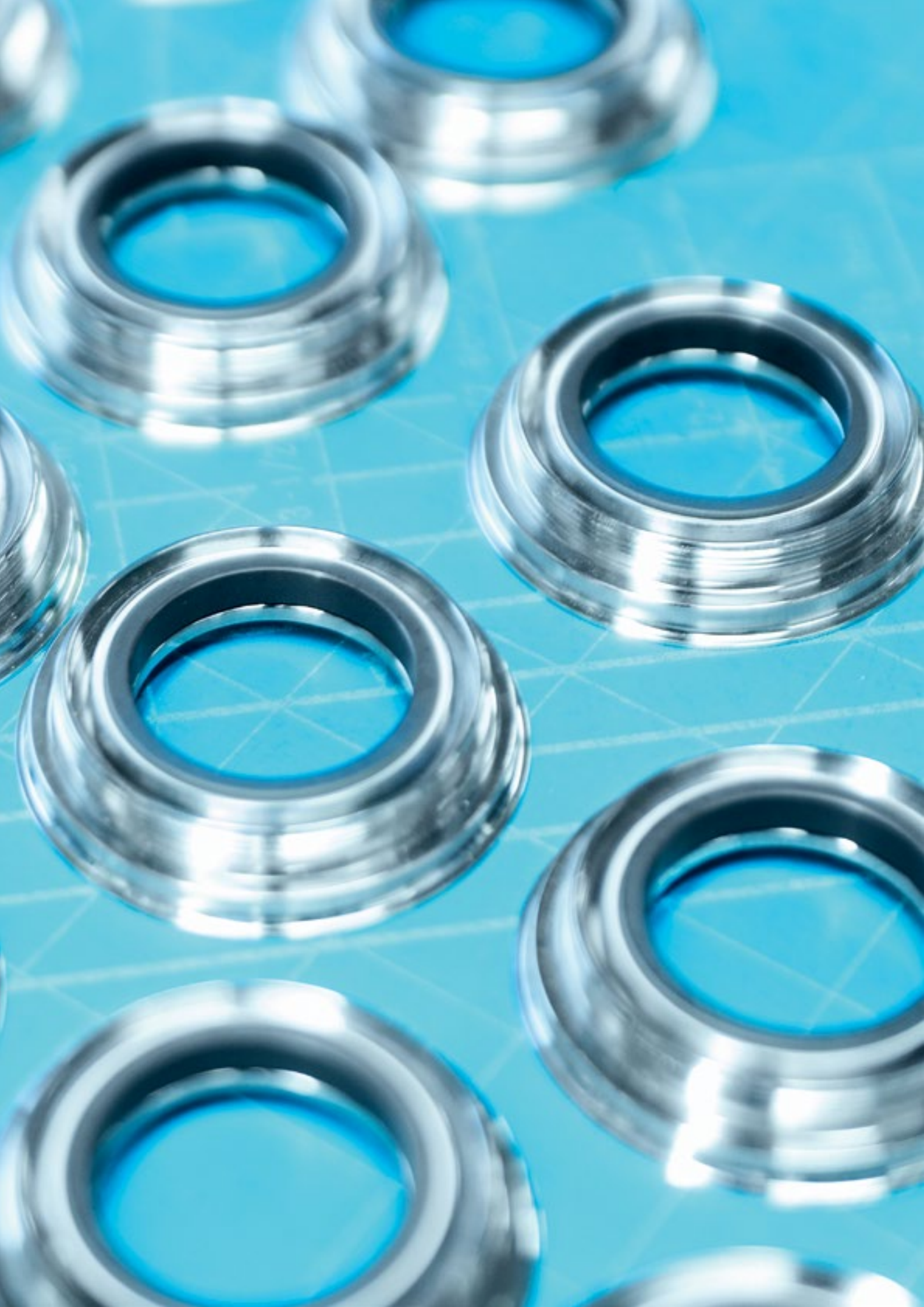
*Differences to previously published interim reports may occur due to reclassifications between reported items in order to follow the accounting principles set out in the Annual Report. Reclassifications, where relevant, had no impact on earnings.*

*The English text is an unofficial translation of the Swedish original, and in the event of any discrepancies between the Swedish text and the English translation the Swedish text shall take precedence.*


**Pictures:** Velcora

**Graphic design:** ClearDesign.se

## Comments from the CEO

### Velcora's business

The Velcora Group had a strong year in 2018 with an increase in net sales and good profitability despite several growth initiatives.

The Group was established in 2015 when Velcora acquired what was then the Roplan Group. Today, Industrial Group Velcora consists of two main business areas: *Roplan* and *Steridose*.

- Roplan develops and manufactures custom mechanical shaft seals for manufacturers of pumps, mixers, compressors and propulsion systems for ships. This business area represents 82 percent of total net sales.
- Steridose develops and manufactures magnetic mixers and valves for the biopharmaceutical industry and contributes just over 18 percent of net sales.

The Group has established companies in five countries and more than 150 employees.

### Roplan's offering

We have customers in a large number of industries, and the conditions in each industry vary. Wherever an axle rotates, we are involved with our services. Our delivery plays a central role in how our customers' products function and how well our customers' operations perform.

However, one thing our customers all have in common is their strict demands on quality, reliability, delivery precision and technical content. In order to meet these demands, Roplan must be an integral part of its customer's development, manufacturing and delivery process.

This is why our customers enter into long-term partnerships with Roplan. In our partnerships, we also agree to leave the attractive aftermarket solely to our customers. With Roplan as a partner, the customer has access to cutting edge technology and a profitable business model. This is why our customers are loyal to us and our partnerships have continued for decades. This partnership offer is unique in our market. We make our customers more successful.

When some industries are struggling, others are booming. We can redistribute resources, continue to grow both locally and globally, take a long-term approach, and, most importantly, achieve stable and good profitability by strengthening our market position and serving our existing customer base.

### Changes in the Velcora Group

I am both pleased and proud by what we have achieved during the past year. Our business continued to show strong development. We have continued along our journey of change, during which we are creating new values for owners, employees and customers.

The short version is that we have worked to both maintain and develop the unique position Roplan has established. Therefore, in 2018, we took the initiative to make significant changes to our personnel, not only in *Management* but also in our core departments *Technology*, *Sales*, *Production*, *Digitalization* and *Business Development*. We have also worked with small everyday improvements, and we are continuously raising the bar and want to improve our performance.

- We continued our efforts in 2018 to strengthen the Group's management and organization in order to prepare for our planned expansion.
- We continued our work to continuously improve our positions at existing key customers, we strengthened our market position by focusing on select segments and geographical markets, and we made it easier to do business with us.
- We worked during the year to balance costs and service levels. The goal is for each individual customer to receive the right product at the right time through reasonable inventories. The Purchasing, Production and Logistics functions have worked hard to develop competitive solutions.
- We have worked actively to streamline the Company's product development process in order to better meet our customers' needs for fast, reliable and effective product development. Time-to-market is very important for our customers.
- We continued our digital journey to adapt the business: automation of routine tasks as well as the creation of new opportunities to focus on business development, the customer relationship and the development of employees.
- And, last but not least, we have worked hard to motivate our employees. Happy, motivated and committed employees perform better. I would therefore like to take this opportunity to recognize all of my colleagues and the employees in the Velcora Group. I would like to thank you for the work that you are doing and the work you did in 2018. It is the employees who form the Group and make it possible for us to continue to develop.

The changes that occurred during the year have been expensive, both in terms of time and financial resources. We have strengthened the team with new competence, but a number of employees have also left the Group. Personnel changes resulted in reorganization costs, which we consider to be of a non-recurring nature. The strengthened organization also means that, as we head into 2019, we have increased our fixed costs. This increase should be viewed as an investment in greater growth, with the aim of paying for itself in the next few years.

Inventory provisions are another one-off cost that burden the operating profit. Looking at the underlying business, we are satisfied with the margins the Group is maintaining despite the investments made to strengthen the organization we have now built up.

### Acquisitions and financing

Velcora continued in 2018 to pursue a number of different growth initiatives, but it also added an initiative to make acquisitions.

We would like to continue to be a leader in the niches where we are active in order to be the best partner possible for our customers. We are focusing on companies that have a working method similar to our own – with products tailored to their meet their customers' needs – to supplement our existing offer. We want to further advance our positions.

Potential acquisitions may be financed in the future entirely or in part through additional debt financing.

### Well-equipped for the future

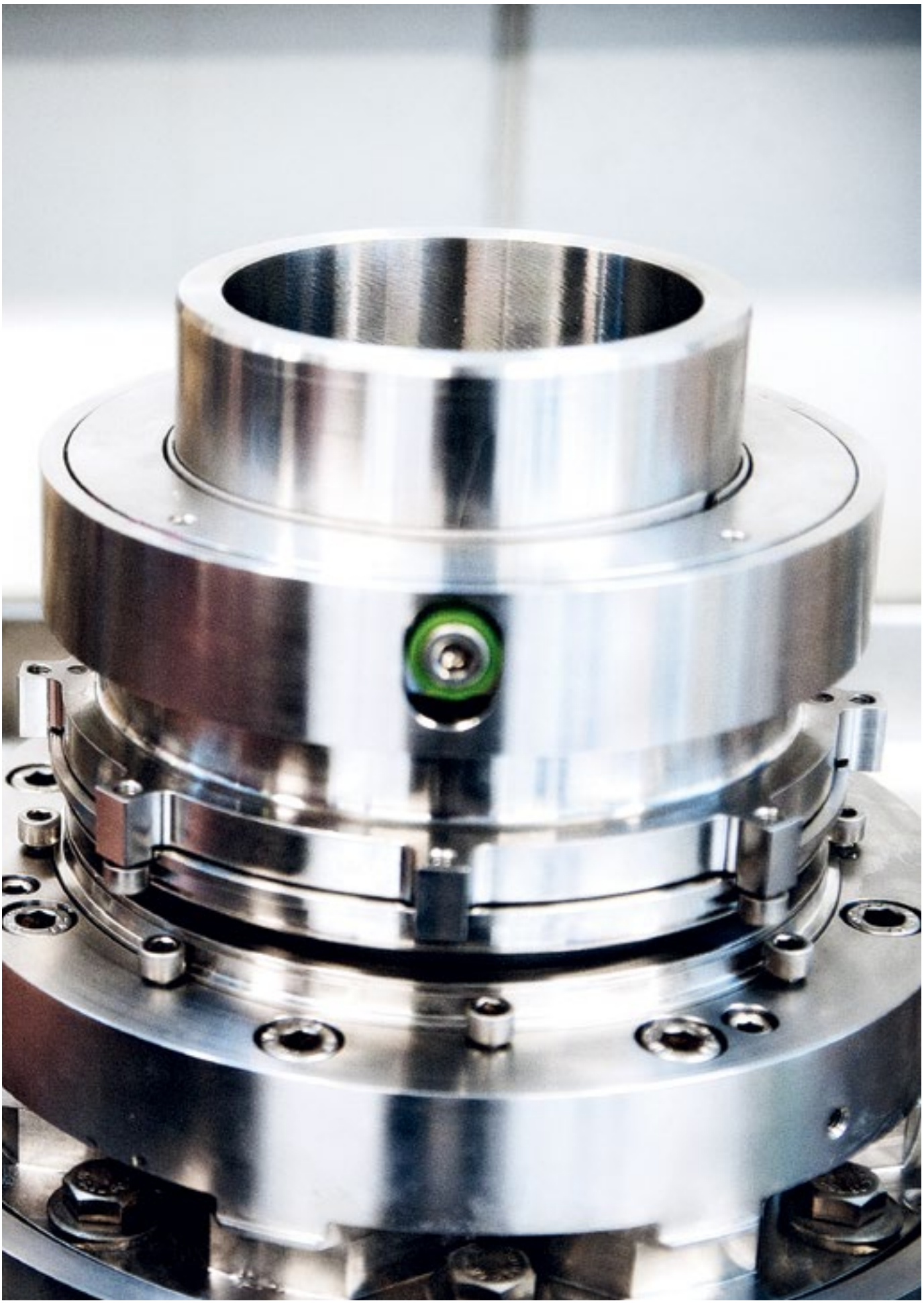
There are so many opportunities for Roplan to achieve success with the resources at our disposal: people and their skills and experience and the drive and ambition to make a difference for our customers.

Industrial growth, cyclical markets, digitalization, innovation, and the Internet of Things are trends currently affecting all industries, and both technology and business models are undergoing rapid transformation. This means that we must be agile and flexible to always be one step ahead of our competitors and adapt to the future.

With the changes and enhancements being made now, the Group is well-equipped for the future.

Velcora is an outstanding company today; we have just begun our journey to ensure that we can do things better and even faster. It is a fantastic place to be.

Peter Schmid
*CEO*
April 24, 2019



## Corporate Governance Report 2018

This Corporate Governance Report for 2018 was reviewed by the auditor of Velcora Holding AB (publ), CIN 556987-4463, in accordance with Chapter 9, section 31 of the Swedish Companies Act, and has been prepared in accordance with Chapter 6, section 6 of the Annual Accounts Act since the Company has bonds admitted for trading on a regulated market. The presentation of the report in general meets the requirements set out in Chapter 6, section 7 of the Annual Accounts Act since the Company's shares are not admitted for trading on a regulated market or on a trading venue in accordance with Chapter 1, section 5, point 12 of the Securities Market Act (2007:528).

### 1) The most important features of the Company's system for internal control and risk management in connection with the financial reporting

The basis for the Company's system for internal control and risk management in connection with financial reporting consists of the control environment with the organization, channels for decisions, authorities and responsibilities documented and communicated in policy documents such as rules of procedure for the Board of Directors, the instructions for the CEO and instructions for financial reporting as well as internal policies, guidelines, manuals and codes such as the Code of Conduct.

The most important functions in the Company's system for internal control are designed to

- maintain correct accounts,
- maintain ethical and moral guidelines,
- provide reliable financial information,
- identify and manage operational risks and market risks,
- ensure compliance with appropriate laws and regulations, and
- protect the assets.

The Company applies a method for risk analysis to identify the risks within the Company. The risks that are identified are controlled through the Company's control measures, which are designed to support identification, monitoring, assessment, management and control of the risks that are significant in order for the Company to achieve the established operational targets and provide reliable financial information. This is documented in the process and internal control descriptions.

The responsibility for the Group's financial transactions and risks is managed centrally by the Group's Finance function. The overall goals for the Finance function are to provide correct financial reporting and minimize negative effects on the Group's results that derive from various financial and market risks. The head of the central Finance function reports regularly to the CEO. The Board of Directors receives monthly financial reports, and at related Board meetings discusses the Company's and the Group's financial situation.

The Company has instituted communication and information channels in order to make the financial reporting as complete as possible. This is done through different policies, guidelines and codes that are available for concerned personnel. Furthermore, the instituted communication and information channels facilitate the rapid dissemination of information internally to concerned personnel. In addition to the written communication within the Company, news, risks and the outcome of controls are discussed and communicated on a regular basis at the meetings. It is also every responsible employee's task to clearly describe a risk for the employees involved in the process and how this risk is controlled. At the same time, each individual employee is responsible for reporting deficiencies and deviations identified during controls. The aim is to obtain an overview of how the work is carried out and be able to improve the processes.

The systems for internal control and risk management in connection with financial reporting, in the opinion of the Board of Directors, provide a reasonable assurance of what is necessary to prevent or identify in time unapproved purchases or unauthorized use of the Company's assets that can have a significant impact on the Company's financial statements. The prevention of fraud is a major focus when establishing and maintaining well-functioning internal control and risk management in connection with financial reporting.

The Company follows up on compliance with governance documents through the use of policies, guidelines, manuals and codes. One of the tools used is evaluations. This follow-up occurs via the Company's information and communication channels. The outcome of the Company's process for risk assessment and risk management is discussed by the Board of Directors to ensure that it includes all significant areas and identifies necessary measures when needed. In turn, this provides a basis for the follow-up as well as a balanced guideline for different roles within the Company.

### 2) Direct or indirect holdings in the Company representing at least one-tenth of the voting rights for all shares in the Company

The following shareholders have a direct or indirect shareholding in the Company and represent at least one-tenth of the voting rights for all shares in the Company (as at December 31, 2018):

| Owners | No. of shares | Votes, % | Capital, % |
|---|---|---|---|
| FSN Capital IV | 301,272 | 74 | 67 |
| Invexos AB | 128,400 | 20 | 28 |

### 3) Limitations on how many votes each shareholder may cast at an Annual General Meeting

Refer to the Statutory Administration Report in the Annual Report on pages 5–7 for more information.

### 4) Provisions in the Articles of Association on the appointment and dismissal of members of the Board of Directors and on amendments to the articles

The Company's Articles of Association do not contain any provisions on the appointment and dismissal of members of the Board of Directors or on amendments to the articles.

### 5) Authorizations granted by the Annual General Meeting to the Board of Directors to decide that the Company shall issue new shares or acquire treasury shares

There are no outstanding authorizations for the Board to issue shares.

Stockholm, April 24, 2019

Patrik Nolåker
Chair

Peter Schmid
CEO

Robert Furén
Director

Björn Leidelöf
Director

Tor Olav Seim
Director

Ulrik Smith
Director

## Board of Directors' Report

### Operations

Velcora was formed on October 23, 2014. In July 2015, the Company acquired Roplan Holding AB, thereby forming the current Group. The business is conducted via subsidiaries and consists of technical advisory services and the sale of industrial components.

The Company has its registered office in Stockholm County, and the head office is located in Tumba outside of Stockholm. The Group also conducts manufacturing and provides support services from its operations in Timrå (Sweden), Ningbo (China), Madison (USA), Newbury (United Kingdom) and Frankfurt (Germany).

The Group's operations are divided into two main business areas.

- *Roplan* develops and manufactures custom shaft seals for rotating applications.
- *Steridose* develops and manufactures aseptic process equipment, such as magnetic mixers and valves, for the global biopharmaceutical industry.

### Significant events in 2018

- In March, Velcora announced that Patrick Olsson will take over as the new VP Manufacturing and Supply Chain and that Jonas Falkestedt will become the new global Head of Engineering. During the year, Patrick Olsson has gone through the entire Group's production and purchasing strategy. In his new role, Jonas Falkestedt has actively led the work to streamline the Company's technological development process.
- On March 22, the Company held an Extraordinary General Meeting at which Patrik Nolåker (Chair) and Robert Furén (Director) were elected to the Board of Directors. See also Extraordinary General Meeting 2018.
- The Company held its Annual General Meeting on June 18, at which the current Board was reelected. See also Annual General Meeting 2018.

### Financial position of the Group

The subsidiaries' earnings are included in the Group as of the date of acquisition.

For the full year 2018, net sales amounted to SEK 335.7 million, which is an improvement year-on-year (SEK 312.4 million). Roplan contributed in 2018 to the Group's net sales with SEK 276.3 million while Steridose contributed SEK 59.4 million.

Operating profit for 2018 amounted to SEK 12.8 million compared to SEK -4.8 million.

Net financial income/expense amounted to SEK -34.7 million in 2018 (SEK -34.9 million in 2017) and consisted primarily of interest. The Company's income tax for 2018 has a positive impact of SEK 13.6 million on earnings compared to SEK 8.5 million in 2017.

Operating profit for 2018 amounted to SEK -8.3 million compared to SEK -31.1 million in 2017.

## Multi-year summary

Summary of the Group and Parent Company.

| *Amounts in TSEK* | **2018** | **2017** |
|---|---|---|
| **Group** | | |
| Net sales, TSEK | 335,729 | 312,397 |
| Profit/loss after financial items, TSEK | -21,949 | -39,670 |
| Balance sheet total, TSEK | 1,030,967 | 1,043,381 |
| Number of employees | 153 | 148 |
| Equity/assets ratio, % | 37.4% | 37.3% |
| Return on total assets, % | 2.4% | 0.4% |
| Return on equity, % | neg | neg |
| | | |
| **Parent Company** | **2018** | **2017** |
| Net sales, TSEK | 61,914 | 69,577 |
| Profit/loss after financial items, TSEK | 17,128 | 38,231 |
| Balance sheet total, TSEK | 977,284 | 969,173 |
| Number of employees | 6 | 6 |

*KPIs are defined in Note 1*

## Cash flow and financial position

Cash flow from operating activities including the change in working capital amounted to SEK 22.5 million in 2018.

Cash flow from investing activities amounted to SEK -10.6 million net in 2018, and cash flow from financing activities amounted to SEK -0.3 million.

Cash and cash equivalents as at December 31, 2018, amounted to SEK 77.9 million compared to SEK 64.9 million as at December 31, 2017.

As at December 31, 2018, consolidated equity amounted to SEK 385.8 million compared to SEK 388.7 million as at December 31, 2017.

## Research and development

The Group conducts extensive development work, primarily regarding its various products. In 2018, R&D expenditure amounted to SEK 76.8 million.

## Investments

Investments in property, plant and equipment in 2018 amounted to SEK 3.1 million.

## Annual General Meeting 2018

Velcora held its Annual General Meeting (AGM) on June 18, 2018. The AGM elected the members of the Board of Directors: Patrik Nolåker (Chair), Robert Furén (Director), Björn Leidelöf (Director), Tor Olov Seim (Director), Ulrik Smith (Director), Michael Gentili (Deputy) and Göran Wallenius (Deputy).

The AGM resolved to adopt the balance sheet and income statement for the Company and the Group and to discharge the departing Board of Directors and CEO from liability.

The AGM resolved otherwise in accordance with the resolution proposals specified in the notice of meeting.

## Extraordinary General Meeting 2018

On March 22, Velcora held an Extraordinary General Meeting that elected Patrik Nolåker and Robert Furén to the Board. Ulf Lilja decided to step down from the Board at the Meeting. Velcora's Board of Directors thereafter consisted of, until the next ordinary general meeting of shareholders in 2018, Patrik Nolåker (Chair), Robert Furén, Björn Leidelöf, Tor Olav Seim and Ulrik Smith as Directors and Göran Wallenius and Michael Gentili as Deputies.

## Ownership

As at December 31, 2018, the Company was owned (in terms of capital) by FSN Capital IV (67%) and Invexos AB (28%). The remaining shares were owned by personnel and Board members.

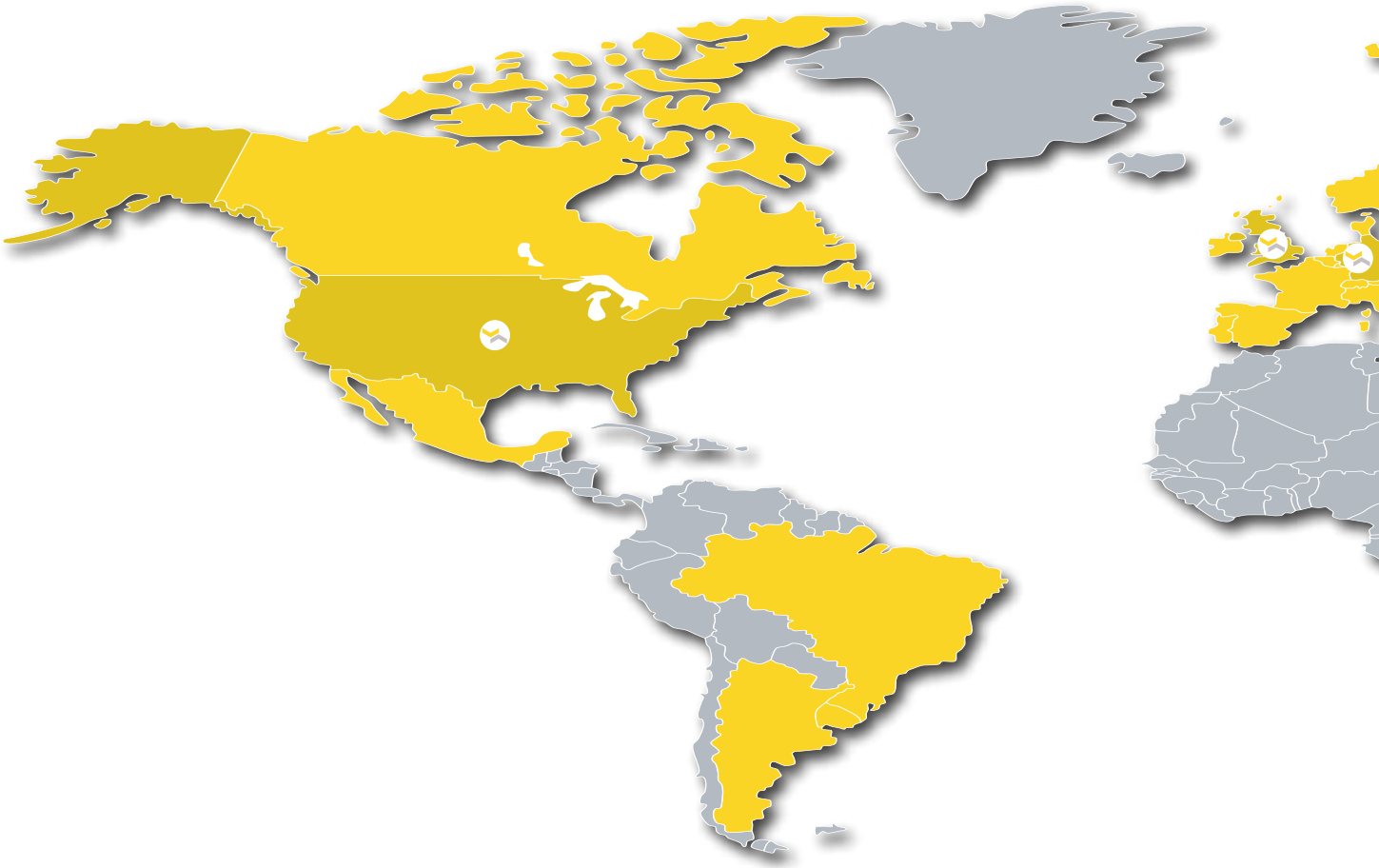
## Significant risks and uncertainty factors

Operating a business is always associated with some degree of risk-taking, and several external factors can affect the Group's operations and financial position. The risks are in many cases of such a nature that the Company is not able to protect itself against them.

Two economic risks that Velcora is exposed to are competition risk and business cycle risk. The Company has a number of competitors that are significantly larger, and they are also the primary competitors.

The Company is also exposed to a number of market risks, such as interest rate risk, currency risk and commodity price risk. Furthermore, the Company is exposed to customer credit risk.

In terms of interest rate risk, the Group is primarily dependent on the development of SEK in relation to EUR, USD, GBP and CNY.



## Use of financial instruments

The Company purchased foreign currency through forward contracts in 2018. As at December 31, 2018, there is an unrealized gain of SEK 156,000 as a result of these forward transactions, which have been taken up in the Company's accounts. In the consolidated financial statements, the gain was included under the heading Financial income.

The Company also has purchased an interest rate derivative for the Company's outstanding bond. As at December 31, 2018, there is an unrealized loss of SEK 4.9 million on the outstanding interest rate derivative that has been taken up in the Company's accounts. In the consolidated financial statements, the loss was included under the heading, Financial expenses.

See also Note 13 Financial risks and risk management.

## Employees

All Swedish companies in the Group have signed a collective agreement. Foreign subsidiaries follow applicable legislation. All companies in the Group must also apply the personnel policies adopted by the Group, for example with regard to Work Environment, Victimization and Harassment, Alcohol and Drugs, Smoking, House Pets, Equality, Health and Safety and Code of Conduct.

## Quality and environment

The Group has long been certified in accordance with ISO 9001. In 2014, the Group also became certified according to ISO 14001 for its facilities in Tumba (Sweden), Madison (USA) and Newbury (UK) for its active environmental work.

None of the companies in the Group conduct business that requires an environmental permit.

## Corporate Governance Report

The Corporate Governance Report for 2018 is found on page 4.

## Significant events after the end of the year

After the end of the year, the Group sold a property in Timrå. In conjunction with the sale, a rental contact was entered into for the same property.

## Proposed appropriation of profits

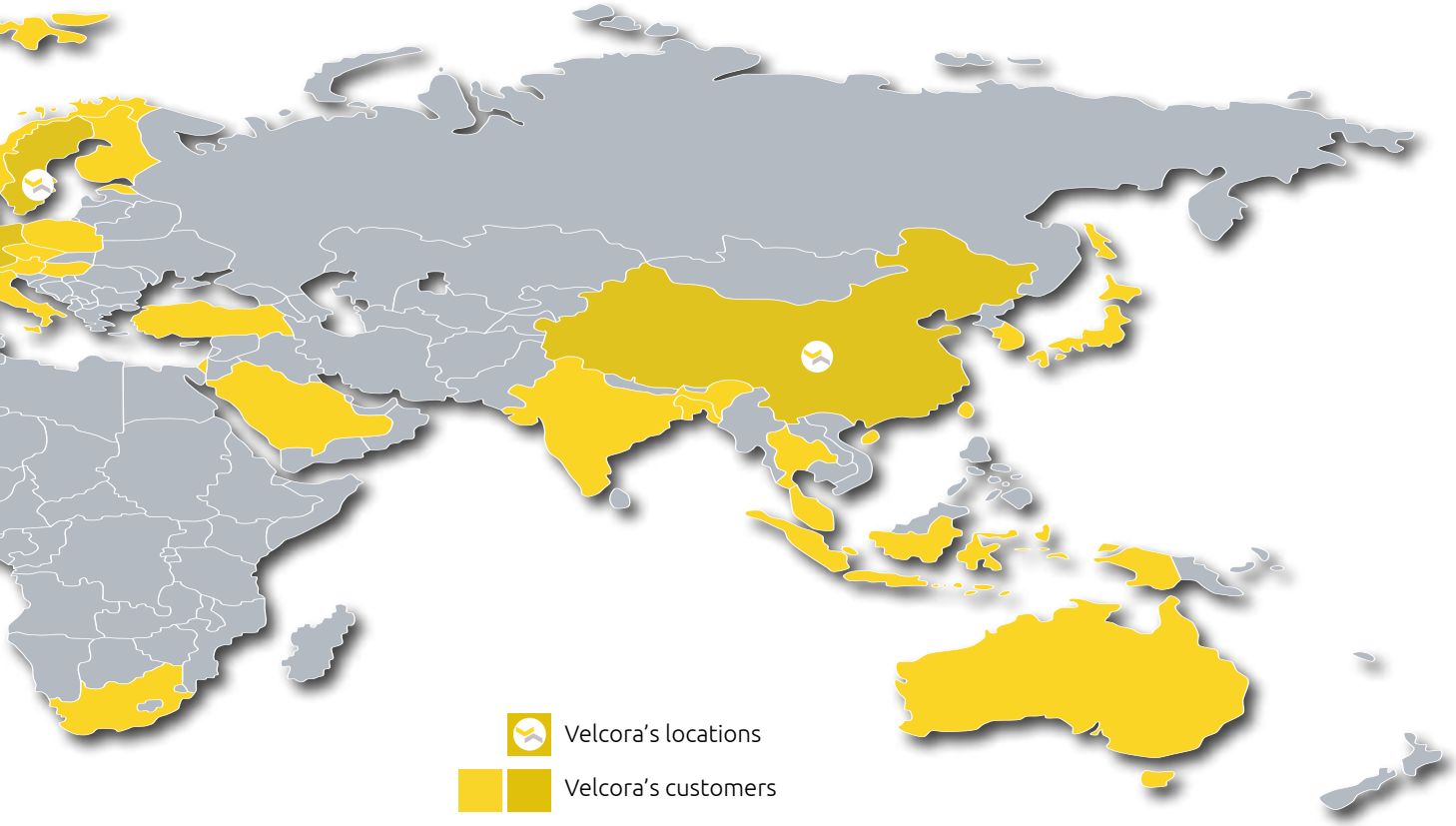
*Amounts in SEK*

The following amounts are at the disposal of the general meeting of shareholders:

| Non-restricted equity according to the balance sheet: | |
|---|---|
| Share premium reserve | 448,098,750 |
| Profit carried forward | 36,629,784 |
| Profit for the year | 9,625,998 |
| Total | 494,354,532 |

The Board of Directors proposes that the accumulated gains and non-restricted reserves are treated as follows:

| | |
|---|---|
| To be carried forward | 494,354,532 |
| – of which to the share premium reserve | 448,098,750 |



## Consolidated Statement of Income and Comprehensive Income

| *Amounts in TSEK* | Note | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
|---|---|---|---|
| Net sales | 2 | 335,729 | 312,397 |
| Cost of goods sold | | -179,845 | -162,610 |
| **Gross profit/loss** | | **155,884** | **149,787** |
| Other operating income | 3 | 2,549 | 1,217 |
| Sales costs | | -39,318 | -40,978 |
| Administrative expenses | 4 | -29,542 | -36,643 |
| Research and development costs | | -76,777 | -78,186 |
| Other operating expenses | | - | - |
| **Operating profit/loss** | 5, 6, 7, 8 | **12,797** | **-4,803** |
| Financial income | 9 | 12,285 | 8,761 |
| Financial expenses | 10 | -47,030 | -43,628 |
| **Net financial income/expense** | | **-34,745** | **-34,867** |
| **Profit/loss before tax** | | **-21,949** | **-39,670** |
| Tax | 11, 12 | 13,619 | 8,546 |
| **Net profit/loss for the year** | | **-8,329** | **-31,124** |
| **Other comprehensive income** | | | |
| Items that have been charged or can be charged to profit/ loss for the year | | | |
| Translation differences for the year when translating foreign operations | | 5,449 | -5,065 |
| **Comprehensive income for the year** | | **-2,881** | **-36,189** |
| Profit/loss for the year attributable to: | | | |
| Parent Company owners | | -2,881 | -36,189 |
| Comprehensive income for the year | | -2,881 | -36,189 |

## Consolidated Statement of Financial Position

| *Amounts in TSEK* | Note | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **ASSETS** | 13 | | |
| Intangible fixed assets | 14 | 812,332 | 852,625 |
| Property, plant and equipment | 15 | 27,265 | 19,739 |
| Long-term receivables | 16 | 140 | 185 |
| **Total fixed assets** | | **839,737** | **872,549** |
| Inventories | 17 | 52,562 | 38,048 |
| Tax assets | | 405 | 9,970 |
| Accounts receivable | | 49,486 | 49,076 |
| Other receivables | | 3,031 | 1,431 |
| Prepaid expenses and accrued income | 18 | 7,844 | 7,421 |
| Cash and cash equivalents | 19 | 77,901 | 64,886 |
| **Total current assets** | | **191,229** | **170,832** |
| **Total assets** | | **1,030,967** | **1,043,381** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 20 | | |
| Share capital | | 4,526 | 4,526 |
| Other capital contributions | | 448,099 | 448,099 |
| Reserves | | 88 | -5,360 |
| Retained earnings including net profit for the year | | -66,941 | -58,611 |
| **Total equity attributable to Parent Company owners** | | **385,774** | **388,654** |
| Liabilities | | | |
| Non-current interest-bearing liabilities | 21 | 463,462 | 458,335 |
| Deferred tax liabilities | 22 | 111,795 | 133,437 |
| **Total non-current liabilities** | | **575,256** | **591,772** |
| Current interest-bearing liabilities | 21 | 6,637 | 1,314 |
| Accounts payable | 13 | 26,108 | 23,142 |
| Tax liabilities | | 1,087 | 0 |
| Other liabilities | | 1,957 | 3,306 |
| Accrued expenses and deferred income | 23 | 34,148 | 35,193 |
| **Total current liabilities** | | **69,937** | **62,955** |
| **Total liabilities** | | **645,194** | **654,726** |
| **Total equity and liabilities** | | **1,030,967** | **1,043,381** |

## Consolidated Statement of Changes in Equity

| *Amounts in TSEK* | **Share capital** | **Other capital contributions** | **Translation reserve** | **Retained earnings including net profit/loss for the year** | **Total equity** |
|---|---|---|---|---|---|
| Opening equity 1/1/2017 | 4,482 | 443,693 | -295 | -27,488 | 420,392 |
| New share issue 2/18/2017 | 45 | 4,406 | 0 | 0 | 4,451 |
| Differences from translation of foreign operations | 0 | 0 | -5,065 | 0 | -5,065 |
| Net profit/loss for the year | 0 | 0 | 0 | -31,123 | -31,123 |
| **Closing equity 12/31/2017** | **4,526** | **448,099** | **-5,360** | **-58,611** | **388,654** |
| | | | | | |
| Opening equity 1/1/2018 | 4,527 | 448,099 | -5,360 | -58,611 | 388,655 |
| New share issue | 0 | 0 | 0 | 0 | 0 |
| Differences from translation of foreign operations | 0 | 0 | 5,449 | 0 | 5,449 |
| Net profit/loss for the year | 0 | 0 | 0 | -8,329 | -8,329 |
| **Closing equity 12/31/2018** | **4,527** | **448,099** | **88** | **-66,941** | **385,774** |

## Consolidated Cash Flow Statement

| *Amounts in TSEK* | Note | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
|---|---|---|---|
| **Operating activities** | 25 | | |
| Profit/loss before tax | | -21,949 | -39,670 |
| Adjustment for non-cash items, etc. | | 57,670 | 63,436 |
| Income tax paid | | -6,965 | -7,741 |
| | | 28,756 | 16,025 |
| Increase/decrease inventories | | -14,287 | -3,333 |
| Increase/decrease accounts receivable | | -411 | -777 |
| Increase/decrease other current receivables | | 6,916 | -6,523 |
| Increase/decrease accounts payable | | 2,967 | 5,547 |
| Increase/decrease other current operating expenses | | -1,480 | 13,584 |
| **Cash flow from operating activities** | | **22,461** | **24,522** |
| **Investing activities** | | | |
| Acquisition of operations, net cash effect | | - | - |
| Investments in property, plant and equipment | | -5,403 | -8,834 |
| Divested property, plant and equipment | | 2,307 | 456 |
| Investments in intangible fixed assets | | -7,512 | -2,820 |
| Disposal/amortization of other financial plant and equipment | | 49 | -27 |
| **Cash flow from investing activities** | | **-10,559** | **-11,225** |
| Financing activities | | | |
| New share issue | | 0 | 4,450 |
| Borrowings | | - | - |
| Financing costs, borrowings | | 0 | 0 |
| Amortization of debt | | -330 | -850 |
| **Cash flow from financing activities** | | **-330** | **3,600** |
| **Cash flow for the year** | | **11,572** | **16,897** |
| **Cash and cash equivalents at beginning of year** | | 64,886 | 49,432 |
| **Exchange rate differences in cash and cash equivalents** | | 1,443 | -1,444 |
| **Cash and cash equivalents at end of year** | | **77,901** | **64,886** |

## Parent Company Income Statement

| *Amounts in TSEK* | Note | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
|---|---|---|---|
| Net sales | | 61,914 | 69,577 |
| **Gross profit/loss** | | **61,914** | **69,577** |
| Administrative expenses | 4, 6 | -17,755 | -24,686 |
| **Operating profit/loss** | 7, 8 | **44,159** | **44,891** |
| Profit/loss after financial items | | | |
| Profit/loss from participations in Group companies | 26 | - | 21,000 |
| Other interest income and similar profit/loss items | 9 | 9,625 | 9,687 |
| Interest expenses and similar profit/loss items | 10 | -36,657 | -37,348 |
| **Total profit/loss from financial items** | | **-27,032** | **-6,660** |
| **Profit/loss after financial items** | | **17,128** | **38,231** |
| Group contribution paid/received | | -7,500 | -20,000 |
| Tax on net profit for the year | 11 | -2 | - |
| **Net profit/loss for the year** | | **9,626** | **18,231** |

## Parent Company Balance Sheet

| *Amounts in TSEK* | Note | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| *Financial assets* | | | |
| Participations in Group companies | 27 | 746,607 | 746,607 |
| Receivables from Group companies | 17, 29 | 200,000 | 200,000 |
| | | 946,607 | 946,607 |
| **Total fixed assets** | | **946,607** | **946,607** |
| **Current assets** | | | |
| *Current receivables* | | | |
| Receivables from Group companies | 28 | 28,808 | 19,082 |
| Other current receivables | | 1 | 2 |
| Prepaid expenses and accrued income | 18 | 1,844 | 2,359 |
| | | 30,653 | 21,443 |
| *Cash and bank balances* | 19 | 24 | 1,123 |
| **Total current assets** | | **30,677** | **22,566** |
| **Total assets** | | **977,284** | **969,173** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 20 | | |
| *Restricted equity* | | | |
| Share capital | | 4,526 | 4,526 |
| | | 4,526 | 4,526 |
| *Non-restricted equity* | | | |
| Share premium reserve | | 448,099 | 448,099 |
| Profit/loss carried forward | | 36,630 | 18,399 |
| Net profit/loss for the year | | 9,626 | 18,231 |
| | | 494,355 | 484,729 |
| **Total equity** | | **498,881** | **489,255** |
| **Non-current liabilities** | 21 | | |
| Bond loan | | 459,323 | 455,853 |
| **Total non-current liabilities** | | **459,323** | **455,853** |
| **Current liabilities** | | | |
| Accounts payable | | 343 | 687 |
| Current tax liability | | 331 | 492 |
| Other current liabilities | | 2,008 | 1,664 |
| Accrued expenses and deferred income | 23 | 16,398 | 21,222 |
| **Total current liabilities** | | **19,080** | **24,065** |
| **Total equity and liabilities** | | **977,284** | **969,173** |

## Parent Company Statement of Changes in Equity

| | Restricted equity | Non-restricted equity | | | Total equity |
|---|---|---|---|---|---|
| *Amounts in TSEK* | **Share capital** | **Share premium** | **Retained earnings** | **Net profit/loss for the year** | |
| Opening equity 1/1/2017 | 4,482 | 443,693 | 18,399 | 0 | 466,574 |
| New share issue 2/18/2017 | 44 | 4,406 | 0 | 0 | 4,450 |
| Net profit/loss for the year | 0 | 0 | 0 | 18,231 | 18,231 |
| **Closing equity 12/31/2017** | **4,526** | **448,099** | **18,399** | **18,231** | **489,255** |
| Opening equity 1/1/2018 | 4,526 | 448,099 | 36,630 | 0 | 489,255 |
| New share issue | 0 | 0 | 0 | 0 | 0 |
| Net profit/loss for the year | 0 | 0 | 0 | 9,626 | 9,626 |
| **Closing equity 12/31/2018** | **4,526** | **448,099** | **36,630** | **9,626** | **498,881** |

### Restricted equity

Restricted equity may not be distributed as dividends and consists of Share capital, Statutory reserve and Revaluation reserve.

### Non-restricted equity

Non-restricted equity is the amount that may be distributed as dividends to shareholders and consists of Translation reserve, Hedging reserve, Fair value reserve, Share premium reserve, Retained earnings and Net profit/loss for the year.

## Parent Company Cash Flow Statement

| *Amounts in TSEK* | Note | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
|---|---|---|---|
| **Operating activities** | 25 | | |
| Profit/loss before tax | | 9,626 | 18,231 |
| Adjustment for non-cash items, etc. | | 3,471 | 3,471 |
| Income tax paid | | -318 | - |
| | | 12,779 | 21,702 |
| Increase/decrease other current receivables | | -9,210 | -12,730 |
| Increase/decrease accounts payable | | -344 | 273 |
| Increase/decrease other current operating expenses | | -4,323 | -12,892 |
| **Cash flow from operating activities** | | **-1,099** | **-3,647** |
| **Investing activities** | | | |
| Investments in subsidiaries | | - | - |
| Investments in other financial assets | | - | - |
| **Cash flow from investing activities** | | **0** | **0** |
| **Financing activities** | | | |
| New share issue, including share capital and company formation | | - | 4,450 |
| Borrowings | | - | - |
| Financing costs borrowings | | - | - |
| Borrowings | | - | - |
| Amortization of debt | | - | - |
| **Cash flow from financing activities** | | **0** | **4,450** |
| **Cash flow for the year** | | **-1,099** | **803** |
| **Cash and cash equivalents at beginning of year** | | 1,123 | 320 |
| **Cash and cash equivalents at end of year** | | **24** | **1,123** |

## Notes, joint for Parent Company and the Group

### Note 1 | Accounting and valuation principles

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) as adopted by the EU. Furthermore, the Swedish Financial Reporting Board recommendation RFR 1 Supplementary Accounting Regulations for Groups was applied. The annual report and consolidated financial statements were prepared in accordance with IFRS for the first time for 2015, which was a shortened financial year, for the period July 1 – December 31, 2015.

The Parent Company applies the same accounting principles as the Group except in the cases specified under *Parent Company accounting principles*.

The annual report and consolidated financial statements were approved for publication by the Board of Directors and the CEO on April 24, 2019. The Consolidated Statement of Income and Comprehensive Income, the Consolidated Statement of Financial Position and the Parent Company Income Statement and Balance Sheet have been proposed for adoption at the Annual General Meeting on June 26, 2019.

#### *Measurement basis*

Assets and liabilities are measured at cost.

#### *Functional currency and reporting currency*

The Company's functional currency is SEK, which is also the reporting currency for the Company and the Group. This means that the financial statements are presented in SEK. All amounts are rounded to the nearest thousand unless otherwise specified.

#### *Assessments and estimates in the financial statements*

Preparing the financial statements in accordance with IFRS requires that the senior management make assessments, estimates and assumptions that affect the application of the accounting principles and the reported amounts for assets, liabilities, income and expenses. The actual outcome can deviate from these estimates and assessments.

The estimates and assumptions are reviewed regularly. Changes to the estimates are reported in the period the change is made if the change only affects that period or in the period the change is made and future periods if the change affects both the current period and future periods.

The assessments made by senior management when applying IFRS that have a significant impact on the financial statements and estimates that could result in significant adjustments to the following year's financial statements are described in more detail in Note 14.

#### *Significant applied accounting principles*

The accounting principles specified below, with the exceptions described in more detail, have been applied consistently across all periods presented in the consolidated financial statements. The Group's accounting principles have also been consistently applied by the Group's companies.

#### *New IFRS*

A number of new or changed IFRS entered into force during the 2018 financial year or were applied in advance in 2018.

*IFRS 9 Financial Instruments is replacing IAS 39 Financial Instruments:* Recognition and Measurement as of 2018. IFRS 9 changes how financial assets are classified and measured, introduces an impairment model that is based on expected credit losses instead of losses incurred and changes the principles for hedge accounting in order to simplify and improve the coherence with the company's internal risk management strategies.

IFRS 9 has not had a significant impact on the consolidated accounts for 2018. Velcora's credit risk related to accounts receivable is limited.

As of 2018, *IFRS 15 Revenue from Contracts with Customers* is replacing existing IFRS related to revenue recognition, such as IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

Under IFRS 15, revenue is recognized when control of a good or service is transferred to the customer, which is different from the existing basis for the transfer of risks and benefits. IFRS 15 comprises a comprehensive regulation for determining when and how revenue is to be recognized using, for example, classification into different performance obligations.

There was no impact from the allocation of revenue for the Group in 2018. The increase in the disclosure requirements for revenue in IFRS 15 led to an expansion to the Group's segment reporting, which is presented in Note 2 Segment reporting and the distribution of net sales across business lines and geographic markets. The Group applies IFRS 15 retroactively for each previously reported reporting period.

The Group applies IFRS 16 *Leases* as of January 1, 2018. IFRS 16 introduces a uniform lease accounting model for lessees. A lessee recognizes a right-of-use asset, which represents its right to use the underlying leased asset, and a lease liability, which represents its obligation to make lease payments. There are exemptions for short-term leases and leases of low-value assets.

*IFRS 16 Leases* is replacing existing IFRS related to lease accounting, such as IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases—Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is recognizing new assets and liabilities for operating leases related primarily to premises. The costs for these leases have changed since the Group is reporting depreciation of right-of-use assets and interest expenses for lease liabilities.

The Group previously recognized operating lease expenses on a straight-line basis over the period of the lease. It recognized assets (prepaid lease payments) and liabilities (accrued lease payments) only to the extent there was a difference between actual lease payments and the recognized expense.

The Group is now also recognizing provisions for operating leases that are judged to be loss agreements. The Group now instead includes contractual lease payments in the lease liability.

As of January 1, 2018, the Group is recognizing additional lease liabilities and right-of-use assets of SEK 12.3 million.

The Group's operating profit for 2018 increased by 147,000 compared to the application of previous accounting principles since part of the lease expenses has been reported as an interest expense.

The Group applied the modified retroactive method. This means that the accumulated effect of IFRS 16 is recognized in the opening balance as at January 1, 2018, without translation of comparative figures. Right-of-use assets attributable to previous operating leases are recognized at the value of the liability on January 1, 2018, with additions for advance payments recognized in the balance sheet as at December 31, 2017.

The Group applied the expedient of "grandfathering" the previous definition of leases at the transition. This means that it applied IFRS 16 to all contracts entered into prior to January 1, 2018, that have been identified as leases in accordance with IAS 17 and IFRIC 4.

The Group applied the provisions on expedients for short-term leases and low-value assets. This means that leases with a term of less than 12 months and low-value leases (assets valued in new condition to less than SEK 50,000) have not been included in the calculation of right-of-use assets or lease liabilities. Instead, these leases continue to be recognized as a straight-line expense over the term of the lease. Low-value assets include computers, printers and copy machines.

### *Classification, etc.*

Property, plant and equipment consist in all material respects of amounts that are expected to be recovered or paid more than twelve months from the balance sheet date. Current assets consist in all material respects of amounts that are expected to be recovered or paid within twelve months from the balance sheet date. Non-current liabilities consist in all material respects of amounts that at the end of the reporting period the Group has an unconditional right to choose to pay longer than twelve months from the end of the reporting period. If the Group does not have such a right at the end of the reporting period, the liability amount is recognized as a current liability.

### *Consolidated financial statements*

*Subsidiaries*

Subsidiaries are companies that are subject to a controlling influence from the Parent Company. A controlling influence arises if the Parent Company exercises influence over the investment object, is exposed to or is entitled to variable return from its involvement in the investment object and can exercise its influence over the investment object to affect the size of its return. When determining the presence of a controlling influence, the potential voting shares and whether de facto control occurs are taken into consideration.

Subsidiaries are recognized using the acquisition method. Under this method, the acquisition of a subsidiary is considered a transaction through which the Group indirectly acquires the subsidiary's assets and takes over its liabilities. The acquisition analysis determines on the date of acquisition the fair value of identifiable assets acquired and liabilities taken over, as well as any holdings without a controlling influence. Transaction expenses, with the exception of transaction expenses attributable to the issue of equity or liability instruments, are reported directly under profit/loss for the year.

For business combinations where the transferred remuneration, any holdings without a controlling influence and fair value of previously owned participations (for gradual acquisitions) exceed the value used in the acquisition analysis for acquired assets and taken-over liabilities that are recognized separately, the difference is recorded as Group goodwill. When the difference is negative, so-called acquisition at low price, this is recognized directly in profit/loss for the year.

During the year, acquired companies are included in the consolidated accounts with amounts for the time after the acquisition.

Transferred remuneration in conjunction with the acquisition does not include payments for the settlement of previous business relationships. This type of settlement is normally recognized in profit/loss.

### *Foreign operations' financial statements*

Assets and liabilities in foreign operations, including goodwill and other consolidated surpluses and deficits, are translated from the foreign operations' functional currencies to the Group's reporting currency, SEK, at the foreign exchange rate on the balance sheet date. Income and expenses in a foreign operation are translated to SEK at an average exchange rate that constitutes an approximation of the foreign exchange rates that occurred on each date of transaction.

Translation differences that arise during currency translation of foreign operations are reported under other comprehensive income and are accumulated in a separate component under equity, called the translation reserve. In the event the foreign operations are not wholly owned, the translation difference is distributed to holdings without a controlling influence based on their proportionate ownership. When a controlling influence, significant influence or joint controlling influence ceases for foreign operations, the accumulated translation differences attributable to the operations are realized, whereupon they are reclassified from the translation reserve in equity to profit/loss for the year. In the event of divestiture but the controlling influence remains, a proportionate share of the accumulated translation differences from the translation reserve is transferred to holdings without a controlling influence. When divesting parts of associated companies and joint ventures but significant influence or joint controlling influence remains, the proportionate share of the translation difference is reclassified to profit/loss for the year.

### *Intra-Group transactions*

Intra-Group receivables and liabilities, income or expenses and unrealized gains or losses that arise from intra-Group transactions are eliminated in their entirety when preparing the consolidated accounts.

### *Receivables*

Receivables are recognized at the amount expected to be received following an individual assessment.

### *Inventories*

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of inventory is measured using the first in, first out method (FIFO) and includes expenses that arose in conjunction with the acquisition of inventory assets and transport of them to their current location and condition. For produced goods and work in progress, acquisition cost includes a reasonable share of indirect costs based on a normal capacity.

Net realizable value is the estimated sales price in the operating activities following deductions for estimated costs for completion and effecting a sale.

### *Foreign currencies*

Transactions in foreign currency are translated to the functional currency at the exchange rate that occurs on the transaction date. Functional currency is the currency in the primary economic environments in which the companies conduct their operations. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate that occurs on the balance sheet date. Exchange rate differences arising due to translation are recognized in profit/loss for the year. Non-monetary assets and liabilities that are reported at cost are translated at the exchange rate on the date of the transaction.

### *Income – Sale of goods and execution of service assignments*

Income from the sale of goods is reported in profit/loss for the year when control over a good or service transferred to the customer has been transferred to the buyer. Income from service assignments are recognized continuously as the assignment is carried out. Income is not recognized if it is probable that the economic benefits will not flow to the Group or if there is significant uncertainty regarding payment, adherent costs or risk for returns. Income is recognized at fair value of what was received, or is expected to be received, following deductions for discounts made.

### *Leases*

When entering into an agreement, the Group makes the assessment of whether the agreement is or contains a lease. An agreement is or contains a lease if the agreement transfers the right over a certain period of time to decide over the use of an identified asset in exchange for remuneration.

#### *Lessee*

The Group recognizes one right-of-use asset and one lease liability on the start date of the lease. The right-of-use asset is measured initially at cost, which consists of the lease liability's original value plus lease payments paid at or prior to the start date and any initial direct costs. The right-of-use asset is then depreciated on a straight-line basis from the start date to the earlier of the end of the asset's right of use and the end of the terms of the lease.

The lease liability is measured initially as the present value of the future lease payments that have not been paid at the start date. Lease payment are discounted using the implicit interest rate of the lease. If this interest rate is not easy to determine, the Group's marginal borrowing rate is used.

The lease liability is measured at accrued cost using the effective interest method. The lease liability is remeasured if the future lease payments are changed as a result of changes in an index or a price ("rate"). When the lease liability is remeasured in this way, a corresponding adjustment is made to the right-of-use asset's carrying amount.

#### *Short-term leases and low-value leases*

The Group has opted not to recognize right-of-use assets and lease liabilities for leases that have a term of 12 months or less or underlying assets of low value. Lease payments for these leases are recognized as a cost on a straight-line basis over the term of the lease.

### *Financial income and expense*

Financial income consists of interest income on invested funds, exchange rate differences and unrealized changes in value of current derivative instruments. Financial expenses consist of interest rate expenses on borrowing, exchange rate differences, unrealized changes in value of interest hedging instruments, amortization of financial acquisition costs and other financial expenses.

### *Taxes*

Income taxes consist of current tax and deferred tax. Income taxes are recognized in profit/loss for the year except when the underlying transaction is recognized in other comprehensive income or equity, whereupon the associated tax effect is recognized in other comprehensive income or equity.

Current tax is tax that will be paid or received for the year in question, with application of the tax rates that are decided or decided in practice as at the balance sheet date. Current tax also includes adjustments of current tax attributable to previous periods.

Deferred tax is calculated in accordance with the balance sheet method starting with temporary differences between carrying and taxable amounts on assets and liabilities. Temporary differences are not considered in consolidated goodwill or for differences arising at the initial recognition of assets and liabilities that are not business combinations that at the time of the transaction do not affect reported or taxable earnings. Neither are temporary differences considered that are attributable to participations in subsidiaries and associated companies that cannot be expected to be reversed in the foreseeable future. The measurement of deferred tax is based on how underlying assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates and tax rules that are decided or decided in practice as per the balance sheet date.

Deferred tax assets for deductible temporary differences and loss carry-forwards are recognized only to the extent it is probable that it will be possible to utilize them. The value of deferred tax assets is not reduced when it is no longer deemed probable that they can be utilized.

### *Financial instruments*

Financial instruments that are recognized in the statement of financial position include the assets cash and cash equivalents, accounts receivable, other receivables, pre-paid expenses and accrued income, tax assets and financial derivatives. Liabilities include accounts payable, bond loans, bank loans, financial lease liabilities and financial derivatives.

### *Recognition in and removal from the statement of financial position*

A financial asset or financial liability is recognized in the statement of financial position when the Company becomes party to the instrument's contractual terms. A receivable is recognized when the Company has performed an obligation and a contractual obligation arises for the counterparty to pay, even if the invoice has not been sent yet. Accounts receivables are reported in the statement of financial position when the invoice has been sent. Liabilities are recognized when the counterparty has performed an obligation and a contractual obligation arises to pay even if the invoice has not yet been received. Accounts payables are recognized when an invoice has been received.

A financial asset is removed from the statement of financial position when the rights in the agreement are realized, fall due or the Company loses control of them. This applies for a part of a financial asset. A financial liability is removed from the statement of financial position when the obligation in the agreement is discharged or in any other way extinguished. This applies for a part of a financial liability.

A financial asset and a financial liability are offset and recognized as a net amount in the statement of financial position only where a legal right arises to offset the amounts and there is an intent to settle the items with a net amount or at the same time realize the asset and settle the debt.

Acquisition and divestiture of financial assets are recognized on the date of the transaction. The date of the transaction is the date on which the Company undertakes to acquire or dispose of the asset.

### *Classification and measurement*

*Classification and measurement of financial assets*

Financial instruments that are not derivatives are initially recognized at cost corresponding to the instrument's fair value with add-ons for transaction costs for all financial instruments except for those that are financial assets reported at fair value via profit/loss, which are recognized at fair value excluding transaction costs.

Derivative instruments are recognized initially at fair value, which means that transaction costs burden profit/loss for the period. After the initial recognition, the derivative instruments are recognized in the manner described below. If the derivative instruments are used for hedge accounting and are effective in this respect, the changes in value for the derivative instruments are recognized in the same line in profit/loss for the year as the hedged item. Even if hedge accounting is not applied, value increases and value decreases on derivatives are reported as income and expenses in operating profit/loss or in net financial income/expense based on the aim of the use of the derivative instrument and how this use is related to an operating item or a financial item. For hedge accounting, the ineffective part is recognized in the same manner as value changes for derivatives that are not used for hedge accounting. If hedge accounting is not applied when using interest rate swaps, the interest rate coupon is recognized as interest and the interest rate swap's other change in value is recognized as other financial income or other financial expense.

As of January 1, 2018, all financial assets are classified as financial assets measured at accrued cost since they are held as part of a business model in which the goal is to obtain contractual cash flows at the same time as the cash flows from the assets only consist of payments of principal and interest. Prior to January 1, 2018, all financial assets were classified in the Group as loan and accounts receivables.

*Classification and measurement of financial liabilities*

Financial liabilities are classified as either measured at accrued cost or fair value via the income statement. Consolidated liabilities for additional purchase prices attributable to business combinations are recognized at fair value via the income statement. Other financial liabilities are recognized at accrued cost.

### *Derivatives and hedge accounting*

Derivative instruments are recognized initially at fair value, which means that transaction costs burden profit/loss for the period. After the initial recognition, derivatives are recognized at fair value through profit/loss. When using interest rate swaps, the interest rate coupon is recognized as interest and the interest rate swap's other change in value is reported as other financial income or other financial expense. When using currency forwards, the foreign exchange effect is recognized in profit/loss for the year, either in operating profit/loss or net financial income/expense depending on the purpose of the use. Hedge accounting is not applied.

### *Fixed assets*

*Property, plant and equipment*

Property, plant and equipment in the Group are recognized at cost after deduction for accumulated depreciation and impairment losses, if any. Cost includes the purchase price and any fees directly attributable to the asset to bring it to the place and condition to be used in accordance with the purpose of the acquisition. Lending costs directly attributable to purchasing, construction or production of assets that require a significant period of time to complete for the intended use or sale are included in cost. Accounting principles for impairment losses are presented below.

*Intangible fixed assets*

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and tested at least once a year for impairment needs as well as upon the identification of indicators that the value of the asset may have decreased in value. Intangible assets with determinable useful lives are amortized from the point in time they are available for use.

Expenditure for technological development in the subsidiary in Madison, USA, is recognized as an asset when the assets are judged to be technologically competent and commercially usable. The carrying amount includes all directly attributable expenses, for example for materials and services and remuneration to employees, less accumulated depreciation/amortization and impairment.

Other intangible assets acquired by the Group consist of market- and customer-based assets and are recognized at cost less accumulated amortization (see below) and impairment losses, if applicable.

Amortization occurs over the expected useful life according to that set out below. Goodwill is not amortized:

| | Year |
|---|---|
| Intangible assets | 10–15 years |
| Market- and customer-based assets | 15 years |
| Development expenditure | 10 years |
| Buildings | 20–25 years |
| Plant and machinery | 5–10 years |
| Equipment, tools, fixtures and fittings | 3–10 years |

### *Impairment losses*

The Group's consolidated assets are assessed on every balance sheet date to determine if there is an indication of an impairment need. IAS 36 is applied for impairments of assets other than financial assets, which are recognized in accordance with IFRS 9, inventories and deferred tax assets. For exempted assets in accordance with that set out above, the carrying amount is assessed according to each standard.

The recoverable amount is the highest of fair value minus sales costs and the value in use. When calculating the value in use, future cash flows are discounted using a discounting factor that considers a risk-free interest rate and the risk associated with the specific asset.

An impairment loss is recognized when an asset's or cash-generating unit's (group of units) carrying amount exceeds the recoverable amount. An impairment loss is recognized in profit/loss for the year. When the impairment need is identified for a cash-generating unit (group of units), the impairment amount is allocated primarily to goodwill. A proportionate impairment of other assets included in the unit (group of units) is then applied.

### *Employee benefits*

#### *Current remuneration*

Current remuneration in the Group consists of salaries, social security payments, paid vacation, paid sick leave, health care and bonuses. Current remuneration is recognized as a cost and a liability when there is a legal or informal obligation to pay remuneration.

#### *Defined-contribution pension plans*

Defined-contribution pension plans are classified as the plans where the company's obligation is limited to the fees the company has undertaken to pay. In such a case, the size of the employee's pension is dependent on the fees that the company is paying into the plan or to an insurance company and the capital yield generated by the fees. Subsequently, it is the employee who carries the actuarial risk (that remuneration will be lower than expected) and the investment risk (that the invested assets will be insufficient for generating the expected remuneration). The company's obligations regarding fees for defined-contribution plans are recognized as a cost in profit/loss for the year at the rate they are earned by the employee carrying out services for the company during a period.

#### *Defined-benefit pension plans*

The Group's defined-benefit pension plans are limited to ITP2 at Alecta.

#### *Remuneration upon termination*

Remuneration upon termination is paid when one of the companies in the Group decides to end an employment prior to the normal point in time for the employment's termination or when an employee accepts an offer of voluntary resignation in exchange for such compensation.

### *Provisions*

A provision is different from other liabilities in that there is uncertainty regarding the time of the payment or the size of the amount to settle the provision. A provision is recognized in the statement of financial position when there is a present legal or informal obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are made for the amount that is the best estimate of what is required to settle the present obligation on the balance sheet date. When the impact of the timing of the payment is significant, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate that reflects current market assessments of the time value of money, and, if applicable, the risks associated with the liability.

#### *Warranties*

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical data about warranties and a consideration of conceivable outcomes in relation to the probabilities associated with the outcomes.

### *Contingent liabilities*

Disclosures about contingent liabilities are provided in the presence of a possible obligation deriving from past events and whose presence is confirmed only by one or several uncertain future events outside of the Group's control or when there is an obligation that is not recognized as a liability or provision because it is not probable that an outflow of resources will be required or the outflow cannot be reliably estimated.

### *Operating segment reporting*

An operating segment is a part of the Group that conducts operations from which the Group can generate revenue and incur costs and for which independent financial information is available. The performance of an operating segment is followed up by the company's highest decision-making authority to evaluate the result and enable allocation of resources to the operating segment. See Note 2 for a more in-depth description of the break-down and presentation of operating segments.

### *Parent Company accounting principles*

The Parent Company has prepared its annual report in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities. Issued statements by the Swedish Financial Reporting Board recommendation regarding listed companies are also applied. In accordance with RFR 2, the Parent Company must apply in its annual accounts for the legal entity IFRS and statements adopted by the EU to the greatest extent possible within the restraints of the Annual Accounts Act and the Safeguarding of Pension Commitments, etc. Act and with consideration for the correlation between accounting and taxation. The recommendation specifies the allowable exemptions from and additions to IFRS.

### *Differences between the Group's and the Parent Company's accounting principles*

#### *Classification and formatting*

One income statement and one statement of income and comprehensive income has been prepared for the Parent Company, while these two reports have been combined into *one* consolidated statement of income and comprehensive income for the Group. Furthermore, the reports are named balance sheet and cash flow statement for the Parent Company, and the corresponding reports in the Group are named statement of financial position and statement of cash flows. The income statement and balance sheet for the Parent Company are prepared in accordance with the Annual Accounts Act, while the statement of income and other comprehensive income, the statement of changes in equity and the cash flow statement are based on IAS 1 IAS 7 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*. Compared to the consolidated statements, the Parent Company's income statement and balance sheet differ primarily in the accounting of financial income and expense, fixed assets, and equity, and the occurrence of provisions as its own heading in the balance sheet.

#### *Subsidiaries*

Participations in subsidiaries are reported in the Parent Company in accordance with the cost method. This means that transaction expenses are included in the reported amount for holdings in subsidiaries. The consolidated financial statements report transaction expenses attributable to subsidiaries directly in profit/loss when they arise.

#### *Leased assets*

In the Parent Company, all leases are reported in accordance with the rules for operating leasing.

#### *Financial instruments*

The Parent Company has opted not to apply IFRS 9 for financial instruments. However, parts of the principles in IFRS 9 are still applicable – such as impairment, recognition/derecognition, criteria for hedge accounting and the effective interest method for interest income and interest expenses.

In the Parent Company, financial non-current assets are measured at cost less any impairment, and financial current assets are measured at the lower of cost and net realizable value. For financial assets recognized at accrued cost, IFRS 9's impairment rules are applied.

For hedging of receivables and liabilities in foreign currency using forward contracts, the forward rate is usually used to measure the hedged receivable or liability. However, if the difference between the forward rate and the spot rate when the contract is entered into (the forward premium) is judged to be significant, the hedged receivable or liability is instead measured using the spot rate when the forward contract was entered into. In such a case, the forward premium is allocated over the term of the forward contract as interest income or interest expense.

Interest rate swaps that effectively hedge cash flow risk in interest rate payments on debt are measured at net of the accrued receivable at a variable rate and the accrued liability at a fixed rate, and the difference is recognized as interest expense or interest income. Any paid premiums for the swap agreement are allocated as interest over the term of the agreement.

#### *Financial warranties*

The Parent Company applies one of the Swedish Financial Reporting Board's allowed expedients for the accounting of financial warranty agreements compared to the rules in IFRS 9. The expedient refers to financial warranty agreements issued for the benefit of subsidiaries, associated companies and joint ventures. The Parent Company reports financial warranty agreements as a provision in the balance sheet when the Company undertakes an obligation for which payment is probably required to settle the obligation.

#### *Group contributions*

Group contributions are reported as appropriations.

### *KPI definitions*

#### *Equity/assets ratio*

Equity and untaxed reserves (less deferred tax) in relation to the balance sheet total.

#### *Return on total assets*

Profit before deductions for interest rate costs in relation to the balance sheet total.

#### *Return on equity*

Profit after financial items in relation to equity and untaxed reserves (less deferred tax).

## Note 2 | Segment reporting and allocation of net sales to business lines and geographic markets

| *Amounts in TSEK* | | Group | |
|---|---|---|---|
| **1/1/2018 – 12/31/2018** | **Roplan** | **Steridose** | **Total** |
| Net sales | 276,302 | 59,427 | 335,729 |
| Gross profit/loss | 120,773 | 35,111 | 155,884 |
| Operating profit/loss | | | 12,797 |
| Net profit/loss for the year | | | **-8,329** |
| **1/1/2017 – 12/31/2017** | **Roplan** | **Steridose** | **Total** |
| Net sales | 264,479 | 47,918 | 312,397 |
| Gross profit/loss | 121,840 | 27,947 | 149,787 |
| Operating profit/loss | | | -4,803 |
| Net profit/loss for the year | | | **-31,124** |

As of January 1, 2018, Velcora reports its segment reporting broken down into the Group's business areas: Roplan and Steridose. Roplan develops and manufactures custom mechanical shaft seals for manufacturers of pumps, mixers, compressors and propulsion systems for ships. Steridose develops and manufactures aseptic process equipment for the biopharmaceutical industry.

| *Amounts in TSEK* | | Group | | |
|---|---|---|---|---|
| **1/1/2018 – 12/31/2018** | **Europe (excl. Sweden)** | **Sweden** | **Rest of the world** | **Total** |
| Net sales | 183,463 | 19,477 | 132,789 | 335,729 |
| **1/1/2017 – 12/31/2017** | **Europe (excl. Sweden)** | **Sweden** | **Rest of the world** | **Total** |
| Net sales | 178,554 | 29,815 | 104,028 | 312,397 |

Net sales in the segment reporting refer to external sales to customers in each geographic market.

## Note 3 | Other operating income

| | Group | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Sale of scrap metal | 925 | 732 |
| Capital gains from the sale of non-current assets | 1,601 | 456 |
| Other income | 23 | 28 |
| **Summa** | **2,549** | **1,217** |

## Note 4 | Remuneration to the auditors

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| **KPMG** | | | | |
| Audit assignment | 634 | 763 | 634 | 388 |
| Other services | 278 | 222 | 128 | 171 |
| **Total** | **912** | **985** | **762** | **559** |
| **Johnson Block and Company Inc & Ningbo Weidu CPA** | | | | |
| Audit assignment | 32 | 182 | - | - |
| Other services | 435 | 0 | - | - |
| **Total** | **467** | **182** | **0** | **0** |
| **JAMES COWPER** | | | | |
| Audit assignment | 219 | 0 | - | - |
| Other services | 295 | 0 | - | - |
| **Total** | **514** | **0** | **0** | **0** |

## Note 5 | Depreciation/amortization per function

| | Group | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Cost of goods sold | 2,668 | 2,532 |
| Sales costs | 1,765 | 1,004 |
| Administrative expenses | 1,280 | 1,074 |
| Research and development costs | 51,957 | 46,935 |
| **Total** | **57,670** | **51,544** |
| | | |
| Operating profit/loss | 12,797 | -4,803 |
| Depreciation/amortization | 57,670 | 51,544 |
| EBITDA | **70,466** | **46,741** |

## Note 6 | Wages, salaries, other remuneration and social security expenses

| Average number of FTEs | Sweden | | England | | Germany | | USA | | China | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Group** | | | | | | | | | | | | |
| Women | 19 | 17 | 1 | 1 | 0 | 0 | 3 | 3 | 16 | 14 | 39 | 35 |
| Men | 76 | 73 | 5 | 8 | 1 | 1 | 14 | 15 | 18 | 16 | 114 | 113 |
| **Total** | **95** | **90** | **6** | **9** | **1** | **1** | **17** | **18** | **34** | **30** | **153** | **148** |
| **Parent Company** | | | | | | | | | | | | |
| Women | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| Men | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 |
| **Total** | **6** | **6** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **6** | **6** |

| Wages, salaries, remuneration, social security expenses and pension costs | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
| Wages and remuneration to the Board of Directors and CEO | 3,405 | 7,125 | 3,405 | 3,588 |
| – of which bonuses | 571 | 392 | 571 | 392 |
| Wages and remuneration to other senior executives | 8,421 | 6,271 | 5,185 | 4,446 |
| Wages and remuneration to other employees | 60,357 | 48,376 | 3,145 | 1,801 |
| | 72,754 | 62,164 | 12,306 | 10,227 |
| Social security expenses by law and agreements | 17,207 | 15,671 | 3,314 | 2,297 |
| Pension costs for the Board of Directors and CEO | 0 | 256 | 0 | 0 |
| Pension costs for other senior executives | 1,578 | 1,466 | 785 | 1,204 |
| Pension costs for other employees | 4,755 | 3,991 | 457 | 262 |
| **Total** | **96,293** | **83,547** | **16,862** | **13,990** |

Number of employees for the Group is calculated as the number of full-time employees for a full year.

The CEO has a 12-month notice period. None of the other senior executives have a notice period longer than 12 months.

| Wages, salaries and remuneration to senior management 2018<br>*Amounts in TSEK* | Basic salary, Board fees | Variable remu-neration | Pension cost | Share-based remu-neration | Other remu-neration | Total | Pension obliga-tions |
|---|---|---|---|---|---|---|---|
| **Chair of the Board (Patrik Nolåker)** | | | | | | | |
| Remuneration from Parent Company | 232 | | | | | 232 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Ulrik Smith)** | | | | | | | |
| Remuneration from Parent Company | 160 | | | | | 160 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Björn Leidelöf)** | | | | | | | |
| Remuneration from Parent Company | 110 | | | | 9 | 119 | 0 |
| Remuneration from subsidiaries | | | | | | 0 | 0 |
| **Director (Tor Olav Seim)** | | | | | | | |
| Remuneration from Parent Company | 160 | | | | 9 | 169 | 0 |
| Remuneration from subsidiaries | | | | | | 0 | 0 |
| **Director (Robert Furén)** | | | | | | | |
| Remuneration from Parent Company | 83 | | | | 9 | 92 | 0 |
| Remuneration from subsidiaries | | | | | | 0 | 0 |
| **CEO Peter Schmid** | | | | | | | |
| Remuneration from Parent Company | 2,066 | | 571 | | 7 | 2,644 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Other senior executives (7 persons)** | | | | | | | |
| Remuneration from Parent Company | 8,421 | 81 | 2,177 | | 53 | 10,733 | 0 |
| Remuneration from subsidiaries | 0 | 0 | 0 | | 0 | 0 | 0 |
| **Total** | | | | | | | |
| Remuneration from Parent Company | 11,231 | 81 | 2,748 | 0 | 88 | 14,149 | 0 |
| Remuneration from subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| Gender distribution in company management | 12/31/2018<br>Percentage of women |
|---|---|
| **Parent Company** | |
| Board | 0% |
| Other senior executives | 13% |
| **Group** | |
| Board | 0% |
| Other senior executives | 13% |

| Wages, salaries and remuneration to senior management 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| *Amounts in TSEK* | **Basic salary, Board fees** | **Variable remu-neration** | **Pension cost** | **Share-based remu-neration** | **Other remu-neration** | **Total** | **Pension obliga-tions** |
| **Chair of the Board (Ulrik Smith)** | | | | | | | |
| Remuneration from Parent Company | 70 | | | | | 70 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Andreas Bruzelius)** | | | | | | | |
| Remuneration from Parent Company | 0 | | | | | 0 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Peter Schmid)** | | | | | | | |
| Remuneration from Parent Company | 140 | | | | | 140 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Lennart Sundén)** | | | | | | | |
| Remuneration from Parent Company | 123 | | | | | 123 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Göran Wallenius)** | | | | | | | |
| Remuneration from Parent Company | 60 | | | | | 60 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Director (Björn Leidelöf)** | | | | | | | |
| Remuneration from Parent Company | 115 | | | | 9 | 124 | 0 |
| Remuneration from subsidiaries | | | | | | 0 | 0 |
| **CEO Peter Schmid** | | | | | | | |
| Remuneration from Parent Company | 1,803 | | 572 | | 0 | 2,375 | 0 |
| Remuneration from subsidiaries | 0 | | | | | 0 | 0 |
| **Other senior executives (8 persons)** | | | | | | | |
| Remuneration from Parent Company | 5,899 | 305 | 1,578 | | 67 | 7,849 | 0 |
| Remuneration from subsidiaries | 0 | 0 | 0 | | 0 | | |
| **Summa** | | | | | | | |
| Remuneration from Parent Company | 8,211 | 305 | 2,150 | 0 | 76 | 10,741 | 0 |
| Remuneration from subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| Gender distribution in company management | 12/31/2017 |
|---|---|
| | **Percentage of women** |
| **Parent Company** | |
| Board | 0% |
| Other senior executives | 17% |
| **Group** | |
| Board | 0% |
| Other senior executives | 17% |

## Note 7 | Pensions

*Amounts in TSEK*

Salaried employees in Sweden receive the ITP 2 Plan's defined-benefit pension commitments for age and family pension (or family pension) through an insurance from Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10 Reporting pension plan ITP 2 which is financed through insurance with Alecta, this is a defined-benefit plan that covers several employers. For the 2018 financial year, the Company has not had access to information that would make it possible to report its proportionate share of the plan's obligations, assets and costs, which means that it has not been possible to report it as a defined-benefit plan. The ITP 2 pension plan is managed through an insurance with Alecta and therefore is reported as a defined-contribution plan. The premium for the defined-benefit age and family pension is calculated on an individual basis and depends on, for example, salary, previously earned pension and the expected outstanding period of service. The Group's share of the total fees for the plan and the Group's share of the total number of active members in the plan amount to 39 percent and 14 percent, respectively (2018: 25 percent and 11 percent, respectively).

The collective consolidation level constitutes the market value of Alecta's assets as a percentage of the insurance commitments calculated according to Alecta's actuarial methods and assumptions, which do not agree with IAS 19. The collective consolidation level must normally be allowed to vary between 125 and 155 percent. If Alecta's collective consolidation level falls below 125 percent or exceeds 155 percent, measures must be taken to create conditions for the consolidation level to return to the normal interval. In the event of low consolidation, one measure could be to raise the agreed price for new subscription and increase of existing benefits. In the event of high consolidation, one measure could be to introduce premium reductions. At the end of 2018, Alecta's surplus in the form of the collective consolidation level amounted to 142 percent (2017: 154 percent).

| | Group 2018 | Group Expected payments in 2019 | Parent Company 2018 | Parent Company Expected payments in 2019 |
|---|---|---|---|---|
| Fees for defined-benefit obligations | 1,976 | 2,405 | 594 | 347 |
| Fees for defined-contribution plans | 4,357 | 3,688 | 648 | 811 |
| **Total** | **6,333** | **6,093** | **1,242** | **1,158** |

## Note 8 | Important estimates and assumptions

Some important accounting assumptions that were made when applying the Group's accounting principles are described below.

### *Impairment test of goodwill*

When calculating cash-generating units' recoverable amounts to assess any potential impairment need for goodwill, several assumptions were made regarding future conditions and estimates of parameters, see Note 14.

## Note 9 | Financial income

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
| Interest income, external | 403 | 82 | 0 | 0 |
| Interest income, Group | 0 | 0 | 6,000 | 6,000 |
| Exchange rate differences | 7,891 | 5,239 | 416 | 248 |
| Unrealized change in value of current derivative instruments | 3,992 | 3,439 | 3,210 | 3,439 |
| **Total** | **12,285** | **8,761** | **9,625** | **9,687** |

## Note 10 | Financial expenses

| Amounts in TSEK | Group 1/1/2018 – 12/31/2018 | Group 1/1/2017 – 12/31/2017 | Parent Company 1/1/2018 – 12/31/2018 | Parent Company 1/1/2017 – 12/31/2017 |
|---|---|---|---|---|
| External interest rate expenses | 32,873 | 34,043 | 32,873 | 33,558 |
| Exchange rate differences | 10,061 | 5,453 | 224 | 0 |
| Unrealized changes in value of interest rate hedge instruments | 625 | 661 | 0 | 0 |
| Amortization of financial acquisition costs | 3,471 | 3,471 | 3,471 | 3,471 |
| Other financial costs | 0 | 0 | 88 | 319 |
| **Total** | **47,030** | **43,628** | **36,657** | **37,347** |

## Note 11 | Tax on profit/loss for the year

| Amounts in TSEK | Group 1/1/2018 – 12/31/2018 | Group 1/1/2017 – 12/31/2017 | Parent Company 1/1/2018 – 12/31/2018 | Parent Company 1/1/2017 – 12/31/2017 |
|---|---|---|---|---|
| Current tax | -8,053 | -2,263 | -2 | - |
| Deferred tax | 21,672 | 10,810 | - | - |
| **Tax on net profit for the year** | **13,619** | **8,546** | **-2** | **0** |

**Group**

| Amounts in TSEK | % | 1/1/2018 – 12/31/2018 | % | 1/1/2017 – 12/31/2017 |
|---|---|---|---|---|
| Reported profit/loss before tax | | -21,949 | | -39,670 |
| Tax calculated in accordance with current tax rate | 22% | 4,829 | 22% | 8,727 |
| Effect of foreign tax rates | -5% | -1,117 | -1% | -417 |
| Effect from non-deductible expenses | -1% | -141 | -2% | -816 |
| Effect from non-taxable income | 2% | 427 | 1% | 439 |
| Impact of changed tax rate in deferred tax | 30% | 6,522 | 0% | 0 |
| Effect from standardized interest rate on tax allocation reserves | 0% | -22 | 0% | -25 |
| Tax attributable to profit/loss from previous years | 0% | 0 | 0% | 36 |
| Impact of IFRS transactions | 4% | 984 | 0% | 0 |
| Utilization of previously uncapitalized loss carry-forwards | 10% | 2,138 | 2% | 602 |
| **Reported tax expense** | **62%** | **13,619** | **22%** | **8,546** |

| Parent Company<br>*Amounts in TSEK* | % | 1/1/2018 – 12/31/2018 | % | 1/1/2017 – 12/31/2017 |
|---|---|---|---|---|
| Reported profit/loss before tax | | 9,628 | | 18,231 |
| Tax calculated in accordance with current tax rate | 22% | -2,118 | 22% | -4,011 |
| Effect from non-deductible expenses | 0% | -21 | -4% | -734 |
| Effect from non-taxable income | 0% | 0 | 25% | 4,620 |
| Increase in loss carry-forward without corresponding capitalization of deferred tax asset | 0% | | 1% | 125 |
| Utilization of previously uncapitalized loss carry-forwards | 22% | 2,138 | 0% | 0 |
| **Reported tax expense** | **0%** | **-2** | **0%** | **0** |

## Note 12 | Deferred tax

| *Amounts in TSEK* | 1/1/2018 – 12/31/2018 | 1/1/2017 – 12/31/2017 |
|---|---|---|
| **Group** | | |
| Deferred tax for change of tax allocation reserves | 4,983 | 851 |
| Deferred tax for change of depreciation/amortization in excess of plan | 20 | -156 |
| Changes in deferred tax liability attributable to the brand | 16,669 | 10,116 |
| | 21,672 | 10,810 |
| **Parent Company** | | |
| Unutilized loss carry-forwards | - | -9,716 |

Loss carry-forwards are not recognized as a deferred tax asset in the Company or the Group. They also do not have a due date.

## Note 13 | Financial risks and risk management

The Group is exposed in its operations to different types of financial risks.

- Liquidity risk
- Market risk
- Credit risk

### *Framework for financial risk management*

The responsibility for the Group's financial transactions and risks is managed centrally by the Group's Finance function, which is located in the Parent Company and Roplan Holding AB. The overall goals for the Finance function are to provide cost-efficient financing and minimize negative effects on the Group's results that derive from market risks.

### *Liquidity risk*

Liquidity risk is the risk that the Group may have problems fulfilling its obligations that are associated with financial liabilities. The Group has a rolling 12-month liquidity plan that includes all Group units. This plan is updated every month. The Group's forecasts for a three-year period include mid-range liquidity planning. Liquidity planning is used to manage liquidity risk and the Group's financing costs. The goal is for the Group to be able to fulfill its financial commitments during both strong and weak financial years without significant, unpredictable costs and without harming the Group's reputation. The Group's policy is to minimize the need for borrowing by using surplus liquidity in the Group through cash pools established by the central finance department.

Liquidity risks are managed centrally for the entire Group by the central finance department.

At the end of the year, the company's financial liabilities amounted to SEK 589 million, and the maturity structure for the liabilities is set out in the following table:

**Financial risks and risk management**

**Maturity structure for financial liabilities – undiscounted cash flows**

| *Amounts in TSEK* | Total | <1 month | 1–3 months | 3 months –1 year | 1–5 years | >5 years |
|---|---|---|---|---|---|---|
| **Group 12/31/2018** | | | | | | |
| Bond, including interest rate expenses | 546,312 | 7,176 | 0 | 21,294 | 517,842 | 0 |
| Interest rate swap | 4,993 | 761 | 0 | 2,174 | 2,058 | 0 |
| Bank loan, including interest rate expenses | 1,195 | 71 | 141 | 633 | 351 | 0 |
| Lease liabilities including interest expenses | 10,480 | 495 | 989 | 4,289 | 4,707 | 0 |
| Accounts payable | 26,108 | 25,336 | 746 | 25 | 1 | 0 |
| **Total** | **589,088** | **33,838** | **1,876** | **28,415** | **524,958** | **0** |
| **Group 12/31/2017** | | | | | | |
| Bond, including interest rate expenses | 570,112 | 7,108 | 0 | 21,450 | 541,554 | 0 |
| Interest rate swap | 11,647 | 1,246 | 0 | 3,554 | 6,847 | 0 |
| Bank loan, including interest rate expenses | 2,045 | 71 | 142 | 637 | 1,195 | 0 |
| Financial lease liabilities, including interest rate expenses | 2,408 | 50 | 203 | 405 | 1,749 | 0 |
| Accounts payable | 23,142 | 18,524 | 3,040 | 0 | 1,577 | 0 |
| **Total** | **609,353** | **26,999** | **3,385** | **26,046** | **552,923** | **0** |

### *Market risk*

Market risk is the risk that the fair value of or future cash flows from a financial instrument will vary due to changes in market prices. IFRS breaks market risks down into three types: interest rate risk, currency risk and other price-related risks. The market risks that primarily affect the Group are interest rate risks, currency risks and commodity price risk.

The Group's objective is to manage and control the market risks within established parameters and at the same time optimize the results of risk-taking within given frameworks. The parameters have been set with the aim of the market risks in the short term (6–12 months) only having a marginal effect on the Group's profit/loss and position. In the longer term, however, persistent changes in foreign exchange rates, interest rates and commodity costs will have an impact on consolidated profit/loss.

### *Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will vary due to changes in market rates. Interest rate risk can lead to a change in fair values and changes in cash flows. A significant factor that affects interest rate risk is the interest rate adjustment period.

The Group's interest rate risk is managed by the central finance function and consists primarily of long-term borrowing in the form of an issued bond. To control the interest rate risk, the Company hedged interest up to 82 percent of the calculated outstanding net debt of the bond.

### *Currency risk*

The risk that fair values and cash flows for financial instruments can fluctuate when the value for other currencies changes is called currency risk. The Group is exposed to different types of currency risks. The largest exposure derives from the Group's sales and purchases in foreign currencies. These currency risks consist in part of the risk for fluctuations in the value of financial instruments, accounts receivable and accounts payable, and in part a currency risk in the expected and contractual payment flows. These risks are called transaction exposures. The currency exposure is primarily to USD, GBP, EUR and RMB.

Currency risks are also present in the translation of foreign subsidiaries' assets and liabilities to the Parent Company's functional currency, which is called translation exposure. The Group is also exposed to currency risks for the payment flows for loans and investments in foreign currency (financial exposure).

### *Commodity price risk*

Commodity price risk refers to the change in the price of input goods and the impact on profit/loss. For the Group, changes in steel prices and alloy additions are the primary source of large commodity price risk.

### *Credit risk*

*Credit risks in accounts receivable*

The risk that the Group's customers will not fulfill their commitments, i.e. that customers will not make their payments, constitutes a customer credit risk. The credit of the Group's customers is checked as needed, whereupon information about their financial position is obtained from various credit companies.

There is no significant concentration of credit exposure on the balance sheet date. The maximum exposure for credit risk is presented by the carrying amount in the statement of financial position for each financial asset. An individual assessment is conducted of the Company's claims to determine if there is a need for a credit loss provision.

Based on historical data and analysis of the Group's customer base, the Group makes the assessment that there is no material impairment need for accounts receivable that have not yet fallen due, and therefore provisions for such have not been made. Ninety percent of the outstanding accounts receivable are to customers with whom the Group has previously conducted business and are very creditworthy.

| | Group | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| **Age analysis, non-impaired accounts receivable** | | |
| Accounts receivable overdue 0–30 days | 10,757 | 10,818 |
| Accounts receivable overdue >30–90 days | 7,414 | 4,421 |
| Accounts receivable overdue >90-180 days | 1,206 | 671 |
| Accounts receivable overdue >180-360 days | 575 | 320 |
| Accounts receivable overdue >360 days | 648 | 358 |
| **Total** | **20,600** | **16,588** |

Accounts receivables are reported taking into consideration bad debts during the year, which amounted net to SEK 98,000 (0).

| **Fair value** | **Carrying amount** | |
|---|---|---|
| *Amounts in TSEK* | **Hedging instrument** | **Total** |
| **Group 2018** | | |
| *Financial assets measured at fair value* | | |
| Other currency forwards | 156 | 156 |
| **Total** | **156** | **156** |
| *Financial liabilities measured at fair value* | | |
| Interest rate swaps for hedging | 4,930 | 4,930 |
| **Total** | **4,930** | **4,930** |
| **Group 2017** | | |
| *Financial assets measured at fair value* | | |
| Other currency forwards | 626 | 626 |
| **Total** | **626** | **626** |
| *Financial liabilities measured at fair value* | | |
| Interest rate swaps for hedging | 8,139 | 8,139 |
| **Total** | **8,139** | **8,139** |

Other financial assets, such as accounts receivable, accrued income and cash and cash equivalents, are classified within the measurement category Financial assets measured at accrued cost for 2018 and Loan and accounts receivable for 2017. Fair value for these is in line with the carrying amount. Other financial liabilities, such as interest-bearing liabilities, accounts payable, other liabilities and accrued costs, are classified within the measurement category Other liabilities and measured at accrued cost. Fair value for these is in line with the carrying amount.

## Note 14 | Intangible fixed assets

| *Amounts in TSEK* | Development expenditure | Market and customer-based assets | Goodwill | Total |
|---|---|---|---|---|
| **Group** | | | | |
| *Accumulated cost* | | | | |
| Opening balance 1/1/2017 | 15,030 | 689,703 | 270,428 | 975,161 |
| Capitalized during the year | 3,336 | 0 | 0 | 3,336 |
| Exchange rate differences | -1,498 | 0 | 0 | -1,498 |
| **Closing balance 12/31/2017** | **16,868** | **689,703** | **270,428** | **976,999** |
| Opening balance 1/1/2018 | 16,868 | 689,703 | 270,428 | 976,999 |
| Capitalized during the year | 7,512 | 0 | 0 | 7,512 |
| Exchange rate differences | 1,268 | 0 | 0 | 1,268 |
| **Closing balance 12/31/2018** | **25,649** | **689,703** | **270,428** | **985,780** |
| *Accumulated depreciation/ amortization and impairment* | | | | |
| Opening balance 1/1/2017 | -9,261 | -68,970 | 0 | -78,231 |
| Depreciation/amortization for the year | -1,145 | -45,980 | 0 | -47,125 |
| Exchange rate differences | 982 | 0 | 0 | 982 |
| **Closing balance 12/31/2017** | **-9,424** | **-114,950** | **0** | **-124,374** |
| Opening balance 1/1/2018 | -9,424 | -114,950 | 0 | -124,374 |
| Depreciation/amortization for the year | -2,196 | -45,980 | 0 | -48,176 |
| Exchange rate differences | -897 | 0 | 0 | -897 |
| **Closing balance 12/31/2018** | **-12,517** | **-160,930** | **0** | **-173,447** |
| **Carrying amounts as per 12/31/2017** | **7,445** | **574,753** | **270,428** | **852,625** |
| **Carrying amounts as per 12/31/2018** | **13,132** | **528,773** | **270,428** | **812,333** |

*All intangible assets have been acquired*

Consolidated intangible assets are almost exclusively attributable to the Roplan segment.

The Group investigates every year if there is any impairment need for goodwill and intangible assets with an indeterminate useful life. A discounted cash flow measurement of the Group as per 12/31/2018 showed that no impairment of goodwill is necessary. The cash flow measurement is largely based on the basic plan for the period 2019–2023 that guides the work of the Board and management. This measurement rests on assumptions about future sales growth, operating margin, working capital tie-up, necessary investments and a market-based discount rate.

The cash flow measurement was calculated using an average annual growth rate of 9 percent for the years 2019–2023 (8 percent 2018–2022). In addition, a growth rate of 2 percent is assumed after 2023 (2 percent after 2022). The operating margin is based on historical levels and assumptions about future streamlining initiatives. Working capital tie-up is assumed to be 20 percent of net sales during the period. Through the entire period, a pre-tax discount rate of 6.7 percent (6.8) is applied.

## Note 15 | Property, plant and equipment

| *Amounts in TSEK* | Buildings and land | Plant and machinery | Equipment, tools, fixtures and fittings | Total |
|---|---|---|---|---|
| **Group** | | | | |
| *Accumulated cost* | | | | |
| Opening balance 1/1/2017 | 11,493 | 46,318 | 27,519 | 85,330 |
| Business combinations | 0 | 0 | 0 | 0 |
| Other acquisitions | 71 | 2,425 | 6,897 | 9,394 |
| Reclassifications | -497 | 0 | 404 | -93 |
| Divestitures | 0 | -4,490 | -741 | -5,230 |
| Exchange rate differences | -65 | -454 | -156 | -675 |
| **Closing balance 12/31/2017** | **11,002** | **43,799** | **33,924** | **88,725** |
| Opening balance 1/1/2018 | 11,002 | 43,799 | 33,924 | 88,725 |
| Additional right-of-use assets from IFRS 16 | 22,376 | 0 | 0 | 22,376 |
| Business combinations | 0 | 0 | 0 | 0 |
| Other acquisitions | 508 | 925 | 3,970 | 5,403 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Divestitures | 0 | -3,083 | -937 | -4,019 |
| Exchange rate differences | 98 | 275 | -63 | 311 |
| **Closing balance 12/31/2018** | **33,985** | **41,916** | **36,895** | **112,796** |
| *Accumulated depreciation/ amortization and impairment* | | | | |
| Opening balance 1/1/2017 | -6,719 | -37,265 | -25,567 | -69,551 |
| Business combinations | 0 | 0 | 0 | 0 |
| Other acquisitions | 0 | 0 | 0 | 0 |
| Reclassifications | 439 | 0 | -391 | 48 |
| Divestitures | 0 | 3,515 | 652 | 4,167 |
| Depreciation/amortization for the year | -405 | -1,765 | -2,061 | -4,231 |
| Exchange rate differences | 66 | 351 | 165 | 581 |
| **Closing balance 12/31/2017** | **-6,619** | **-35,165** | **-27,202** | **-68,986** |
| Opening balance 1/1/2018 | -6,619 | -35,165 | -27,202 | -68,986 |
| Opening accumulated depreciation of additional right-of-use assets from IFRS 16 | -10,321 | | | -10,321 |
| Business combinations | 0 | 0 | 0 | 0 |
| Other acquisitions | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Divestitures | 0 | 2,928 | 385 | 3,313 |
| Depreciation/amortization for the year | -5,469 | -1,820 | -2,548 | -9,837 |
| Exchange rate differences | -66 | -197 | 564 | 300 |
| **Closing balance 12/31/2018** | **-22,475** | **-34,254** | **-28,802** | **-85,531** |
| **Carrying amounts as per 12/31/2017** | **4,383** | **8,635** | **6,722** | **19,739** |
| **Carrying amounts as per 12/31/2018** | **11,510** | **7,662** | **8,093** | **27,265** |

| Leases | Group | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Consolidated property, plant and equipment include leasing objects that are held in accordance with financial leases as per the following | | |
| Plant and machinery | | |
| Cost | 25,656 | 2,256 |
| Opening amortization of excess value | -10,321 | 0 |
| Accumulated depreciation | -5,674 | -514 |
| | **9,571** | **1,742** |
| Future minimum lease fees here following maturity dates: | | |
| Nominal values | | |
| Within one year | 5,787 | 464 |
| Later than one year but within five years | 3,784 | 1,278 |
| | **9,571** | **1,742** |

The present value of the future minimum lease fees is reported as a current liability to credit institutions.

Consolidated profit/loss includes variable fees for financial leases of SEK 5,764,000.

The consolidated weighted average marginal borrowing rate at the transition date amounts to 1.5 percent.

For 2017, the amounts refer to financial leases according to IAS 17.

| | |
|---|---|
| Operating lease commitments as per December 31, 2017, according to disclosures in the annual report | 12,285 |
| Discounted using the marginal borrowing rate as at January 1, 2018 | 12,055 |
| Add-ons – financial lease liabilities recognized as at December 31, 2017 | 1,742 |
| Lease liability as at January 1, 2018 | **13,797** |

| Cost disclosures | Group |
|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** |
| Depreciation of right-of-use assets | 5,764 |
| Interest expense lease liability | 147 |
| **Depreciation amount for right-of-use assets per underlying asset class** | |
| Buildings | 5,035 |
| Cars | 729 |
| **Cash flow disclosures** | |
| Total cash outflow for leases | 5,912 |
| **Right-of-use assets and lease liabilities** | |
| *Carrying amount of right-of-use assets* | |
| Buildings | 7,020 |
| Cars | 2,550 |

## Note 16 | Non-current receivables and other receivables

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Opening cost | 140 | 158 | 200,000 | 200,000 |
| Prepaid expenses | - | 27 | - | - |
| | 140 | 185 | 200,000 | 200,000 |
| Amortization, deductible receivables | - | - | - | - |
| **Closing balance** | **140** | **185** | **200,000** | **200,000** |

## Note 17 | Inventories

| | Group | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Raw materials | 14,856 | 11,185 |
| Goods in progress | 26,281 | 18,811 |
| Finished goods and goods for resale | 11,425 | 8,052 |
| **Total** | **52,562** | **38,048** |

Inventories were written down by SEK 4.5 million in 2018.

## Note 18 | Prepaid expenses and accrued income

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Prepaid insurance premiums | 2,395 | 2,460 | 1,829 | 2,344 |
| Prepaid purchases | 2,989 | 2,004 | - | - |
| Prepaid rent | 0 | 0 | - | - |
| Prepaid support agreements | 1,302 | 2,120 | - | - |
| Accrued sales revenue | 538 | 515 | - | - |
| Accrued exchange rate gains | 0 | 0 | - | - |
| Other items | 619 | 322 | 15 | 15 |
| **Total** | **7,844** | **7,421** | **1,844** | **2,359** |

## Note 19 | Cash and cash equivalents

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Cash and bank balances | 77,901 | 64,886 | 24 | 1,123 |
| **Cash and cash equivalents in the cash flow statement** | **77,901** | **64,886** | **24** | **1,123** |

## Note 20 | Equity

| **Types of shares** | **Ordinary shares A** | **Preferential shares B-D** | **Preferential shares Z** | **Total** |
|---|---|---|---|---|
| New as at 10/23/2014 | 50,000 | 0 | 0 | 50,000 |
| New issue as at 9/21/2015 | 32,673 | 310,307 | 50,000 | 392,980 |
| New share issue as at 11/5/2015 | 2,555 | 2,640 | 0 | 5,195 |
| New issue as at 2/18/2017 | 1,700 | 2,750 | 0 | 4,450 |
| **Issued as at December 31, 2018 – paid** | **86,928** | **315,697** | **50,000** | **452,625** |

### Proposed appropriation of profits

*Amounts in SEK*

The following amounts are at the disposal of the general meeting of shareholders:

| Non-restricted equity according to the balance sheet: | |
|---|---|
| Share premium reserve | 448,098,750 |
| Loss carried forward | 36,629,784 |
| Profit for the year | 9,625,998 |
| Total | 494,354,532 |

| The Board of Directors proposes that the accumulated gains and non-restricted reserves are treated as follows: | |
|---|---|
| To be carried forward | 494,354,532 |
| – of which to the share premium reserve | 448,098,750 |

As at December 31, 2018, and December 31, 2017, the registered share capital consisted of 86,928 ordinary shares in series A, 315,697 preferential shares BC and 50,000 preferential shares Z. All shares have a par value of SEK 10.

All shares have the same voting right, 1, except preferential shares Z, which have a voting right of 1/10. Preferential shares in series Z are first entitled to all forms of dividends up to a maximum amount for preferential shares of series Z calculated in accordance with established rules. Preferential shares in series B-C are then entitled to all forms of dividends up to a maximum amount. Thereafter, ordinary shares of series A are entitled to all dividends.

#### *Group*

*Translation reserve*

The translation reserve includes all foreign exchange rate differences arising when translating financial statements from foreign operations that prepared their own financial statements in a different currency than the currency in which the Group's financial statements are presented. The Parent Company and the Group present their financial reports in SEK.

#### *Parent Company*

*Restricted funds*

Restricted funds may not be used for dividends.

*Non-restricted equity*

The following funds together with profit/loss for the year comprise unrestricted equity, i.e. the amount that is available for dividends to shareholders.

Share premium reserve

When shares are issued at a premium, i.e. when more than the par value is paid for the shares, an amount corresponding to a received amount in excess of the shares' par value is transferred to the share premium reserve.

Profit carried forward

Profit carried forward constitutes last year's retained earnings and profit/loss after deductions for dividends paid during the year.

## Note 21 | Interest-bearing liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| *Non-current liabilities* | | | | |
| Bond loan | 459,323 | 455,853 | 459,323 | 455,853 |
| Liabilities to credit institutions | 354 | 1,204 | - | - |
| Lease liabilities | 3,784 | 1,278 | - | - |
| **Total** | **463,462** | **458,335** | **459,323** | **455,853** |
| *Current liabilities* | | | | |
| Liabilities to credit institutions | 850 | 850 | - | - |
| Lease liabilities | 5,787 | 464 | - | - |
| **Total** | **6,637** | **1,314** | **-** | **-** |
| **Total interest-bearing liabilities** | **470,098** | **459,649** | **459,323** | **455,853** |

**Maturities**

| *Amounts in TSEK* | **Currency** | **Nom. RTA** | **Maturity** | **Nom. value** | **Carrying amount** |
|---|---|---|---|---|---|
| **12/31/2018** | | | | | |
| Bond loan | TSEK | 6%+STIBOR | 7/15/2021 | 468,000 | 468,000 |
| Liabilities to credit institutions | TSEK | 1.2%+STIBOR | 5/31/2020 | 1,204 | 1,204 |
| Financial lease liabilities | TSEK | 1.1%+STIBOR | 9/30/2020 | 2,550 | 2,550 |
| **12/31/2017** | | | | | |
| Bond loan | TSEK | 6%+STIBOR | 7/15/2021 | 468,000 | 468,000 |
| Liabilities to credit institutions | TSEK | 1.2%+STIBOR | 5/31/2020 | 2,054 | 2,054 |
| Financial lease liabilities | TSEK | 1.1%+STIBOR | 9/30/2020 | 1,742 | 1,742 |

According to the bond agreement, STIBOR in the interest rate calculation can never fall below 0%.

## Note 22 | Deferred tax liability/asset

| | Group | |
|---|---|---|
| *Amounts in TSEK* | **12/31/2018** | **12/31/2017** |
| Intangible assets | 109,100 | 131,128 |
| Tax allocation reserves | 2,695 | 2,309 |
| **Total** | **111,795** | **133,437** |

## Note 23 | Accrued expenses and deferred income

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| Accrued interest rate expenses | 6,977 | 6,957 | 6,977 | 6,957 |
| Accrued salaries | 1,506 | 1,027 | 150 | 857 |
| Accrued vacation pay | 5,907 | 6,564 | 878 | 826 |
| Accrued social security fees | 3,391 | 2,962 | 624 | 458 |
| Accrued loss interest rate swap | 4,930 | 8,139 | 4,930 | 8,139 |
| Other items | 11,438 | 9,544 | 2,840 | 3,985 |
| **Total** | **34,148** | **35,193** | **16,398** | **21,222** |

## Note 24 | Pledged assets and contingent liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| In the form of pledged assets for equity and provisions | | | | |
| Real estate mortgage | 5,800 | 5,800 | - | - |
| Chattel mortgage | 27,645 | 27,645 | - | - |
| Shares in Roplan Holding AB | - | - | 746,607 | 746,607 |
| Bank accounts at Svenska Handelsbanken AB (publ) | - | - | - | - |
| Receivables at subsidiaries | - | - | 228,808 | 219,082 |
| **Total for equity and provisions** | **33,445** | **33,445** | **975,415** | **965,689** |

*Shares in Roplan Holding AB are recognized at the carrying amount in the Parent Company. The comparative year 2017 has thus been adjusted accordingly.*

## Note 25 | Specifications for the statement of cash flows

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Amounts in TSEK* | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| **Cash and cash equivalents** | | | | |
| The following components are included in cash and cash equivalents | | | | |
| Cash and bank balances | 77,901 | 64,886 | 24 | 1,123 |
| **Total according to the balance sheet and the statement of cash flows** | **77,901** | **64,886** | **24** | **1,123** |
| **Adjustments for non-cash items** | | | | |
| Reversal of financing costs | 3,470 | 3,470 | 3,470 | 3,470 |
| Exchange rate differences in plant and equipment | -987 | 610 | - | - |
| Depreciation plant, plant and equipment | 4,802 | 4,231 | - | - |
| Amortization intangible plant and equipment | 48,176 | 47,125 | - | - |
| Capital gains/losses, property, plant and equipment | -1,601 | 456 | - | - |
| Translation difference from translation of foreign markets | 4,036 | 5,065 | - | - |
| Net influence on Group expenses carried forward | - | 2,647 | - | - |
| Net influence on Group lease expenses | - | 1,742 | - | - |
| Impairment of intra-group profit in stock | -227 | -1,910 | - | - |
| **Total** | **57,670** | **63,436** | **3,470** | **3,470** |
| Interest received | 4,394 | 3,458 | 3,210 | 9,687 |
| Interest paid | 32,973 | 33,746 | 32,875 | 33,626 |

***Goodwill***

The goodwill value includes the surplus from previous acquisitions in the sub-group. No part of the goodwill is expected to be tax deductible.

## Note 26 | Profit/loss from participations in Group companies

| | Parent Company | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Dividends | 0 | 21,000 |
| **Total** | **0** | **21,000** |

## Note 27 | Participations in associated companies

*Amounts in TSEK*

| Parent Company | CIN | Registered office | Share of capital (%) |
|---|---|---|---|
| Roplan Holding AB | 556912-7292 | Stockholm | 100 |
| – Roplan AB | 556578-3528 | Stockholm | 100 |
| – Roplan Machining AB | 556432-8580 | Timrå | 100 |
| – Roplan Sales AB | 556282-1347 | Stockholm | 100 |
| – Roplan Trading AB | 556775-6753 | Stockholm | 100 |
| – Roplan Sales (Ningbo) Co., Ltd. | 330200400044003 | Ningbo | 100 |
| – Roplan Machinery (Ningbo) Co., Ltd. | 330200400044505 | Ningbo | 100 |
| – Steridose Sales AB | 556746-1586 | Stockholm | 100 |
| – Roplan Ltd | 2155002 | Newbury | 100 |
| – Roplan Inc | 082170-93 | Madison | 100 |
| – Roplan Sales Inc | | Madison | 100 |
| – Steridose Sales Inc | | Madison | 100 |
| – Roplan GmbH | 4724278507 | Frankfurt | 100 |

*Amounts in TSEK*

| Parent Company | Share of votes % | Share of votes % | Number of shares | Carrying amount |
|---|---|---|---|---|
| Roplan Holding AB | 100 | 100 | 10,000 | 746,607 |
| **Total** | | | | **746,607** |

| | Parent Company | |
|---|---|---|
| *Amounts in TSEK* | **1/1/2018 – 12/31/2018** | **1/1/2017 – 12/31/2017** |
| Opening cost | 746,607 | 746,607 |
| Purchase of participations | - | - |
| **Closing accumulated cost** | **746,607** | **746,607** |
| **Closing carrying amount** | **746,607** | **746,607** |

## Note 28 | Transactions with closely related parties

The Group rents office and production facilities from Invexos AB, which is also one of the primary owners of Velcora and thus considered a closely related party.

The Group also has close relationships with its subsidiaries.

All transactions between closely related parties are based on market terms and are conducted at "arm's length".

### *Summary of transactions with closely related parties*

*Group*

In the consolidated accounts for the Group, all transactions between Group companies have been eliminated.

**Transactions with closely related parties**

*Amounts in TSEK*

| Parent Company | Sales of services to closely related parties | Purchase of services from closely related parties | Other interest rate | Claims on closely related parties per Dec 31 | Debt to per Dec 31 |
|---|---|---|---|---|---|
| **1/1/2018 – 12/31/2018** | | | | | |
| Closely related party | | | | | |
| Subsidiaries | 61,914 | 828 | 6,000 | 228,808 | 0 |
| Other closely related parties | 0 | 88 | 0 | 0 | 0 |
| **Total** | **61,914** | **916** | **6,000** | **228,808** | **0** |
| **1/1/2017 – 12/31/2017** | | | | | |
| Closely related party | | | | | |
| Subsidiaries | 69,577 | 2,358 | 6,000 | 219,082 | 0 |
| Other closely related parties | 0 | 3,343 | 0 | 0 | 0 |
| **Total** | **69,577** | **5,701** | **6,000** | **219,082** | **0** |

*No remuneration to senior executives was paid other than that listed in Note 6.*

### Note 29 | Significant events after the end of the year

No other significant events occurred after the end of the year.

## Certification by the Board of Directors

The Board of Directors and the CEO ensure that the annual report has been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated financial statements provide a true and fair view of the Parent Company's and the Group's position and results. The Board of Directors' Report for the Parent Company and the Group presents a true and fair view of the development of the Parent Company's and the Group's operations, position and results and describes substantial risks and uncertainties faced by the Parent Company and the companies included in the Group.

The annual report and consolidated financial statements, as presented above, were approved for publication by the Board of Directors and the CEO on April 24, 2019. The Consolidated Statement of Income and Comprehensive Income, the Consolidated Statement of Financial Position and the Parent Company Income Statement and Balance Sheet have been proposed for adoption at the Annual General Meeting on June 26, 2019.

Stockholm, April 24, 2019

Patrik Nolåker
Chair

Peter Schmid
CEO

Robert Furén
Director

Björn Leidelöf
Director

Tor Olav Seim
Director

Ulrik Smith
Director

Our Auditor's Report was submitted on April 24, 2019.

KPMG AB

Håkan Olsson Reising
Authorized Public Accountant

KPMG

# Auditor's Report

To the general meeting of shareholders of Velcora Holding AB (publ), CIN 556987-4463

## Report on the annual report and consolidated financial statements

### *Opinions*

We have audited the annual report and consolidated financial statements of Velcora Holding AB (publ) for 2018 with the exception of the corporate governance report on page 4. The annual report and consolidated financial statements of the Company are included on pages 5–42 in this document.

In our opinion, the annual report has been prepared in accordance with the Annual Accounts Act and presents fairly, in all material respects, the financial position of the parent company as of December 31, 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated financial statements 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 December 31, 2018 and the 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 include the corporate governance report on page 4. 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 adopt the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

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

### *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, to 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.

### *Kay 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 the 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 the consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### *Measurement of acquired intangible assets and the parent company's participations in group companies*

See Notes 14 and 27 and the accounting principles on pages 16–21 of the annual report and consolidated financial statement for detailed disclosures and a description of the area.

*Description of the area*

The carrying amount for acquired intangible assets in the form of goodwill, development expenditure and market- and customer-based assets amounts on December 31, 2018, to SEK 812 million, which represents approximately 78 percent of the balance sheet total, of which goodwill amounts to SEK 270 million. Goodwill shall be tested for impairment annually or following an indication of an impairment in value. This test is complex and contains assumptions. Other intangible assets are amortized over a period of 15 years.

The impairment test, according to IFRS, shall be conducted in accordance with a certain technique where company management must make future assessments about both internal and external conditions and plans. For example, such assessments include future cash flows and the discount rate that should be used to consider that future estimated payment inflows are associated with risk.

The Parent Company reported on December 31, 2018, participations in group companies of SEK 747 million, which constitutes approximately 76 percent of the balance sheet total. If the value of the shares exceeds equity in each group company, the same type of test, using the same technique and input values, is conducted for goodwill in the group.

*How this area was considered in the audit*

We have received and assessed the group's impairment test to assure whether it is conducted in accordance with the technique prescribed in IFRS.

Furthermore, we assessed the reasonability of future cash flows and the assumed discount rate by reviewing and evaluating the group's written documentation and plans. We also evaluated the assessment of previous years in a relation to actual outcome.

We have involved our own measurement specialists in the audit team in order to ensure experience and competence in this area, primarily with regard to the applied methodology and discount rates. An important part of our work has also been to evaluate how changes in assumptions can affect the measurement by reviewing and evaluating the group's sensitivity analysis.

We also checked the disclosures in the annual report and evaluated whether they are in line with the assumptions the group management applied in its measurement and that they in all material respects correspond to the disclosures that shall be provided in accordance with IFRS.

KPMG

### *Responsibilities of the Board of Directors and the CEO*

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

When preparing the annual report and consolidated financial statements, the Board of Directors and the CEO 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 CEO intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

### *Auditor's responsibility*

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

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

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

We must inform the Board of Directors about the planned scope of our audit as well as its focus and timing. We must also provide information about significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement specifying that we have complied with relevant professional requirements related to independence and list all relationships and other circumstances that reasonably may impact our independence and, where applicable, counteractive measures related thereto.

Of the areas communicated to the Board of Directors, we determine which of these areas were of most significance in our audit of the annual accounts and consolidated financial statements, including the most important assessed risks for significant error, and thus make them key audit areas. We describe these matters in the auditor's report unless law or other regulations preclude disclosure about the matter.

## Report on other legal and regulatory requirements

### *Opinions*

In addition to our audit of the annual report and consolidated financial statements, we have also audited the administration of the Board of Directors and the CEO of Velcora Holding AB (publ) for the year 2018 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 CEO 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 CEO*

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 financial affairs otherwise are controlled in a reassuring manner.

The CEO 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 CEO in any material respect:

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

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

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

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

### *Auditor's examination of the corporate governance statement*

It is the board of directors who is responsible for the corporate governance statement for on page 4 and for that it has been prepared in accordance with the Annual Accounts Act.

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

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

KPMG AB, Box 382, 101 27, Stockholm, was named the auditing company of Velcora Holding AB (publ) by the general meeting of shareholders held on June 18, 2018. KPMG AB or auditors active at KPMG AB have been the company's auditor since 2015.

Stockholm, April 24, 2019

KPMG AB

Håkan Olsson Reising
Authorized Public Accountant

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