HEXATRONIC Group AB (publ)

Hexatronic Group

Annual Report 2019

A year with extensive organic growth initiatives and improved profitability


"2019 was a year of far-reaching growth initiatives, while we also improved our profitability."
6 Comments by the CEO

"Broad expansion of FTTH worldwide, with continuing potential on our growth markets"

BOARD OF DIRECTORS' REPORT

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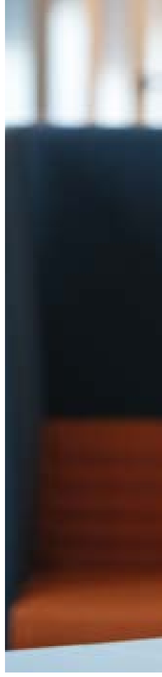


2019 in brief

Strong expansion in strategic markets

Financial summary

	2019	2018	2017	2016	2015/16
Net sales, MSEK	1,842.3	1,597.8	1,299.4	1,032.3	890.9
Earnings after depreciation of tangible assets (EBITA), MSEK	135.9	114.9	133.4	97.0	70.9
EBITA margin	7.4%	7.2%	10.3%	9.4%	8.0%
EBITA excluding patent dispute costs, MSEK	157.4	122.7	133.4	97.0	70.9
EBITA margin excluding patent dispute costs	8.5%	7.7%	10.3%	9.4%	8.0%
Operating result (EBIT), MSEK	106.4	92.5	122.3	88.8	62.9
Net earnings, MSEK	67.1	59.3	90.4	54.1	42.1
Total assets, MSEK	1,497.9	1,303.1	777.1	657.3	605.2
Cash flow from operating activities, MSEK	173.9	15.6	133.4	33.1	56.8
Earnings per share after dilution, SEK	1.80	1.62	2.38	1.50	1.19

"We are going in to 2020 with strong economy, and are ready to take the next step into the future"

Lennart Sparud , CFO Hexatronic Group

The year in brief

- Hexatronic UK signs a strategic agreement with CityFibre Ltd. totalling approximately MSEK 500.
- Hexatronic signs several FTTH contracts on the German market totalling approximately MSEK 40.
- Hexatronic UK signs a strategic agreement with Zzoomm Ltd. totalling approximately MSEK 30 regarding the full Matrix system. The agreement will run for five years and Hexatronic UK will be the exclusive supplier for the passive components and training for the first 1.5 years. The approximate value for this initial exclusive start-up phase is 2.5 MGBP.
- Blue Diamond Industries decides to establish a second production facility in the United States, to meet the increased demand of pipes fiber optic and power cables.

Events since the end of the period

- Emtelle UK Ltd. and Hexatronic Group AB entered into a global settlement agreement, ending their patent litigation in the UK. Emtelle licenses Hexatronic under its patents on air blown fibre bundles. Hexatronic can continue to make and sell its air blown fibre products in all markets worldwide.
- Based on the very uncertain situation in the world, the Board decided to withdraw the previously announced dividend proposal. During the first quarter, Hexatronic had a minor negative impact as a result of Covid-19 and expects continued slightly lower activity in the second quarter.

OPERATING MARGIN

7.4 %*

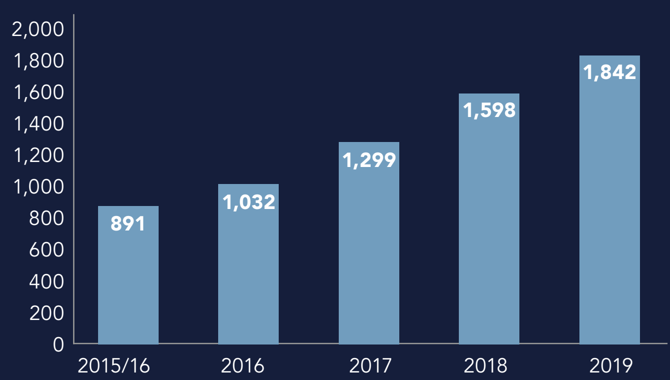
NUMBER OF EMPLOYEES

597

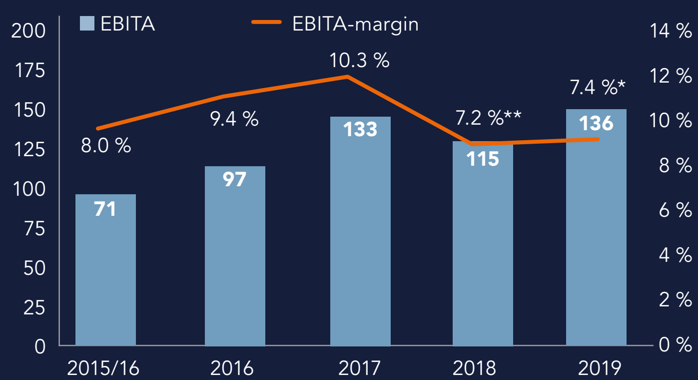
NET SALES MSEK

1,842

Net sales, MSEK



EBITA (MSEK and percent)



* 8,5 % exkluding patent dispute costs related to patent dispute in the UK.

** 7,7 % exkluding patent dispute costs related to patent dispute in the UK.

Strong profitability and continued growth

2019 was a year of far-reaching growth initiatives, while we also improved our profitability. Our organic growth activities in North America and the UK were the biggest in the company's history. At the same time sales were up 15.3% and profitability improved considerably, with a boost in EBITA* of 28.2%.

Organic growth was 5.0% and acquired growth accounted for just over 10.0% of the total 15.3% in growth. We did not therefore achieve our annual growth target of 20.0%. The main reason was the weak Swedish market, where we saw negative growth of 10.0%. Excluding Sweden, the company's growth amounted to 30.8%. Sweden represents a diminishing share of the business, with 29.7% of total net sales compared to 38.0% the previous year.

REPOSITIONING TOWARDS DISTINCT GROWTH MARKETS

We are continuing our strategic process of repositioning the company towards distinct growth markets, primarily North America, the UK and Germany. North America saw strong development during the year with organic growth of 16.7%. After Sweden, North America is our biggest market today, accounting for just over 23.0% of the company's sales. We also saw very strong growth in Germany and the UK. The rest of Europe, which includes these two countries, grew by just over 100.0%, through a combination of organic and acquisition-driven growth. The region now represents about one-third of the company's total net sales.

During 2019 we have taken major initiatives in North America, including establishing a new duct factory in Texas with production planned to begin in April 2020, and further boosting the sales organization for our complete FTTH offering. In the UK, where we are growing very strongly organically, we have built an organization during the year that can cope with continued strong growth.

With the far-reaching measures taken during 2019, we believe we will continue to enjoy growth on all strategic growth markets in 2020, and primarily in North America and the UK in absolute figures.

IMPORTANT INTERNATIONAL CONTRACTS

The year began and finished in the best possible way. In February we closed the company's biggest ever deal, a contract worth the equivalent of half a billion SEK relating to system solutions for CityFibre. At the end of the year, we extended our contract in New Zealand with one of our largest customers, Chorus, for another five years.

Another important commercial success during 2019 came when we won the contracts for several pilot projects relating to FTTH expansion in Germany. The German market is still in its infancy, and we expect several of the projects to develop into bigger contracts in the next phase.

A YEAR OF CONSOLIDATION

Acquisitions are an integral part of our growth strategy. This springs from our strong belief in a local presence on our markets. It is about lasting customer relations, as well as knowledge of the local market and networks for recruiting the right talent for continued growth.

The entrepreneurs and other key persons are the most important assets in the acquired units. We place great emphasis on this in our acquisition process, and we have a model and corporate culture that has enabled us always to retain these individuals.

Between 2011 and 2018, we carried out at least one acquisition a year. 2018 was a revolutionary year, one in which we seriously established ourselves in North America and Germany thanks to two major acquisitions. In the same year, we also acquired three legal entities in the UK. 2019 was naturally a year of consolidation during which all five companies have developed positively, and they have formulated clear growth strategies on their respective markets.

Our growth strategy remains firm, and we will continue to acquire companies with skilled entrepreneurs who share our views on long-term thinking and a healthy corporate culture.

STRONG CASH FLOW

Cash flow during the year was strong. Due to a decrease in interest-bearing debt combined with increased profitability, we reduced net debt in relation to EBITDA to 1.98, compared with 2.15 in the previous year. Thanks to our strong financial position, we can continue our growth journey through strategic acquisitions.

INNOVATION – AN IMPORTANT SUCCESS FACTOR

Innovation has been pivotal to our growth journey, and I am convinced that it will be even more important in the years to

* Excluding patent dispute costs linked to the ongoing case in the UK.
EBITA = operating profit after depreciation of property, plant and equipment.

come. The fact is that some 80.0% of the cost for our typical customers is related to installation and groundwork, while materials and products are only 20.0%. Our development work therefore focuses on developing solutions, in close collaboration with the customer, that enable faster, more cost effective installation procedures. By also offering field support which ensures correct handling along with training of installers, we secure a lower TCO (Total Cost of Ownership) for the customer.

SUSTAINABLE ENTERPRISE

During 2019, we have continued to drive and develop our prioritised sustainability areas. We have also conducted two 'sustainability weeks' for all employees in the Group. One week was on the theme of climate, and the other on diversity and gender equality. We were proud to see our anti-corruption work get noticed in 2019, and that we were ranked as one of the most sustainable companies on the stock exchange in anti-corruption, and also linked to Agenda 2030. During the year, Hexatronic became a supporting member of the Swedish Anti-Corruption Institute, and also a member of the Global Compact.

Read more about our sustainability work in the Sustainability Report further on in this report.

THE EFFECTS OF COVID-19 DURING THE FIRST HALF OF 2020

Like most companies we were affected by Covid-19 during the first quarter of 2020. The sales during the quarter were estimated to be negatively affected by approximately 5% due to delayed deliveries from subcontractors in China. Deliveries have almost returned to normal at the beginning of the second quarter and we expect them to be fully back to normal again in May.

It was in the end of the first quarter that Covid-19 started to affect both our own and our customers' operations. Severe restrictions have been introduced in several of our most important markets, and we believe that sales will be affected although our business as a supplier to telecom operators is classified as critical. There are some customers that will pause new projects while others intend to continue as usual. It is very difficult to assess the effects and the situation changes day by day. Overall, we still believe that most of our customers will continue to build fiber-optic networks during the second quarter. We have introduced measures in all companies to minimize the risk of our staff being infected.

In the long term, we believe that the experience of Covid-19 will lead to increased investments in both fixed and mobile communication networks.

Our financial position is strong, and plans have been prepared to limit the impact on the Group in the event of a potential decline in demand.

We look forward to travelling with you on our ongoing journey towards further growth!

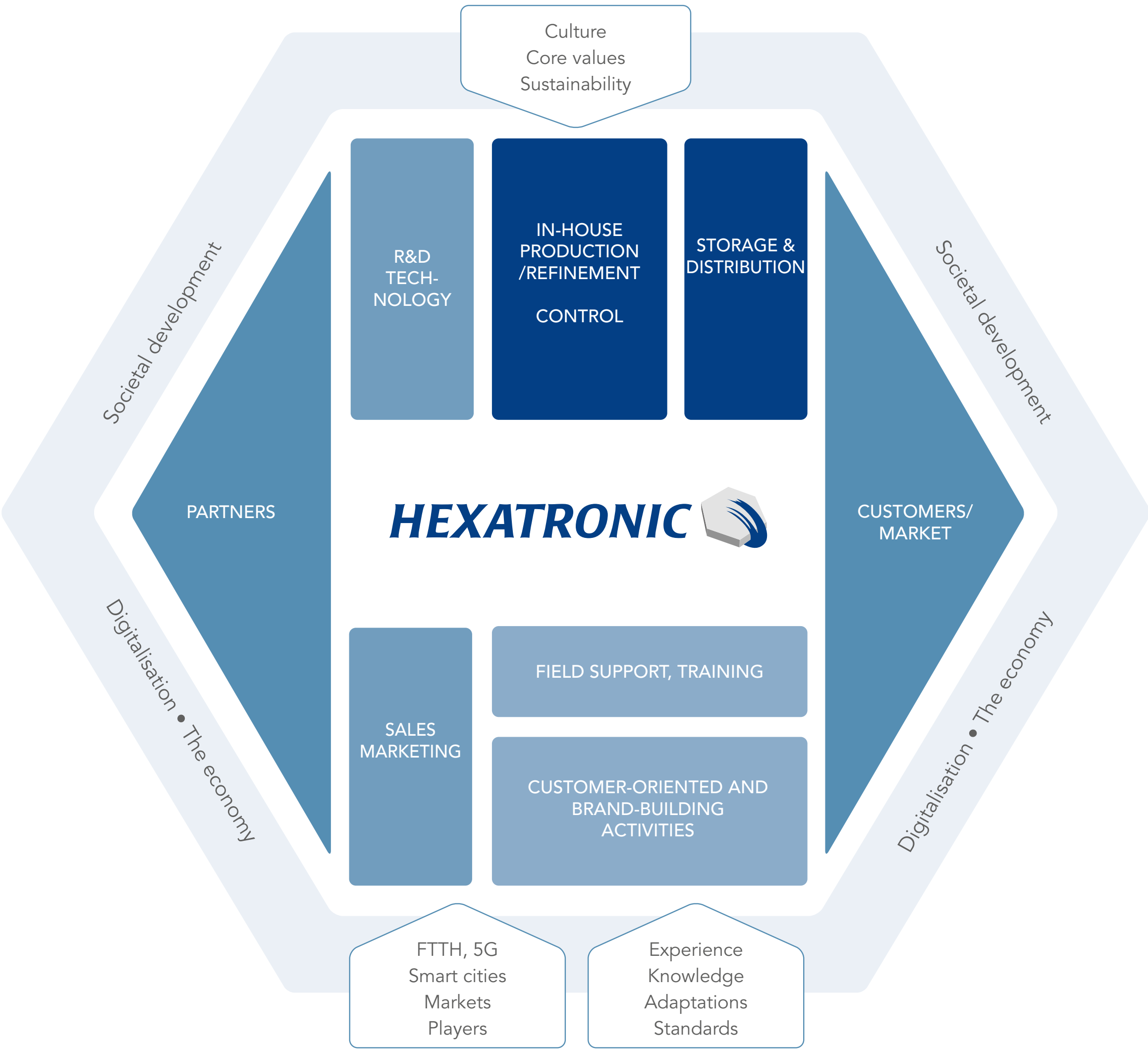
Henrik Larsson Lyon, President and CEO, Hexatronic Group

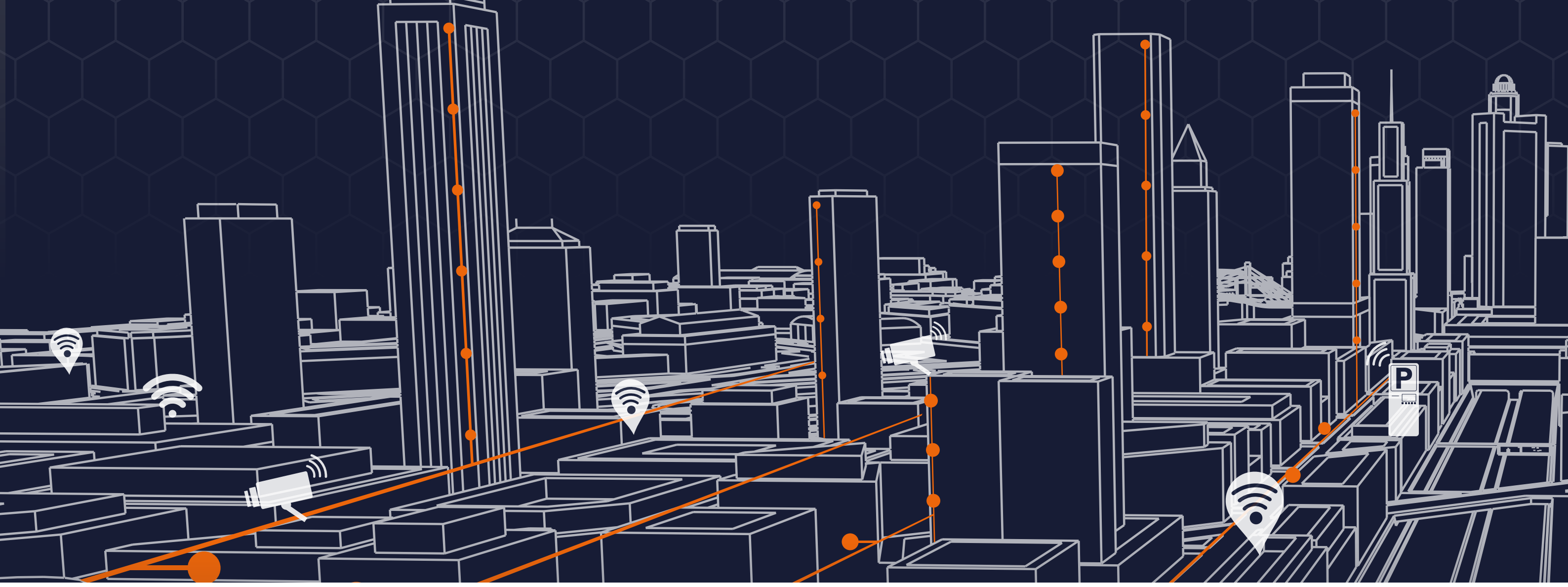
Everything you need to build a world-class fiber network

Hexatronic offers system solutions for fiber networks based on proprietary products, in combination with products from leading partners around the world. We are unique in that all our development know-how is in-house, and because we own our own production chain we can follow the customers all the way from idea to finished network. We can also tailor our solutions for individual markets. The offering also includes training both for the fiber market and in IT, as well as the highly valued Hexatronic Field Support service, whereby we assist our customers with practical support as required out in the field.

BUSINESS MODEL

Hexatronic's business model is illustrated below. The diagram shows how culture, core values and sustainability are important success factors. Applied alongside our knowledge and experience, they enable us to draw benefit from relevant market opportunities. With in-house development and manufacturing, we can offer solutions that help our customers and partners towards successful business. To further support our customers, we have a high market presence, along with our much-appreciated field support and training services.





VISION

Our vision "Bring connectivity to everyone through outstanding fiber optic solutions" clarifies our endeavour to create long-term social benefits with our solutions. Our ambition is that our products and solutions should contribute to the ongoing digitalisation. We are continuously striving for greater global presence, where our products and solutions are connected in more and more systems.

In this way we can do good and create new development opportunities for more people around the world. We develop smart, reliable, readily installable product and system solutions for passive fiber infrastructure, that contribute to the digital transformation. We thus create benefit for businesses, individuals and society at large.

HOW HEXATRONIC CREATES VALUE

With smart, reliable product and system solutions for passive fiber infrastructure, we accelerate the digital transformation for the benefit of businesses, individuals, and society at large. The diagram below illustrates how we create value for our customers, society at large, employees and owners.

Input resources

- Employees
- Suppliers
- Products and services
- Financial capital
- Raw materials
- Competence

Value is created through:

- Product and system solutions for passive fiber infrastructure
- A healthy, inspiring workplace
- Being a responsible industry player

Output resources

- Products and solutions for constructing fiber networks
- Training services
- Knowledge & experience
- Field support

Created value

Customers

Efficient fiber network installations

Reliable fiber networks with a long life

Low environmental impact

Society

More people have access to digitalisation

Jobs and tax income

Sustainable supply chain

Reduced social exclusion

Employees

Pay and pensions

Good health, safety and working environment

Gender equality, inclusive workplace

Development opportunities

Owners

Long-term profitable growth

Industry player with strong business ethics

Significant role in ongoing digitalisation

We aim to increase our pace during 2020

The Group's growth strategy is to continuously develope its product range, introduce more added value services and evolve aftermarket sales, support and training.

Organic growth takes place by continuously developing our market presence with strong local organizations, and continuously developing our product range and introducing more added value services such as servicing, aftermarket sales, support and training. Acquisitions should strengthen and complement the Group through solid local market presence, knowledgeable and experienced employees, and good market familiarity.

On all growth markets there is excellent potential in both fiber solutions and training services, all with a focus on achieving efficiency in fiber expansion and networks that offer the greatest possible reliability.

The Group has an explicit acquisition strategy for its strategic markets. We proactively seek out profitable companies with market-leading positions, along with smaller supplementary acquisitions that can consolidate competitiveness and profitability both locally and for the Group as a whole.

FINANCIAL GOALS 2020

PROFITABILITY

9%

The EBITA margin (operating result after depreciation of property, plant and equipment) should be at least 9% on a rolling 12-month basis.

GROWTH

20%

The Group shall grow more than its market organically. Annual growth of at least 20%.

The growth will be both organic and acquisition-driven.

The right knowledge is an important part of effective broadband expansion. Image showing Edugrade educating fiber installers.

Concerted efforts are under way to establish Hexatronic more firmly on important strategic growth markets such as the USA, UK and Germany. These markets will be making large investments in FTTH over the next few years. Effective broadband expansion methods and the right knowledge to run the projects are needed to quickly meet the countries' need for fiber networks.

FAST AND EFFICIENT

Ensuring secure, efficient, robust fiber networks is now a political priority in laying the foundation for successful digitalization. In a world where more and more of our everyday life is connected, our demands on a stable connection anywhere are increasing – and just as we expect a light bulb to glow when we flick a switch, we now expect a fast internet connection – wherever we are, and at any time. We only become aware of the internet connection when it's not working.

Most countries have understood the importance of securing their competitiveness by investing in broadband extension and fiber to the home – not only in cities but also in rural areas. The networks are becoming vital aspects of society's functions and services, and make it possible to reach more people with fewer resources. As fiber networks expand, this opens up opportunities for dismantling the old copper networks so as to streamline both maintenance and electricity consumption. Through industry organizations such as the FTTH Council, countries that have come further can share their experiences with other markets.

STUDY FROM FTTH COUNCIL EUROPE

A 2019 study by the FTTH Council Europe and WIK Consult analyses the phenomenon of 'Copper Switch Off' for ten selected European countries. The study shows that some of the countries that have come furthest in their fiber expansion have now started dismantling the old copper networks, motivated by lower maintenance costs and reduced electricity consumption for the fiber networks, compared to copper ones.

"Broad expansion of FTTH worldwide, with continuing potential on our growth markets"

Martin Åberg, Deputy CEO, Hexatronic Group AB

The fiber optic market is growing

A continued strong international fiber market with great potential in FTTH

The general transition to a more digital, sustainable society is continuing at an increasing rate, and this change is extensively dependent on a fast, reliable infrastructure for digital communication. There are many factors driving this transition and the increased need for connection, from altered behaviours such as increased work fron home, online shopping, digital banking services, online gaming, HD TV, streaming services and VR/MR, to a higher degree of connectivity in industry and driverless vehicles. The common denominator for it all is reliable internet connection with increasing demands on short response times.

FTTH

The world's fiber network consists of powerful international transport networks that link together national and regional networks, backbone networks, and finally access networks (FTTH, fiber-to-the-home) which reach out to individual households. Millions of homes around the world need to be connected to high-performance communication networks, which means that the international market for FTTH is continuing to develop positively. Market Panorama, an annual report by FTTH Council Europe conducted in partnership with IDATE, shows that growth in subscribers* between September 2018 and September 2019 was 5% in the Nordic countries, 40% in the UK and 42% in Germany. The 2017-2018 growth was 42% in New Zealand and 21% in North America.

Various reports and national forecasts indicate continued strong demand for FTTH on Hexatronic's strategic growth markets (the UK, North America and Germany) up to 2025–2030, and probably beyond as well.

* **Subscribers** – Users (homes) of at least one service delivered by fiber.

** **Penetration rate** – Number of subscribers/ Number of households.

*** **FTTH/B Homes Passed** – Connected homes and homes passed by fiber which can be connected with relative ease.

THE EUROPEAN FTTH MARKET

There remain major differences in the level of expansion between the European countries, according to FTTH/B Panorama September 2019. According to the survey, the 28 EU Member States have an average household penetration*** of 17.0%, while the figure for Sweden is 56.8%. By way of comparison, the figure for Norway is 39.8%, Portugal 42.1%, Finland 26.6% and France 25.6%. Household penetration is 4.3% in Italy and 3.3% in Germany, while the figure for the UK is 2.8%. The results indicate continued strong potential on the European market.

Market drivers

5G

The expansion of 5G is progressing after a slower start than predicted, although the expansion is expected to be faster than previous assessments suggested.

Asia has come the farthest followed by the USA, while Europe is lagging behind somewhat. The commercial launch of 5G on a broad scale is expected within a couple of years, and this will affect our prioritised markets as technical maturity increases.

5G will be used in a range of areas, e.g. as an alternative to broadband connection, in mobile phones, as a local network for industrial applications and so on.

According to the Ericsson Mobility Report, the number of 5G users is expected to increase most rapidly in North America, with 63% of mobile plans using 5G by 2024. Northeast Asia will be in second place with 47% and Europe in third with 40%.

THE DIGITAL SOCIETY – THE SUSTAINABLE SOCIETY

One strong driver in the change towards a digital society is sustainability, and the benefits digitalisation brings in this area too.

Digitalisation often entails opportunities for streamlining and new services, such as driverless cars, buses and lorries, which can save energy while enjoying greater communication and coordination with each other. Other areas include meetings using digital services which reduce the need for travel, increased digitalisation in healthcare which increases efficiency and reduces the need for physical movement, more digitalised farming which offers great improvements in efficiency and resource utilisation, and monitoring and measurement with increased efficiency as services and input can be provided as required, rather than having to visit each place for on-site checks.

The common denominator in all these new services is the need for fast, stable and fully comprehensive communication.

EECC AND THE GREEN DEAL

Most countries have goals for digitalisation that directly or indirectly steer the expansion of the fiber networks. Several countries are using government subsidies to speed up expansion, and the subsidies are often focused on sparsely populated areas that are not otherwise commercially attractive. One example is Germany, which has plans to invest a total of EUR 14-16 billion in constructing high-speed broadband networks up to 2025.

One positive development at the end of 2018 was the European Commission's decision to adopt a new European Electronic Communications Code (EECC). The 28 Member States then had two years to incorporate the regulations into national law.

Another important initiative is the European Commission's Green Deal, which stipulates that Europe should be the world's first climate-neutral continent by 2050. The package of measures aims to enable businesses and individuals to benefit from a green transition.

Some of the focus areas are work on climate change, digitalisation and migration. In March 2020, the European Commission adopted a strategy for the industry to support digital change in the EU.

Passive products for the safe, efficient construction of fiber networks

We develop and manufacture complete solutions that increase our customers' competitiveness and give the networks a long life and a low total cost.

Extending communication networks entails large, complex projects involving a wide range of professional categories. Around 80% of the costs in a fiber project relate to installation, while the cost of materials equates to around 20%. The choice of products and working methods has a large impact on the success and profitability of the project, primarily because the products' installation properties and quality influence the time taken and future maintenance requirements. Consequently, demand is increasing for products and solutions that can streamline the process and optimise the network's quality and total cost.

The Group's collective offering primarily focuses on passive products for the construction of fiber optic communication networks. Our customers are primarily installers and network owners. On certain markets, our products and solutions are distributed by local wholesalers.

COMPLETE SYSTEM OFFERING

Hexatronic's robust products are easy to install, leading to shorter installation times and higher project efficiency. Our complete system ensures compatibility between all constituent products, and under these conditions we can offer an extended system guarantee.

The Group's product range includes everything required to build and maintain a fiber network, such as duct (pipes), fiber cables of different types with varying numbers of fibers, distribution hubs, cabinet solutions, ODFs, cabling, instruments, installation and measuring tools, cleaning products and more.

We place great emphasis on product development and have the ambition to be at the very leading edge of the market when it comes to innovation and new products. The fiber cables Viper, Stingray and Raptor, which are all faster to install than comparable products on the market, are some of the innovations that have led to results for our customers.

FIELD SUPPORT FOR CUSTOMERS ON-SITE

Fiber installation is a complex, demanding process that entails everything from excavation, duct laying and cable installation, to high-precision tasks such as welding and fiber connection. This places great demands on the experience and knowledge of the installation engineers, and on their ability to find solutions in a variety of different situations.

To make it easier for customers, Hexatronic has now introduced Hexatronic Field Support, an on-site service to support customers where they are. The customer receives practical guidance and support in using and combining Hexatronic's products in the best possible way. This makes for quite a difference compared to telephone support, for example.

Above: Hexatronic Field Support supports customers on site in the projects. Left: Inhouse production and assembly provides full control of the quality chain, image from Hexatronic UK.

TRAINING

In the current global market situation, with many countries planning extensive fiber network installations, a great need has arisen for competent personnel on certain markets. There is a shortfall of many thousands of people who need to know how to design, project manage and install fiber networks. This is also true on more mature markets in order to increase efficiency. We therefore offer customised training programmes for individual companies, as well as higher vocational education programmes in fiber optics, programming and security technology.

HEXATRONIC CREATES VALUE FOR CUSTOMERS THROUGH

Enhanced competitiveness for installation companies

The greatest value for installation companies is created by products and solutions that allow efficient, problem-free installation. With efficient solutions, we help to enhance our customers' competitiveness.

Long life and low total cost (TCO) for the network owner

Building a fiber network is a far-reaching investment. Hexatronic creates the greatest value for the network owners by delivering high-quality products that allow a long service life, low maintenance costs and thereby a low total cost over time.

WHAT MAKES HEXATRONIC UNIQUE

COMPLETE SYSTEM

A well-considered range of products with maximum compatibility makes it possible to offer an extended guarantee.

BEST TOTAL COST OF OWNERSHIP (TCO)

Easily installed products of high quality mean a lower maintenance requirement and a longer life in the network.

IN-HOUSE PRODUCTION

Full control over the production chain, which makes us strong in terms of capacity and flexible enough to make changes as required.

WORLD-CLASS PRODUCT DEVELOPMENT

Our goal is always to be a step ahead of the market, and constantly to enhance our products' properties.

FIELD SUPPORT AND TRAINING

Practical guidance in the field and well-trained personnel save time, streamline installation and minimise the risk of error.

NORDIC COUNTRIES

Sweden still a leader in broadband expansion

A lot remains to be done within FTTH in all the Nordic countries, mainly in the core network and more sparsely populated areas.

Sweden was first and is now the most advanced, both in terms of the number of connected homes and HP/Homes Passed coverage (homes passed by fiber infrastructure which can easily be connected). The Swedish market was at its strongest in 2016–2018, but has since slowed for various reasons. It is worth bearing in mind, though, that while the FTTH market may not be as aggressive as in the busiest years, a lot still remains to be built, both in the core network and especially in more sparsely populated areas.

The Norwegian market started considerably later than Sweden, and FTTH expansion is still lagging behind somewhat. Even though fiber has been the predominant technology for home broadband since 2015, the same did not apply to businesses until as recently as 2019.

"The future potential is outside of the big cities, as smaller town and rural networks are extended."

Håkan Bäckström, CEO of Hexatronic Cables & Interconnect Systems AB

The Norwegian market is currently in positive development with a high level of activity, which is clear from Market Panorama statistics with a rise in subscribers* of 49.0% from 2015 to 2019 and a penetration rate** now of 37.5%, a positive development which still shows remaining potential.

The Finnish market started well behind both Norway and Sweden. One possible explanation is that Finland has more extensively used mobile solutions, so there was not really a need until the need for higher speeds increased. The market is in a period of growth, albeit cautious, with a level of subscribers* of 26.5%, compared to 56.8% in Sweden and 39.8% in Norway. The Finnish market is expected to continue growing over the next 3–5 years.

* **Subscribers** – Users (homes) of at least one service delivered by fiber.

** **Penetration rate** – Number of subscribers/Number of households.

*** **FTTH/B Homes Passed** – Connected homes and homes passed by fiber which can be connected with relative ease.

NORDIC COUNTRIES

13 million households

34% penetration rate**

4.4 million subscribers*

5% growth in subscribers* 2018–2019

A market with great potential

The UK has for many years been one of the least developed countries in Europe in terms of fiber network expansion, particularly in FTTH.

One reason is that British Telecom has had well-developed copper networks which it has tried to use as far as possible, and these have in fact managed to deliver the target capacity of 'superfast broadband', which is defined as 30 Mb/s.

The FTTH Council report from 2019 clearly shows that the UK has been lagging far behind: it was only included in the report from 2018 as the minimum required subscriber* figure is 1%.

A RAPID, PROGRESSIVE MARKET

Since 2018 the market has gathered a lot of momentum, and is now one of the most active in Europe with a rapid and progressive rate of expansion.

Regulatory authority Ofcom has played an important part in the conditions and ambition of FTTH expansion in the UK. For instance, it has regulated the prices for Openreach (part of British Telecom) with the aim of stimulating investment and improving competition terms, and in 2018 it launched a plan to support the government's broadband target of 15 million fiber-connected homes by 2025. In 2019, Boris Johnson's government adopted a plan to extend 'gigabit-capable broadband' nationwide by 2025, a target that has been welcomed by the industry but which could be hard to achieve, due to licensing issues and access to qualified labour.

The market is rife with private challengers to Openreach, all with explicit ambitious goals regarding the number of homes it aims to connect to fiber (FTTH). Summing up these various goals, it is clear that the UK will be a highly active market with great potential up until 2025, and several years beyond. For example, the number of subscribers* grew by 40.0% between September 2018 and September 2019, and in the same period the number of FTTH/B Homes Passed*** rose by 51.0%.

According to the 'Forecast for Europe' presented by the FTTH Council in March 2019, the number of subscribers is expected to increase from 1.5 million to almost 21 million between 2020 and 2025, while the corresponding anticipated rise for FTTH/B Homes Passed*** is from 8 to 27 million in the same period.

UNITED KINGDOM

28 million households

2.8% penetration rate**

0.4 million subscribers*

40% growth in subscribers* 2018–2019

"The UK market is very rapidly expanding at the moment"

Matt Taylor, MD
Hexatronic UK Ltd.

GERMANY

Strong growth in the years to come

Europe's largest market is growing as the pace of FTTH expansion increases, but challenges remain if the targets are to be achieved.

Although Germany is Europe's biggest economy and is often regarded as a prominent, modern industrial nation, it has long been at the very bottom when it comes to the expansion of FTTH. Deutsche Telecom has long held a strong position, and has done what it can to continuously increase capacity in the existing copper networks and thereby reduce the need for fiber connections. It is, however, worth mentioning that the networks sometimes involve a combination of technologies, whereby fiber links together zones and local on-street cabinets, with copper being used for the final connection into the home.

FAST, STABLE CONNECTIONS NEEDED

Germany, the initiator behind digitised industry (Industry 4.0) and with an extremely strong automotive industry, has finally realised that modern society requires fast, stable connections which copper networks cannot fully deliver.

Germany has had three broadband targets: Goal 1 stipulated basic broadband for everyone by 2013, Goal 2 was that the entire population should have access to 30 Mbps, and Goal 3 was more ambitious, with a target of more than 50% using 100 Mbps by 2020.

As a large nation, Germany does have regulatory challenges in accelerating the expansion of fiber networks, both in terms of competition and how the financial support can be used most effectively.

"The German market will grow strongly for many years ahead. There is a great need for stable connection."

Christian Priess, Business Development Director, Hexatronic Group

AMONG THE LOWEST IN MARKETING PANORAMA

According to FTTH Council Europe's Marketing Panorama, based on data from 2019, Germany emerges as one of the bottom nations with just 3.3% subscribers*. This can be compared to Spain with 54.3% and France with 25.6%.

Bearing in mind the country's size, the low user figures for FTTH and the increased need for fast, stable connections, the market is expected to grow substantially for many years to come.

According to the 'Forecast for Europe' presented by the FTTH Council in March 2019, the number of subscribers* is expected to increase from 0.9 million to 10.5 million between 2020 and 2025, while the corresponding anticipated rise for FTTH/B Homes Passed** is from 3 to 20 million in the same period.

Fiber expansion is stimulated with various forms of support in Germany,

GERMANY

41 million households

3.3% penetration rate**

1.3 million subscribers *

42% growth in subscribers* 2018–2019

NORTH AMERICA

New opportunities on a large market

USA is the world's biggest economy and contains many of the world's leading IT companies, although it is far from a leader in the expansion of FTTH.

In many places, USA has extensive networks of copper along with mobile solutions, and this has sufficed to date. It is, however, evident that interest in fiber connections is increasing, even though the country started late and growth has been slow.

Expansion of fiber-to-the-home (homes passed and homes connected) has tripled over 10 years and reached 39,4 million homes in 2018. This indicates that the market is alive and steadily gathering momentum.

NATIONAL BROADBAND PLAN

The new national broadband plan, Connecting America, was adopted in 2010, the aim being to accelerate the expansion of fast broadband after identifying many areas of society that would benefit greatly from well-developed broadband networks. These include promoting solutions for welfare, security, healthcare solutions, training and education solutions, as well as boosting investment and employment – all of which show how important fast, stable connections are in our modern age.

One of the targets for broadband was that 100 million homes should have access to a connection of 100 Mbps at a reasonable cost by 2020.

FAR ADVANCED IN 5G EXPANSION

The USA is, however, far advanced in the expansion of 5G, along with South Korea, China and Japan. The biggest difference between the USA and the Asian states is that the USA is far behind in developing FTTH, and this is evident in the global ranking presented in the Market Panorama from FTTH Council Europe in March 2019. The penetration rate*** comparison reveals the huge difference, with China in the lead with almost 80%, followed by South Korea with 76% and Japan with 70%, and the USA with just 12% in the same report. It is worth mentioning that Canada is on the same level as the USA, which illustrates the high potential of the North American market.

Blue Diamond is one of the Group's companies in the US.

"A large expansion in the FTTH market the coming years is to be expected"

Per-Anders Eriksson,
President, Hexatronic US Inc.

NORTH AMERICA

142 million households

12% penetration rate**

17 million subscribers *

21% growth in subscribers* 2017–2018

Increased internationalization

We once again had a year of very strong international growth.

After several acquisitions in previous years, 2019 was a year of consolidation. But above all, it was a year that validated our acquisition model, where several of our strategic acquisitions developed very well and strongly contributed to organic growth.

Hexatronic has a pronounced acquisition strategy in our strategic markets. We evaluate ongoing acquisitions of profitable companies with market-leading positions and smaller supplement acquisitions that can strengthen competitiveness and profitability both locally and for the Group.

Efforts to establish Hexatronic more strongly in important strategic growth markets such as the US, UK and Germany are ongoing. In these markets, very large investments in FTTH have been announced for the coming years and this is where Hexatronic will grow.

The Group's growth strategy is to grow by continuously developing the product range and adding more value-added services such as service, aftermarket sales, support and education.

Acquisition candidates are identified primarily through our local organizations and their networks. In all of our strategic markets, we have several local companies and where all companies have a number of people with very long industry experience. As Hexatronic has become a major player in mainly fiber to the home, we are regularly contacted today by potential sellers or their advisors.

IMPORTANT CRITERIA WHEN EVALUATING COMPANIES

In order to be successful with our decentralized model, the following is central:

- The company has strong management
- The company is stable and with documented profitability
- The company has a strong market position
- The company has limited exposure to technology risk
- The company conducts a sustainable business

OUR PHILOSOPHY FOR SUCCESSFUL INTEGRATION

To ensure the successful integration of companies after acquisition, we have the following guidelines:

- We value and strive to retain the entrepreneurial spirit in acquired companies
- We develop strong brands and a positive business culture
- Acquired companies are independent legal entities with their own profit responsibility
- We never acquire companies solely based on potential cost synergies
- Integration and coordination in the Group focus on broader sales with the aim of strengthening the Group's product and system offering

A group growing in the strategic markets

The Group comprises the parent company Hexatronic Group AB, with its registered office in Gothenburg, and 19 subsidiaries.

INDEPENDENT, ENTREPRENEURIAL COMPANIES

Hexatronic has 597 employees in 20 independent companies. Flexibility and freedom with responsibility are the fundamental principles that permeate Hexatronic's decentralised organization, since we are convinced that the best business decisions are made close to the customer and the market.

SUPPORTING SUBSIDIARIES' DEVELOPMENT

The independence of the subsidiaries is important in order to recruit and retain skilled employees and entrepreneurs. Hexatronic does not micro-manage its subsidiaries, but instead practises active ownership through Group-wide functions and financial monitoring. Group-wide functions can be found in areas that contribute to the subsidiaries' efficiency and profitability such as market, legal affairs, accounting, finance, business development and sustainability.

HEXATRONIC GROUP

- EDUGRADE SWEDEN
- EDUGRADE NORWAY
- PQMS TRAINING
- GORDON FRANKS TRAINING
- SMART AWARDS

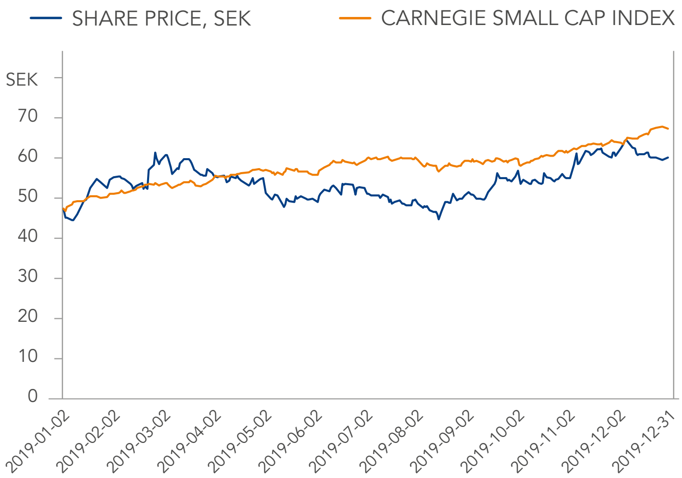
- HEXATRONIC GERMANY
- HEXATRONIC NEW ZEALAND
- HEXATRONIC FIBEROPTIC
- PROXIMION
- BLUE DIAMOND INDUSTRIES
- OPTERNUS
- OPTERNUS COMPONENTS (33%)

- HEXATRONIC CABLES & INTERCONNECT SYSTEMS
- HEXATRONIC CHINA
- HEXATRONIC UK
- HEXATRONIC US
- HEXATRONIC NORWAY
- HEXATRONIC DENMARK
- OPTERNUS NETWORKS

Strengthened institutional ownership

SHARE PRICE TREND

During the financial year, the share price has fluctuated between a minimum of SEK 44.85 on 8 January 2019 and a maximum of SEK 65.10 on 5 December 2019. The closing price at the end of the financial year was SEK 60.70.



TRADING VOLUME

A total of 15,028,676 shares were traded to a total value of SEK 827,857,581. On average 60,115 shares were traded per trading day during the financial year.

OWNERSHIP STRUCTURE

There were 7,720 shareholders in the company on 31 December 2019. The ten largest shareholders owned 52.9% of the capital and votes. Foreign ownership accounted for 30.3%. (Source: Euroclear.)

NUMBER OF SHARES

The number of shares totalled 37,543,824 on 31 December 2019 of which 37,183,825 is ordinary shares and 360,000 shares in serie C. Each share has a quotient value of SEK 0.05. Holders of ordinary shares are entitled to a dividend as determined by the Annual General Meeting.

Each share entitles the holder to one vote at the AGM. Due to the regulations in the company's Articles of Association, there are no restrictions on the shares' transferability or on each shareholder's voting rights at the AGM.

DIVIDEND POLICY

Any dividend is decided by the Annual General Meeting, following a recommendation by the Board of Directors. The Board proposes to reinvest the profit into the operations.

AUTHORISATION

During the financial year, the following share issues have been carried out:

- A new share issue of 360,000 shares (May 2019) in series C to secure future delivery of performance shares and costs for potential social costs during LTIP 2019.

At the AGM on 9 May 2019, the Board was authorised to make a decision by the next AGM on the new issue of shares and/or warrants and/or convertibles amounting to up to 10% of the registered share capital.

The Board was also authorised on one or more occasions ahead of the next AGM to make a decision on the acquisition of own shares or to transfer own shares held by the company at the time of the Board's decision to transfer. The company may acquire as many shares as to own a maximum of 10% of all shares in the company.

INVESTOR RELATIONS

IR work is characterised by open, relevant, correct information to shareholders, investors and analysts in order to increase knowledge of the Group's operations and its share. Hexatronic communicates information in the form of interim reports, an annual report, relevant press releases, and also provides more in-depth information about the Group on its IR website pages (www.hexatronicgroup.com). Shareholders and other stakeholders can subscribe to press releases and financial reports by e-mail.

During 2019, press releases were issued for business of strategic importance, and investment in a new production facility.

On the website, the general information on the IR pages is updated in connection with each end of quarter.

No communication takes place with the financial market for four weeks prior to publication of a financial report.

SHAREHOLDING BY SIZE OF HOLDING

31-dec-19

Holding	No. of known shareholders	No. of shares	% of votes and capital
1–1,000	6,368	1,551,731	4.2%
1,001–5,000	1,019	2,295,077	6.2%
5,001–10,000	147	1,101,418	3.0%
10,001–15,000	42	535,108	1.4%
15,001–20,000	31	552,467	1.5%
20,001+	113	31,148,024	83.8%
Total	**7,720**	**37,183,825**	**100%**

TEN LARGEST SHAREHOLDERS

31-dec-19

Owner	No. of shares	% of votes and capital
Accendo Capital	3,906,012	12.8%
Handelsbanken Funds	3,391,000	8.7%
Jonas Nordlund, privately and via companies	3,000,000	8.2%
Länsförsäkringar Funds	1,898,881	4.9%
Martin Åberg and Erik Selin via Chirp AB	1,785,872	4.8%
Swedbank Robur, West Fund	1,359,722	3.7%
Fondita Nordic Micro Cap	1,162,795	3.5%
AMF Insurande & Funds	1,151,279	3.2%
Avanza Pension - Insurance company	1,053,145	3.0%
Consensus Asset Management	952,501	2.3%
Ten largest shareholders total	**19,661,207**	**55.0%**
Other shareholders	17,522,618	45.0%
Total	**37,183,825**	**100.0%**

Sustainability Report 2019

Together with our employees, customers and suppliers, we want to contribute to a more sustainable society. How we run our company and do business matters. We are proud of the commitment and drive of our personnel in contributing to positive development. Read more in this Sustainability Report about what we have achieved in 2019, and our plans for 2020. Be a part of our sustainability journey!

About the Sustainability Report

THE GROUP'S SECOND SUSTAINABILITY REPORT

This is the Hexatronic Group's second Sustainability Report in accordance with chapters 6 and 7 of the Swedish Annual Accounts Act's information requirements in the areas of environment, social aspects, personnel, respect for human rights and combating corruption, and encompasses the 2019 financial year. Inspiration and guidance for the content of the report have been taken from the practices and guidelines available for meeting the legal requirements, as well as international systems such as: GRI Standards, UN's global Sustainable Development Goals – Agenda 2030 and the Global Compact.

The Sustainability Report encompasses pages 24–37.

SCOPE

The Sustainability Report encompasses the Parent Company Hexatronic Group AB, reg. no. 556168-6360, and the following subsidiaries: Hexatronic Cables & Interconnect Systems AB, Hexatronic Fiberoptic AB, Proximion AB, Edugrade AB, PQMS Training, Smart Awards, Blue Diamond Industries LLC, Gordon Franks Training Ltd., Hexatronic AS, Hexatronic US, Hexatronic UK Ltd., Hexatronic New Zealand Ltd. and Opternus GmbH.

For further information about the Group, the number of employees, sales and business model, see pages 5, 8 and 21.

Sustainability – governing principles

AGENDA 2030 AND THE GLOBAL COMPACT

As a global player in fiber expansion, we play an important part in helping to achieve Agenda 2030 and the UN Global Compact's ten principles for sustainable enterprise. Our Sustainability Report shows which sustainability goals we contribute to in particular, linked to our economic, environmental and social responsibility. The table of key metrics on pages 36 and 37 clearly shows the link to the Agenda 2030 targets and the Global Compact's ten principles.

POLICY DOCUMENTS

At the Group level, the following policy documents are the main guidelines in the field of sustainability: Sustainability Policy, Code of Conduct – Internal, Diversity and Gender Equality Policy, Whistleblower Policy, and Code of Conduct – Suppliers. To see the documents in their entirety, please go to the website: https://hexatronicgroup.com/en/sustainability/policy-documents/.

Monitoring compliance with the policy documents takes place through internal and external audits, and also using selected key metrics.

DIVERSITY POLICY – BOARD OF DIRECTORS

As regards the Diversity Policy for the Board of Directors' composition, the stipulations of Section III, point 4.1 of the Swedish Corporate Governance Code have been applied.

SIGNIFICANT RISKS

Significant sustainability risks are included in the audit of the Group's other risks. These risks and the Group's risk management are presented on pages 44–47.

Sustainability risks comprise important input in selecting prioritised sustainability areas.

Hexatronic's mission

With smart, reliable product and system solutions for passive fiber infrastructure, we accelerate the digital transformation for the benefit of businesses, individuals, and society at large.

Nine sustainability areas

In 2018, we decided to focus on nine sustainability areas, see the picture below. These areas are deemed to be the most relevant ones to manage, develop and improve also in 2019. To find out more about our actions in each area, please see pages 27–35.

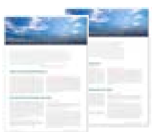
Our contribution to "Respect for human rights" can be found on pages 28 (Sustainable supply chain) and 33 (Diversity and gender equality).

RESPONSIBILITY AND MONITORING

Each subsidiary in the Group is responsible for contributing to positive development in each area.

Responsibility for driving, supporting and monitoring developments lies at the Group-wide level. For further information about developments in each area, please see the results indicators on pages 36–37.

Important milestones 2019



The Group's first **Sustainability Report** in line with legal requirements published

Sustainability Week **on climate**

7 AFFORDABLE AND CLEAN ENERGY · 13 CLIMATE ACTION · GREEN ALL THE WAY

New member of the UN **Global Compact** signatory level

WE SUPPORT UN GLOBAL COMPACT

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Ranked in the **top 5%** of sustainable listed companies in anti-corruption

Ranked in the **top 25%** of sustainable listed companies in Agenda 2030

HÅLLBARA BOLAG

Sustainability Week on **diversity and gender equality**

5 GENDER EQUALITY · 10 REDUCED INEQUALITIES · GREEN ALL THE WAY

New policy for greater diversity and gender equality, and a new action plan against **discrimination and victimisation**

New supporting member of **Swedish Anti-Corruption Institute**

INSTITUTET MOT MUTOR

Expectations on our sustainability work

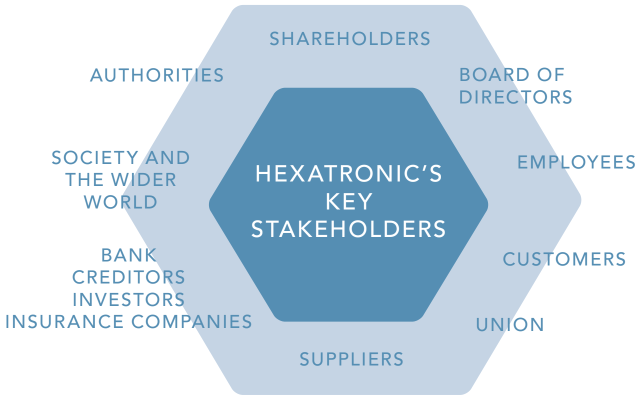
Hexatronic's activities affect and are affected by various stakeholders. By listening to these stakeholders, we become better at understanding which issues are important, how to prioritise them and what we need to develop.

During 2020, two important parts of our sustainability strategy are to create value and business opportunities through sustainability, and to involve customers, suppliers and employees to find the best solutions. During the year, the following three questions were put to some of our customers and investors:

1. What expectations do you have of Hexatronic Group's sustainability work?

2. Which sustainability issue do you feel is by far the most important for us to work on?

3. How would you like to be involved in our sustainability work?



Anders Nordlöw, CEO Elektroskandia & Sonepar Nordic

1. We have high expectations of Hexatronic's sustainability work, particularly in the area of climate.

2. To help us describe the products' environmental impact to our customers (total life cycle including transport). We also value transparency about how you work broadly with sustainability, as well as your ambitions and development.

3. Elektroskandia would like to work with Hexatronic to reduce carbon dioxide emissions in our joint dealings.

Fredrik Skoglund, Portfolio Manager, Länsförsäkringar Fondförvaltning AB

1. Here at Länsförsäkringar, we place a lot of emphasis on sustainability and we expect all the companies we invest in to do their utmost when it comes to ESG.

2. On an overall level, your products enable less travel and more digital contact between people, which feels important.

3. At Länsförsäkringar we have ongoing sustainability dialogues with all the companies we've invested in, and we get involved via these dialogues.

Karin Askelöf, Head of Responsible Investments, Handelsbanken

1. We can see that Hexatronic has made great advancements in its sustainability work. It's important that as investors, we can see the company's ambitions and that change is happening.

2. We feel that efforts initiated with sustainability in the supplier stage remain important, and are also convinced that continuing to reduce its products' environental impact will be vital to Hexatronic's competitiveness.

3. We like to maintain an ongoing dialogue with the companies we invest in, and we try to guide them, for instance as regards which key metrics are important in our analyses and assessments.

Claes Seldeby, CEO, Ahlsell Sverige AB

1. Hexatronic is a company with a heavy focus on sustainability, which is fundamental to a continued strong competitiveness. We can see that you're continuing on your set path, and that future products and services will not only meet, but exceed the market's expectations.

2. The sustainability perspective based on the product is important, and we feel that health, safety, diversity and equality are just as important – throughout the value chain.

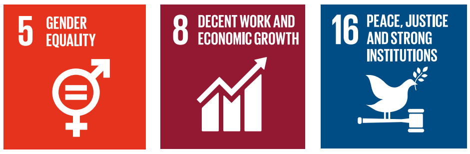
3. We are happy to be involved and convey the demands that we and our joint customers have, and to discuss how, together, we can secure a sustainable future.

A list of our stakeholders, how dialogue is maintained and the expectations they have can be found here: https://hexatronicgroup.com/en/sustainability/our-stakeholders/. For information on how we create value for our customers, society at large, employees and owners, please see page 9.

Our economic responsibility

Strong business ethics

It is important that our customers, investors and other stakeholders feel trust in Hexatronic and know that we represent a high level of business ethics.



Our work linked to the economic dimension of sustainability contributes to UN SDGs 5, 8 and 16.

HOW WE WORK WITH ANTI-CORRUPTION

At Hexatronic, during 2018 and 2019 we have established a number of important parameters in order to ensure a good structure and sound governance for our anti-corruption work. For instance we have an internal code of conduct for all employees to read and sign, and it is a natural part of the induction process for new recruits. We maintain ongoing training/discussion on ethical dilemmas.

We also have a separate code of conduct for suppliers in which anti-corruption is an important aspect, as well as a whistleblower policy and a whistleblower function. The area is managed by key metrics, see page 36, and bribery and corruption are also part of the annual risk analysis.

As well as a good structure and sound governance, the foundation for success in the Group is that we have a positive corporate culture, with personnel who have a desire to do what is right. It was therefore nice to see Hexatronic being ranked among the top 5% of 100 listed companies audited for anti-corruption in 2019.

PLANNED FOR 2020

- Draft an anti-corruption policy to complement our internal code of conduct, with a particular focus on corporate gifts and business representation.
- Follow up on compliance of relevant policy documents via internal audits.

PROACTIVE RESPONSIBILITY IN NEW BUSINESS TRAVEL POLICY

In 2019 you adopted a new business travel policy, which takes a stand against trafficking and sexual exploitation. You also trained sales staff in these issues. Why was that?

"For us, it's only natural to take a stand against trafficking and sexual exploitation. As a company, we want to contribute to a working climate and a society based on equality and mutual respect."

Hanna Sandberg,
HR Manager, Hexatronic Fiberoptic

BEST IN ANTI-CORRUPTION

"We are proud to have our anti-corruption work recognised in 2019 in connection with Dagens Industri's, Lund University's and Aktuell Hållbarhet's ranking of listed companies."

Henrik Larsson Lyon, President and CEO, Hexatronic Group

SUPPORTING MEMBER OF SWEDISH ANTI-CORRUPTION INSTITUTE

"We welcome Hexatronic Group as a supporting member. The move marks Hexatronic as a company that knows the importance of anti-corruption issues and sends a clear signal, both internally and externally."

Natali Engstam Phalén, Secretary General, Swedish Anti-Corruption Institute

Sustainable supply chain

Securing a sustainable supply chain is vital in our strategy to deliver value to our customers and contribute to sustainable development. We therefore want to work with suppliers who share our values when it comes to sustainability and ethics.

ONGOING LAUNCH OF THE CODE OF CONDUCT FOR SUPPLIERS

A Group-wide code of conduct for suppliers was adopted and launched in 2018, with requirements in the following areas: environment, human rights, fair employment conditions, health and safety, and anti-corruption.

In 2019 we have focused on ensuring that our suppliers respect and comply with the code. To date 146 suppliers, who jointly account for 75% of the Group's total purchased volume of direct materials and transportation, have confirmed that they run their business in accordance with the requirements set out in the code of conduct. For further information about our requirements and the current code of conduct, please go to: hexatronicgroup.com/en/supplier/.

AUDITING OF SUPPLIERS THROUGH SELF-ASSESSMENTS AND ON-SITE AUDITS

During the year 11 self-assessments were carried out, corresponding to 10% of the Group's total purchased volume of direct materials and transportation. Eleven on-site audits were conducted, corresponding to 17% of the Group's total purchased volume of direct materials and transportation.

All completed audits were approved. Overall, we believe that our suppliers have a high level of awareness as regards sustainability issues.

The main areas where we can see a need for improvement are ensuring that our sustainability demands permeate the entire supply chain, and that our suppliers, including subcontractors, follow our goals for reducing carbon dioxide emissions.

PLANNED FOR 2020

- Ensure that our code of conduct is respected, for instance by performing further self-assessments and audits on site.
- Include the climate issue in dialogue with and when setting demands for our suppliers.
- Develop a method for risk analysis (based on product, category, industry and country), and perform risk assessment.
- Ensure that skills enhancement is carried out for specific purchasing positions linked to the area of sustainability in the supply chain.

UK MODERN SLAVERY ACT 2015

Hexatronic commits to preventing all forms of modern slavery, servitude, forced labour and human trafficking. To see the full statement, please go to: https://hexatronicgroup.com/en/sustainability/modern-slavery-act-statement/.

By working with a sustainable supply chain, we follow and contribute to all of the UN Global Compact's ten principles for responsible enterprise:

WE SUPPORT UN GLOBAL COMPACT

Human rights

Principle 1: Support and respect the protection of internationally proclaimed human rights

Principle 2: Make sure that we are not complicit in human rights abuses

Labour

Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 4: The elimination of all forms of forced and compulsory labour

Principle 5: The effective abolition of child labour

Principle 6: The elimination of discrimination in respect of employment and occupation

Environment

Principle 7: Support a precautionary approach to environmental challenges

Principle 8: Undertake initiatives to promote greater environmental responsibility

Principle 9: Encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

Principle 10: Work against corruption in all its forms, including extortion and bribery

Stable profitability

Stable profitability is fundamentally about satisfied customers, for whom we create value by delivering efficient, good value, competitive products and services of high quality. By developing relations with our existing customers and attracting new ones, we lay the foundation for continued growth.

WE STRIVE ALWAYS TO IMPROVE

Our 2018 customer survey revealed a high level of customer satisfaction, which we are of course proud and delighted about. In 2019 we have focused on proceeding in the following areas: availability, delivery reliability, our ability to deal with problems and complaints should they arise, and to offer the right level of quality and service in relation to price.

IMPORTANT CRITERIA WHEN CHOOSING A SUPPLIER IN FIBER PROJECTS

When our customers have a chance to tell us what aspects are most important when choosing a supplier in fiber projects, the following responses are most common: product quality, total cost, simplicity of using the products, delivery reliability, product range, logistics, the solutions' efficiency, good support and collaboration, and a supplier that lives up the customer's values.

DOES HEXATRONIC LIVE UP TO ITS TWO CORE VALUES, 'CUSTOMER PROXIMITY' AND 'INNOVATION'?

"Yes, definitely! When it comes to proximity to the customer, I think you're doing a great job, at the leading edge. The same goes for innovation. You're always presenting smart new products." Peter Schulte, Segment Manager – Infrastructure, Ahlsell Sweden.

WHAT DO CUSTOMER THINK OF HEXATRONIC?

"Hexatronic's products are of high quality and their field support is amazing!"

Nikke Kettunen, Project Manager, Eltel, Finland

"My overall impression is very positive. A responsible, customer-oriented company with high product quality. The personnel have good product knowledge and the factory conveys a professional impression."

Johanna Toivanen, Senior Sourcing Manager, Telia Finland

"I'm delighted to enter into a strategic partnership with Hexatronic, who not only offer full-scale solutions for passive fiber infrastructure, but also training for our construction companies."

Greg Mesch, CEO, CityFibre, UK

"We use Blue Diamond's products a lot, and I can't express how delighted we are with our partnership. We appreciate it a lot."

Bob Breeden, Executive Vice President, Electricom, USA

Our environmental responsibility

High resource efficiency

High resource efficiency is a priority area of sustainability for Hexatronic. Our products and our operation should help to meet the environmental challenges we are facing.

Our work linked to the environmental dimension of sustainability contributes to UN SDGs 7, 8, 9, 12 and 13.

HOW WE ARE ACHIEVING HIGHER RESOURCE EFFICIENCY

To contribute to a more resource-efficient operation, the Group's efforts during the year included implementation of suggestions from previous energy audits, increasing the amount of waste recycling, minimising the use of single-use items, and cleaning and re-granulating discarded material and reusing it in production.

HIGHER RESOURCE EFFICIENCY THROUGH THE RIGHT EXPERTISE

One example of how we can contribute to high resource efficiency is through the training the Hexatronic Group offers in fiber expansion, in order to assure the quality of the network throughout its ENTIRE life cycle. Doing the right thing in choice of material and installation during the construction phase minimises the risk of unexpected costs, as well as of environmental impact in the management and operation phase. Read more about our valued training at https://edugrade.com/se/ (in Swedish and Norwegian) and https://www.pqmstraining.co.uk/.

ECOVADIS SILVER

for our two subsidiaries Hexatronic Cables & Interconnect Systems and Hexatronic Fiberoptic in Sweden.

SILVER
2018
ecovadis
CSR Rating

GREEN ALL THE WAY

As part of our Green All The Way sustainability initiative, we want to raise knowledge, increase involvement and participation in our internal sustainability work.

GREEN
ALL
THE
WAY

Low climate impact

The climate challenges are great and time is short. Alongside our customers, suppliers and personnel, we will do what we can to contribute to a fossil-free economy.

EFFORTS FOR LOWER CLIMATE IMPACT

During the year, we have worked on the climate issue broadly within the Group, not only through education but also actual climate measures. Several companies have worked on adapting the pack sizes for our products, coordinating product deliveries to and from our businesses, and have switched to local suppliers to reduce transportation.

The focus on material recycling from production has continued, as has switching to further LED lighting and green electricity. Other examples during the year are reduction and recycling of kitchen, office and production waste (plastic, cardboard, food), more travel-free meetings by phone/Skype, as well as car pooling to and from work.

SUSTAINABILITY WEEK ON CLIMATE

As part of our *Green All The Way* sustainability initiative, in summer 2019 we held a Sustainability Week on the theme of climate for all employees in the Group.

Personnel were given facts and information on the importance of acting NOW to halve climate emissions by 2030, how our lifestyles affect the climate, as well as inspiration on what can be done at home and in the workplace. Each company also organised workshops at management level, involving specialists, to discuss what we can do to make an active, positive contribution in the climate area.

The climate week finished off with all personnel having the chance to take one or more climate challenges, privately and/or at work, to reduce climate emissions.

PLANNED FOR 2020

- Begin auditing the following Scope 3 sources: business travel, goods transport, material purchasing and waste management.
- Look into the possibility of Hexatronic Group formally backing the 1.5°C target.
- Start a dialogue with strategic suppliers linked to climate issues.
- Process optimisations to minimise production start-up and thereby reduce superfluous materials consumption.
- Increased field support online (through IT-based tools) so as to minimise site visits by car.
- Increase the use of green electricity in our companies.
- Continued efforts to optimise pack sizes and minimise plastic packaging.
- Reduce environmental impact with more travel-free meetings and eco-conscious choice of travel.

SCOPE 1 & 2

The Group's direct and indirect emissions of greenhouse gases, Scope 1 & 2, were calculated during 2019.

For further information, see page 36.

OUR CUSTOMERS' EXPECTATIONS ON OUR CLIMATE WORK ARE INCREASING

It became increasingly clear in 2019 that Hexatronic's customers expect us to take action to tackle climate issues:

"We want to see a clear plan and commitment from you, backing the 1.5°C target."
Deniz Dalyanoğlu, Strategic Sourcing Manager, Ericsson

"By 2022, we want all our suppliers to have a plan for zero CO_2 emissions for their entire business, including suppliers. By 2030, all of Telia Company's suppliers must have achieved zero emissions."
Johanna Toivonen, Senior Sourcing Manager, Telia Finland

Environmentally sound products

We are driven by a sense of curiosity and fresh thinking when we develop products and solutions, and strive to achieve as low an environmental impact as possible. Thanks to our products' long life, we are proud to be able to offer the market less of an environmental footprint.

EFFORTS FOR MORE ENVIRONMENTALLY SOUND PRODUCTS

Thanks to ongoing monitoring and development of environmentally sound materials and technologies, we have been able to take various initiatives during the year. Discarded material from production start-up is recycled and put back into the process, the phasing-out of aluminium in our products facilitates plastic recycling, the introduction of delivery-optimised drums reduces transport volumes, and replacing metal and aramid-based materials in rodent protection with more eco-adapted ones minimises the environmental burden and enables recycling.

We have also replaced plastic packaging with renewable/degradable materials, switched from petroleum-based polystyrene to containerboard – prototypes produced and evaluated, for launch in early 2020. On selected markets we have also phased out single-use packaging in favour of reusable alternatives, and we can offer customers a return service for leftover products for recycling and reuse in production.

An increased number of splicing options in our LightMate ODFs means that more connections can be made per installation, and the plastic bags for these products have been removed. Replacing the material Magnelis in ground cabinets will eliminate the need to lacquer the product.

PLANNED FOR 2020

- Phase out polypropylene (PP) in favour of polyethene (PE) to enable 100% recycling.
- Reuse of discarded containerboard to use as filler, replacing plastic filler.
- Carbon footprint will be presented on our most common products, enabling customers to make eco-conscious choices.
- Introduction of delivery-optimised Stingray packaging will reduce transport volumes by over 65% and material consumption by about half.

MINIMISED NEED FOR PLASTIC AT OUR HUDIKSVALL PRODUCTION PLANT

REUSE

During 2019, we have renovated and restored an old strapping machine that has not been used for many years; the aim is to completely remove single-use plastic packaging for certain types of products and consignments.

REDUCED CLIMATE IMPACT

We have also invested in a new plastic wrapping machine, which is so efficient it reduces the use of single-use plastic by almost 40% compared to the old one.

During 2020, we will have reduced our total consumption of single-use plastic by an estimated 50%.

50% **is the estimated reduction in single-use plastic consumption during 2020**

DELIVERY OPTIMISATION FOR LOWER CLIMATE IMPACT

In 2020 we are releasing our new generation of Stingray boxes. They are optimised to reduce climate impact through a reduction in transport volumes of over 65%. Furthermore, the new boxes will roughly halve materials consumption.

Our social responsibility

Diversity and gender equality

We are each other's working environment, and at Hexatronic we believe that people with different perspectives, knowledge and experiences are crucial in creating the innovative climate required for long-term commercial success.

Our work linked to the social dimension of sustainability contributes to UN SDGs 3, 4, 5, 8 and 10.

NEW DIVERSITY AND GENDER EQUALITY POLICY

In 2019 we produced a new Group-wide diversity and gender equality policy, as well as an action plan against discrimination, sexual harassment and victimisation, also for the whole Group.

Important aspects in achieving our policy include diversity and gender equality work being an integral part of the standard operation, considering diversity and gender equality in recruitment, wage setting, competence development, promotion and redundancy, promoting and valuing everybody's differences and perspectives, not accepting any form of discrimination, sexual harassment or victimisation, and treating all employees with respect.

87%
OF OUR EMPLOYEES

think that Hextronic is a gender-equal workplace

Source: Employee survey 2018

"Hexatronic shall be an equal and inclusive workplace with a high degree of diversity. The organization has a zero tolerance policy towards discrimination, sexual harassment and victimisation."

From the Diversity and Gender Equality Policy

SUSTAINABILITY WEEK ON DIVERSITY AND GENDER EQUALITY

As part of our *Green All The Way* sustainability initiative, during the year we held a Sustainability Week on the theme of diversity and gender equality for all employees in the Group.

It included the launch of the new policy and action plan. Diversity, gender equality, discrimination, harassment, culture and norms were discussed, supported by discussion cards and video clips. All employees had an opportunity during the week to respond to a survey on whether they had experienced discrimination and/or victimisation in the past 12 months.

The results showed that 20 Group employees did feel they had been subjected to some kind of discrimination and/or victimisation. During the year, we also received one formal complaint of discrimination/victimisation at one of our workplaces. We naturally take this very seriously, and our efforts to tackle these issues will continue in 2020.

PLANNED FOR 2020

- Training of Group managers and supervisors in diversity and gender equality.
- New employee survey.
- Follow-up of survey results, and ongoing efforts.

28
DIFFERENT LANGUAGES

are spoken throughout the Hexatronic Group

Good health, safety and working environment

Good health, safety and working environment is an important area of sustainability. Employees, customers and business partners should feel safe and secure with the way we manage the working environment. Our employees' health is always in focus.

BROAD INITIATIVES

To contribute to good health, safety and working environment, during the year the Group has taken action on a number of issues within the framework of this area. Managers and supervisors have been trained in alcohol and drug issues, crisis management, crisis communication and leadership. The Group company with the most employees – Hexatronic Cables & Interconnect Systems – launched a new alcohol and drug policy, and an action plan.

Our employees have been given training in CPR and fire safety. Performance reviews have been held with and for 96% of the Group's employees.

Various health-promoting activities were carried out in the Group, including: workplace walks and running races, break-time fitness, training and development of mental health, and training for managers on health and well-being for individuals and the workplace.

There were also internal and external audits on safety and the working environment during the year.

PLANNED FOR 2020

- New employee survey.
- ISO 45001 certification for further Group companies.
- Health Week at some of our companies.
- Training of managers in developmental leadership.
- Training of employees in self-leadership.

88% OF OUR EMPLOYEES

think that good health, safety and working environment is the most important area of sustainability

Source: Employee survey 2018

Day 2 of the 2019 Sales Day began with a run/brisk walk in central Gothenburg at 6.30 am – an initiative that created a great team spirit and got the day off to a good start.

Green Cross teams continuously monitor safety and working environment issues in the organization, and take action where required. This Green Cross chart is from Hexatronic Cables & Interconnect Systems.

Social involvement

We shall act and contribute locally and globally by supporting initiatives and operations that strive for a socially and environmentally sustainable future. There are many passionate people in our Group who give their time and energy to help make a better society.

A group of proud, dedicated co-workers from Gordon Franks Training raised money for cancer research by running in the Pretty Muddy Race for Life.

WE CONTINUE TO MAKE A DIFFERENCE

During the year the Group's companies, along with their personnel, customers and other stakeholders, have helped to ensure that several important organizations and business have been able to carry on making a difference. These include the Swedish Childhood Cancer Fund, Cancer Research UK, Blauer Elefant – Save the Children, Doctors Without Borders, Blodomloppet, Musikhjälpen, Situation Baltikum, Plan International and Help To Life International.

CANCER RESEARCH UK

BLAUER ELEFANT

MEDECINS SANS FRONTIERES LAKARE UTAN GRANSER

PLAN INTERNATIONAL

Blodomloppet

FROM UNEMPLOYMENT TO EMPLOYMENT

In 2019, we were proud to see our training companies, Gordon Franks Training and Edugrade, offering young people and adults who are far from the labour market the training and experience required to enter the job market.

Sixty-one of the 135 young people who took part in the Gordon Franks Training programme for long-term unemployed people have gone on to lasting* employment or studies.

Twenty-three of the 49 individuals who took part in Edugrade's labour market training for the long-term unemployed have gone on to permanent employment.

* At least six months.

OTHER INITIATIVES FOR A MORE EQUAL, INCLUSIVE SOCIETY

Several of the Group's employees are mentors for young people. We offer work experience and encourage social involvement, by e.g. granting leave of absence for working with children and young people.

To encourage more young people to gain an interest in engineering careers, we are also part of a school collaboration to offer students a fourth year of high school. An important part of this is working closely alongside product developers and engineers.

Goals and results indicators for our sustainability work

To monitor developments in our prioritised sustainability areas, we have selected a number of key metrics, presented in the table below. In 2019, several new key metrics have been added since the previous Sustainability Report, in the areas of low climate impact, environmentally sound products, high resource efficiency and good health, safety and working environment.

LINK TO AGENDA 2030 AND GLOBAL COMPACT

Each area is connected to Agenda 2030 targets (SDGs). For further information on the targets, go to www.globalgoals.org, and also see the UN Global Compact's ten principles for sustainable enterprise (GC), www.unglobalcompact.org.

AIM 2019 AND 2020

The aim in 2019 has been for all selected key metrics to develop in a positive direction. This aim remains true in 2020, with a particular focus on positive development in the sustainability areas: sustainable supply chain, low climate impact, and diversity and gender equality.

Prioritised sustainability areas/ where the impact is	Link to Agenda 2030 / the Global Compact	Key metric	2017	2018	2019	Goal level
Strong business ethics **Where:** Purchasing, sales, manufacturing, acquisitions, finance, marketing	SDG: 5.1, 5.2, 8.4, 8.8, 16.5, GC: Principles 1–10	Percentage of employees who have signed the internal code of conduct	*	72	93	100
		Number of confirmed instances of corruption	0	0	0	0
Sustainable supply chain **Where:** Manufacturing and goods transport	SDG: 5.1, 8.4, 8.7, 8.8, 13, 16.5 GC: Principles 1–10	Percentage of suppliers who have received the code of conduct [1]	*	62	82	100
		Percentage of suppliers who have signed the code of conduct for suppliers [1]	*	34	75	90
Stable profitability **Where:** Entire Group	No link	Percentage of ISO 9001-certified companies in the Group [2]	80	67	67	75
		Customer Satisfaction Index	**	82	**	85
		Customer Loyalty Index	**	90	**	90
High resource efficiency **Where:** Manufacturing	SDG: 8.4, 9.4, 12.2, 12.4, 12.5, 13 GC: Principles 7–9	Total volume of waste including hazardous waste, tonnes	1,079	1,116	1,474	
		Total volume of hazardous waste, tonnes	48	69	32	
		Total volume of waste including hazardous waste, kg/MSEK sales	831	699	800	500
		Total volume of hazardous waste, kg/MSEK sales	37	43	17	10
Low climate impact **Where:** Business travel leased cars, company cars and mileage, machinery, coolants and purchased energy	SDG: 7.2, 7.3, 12.8, 13 GC: Principles 7–9	Percentage of ISO 14001-certified companies in the Group [2]	60	33	33	75
		Direct energy consumption, MWh	21,025	22,232	21,550	
		Percentage of green electricity	48	42	45	80
		Energy intensity, MWh/MSEK sales	13.5	13.9	11.7	7
		Total emissions of CO_2e, tonnes – Scope 1	443	506	520	
		Total emissions of CO_2e, tonnes – Scope 2 [3]	4,189	4,579	4,147	
		Climate intensity, Scopes 1 & 2, tonnes CO_2e/ MSEK sales	3.0	3.2	2.5	1.5
Environmentally sound products **Where:** Manufacturing	SDG: 8.4, 9.4, 12.2, 12.4, 12.5, 13 GC: Principles 7–9	Recycled material in production, tonnes	n/a	n/a	213	
		Recycled material in production, kg/MSEK sales	n/a	n/a	116	230

* The code of conduct was launched in 2018

** No survey conducted

n/a = not available

[1] Based on total purchase volume of direct materials and transports

[2] Figure includes companies with more than 15 employees

[3] Market based method is used

[4] The development is due to the acquisition of new companies without management systems in accordance with ISO 45001

[5] Number of work-related accidents with more than 24 hours absence, divided by total number of hours worked x 200,000

Prioriterade hållbarhetsområden/ var påverkan sker	Koppling till Agenda 2030 & Global Compact	Nyckeltal	2017	2018	2019	Mål-nivå
Mångfald och jämställdhet **Var:** Hela koncernen	SDG: 5.1, 5.2, 5.5, 8.5, 10.2 GC: princip 6	Andel kvinnor, %	25	25	29	40
		Andel kvinnliga chefer, %	17	28	27	40
		Andel kvinnor i koncernledning, %	11	11	20	40
		Andel kvinnor i styrelsen, %	40	40	33	40
		Andel kvinnliga säljare, %	12	19	26	40
		Antal bekräftade fall av diskriminering	1	1	1	0
		Antal talade språk inom koncernen	9	17	28	
God arbetsmiljö, hälsa och säkerhet **Var:** Hela koncernen	SDG: 3.4, 3.5, 3.9, 8.8	Andel medarbetare som omfattas av ett ledningssystem för arbetsmiljö- och säkerhet inom koncernen, OHSAS 18001 eller ISO 45001, % [4]	54	32	32	75
		Sjukfrånvaro, %	3,2	3,0	3,0	3,0
		Arbetsrelaterade olyckor med frånvaro, frekvens [5]	0,8	0,5	1,4	0
		Andel medarbetare som har haft utvecklingssamtal, %	86	99	96	100
		Nöjd-Medarbetar-Index	**	69	**	75
		Lojal-Medarbetar-Index	**	80	**	80

* Uppförandekoden lanserades 2018
** Ingen undersökning genomfördes
i.u = inga uppgifter

[1] Baserat på total inköpsvolym av direkt material och transporter
[2] I uppgiften ingår de bolag med fler än 15 anställda
[3] Marknadsbaserad metod används
[4] Utvecklingen beror på förvärv av nya bolag utan ledningssystem enligt ISO 45 001
[5] Antal arbetsrelaterade olyckor med mer än 24 timmars frånvaro dividerat med totalt antal arbetade timmar x 200 000

Revisorns yttrande avseende den lagstadgade hållbarhetsrapporten

Till bolagsstämman i Hexatronic Group AB, org.nr 556168-6360

UPPDRAG OCH ANSVARSFÖRDELNING

Det är styrelsen som har ansvaret för hållbarhetsrapporten för år 2019 på sidorna 24-37 och för att den är upprättad i enlighet med årsredovisningslagen.

GRANSKNINGENS INRIKTNING OCH OMFATTNING

Vår granskning har skett enligt FARs rekommendation RevR 12 Revisorns yttrande om den lagstadgade hållbarhetsrapporten. Detta innebär att vår granskning av hållbarhetsrapporten har en annan inriktning och en väsentligt mindre omfattning jämfört med den inriktning och omfattning som en revision enligt International Standards on Auditing och god revisionssed i Sverige har. Vi anser att denna granskning ger oss tillräcklig grund för vårt uttalande.

UTTALANDE

En hållbarhetsrapport har upprättats.

Göteborg 15 april 2020
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Auktoriserad revisor

Board of Directors' Report

The Board of Directors and CEO of Hexatronic Group AB (publ), based in Gothenburg, Sweden, hereby submit the Annual Report for the 2019 financial year for the Parent Company and Group.

Hexatronic is a group specialising in fiber optic communication solutions that delivers products and solutions for optical fiber networks, and supplies a complete range of passive infrastructure.

SALES

Net sales during the financial year amounted to MSEK 1,842.3 (1,597.8). Net sales increased by 15% for the Group compared to the previous financial year.

This increase can mainly be attributed to the acquisitions of PQMS, Gordon Franks Training, Smart Awards and Opternus. Organic growth was 5% compared to the previous financial year.

RESULTS FOR THE FINANCIAL YEAR

The operating result after depreciation of property, plant and equipment (EBITA) amounted to MSEK 135.9 (114.9), which equates to an EBITA margin of 7.4% (7.2%).

During the financial year, the Group has had legal costs of approximately MSEK 21.5 for an ongoing patent dispute in the UK.

During the year, EBITA was boosted by a gross amount of MSEK 5.7 relating to revaluations of liabilities for additional purchase prices from the acquisitions of Blue Diamond Industries, PQMS and Opternus.

The operating result (EBIT) amounted to MSEK 106.4 (92.5), which equates to an EBIT margin of 5.8% (5.8%).

Net financial income/expense during the financial year amounted to MSEK -15.4 (-10.8), of which net interest income/expense amounted to MSEK -11.6 (-6.9), unrealised exchange rate differences to MSEK -2.1 (-1.6) and other financial income and expense to MSEK -1.7 (-2.3).

Profit for the year totalled MSEK 67.1 (59.3).

FINANCIAL POSITION AND LIQUIDITY

The Group's financial position and liquidity remain strong. Liquid assets on 31 December 2019 totalled MSEK 103.8 (84.6).

The Parent Company has an agreed acquisition facility of MSEK 565. The utilised amount on 31 December 2019 totalled MSEK 377.4, and MSEK 320.4 of this is long-term borrowing. During the financial year, MSEK 57.0 of the acquisition facility was repaid.

MSEK 14.5 was paid out in share dividends during the financial year.

Cash flow from operating activities during the financial year amounted to MSEK 173.9 (15.6), including a change in working capital of MSEK -13.8 (-83.2).

Multi-year comparison, Group

SEK thousand	2019	2018	2017	2016	2015/16
Net sales	1,842,266	1,597,768	1,299,419	1,032,342	890,896
Profit/loss before tax	91,031	81,751	116,130	69,784	55,108
Profit/loss before tax as a percentage of net sales	4.9%	5.1%	8.9%	6.8%	6.2%
Total assets	1,497,856	1,303,134	777,098	657,292	605,160
Equity ratio	38.3%	37.9%	53.4%	50.3%	49.7%

Cash flow from investing activities during the financial year amounted to MSEK -96.3 (-361.5). The negative cash flow is primarily attributable to investments in property, plant and equipment.

Cash flow from financing activities during the year amounted to MSEK -59.0 (322.3). The full-year cash flow figure is mainly attributable to repayment of loans, changes in lease liabilities, the raising of working capital loans and dividends paid.

COMPANY CHANGES AND INVESTMENTS

Investments

Investments during the financial year mainly comprised investments to increase production capacity in Hudiksvall and a new duct factory in Texas, USA.

Fusion Hexatronic Network Solutions AB

Hexatronic Network Solutions AB was merged with Hexatronic Group AB on 21 February 2019.

Fusion ICT Education AB

ICT Edcuation AB was merged with Iftac AB on 23 January 2019. Iftac AB changed name to Edugrade AB during 2019.

LEGAL PROCESSES

In February 2020, Emtelle UK Limited and Hexatronic Group AB entered into a global settlement agreement, ending their patent litigation in the UK. Emtelle licenses Hexatronic under its patents on air blown fibre bundles. Hexatronic can continue to make and sell its air blown fibre products in all markets worldwide.

NEW GROUP FINANCIAL GOALS FROM 1 JANUARY 2019

In light of the transition to the new reporting standard, IFRS 16 Leases, the Board of Directors has adopted new financial goals to apply from 1 January 2019.

Profitability

The EBITA margin (operating result after depreciation of property, plant and equipment) should be at least 9% on a rolling 12-month basis. The EBITA margin for 2019 was 7.4%.

Growth

The Group shall grow more than its market organically. Annual growth of at least 20%. The growth will be both organic and acquisition-driven. Organic growth in 2019 was 15% compared to the previous financial year.

Outlook for the upcoming accounting year

The Group will continue to work with large customers and major projects, where the Group's added value as a competent systems and product supplier constitutes a competitive edge. The Group's largest and predominant area is systems and products for broadband communication, primarily for fiber optic networks.

The Group has an active acquisition strategy whereby attractive candidates – i.e. those that can complement Hexatronic either in terms of market or products – are continuously being evaluated. The Group does not prioritise acquisitions in which cost synergies need to be harnessed to achieve a good return on the acquisition investment.

Like most companies Hexatronic were affected by Covid-19 during the first quarter of 2020. The sales during the quarter is estimated to be negatively affected by approximately 5% due to delayed deliveries from subcontractors in China. Deliveries have almost returned to normal at the beginning of the second quarter and expected to be fully back to normal again in May. See note 37 and comment by the CEO on page 7 for more information.

SUSTAINABILITY REPORT

In accordance with chap. 6 §11 of Sweden's Annual Accounts Act, Hexatronic Group AB has chosen to produce its Sustainability Report as a separate report from the Annual Report. The Sustainability Report can be found on pages 24–37 of this printed document.

Environment

Environmental impact

The Group has operations in the following companies that require notification under the Environmental Code.

Multi-year comparison, Parent Company

SEK thousand	2019	2018	2017	2016	2015/16
Net sales	18,986	27,242	22,245	16,772	16,333
Profit/loss after financial items	-64,340	-34,232	-14,630	-15,137	-16,378
Profit/loss after financial items as a percentage of net sales	-338.9%	-125.7%	-65.8%	-90.3%	-100.3%
Total assets	896,316	787,623	406,616	353,915	294,299
Equity ratio	25.0%	25.1%	48.7%	51.6%	61.4%

Hexatronic Cables & Interconnect Systems AB, with operations in Hudiksvall, has had a licence from the county administrative board in accordance with the Environmental Code since 15 January 2001 with a change in terms for noise from 5 April 2005. Industry codes: 31.60 and 63.10.

The licence has limits for permitted production volumes of cable as well as conditions relating to emissions to air and water, waste and chemical management, and noise.

The conditions are monitored annually and reported to Hudiksvall Municipality's Norrhälsinge environmental department, which is the supervisory body. The company also engages in good, regular dialogue with the environmental department during the year to discuss and follow up any environmental issues the company is working on.

The conditions are deemed to have been met. The results of the measurements carried out fall within the guidelines linked to the licence.

Environmental management

The operation in Hudiksvall has had ISO 14001 environmental certification since 1997. It is also certified for quality to ISO 9001, and health and safety to OHSAS 18001.

A follow-up audit was conducted by Intertek in May 2019. There were no deviations.

Waste, transport and energy consumption are important environmental aspects for the company.

The Swedish companies are covered by the Act (2014:266) on Energy Audits in Large Enterprises. The first part of the energy audit was reported in 2017 and the rest in 2018, which means that the requirement for the current four-year period has been met.

The operation in Hudiksvall accounts for a significant share of the Group's energy consumption, which is why an in-depth audit was carried out there. The audit is part of the operation's active work to save energy, which has been ongoing for several years and has led to lower energy consumption.

PARENT COMPANY

The Parent Company's operation focuses entirely on Group-wide services in management, economics, finance, IR, business development and logistics.

The Parent Company's net sales during the financial year amounted to MSEK 19.0 (27.2) and profit/loss for the year amounted to MSEK 9.2 (-4.6). Net financial income/expense was MSEK -8.3 (-13.0) and liquid assets amounted to MSEK 0 (0) at year-end. The number of employees was 12 (13) at year-end. The Parent Company does not run any of its own operations and its risks can mainly be attributed to the operations in its subsidiaries.

Key figures for the Group

	2019	2018	2017	2016	2015/16
Growth in net sales	15%	23%	26%	43%	42%
EBITA margin	7.4%	7.2%	10.3%	9.4%	8.0%
EBITA margin excluding patent dispute costs	8.5%	7.7%	10.3%	9.4%	8.0%
Operating margin	5.8%	5.8%	9.4%	8.6%	7.1%
Equity ratio	38.3%	37.9%	53.4%	50.3%	49.7%
Earnings per share before dilution (SEK)	1.81	1.63	2.50	1.59	1.26
Earnings per share after dilution (SEK)	1.80	1.62	2.38	1.50	1.19
Profit/loss per employee (SEK thousand)	114	115	241	182	56
Quick ratio	0.9	0.9	1.3	1.3	1.1
Average number of employees	588	517	376	297	270
No. of shares	37,183,825	36,511,825	36,171,677	36,140,785	33,677,240
Average number of shares	37,127,825	36,278,940	36,148,508	34,087,733	33,387,391
Average number of shares after dilution	37,217,336	36,676,240	37,942,528	36,103,801	35,273,102

THE BOARD'S PROPOSED GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES AND BOARD MEMBERS

Scope

These guidelines encompass the Executive Management of Hexatronic Group AB (publ) ("Hexatronic") and the company's Board Members to the extent that remuneration, other than that decided at the AGM, is paid to Board Members. Executive Management refers to the CEO, Deputy CEO, CFO and other members of the Executive Management. Other members of the Executive Management refers to people who are part of the management team and managers who are directly subordinate to the CEO. In the company's case, the managers who are directly subordinate to the CEO are the Deputy CEO, CFO, Logistics Director, Business Development Director, Digital Marketing Officer and Presidents of subsidiaries.

The guidelines are prospective and shall be applied to remuneration that is agreed, and to changes made to already agreed remuneration, after the guidelines are adopted by the 2020 AGM. The guidelines do not cover remuneration decided by the general meeting of shareholders.

As regards employment conditions that comply with rules that are not Swedish, appropriate adaptations may be made to follow mandatory such rules or set local practices, whereby the overall objectives of these guidelines are met as far as possible.

Promoting the company's business strategy, long-term interests and sustainability

The company strives for greater global presence, where Hexatronic's products and solutions are connected in more and more systems. The company's business concept is with smart, reliable product and system solutions for passive fiber infrastructure to accelerate the digital transformation for the benefit of businesses, individuals and society at large.

Successful and sustainable implementation of the company's business strategy in the long run requires the company to be able to recruit and retain qualified employees. For this the company must be able to offer competitive remuneration. These guidelines make it possible to offer senior executives a competitive total remuneration package.

Variable cash payments covered by these guidelines should also aim to promote the company's business strategy and long-term interests, including its sustainability.

Remuneration to senior executives

Forms of remuneration etc.

Hexatronic shall offer total compensation at market rates to facilitate the recruitment and retention of qualified senior executives. Remuneration from Hexatronic should be based on the principles of performance, competitiveness and fairness. Remuneration to senior executives shall comprise fixed remuneration, variable remuneration, share and share price-based incentive programmes, pension and other benefits. Variations in the remuneration principles are permitted where they are justified by local conditions.

Fixed remuneration shall take into account the individual's experience and areas of responsibility. Fixed salaries shall be reviewed annually. Variable remuneration may be up to 50% of the annual fixed salary for members of the Executive Management. Variable cash payments covered by these guidelines should aim to promote the company's business strategy and long-term interests, including its sustainability, by having a clear link to the business strategy or promoting the senior executive's long-term development, for example. It must be possible to measure whether or not the criteria for variable cash payments have been met over a period of one year. Variable remuneration shall be linked to pre-determined, quantifiable criteria, designed with the aim of promoting the company's long-term value creation. When the measurement period for meeting the criteria for variable cash payments has ended, it must be assessed/established to what extent the criteria have been met. The Remuneration Committee is responsible for the assessment regarding variable cash payment to the CEO. As regards variable cash payments to other senior executives, the CEO is responsible for the assessment. Financial goals shall be assessed based on the latest financial information published by the company.

Pension

For the CEO and other senior executives, pension benefits shall be based on how much is paid in, i.e. the pensions are defined contribution plans. The pension contributions for the CEO's defined contribution pension can be up to 30% of the pensionable salary. The retirement age for other senior executives varies between 60 and 65 years and the pension contribution can be up to 25% of the pensionable salary. Variable cash payments shall not be pensionable.

Other benefits may include life assurance, health insurance and car benefits, for example. Such benefits shall not account for a material portion of the total remuneration.

Cash payment

Additional cash payments may be made in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and are only made at an individual level, either with the aim of recruiting or retaining senior executives, or as remuneration for extraordinary work efforts beyond the person's regular work duties. Such remuneration shall be professionally motivated, proportionate to the individual's fixed salary and shall not be paid more than once a year per individual. Decisions about such remuneration shall be made by the Board on the proposal of the Remuneration Committee.

In addition the AGM can, if agreed, offer long-term incentive programmes, such as share or share price-related remuneration or incentive programmes. Such long-term incentive programmes are agreed by the general meeting of shareholders and are therefore not covered by these guidelines.

Criteria for paying variable remuneration etc.

Variable remuneration shall be linked to pre-determined, quantifiable criteria that may be financial or non-financial. It must be possible to measure whether or not the criteria for short-term variable remuneration have been met over a period of one year. The criteria may also comprise individually adapted quantitative or qualitative goals. The criteria for both short-term and long-term variable remuneration shall be structured so that they promote the company's business strategy and long-term interests, including its sustainability, by having a clear link to the business strategy or promoting the senior executive's long-term development, for example.

When the measurement period for meeting the criteria for variable remuneration has ended, it must be established to what extent the criteria have been met. The Remuneration Committee is responsible for carrying out this assessment. As regards financial goals, the assessment shall be based on the latest financial information published by the company.

By law or in accordance with agreements and subject to the resulting limitations, the Board shall be able to wholly or partially reclaim variable remuneration paid out on false grounds.

Remuneration to Board Members

Remuneration to Board Members for their work on Hexatronic's Board of Directors is determined by the general meeting of shareholders. Board Members are only entitled to receive such fees as agreed by the general meeting of shareholders. Additional remuneration may, however, be paid for services carried out by Board Members for Hexatronic within their respective areas of expertise, provided that said service is outside of what is considered to be the normal assignment for Board Members. Such remuneration shall be at market rates and settled in a consultancy agreement approved by the Board.

Terms of employment

Salary and terms of employment for employees

When drafting the Board's proposal for these remuneration guidelines, the salary and terms of employment for the company's employees were taken into account by using information about employees' total remuneration, components of the remuneration, increases in remuneration and the rate of increase over time as part of the basis for the Remuneration Committee and Board's decision when evaluating the fairness of the guidelines and the resulting limitations.

Termination of employment

If employment is terminated by the company, the notice period for the CEO and other senior executives may be up to 12 months. If the CEO's employment is terminated by the company, severance pay is only paid from the CEO's 50th birthday and then amounts to one month's salary for each year over 50 when the CEO is given notice. This means, for example, that if the CEO is given notice at the age of 52, the severance pay will amount to two months' salary. No deductions are made from severance pay for other income. No severance pay shall be forthcoming if the CEO resigns. There is a mutual period of notice of 3–12 months between the company and other senior executives. No severance pay has been agreed with other senior executives.

Furthermore, remuneration for the CEO and other senior executives for restraint-of-trade obligations may expire when employment is terminated with the aim of compensating for any loss of income. For the CEO, such remuneration for a restraint-of-trade obligation is only paid to the extent that the former senior executive is not entitled to severance pay. Remuneration for the CEO and other senior executives shall be the difference between the fixed cash salary at the time of termination and any lower income earned in the new business, but up to 60% of the fixed cash salary at the time of termination of employment. Remuneration shall be paid for the time the restraint-of-trade obligation applies, which shall be up to 6 months after termination of employment.

Decision-making process, changes and deviations etc.

The decision-making process for establishing, reviewing and implementing the guidelines

The Board has established a Remuneration Committee. The Committee's duties include drafting the Board's decisions on proposed guidelines for remuneration to senior executives. The Board shall draw up proposals for new guidelines at least every four years and present the proposal at the AGM for a decision. The guidelines shall apply until new guidelines have been adopted by the general meeting of shareholders. The Remuneration Committee shall also monitor and evaluate programmes for variable remuneration for the Executive Management, the application of the guidelines for remuneration to senior executives, as well as applicable remuneration structures and remuneration levels in the company. The members of the Remuneration Committee are independent of the company and Executive Management. When the Board deals with and decides on remuneration-related issues, the CEO or other members of the company management are not present to the extent that they are affected by the issues.

Deviating from the guidelines

The Board may temporarily deviate from the guidelines, wholly or partially, in individual cases, if there are special reasons for doing so and a deviation is necessary in order to satisfy the company's long-term interests, including its sustainability, or to safeguard the company's financial strength. As stated above, the Remuneration Committee's duties include drafting the Board's decisions on remuneration issues, which includes decisions on deviating from the guidelines.

Proposed appropriation of profits

THE FOLLOWING FUNDS ARE AT THE PARENT COMPANY'S DISPOSAL

	SEK
Share premium reserve	212,303,366
Profit/loss brought forward	-12,977,843
Profit/loss for the year	9,167,237
Total	**208,492,760**

THE BOARD OF DIRECTORS PROPOSES THAT THE PROFITS BE APPROPRIATED AS FOLLOWS:

	SEK
To be transferred to profit/loss carried forward	208,492,760
Total	**208,492,760**

Risks and risk management

Like all business activities, Hexatronic's operations are associated with risks of various kinds. Continuously identifying and assessing risks is a natural and integral part of the operation, enabling the company to control, mitigate and manage prioritised risks in a proactive manner.

The Group's ability to audit and prevent risks minimises the risk of unforeseeable events having a negative impact on the operation. The goal of risk management is not necessarily to eliminate the risk, but rather to secure our business goals with a balanced risk portfolio. Auditing, planning and management of identifiable risks support the management in making strategic decisions. Another purpose of risk assessment is to increase the whole organization's risk awareness, both among operational decision-makers and Board Members.

Hexatronic's Board of Directors has the ultimate responsibility for the company's risk management. Risks related to business development and long-term strategic planning, as well as the Group's work on sustainability issues and related risks, are managed by the Executive Management and finally prioritised by the Board. The Executive Management reports to the Board continuously on risk issues such as the Group's financial status and compliance with the Group's finance policy. The Group's central finance function is responsible for prioritising and managing financial risks, including exposure to exchange rate fluctuations. Hexatronic has a central function which is responsible for and ensures that the Group has adequate insurance cover for insurable risks. The Group's Code of Conduct and various more specific policies form the basis of the ongoing operational risk management, which is dealt with at all levels in the organization.

A number of risk areas have been identified in Hexatronic's risk management process. For a more detailed compilation of the financial risks, please see Note 4. Hexatronic has divided identified risks into operational risks, market risks and financial risks.

Operational risks

Operational risks are closer to the company in terms of its ability to influence them. This is also why in several cases, risk management is dealt with via internal regulations with policies, guidelines and instructions. Operational risks are part of the day-to-day work and are managed by the operational units. Operational risks refer for instance to risks related to the brand, relocation of purchasing and production, insurable risks, and various kinds of sustainability risk. Further information about sustainability management can be found on pages 24-37 of this Annual Report.

Risks	Risk management
Customer structure	
Too great a dependence on individual large customers. There is a risk that large customers choose alternative suppliers. The Group's three largest customers account for roughly 24% of the Group's net sales.	The Group has continued to broaden its customer structure as it becomes more international. Dependence on the largest customers is gradually decreasing as the Group gains more customers from acquisitions, and due to a sharper focus on customer orientation and system solutions.
Product responsibility, intellectual property rights and legal disputes	
Hexatronic's system solutions and products are vital components in customers' products. Faults could lead to worsened customer relations and claims for legal damages. Hexatronic's intellectual property rights risk being infringed upon. There is also a risk that Hexatronic's products infringe upon the intellectual property rights of others.	The Group has adequate insurance cover, and every company in the Group has its own standard insurance solutions in place. This work is carried out in consultation with external advisors. Intellectual property rights are monitored and controlled in consultation with external advisors. The provision for future guarantee obligations is assessed continuously.
Serious disruption to production	
Damage at production plants, caused for instance by fire or a stoppage/interruption in some part of the production process, can have negative consequences, whether from direct damage to property or from stoppages that affect the company's ability to deliver on its commitments to customers. This in turn could cause customers to choose another supplier. At present the Group has six production plants which it runs under its own management. In addition the Group has contracts with third-party manufacturers in China and Korea.	The Group has adequate insurance cover, and every company in the Group has its own standard insurance solutions in place. Risk assessment and auditing take place in consultation with external advisors.

Risks	Risk management
Acquisition and integration	
Making an acquisition entails a risk. It could have an adverse impact on the acquired company's relations with customers, suppliers and key persons, and on sustainability-related issues. There is also a risk that integration processes could be more costly or more time consuming than expected, and that acquisition synergies fail to materialise, whether in part or in full.	All potential acquisitions and their operations are closely scrutinised before an acquisition is made. There are well-established processes and structures for pricing, acquiring and integrating acquired companies. In the acquisition contract, the Group strives to attain the necessary guarantees to mitigate the risk of unknown obligations.
Key personnel/skills	
The ability to attract and retain qualified personnel and senior executives is absolutely crucial to Hexatronic's continued survival. Hexatronic is particularly dependent on senior executives and on certain personnel in the development, purchasing and sales departments. If Hexatronic cannot attract or retain qualified personnel, this could adversely affect its operations, results and financial position.	Hexatronic is an attractive employer with low rates of sick leave and personnel turnover. By promoting career development and other development opportunities for individual employees, and by offering competitive market rates of pay, the Group assures its ability to attract the right human resources, and to retain them long-term because they enjoy and can thrive in Hexatronic's corporate environment.
Serious working environment accident	
Working environment accidents can lead to employees being seriously or in the worst case fatally injured. This can lead to loss of production, a lack of skills, financial penalties, damage to the brand and lower profits.	A safe working environment is a prioritised sustainability issue. Systematic health and safety work in accordance with the companies' management systems and prevailing legislation helps to minimise this risk.
Serious environmental accident	
Serious environmental incidents linked to Hexatronic's operations can have significant effects on the local environment, and can lead to financial penalties and a damaged brand. The Group's responsibility for environmental damage, whether known or unknown, could have a negative impact on the Group's operations, results and financial position.	Systematic environmental work in accordance with the companies' management systems and prevailing legislation helps to minimise the risk of environmental accidents. Also see 'Acquisition and integration'.
Natural disasters	
Extreme climate-related weather events such as hurricanes, floods and wildfires could lead to disruptions to production and damage to the Group's property and that of critical suppliers. This could have an adverse impact on Hexatronic's results and financial position.	See 'Serious disruption to production' above.
Shortcomings in gender equality and diversity, and discrimination	
Shortcomings in gender equality and diversity, and discrimination can lead to a negative corporate culture, a high rate of personnel turnover, personal suffering and lower profitability.	Diversity and gender equality is a prioritised sustainability area. Hexatronic's diversity and gender equality policy, and an action plan against discrimination and degrading treatment, as well as regular training/information, aim to minimise the risks.
Non-compliance with the code of conduct for suppliers	
Hexatronic's code of conduct for suppliers has been produced to ensure a sustainable supply chain, and is based on the UN Global Compact's ten principles for responsible enterprise. Failure to comply with this could lead to damage to nature or personal injury, damage to the brand and a decline in customer loyalty.	Achieving a sustainable supplier chain is a prioritised sustainability issue. To minimise the risk of non-compliance with Hexatronic's Code of Conduct for Suppliers, there is ongoing dialogue and follow-up and evaluation of our suppliers.
Human trafficking	
The risk of human trafficking is primarily linked to suppliers in high-risk countries. One general risk area in business is the occurrence of purchasing sex on business trips, and at trade fairs and conferences. The link to trafficking can lead to crime against human rights, damage to the brand, corruption and a negative impact on the financial results.	For information about how we deal with this issue, go to Hexatronic Group – Modern Slavery Act Statement. The current travel policy and internal code of conduct will be reviewed with regard to business-related travel and events.
Bribery and corruption	
The primary risk areas linked to bribery and corruption in Hexatronic's operations can be found in functions such as sales, purchasing and corporate entertainment. Serious fraud can lead to a negative effect on profits, damage to the brand and a loss of market share.	Strong business ethics is a prioritised sustainability issue. The Group's internal code of conduct and the code of conduct for suppliers, the Business Code of the Swedish Anti-Corruption Institute, and ongoing dialogue regarding risks and ethical dilemmas all contribute to minimising the risks. A whistleblower system is in place to enable people to highlight serious anomalies, anonymously.

Market risks

Hexatronic works continuously to assess and evaluate the risks which the company might face.

Risks	Risk management
Products Parts of Hexatronic are dependent on the organization's ability to develop and market new products and services in line with the rest of the market. There are risks linked to the Group's ability to develop new products and services, and to commercialise them successfully. An inability to adapt the operation to technological shifts could cause the Group's products and services to become obsolete, which could have an adverse impact on sales and Group profits, thereby also increasing development costs.	Close cooperation with the largest customers and potential customers in the field of product development is tremendously important. Hexatronic is constantly developing its offering so that it can offer more complete system deliveries in the future, primarily based on in-house development, production, and innovative Swedish design and quality. The company believes that this will facilitate longer-lasting customer relations and higher margins, while also helping the Group's other partners to become more competitive.
Competitors Hexatronic conducts its business on a competitive market. This entails an ever-present risk that customers may prefer a competitor's products above the ones that Hexatronic currently offers and will offer in the future. Increased competition can also impact negatively on Hexatronic's margins.	Hexatronic has a strong position on the market for fiber optic communication solutions. Hexatronic has a competitive edge thanks to in-house product development and manufacturing, as well as sales of system solutions.
The economy in general Hexatronic is dependent on macroeconomic conditions, as well as the growth and financial development of its largest customers. A general decline in the economy would primarily have consequences for customers' willingness to invest, and this in turn could lead to weaker sales of Hexatronic's products and services.	Hexatronic's increasingly broad customer base reduces the Group's risk of being affected by a weak economic trend in individual regions or areas around the world.
Brexit The UK left the EU on 1 February 2020. Hexatronic is dependent on the UK market to some extent, with major ongoing projects. A deterioration in trade conditions with the UK could impact adversely on Hexatronic's operations, results and financial position.	The UK is a strategic market for Hexatronic. It is not clear at present what consequences the UK's exit from the EU will have on trade. Hexatronic is continuously monitoring developments with regard to trade restrictions. Hexatronic has taken a number of practical measures to reduce the risk of longer material delivery times.
Covid-19 A pandemic like Covid-19 could impact adversely on Hexatronic's operations, results and financial position. The consequence of a pandemic might lead to closed country borders and deteriorated delivery options from suppliers and to customers.	As a supplier to the telecom industry, Hexatronic operations are considered critical in most part of the world. Covid-19 will most likely lead to increased investments in both fixed and mobile communication networks. Hexatronic has well-functioning action plans to minimize the risk of the staff being infected.
Stakeholders' climate requirements Investors and customers are increasingly demanding powerful efforts to reduce the emission of greenhouse gases along the entire supply chain. If Hexatronic is unable to live up to these expectations, this could in the long run lead to poorer customer relations and lower competitiveness.	Low climate impact is a prioritised sustainability area. By mapping our emissions, drafting a plan for how Hexatronic can contribute to the 1.5°C target and maintaining a dialogue with customers, suppliers and personnel, we will reduce our emissions.

Financial risks

Management of financial risks at Hexatronic is centralised to the Group's finance department, which conducts its business within set risk mandates and limits. Risks are managed according to guidelines in the Group's policies and regulations within each specific area. All policies and regulations regarding financial risks are updated and adopted annually by the Board of Directors. Read more about accounting policies, risk management and risk exposure in Notes 1 and 4.

Risks	Risk management
Foreign exchange risk	
Fluctuations in exchange rates run the risk of burdening Hexatronic's financial situation, profitability and cash flow. Hexatronic is affected by exchange rate fluctuations through transaction exposure and translation exposure. Transaction exposure arises in that sales and purchases are made in several different currencies which are the company's local currency. Translation exposure arises when the income statements, assets and liabilities of foreign subsidiaries are converted into SEK at the end of the year. The Group has income and expenses primarily in SEK, USD, EUR, NZD, GBP and NOK, and also to a lesser extent in other currencies.	In order to minimise foreign exchange exposure, the Group works proactively on its foreign exchange risks. Some sales are hedged via foreign exchange clauses, sold on in the original currency or hedged by buying and selling in the same currency. For individual orders in excess of MSEK 5, various hedging instruments are considered. Hexatronic has a cash pool which includes the majority of the Group's companies. This means that exchange surpluses in various currencies can be used by the different Group companies in the cash pool without any currency exchange having to take place.
Raw material price risk	
Raw material price risk refers to ongoing fluctuations in the price of input goods from suppliers, and the effect this may have on Group finances. For the Hexatronic Group, fluctuations in the price of plastics and fiber are the main source of risk in this area.	Raw material price risk is managed through long-term supplier relations and contracts with secured volumes.
Refinancing and liquidity risk	
Refinancing risk refers to the risk of Hexatronic not being able to refinance its operations at the required time, or that such refinancing is only available on far less favourable terms. Liquidity risk is the risk that Hexatronic is unable to meet its payment obligations due to a lack of liquid funds.	The central finance function continuously monitors Hexatronic's finances to ensure that it can meet the binding key ratios linked to the company's loan facilities. The Group's policy is to minimise the borrowing requirement by centralising surplus liquid funds via the Group's cash pool.
Interest risk	
Interest risk refers to the risk that the value of financial instruments varies due to changes in market interest rates, and also the risk that interest rate fluctuations affect the Group's borrowing costs.	Interest risk is managed by the Group's central finance function. One significant factor influencing interest risk is the duration of the fixed-interest term.
Credit risk	
Credit risk refers to the possibility that a party in a transaction with a financial instrument may not be able to meet its obligation. The main credit risk is that the Group does not receive payment for accounts receivable.	The Group's customers are primarily large, well-established companies with good solvency, spread across several geographic markets. In order to mitigate the risks, the company's finance policy contains guidelines and regulations for credit checking new customers, payment terms, and processes and procedures for dealing with unpaid receivables.

Board of Directors

Anders Persson

Chairman of the Board since 2016, Board Member since 2014 and a member of the Remuneration Committee.

Year of birth: 1957.

Education: MSc in Applied Physics from Chalmers University of Technology, Gothenburg.

Other assignments (selected): Board Chairman of Paynova AB, Coloreel AB and Ferroamp Elektronik AB.

Shareholding in Hexatronic: 51,000 shares.

Independent of the company, the company management and major shareholders.

Jaakko Kivinen

Board Member since 2018 and a member of the Audit Committee and Remuneration Committee.

Year of birth: 1970.

Education: MSc Economics, Hanken School of Economics and MBA, University of South Carolina.

Other assignments (selected): Advisor to Accendo Capital.

Shareholding in Hexatronic: -

Independent of the company and company management. Dependent in relation to major shareholders.

Erik Selin

Board Member since 2014 and a member of the Remuneration Committee.

Year of birth: 1967.

Education: High School Economics.

Other assignments (selected): Board Chairman of Skandrenting AB, K-Fast Holding AB, Brinova Fastigheter AB and Collector Bank AB. Board Member and President of Fastighets AB Balder. Board Member of Ernström & C:o AB.

Shareholding in Hexatronic via part ownership of Chirp AB: 1,785,872 shares.

Independent of the company, the company management and major shareholders.

Malin Frenning

Board Member since 2016 and a member of the Remuneration Committee.

Year of birth: 1967.

Education: Foundation year and Mechanical Engineering programme, Luleå University of Technology. Honorary Doctor of Technology, Luleå University of Technology 2011.

Other assignments (selected): Division Manager Infrastruktur at ÅF.

Shareholding in Hexatronic: -

Independent of the company, the company management and major shareholders.

Malin Persson

Board Member since 2014, Chairman of the Audit Committee and a member of the Remuneration Committee.

Year of birth: 1968.

Education: MSc in Industrial Economics from Chalmers University of Technology, Gothenburg.

Other assignments (selected): Board Chariman of Universeum AB. Board Member of Peab AB, Hexpol AB and Getinge AB.

Shareholding in Hexatronic: 1,000 shares.

Independent of the company, the company management and major shareholders.

Mats Otterstedt

Board Member since 2019 and a member of the Remuneration Committee.

Year of birth: 1972.

Education: MSc in Economics, Handelshögskolan in Stockholm.

Other assignments (selected): Sales Director at Ascom Sweden AB.

Shareholding in Hexatronic: -

Independent of the company, the company management and major shareholders.

According to the Hexatronic Group Articles of Association, the Board of Directors shall comprise a minimum of three and a maximum of nine Board Members. The Hexatronic Board currently comprises six Board Members. The company's non-management CEO is not a member of the Board. The Board is domiciled in Västra Götaland County, Gothenburg Municipality. The Board Members have been elected to serve until the end of the 2020 AGM. The shareholdings given for each person above were true as of 31 December 2019.

Executive Management

Henrik Larsson Lyon

CEO of Hexatronic Group AB (publ) since 2014.

Year of birth: 1966.

Education: MSc in Economics.

Shareholding in Hexatronic: 826,666 shares and 25,000 warrants.

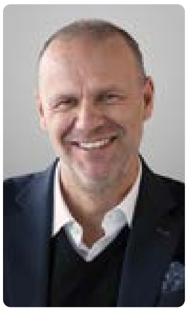
Thomas Andersen

President of Hexatronic AS since 2012.

Year of birth: 1974.

Education: Electrical Engineer

Shareholding in Hexatronic: 30,500 shares via Engelsviken AS and 30,000 warrants held privately.



Lennart Sparud

CFO of Hexatronic Group AB (publ) since 2015.

Year of birth: 1969.

Education: Economics and Law programmes

Shareholding in Hexatronic: 25,140 shares

Anna Bailey

Supply Chain Director at Hexatronic Group AB (publ) since 2016.

Year of birth: 1969.

Education: MSc in Industrial Economics.

Shareholding in Hexatronic: 4,000 shares and 3,000 warrants.

Christian Priess

Business Development Director since 2019.

Year of birth: 1970.

Education: MSc International Business, IMD MBA.

Shareholding in Hexatronic: 10,000 warrants.

Magnus Eidebo

President of Hexatronic Fiberoptic since 2019.

Year of birth: 1975.

Education: Executive MBA.

Shareholding in Hexatronic: 3,600 shares and 1,000 warrants.

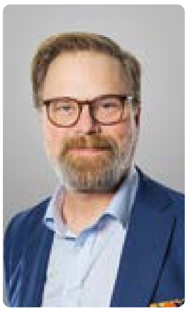
Martin Åberg

Deputy CEO of Hexatronic Group AB (publ) since 2017.

Year of birth: 1981.

Education: High School Electrical/Telecom Engineering and extension courses at IHM Business School and IFL.

Shareholding in Hexatronic: 1,785,872 shares via part-ownership of Chirp AB, 29,411 shares privately and 10,000 warrants privately.



Håkan Bäckström

President of Hexatronic Cables & Interconnect Systems AB since 2017.

Year of birth: 1966.

Education: MSc in Mechanical Engineering, focus on industrial economics, also Managing Industrial Operations (IMOP).

Shareholding in Hexatronic: 150,400 shares and 15,000 warrants.

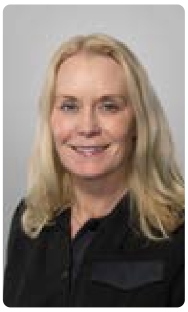
Tomas Jendel

Chief Technology Officer in Hexatronic Group AB (publ) since 2020.

Year of birth: 1973.

Education: MSc and Lic. Eng. in Vehicle Engineering.

Shareholding in Hexatronic: 5,000 warrants.



Lise-Lott Schönbeck

Digital Marketing Officer of Hexatronic Group AB (publ) since 2020.

Year of birth: 1972.

Education: MSc in Applied Physics and Chemistry

Shareholding in Hexatronic: -

The Group's Executive Management holds monthly meetings.

The shareholdings given for each person above were true as of 31 December 2019.

Corporate Governance Report

Hexatronic Group is a Swedish public limited liability company listed on Nasdaq Stockholm Mid Cap.

Hexatronic Group's corporate governance is mainly regulated by the Swedish Companies Act and other Swedish legislation, by Nasdaq Stockholm's rules for issuers, the EU's market abuse regulation and the Swedish Corporate Governance Code ('the Code').

The Code, which can be viewed at www.bolagsstyrning.se, applies to all Swedish companies whose shares are admitted for trading on a regulated market in Sweden. Hexatronic Group has applied the Code as of 18 December 2015, when the Hexatronic Group's shares were admitted for trading on Nasdaq Stockholm. The Corporate Governance Report for 2019 describes Hexatronic Group's corporate governance, management and administration, as well as its internal control for financial reporting.

REGULATORY COMPLIANCE

External control systems

The external control systems that provide the framework for Hexatronic Group's corporate governance mainly comprise the Swedish Companies Act, the Annual Accounts Act, Nasdaq Stockholm's rules, the Swedish Corporate Governance Code, the EU's market abuse regulation as well as other applicable regulations and legislation.

Internal control systems

The Articles of Association adopted by the AGM and the documents adopted by the Board of Directors regarding the formal work plan for the Board of Hexatronic Group, instructions for the CEO, the authorisation manual as well as instructions for the Remuneration Committee and Audit Committee constitute the most important internal control systems. In addition, the Group has a number of policies and instructions with rules and principles for the Group's operations and employees.

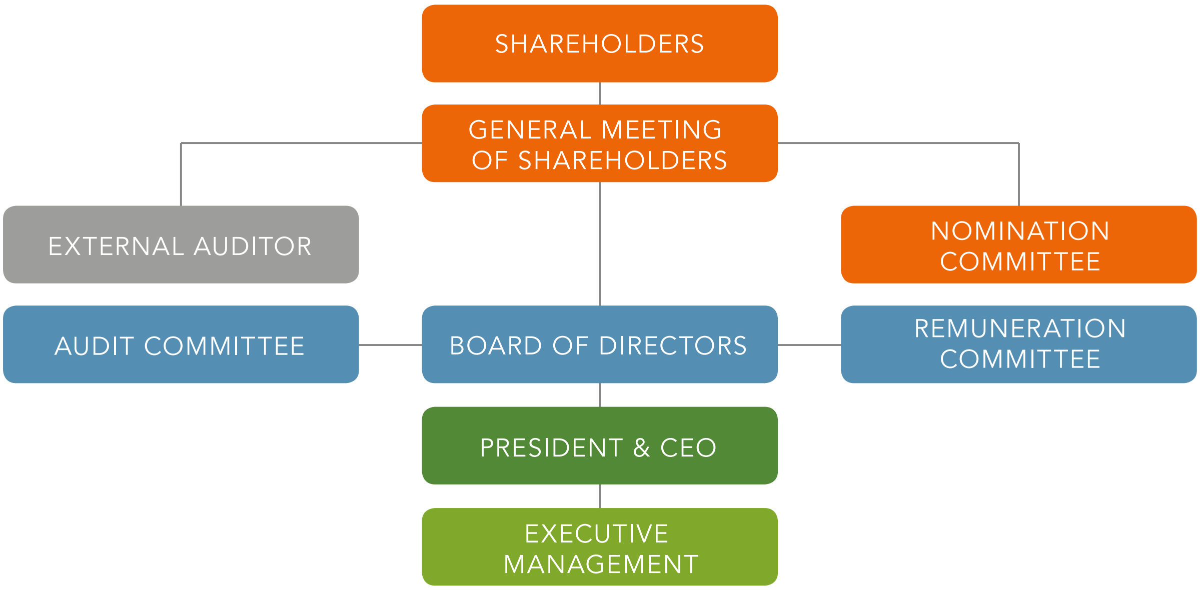
Deviations from the Code

Companies are not obliged to comply with all of the rules in the Code at all times, instead they may choose alternative solutions which they deem to be better suited to their circumstances provided that they report all deviations, describe the alternative solution and explain the reason for the deviation in the corporate governance report (in accordance with the principle of 'comply or explain'). The company does not deviate from the Code in any respect.

GENERAL MEETING OF SHAREHOLDERS

Under the Swedish Companies Act (2005:551), general meetings of shareholders are the company's highest decision-making body and shareholders can exercise their voting right at these meetings. Shareholders who are entered into the share register on the record day and have registered to attend the general meeting by the deadline stated in the notice to attend are entitled to participate in the meeting, either in person or through a representative. Decisions at general meetings of shareholders are usually made using a simple majority. For certain issues, however, the Swedish Companies Act requires a minimum attendance for a quorum, or qualified majority voting. An Annual General Meeting (AGM) must be held within six months of the close of the

HEXATRONIC GROUP'S CORPORATE GOVERNANCE STRUCTURE



financial year. Hexatronic Group's AGM is usually held in May.

The AGM decides on a number of mandatory issues in accordance with the Companies Act and Articles of Association, such as electing Board Members and the Chairman of the Board, electing auditors and deciding whether or not to adopt the income statement and balance sheet and approve the proposed appropriation of profits, and assessing whether the Board Members and CEO should be granted discharge from liability vis-à-vis the company. The AGM also decides, where appropriate, whether to adopt the principles for the Nomination Committee's appointments and work, and it decides on principles for remuneration and employment terms for the CEO and other senior executives. Shareholders can ask questions about the company and its results for that year at the AGM. Extraordinary general meetings may also be held in addition to the AGM.

The company's AGMs are held in Gothenburg every calendar year before the end of June. According to the Articles of Association, the notice to attend the AGM shall be announced via the notification medium *Post- och Inrikes Tidningar (The Official Swedish Gazette)* and on the company's website. An announcement that the notice to attend has been published shall appear in *Dagens Industri* at the same time. The Articles of Association have no special rules on appointing or dismissing Board Members or on amending the Articles of Association. To see the Articles of Association in full, please visit www.hexatronicgroup.com.

SHAREHOLDERS

Hexatronic Group's share was listed on the Nasdaq Stockholm Small Cap exchange on 18 December 2015. On 2 January 2018, the share was moved up to Nasdaq Stockholm Mid Cap. The share capital on 31 December 2019 totalled SEK 1,877,190.95, divided between 37,543,825 shares; 37,183,825 of these were ordinary shares and 360,000 were Class C shares. Class C shares carry one-tenth of a vote. The number of shareholders on 31 December 2019 was 7,720. The biggest shareholders on this date were Accendo Capital (10.5% of the share capital), Handelsbanken Fonder (9.1%), Jonas Nordlund privately and via company (8.1%), Länsförsäkringar funds (5.1%), and Martin Åberg and Erik Selin via Chirp AB (4.8%). Further information about the share and shareholders is available on the company's website.

ANNUAL GENERAL MEETINGS

Decisions at the 2019 AGM

The following decisions were made at the AGM on 9 May 2019:

- The AGM adopted the annual accounts, appropriation of profits and discharge from liability for the Board and CEO.
- Re-election of Board Members: Anders Persson, Malin Persson, Malin Frenning, Jaakko Kivinen och Erik Selin.
- New election of one Board Member: Mats Otterstedt.
- Election of registered public accounting firm Öhrlings PricewaterhouseCoopers as the company's audit firm with authorised public accountant Johan Palmgren as the main auditor.
- Principles for appointing members of the Nomination Committee were adopted.
- Guidelines for remuneration to senior executives were agreed.
- To alter the Articles of Association such that the general meeting of shareholders can now elect more Board Members, and that a new class of shares, Class C, is now introduced to enable the establishment of LTIP 2019.
- To establish a performance-based Long-Term Incentive Plan (LTIP 2019) for senior executives and other key personnel within the Group who are resident in Sweden, and to issue a maximum of 360,000 Class C shares for delivery of any performance shares under LTIP 2019, and to secure any social expenses which may arise under LTIP 2019.
- Decision to introduce an incentive programme through a targeted issue of up to 500,000 warrants for certain senior executives and key employees within the Group.

The Board was authorised to acquire or transfer its own shares respectively in accordance with the Board proposal and to decide on new issues of shares and/or warrants and/or convertibles amounting to up to 10% of the registered share capital.

- Remuneration to the Board shall be SEK 450,000 for the Chairman of the Board and SEK 200,000 per Board Member.
- Remuneration for the Audit Committee shall be SEK 75,000 for the Chairman and SEK 50,000 for its other member.

The entire minutes from the 2019 AGM can be found at www.hexatronicgroup.com.

The 2020 AGM

The 2020 AGM will be on Thursday 7 May 2020 at 17:30 CET in Gothenburg. For further information, visit the Hexatronic Group website (www.hexatronicgroup.com).

NOMINATION COMMITTEE

The Nomination Committee shall comprise four members and the Chairman of the Board shall be co-opted onto the Committee. The members shall be appointed by the company's four largest shareholders in terms of number of votes at the end of August, on the basis of a list of registered shareholders provided by Euroclear Sweden AB and other reliable information obtained by the company. Should the Chairman of the Board directly or indirectly be one of the four largest shareholders, the Chairman shall decline to nominate a member for the Nomination Committee.

Should shareholders decline to appoint members, the right to nominate members shall transfer to the shareholder with the next highest number of votes.

The Chairman of the Nomination Committee shall be the largest shareholder in terms of votes at the time the Committee is appointed, unless the Nomination Committee agrees otherwise, and may not be the Chairman of the Board or another Board Member.

Should a member leave the Nomination Committee before its work is complete, the Committee shall appoint a new member in line with the above principles, but on the basis of Euroclear Sweden AB's printout of the share register as soon as possible after the member leaves their post.

Changes to the composition of the Nomination Committee shall be published immediately. Prior to the AGM, the Nomination Committee is tasked with proposing a Chairman of the Board and other Board Members, producing a reasoned opinion regarding the proposal, suggesting fees and other remuneration for Board assignments for each of the Board Members (including any remuneration for committee work), drawing up proposals for auditors and their fees and for someone to be Chairman at the AGM and (where appropriate) proposing changes to Nomination Committee appointments. Furthermore, the Nomination Committee shall also judge the independence of the Board Members in relation to the company and major shareholders.

The composition of the Nomination Committee for the AGM is usually published on the company's website at least six months before the meeting. No remuneration shall be paid to members of the Nomination Committee. The company shall pay necessary and reasonable expenses that the Nomination Committee may incur within the framework of its work. The Nomination Committee's term of office shall end when the subsequent Nomination Committee has been announced.

NOMINATION COMMITTEE AHEAD OF THE 2020 AGM

The composition of the Nomination Committee was published in a press release and on the Hexatronic Group website (www.hexatronicgroup.com) on 14 October 2019.

The Nomination Committee in the run-up to the 2020 AGM comprises Jonas Nordlund (representing: himself), Erik Selin (Chirp AB), Mark Shay (as Chairman and for Accendo Capital), Staffan Ringvall (Handelsbanken Fonder) and Anders Persson (Chairman of the Board of Hexatronic Group) as a co-opted member. The Nomination Committee has had five minuted meetings between the 2019 AGM and the date the Annual Report was submitted. As a basis for its proposals ahead of the 2020 AGM, the Nomination Committee has assessed whether the current composition of the Board is appropriate and meets the requirements placed on the Board as a result of the company's operations, position and general circumstances. The Nomination Committee has interviewed the company's Board Members and discussed the primary requirements that should be set for Board Members including the requirement for independent members, taking into account the number of Board assignments each member has in other companies.

When it comes to the composition of the Board, the diversity policy, along with relevant goals relating to this, has been applied as stipulated in rule 4.1 of the Corporate Governance

COMPOSITION OF THE NOMINATION COMMITTEE

Name	Representing	% of votes on 31 December 2019
Mark Shay	Accendo Capital	10.5%
Staffan Ringvall	Handelsbanken Fonder	9.1%
Jonas Nordlund	Himself	8.1%
Erik Selin	Chirp AB	4.8%
		32.5%

Code, which has resulted in the Nomination Committee proposal to the AGM regarding the election of Board Members.

BOARD OF DIRECTORS

Composition in 2019

The Board is tasked with managing the company's affairs on behalf of shareholders. According to the Articles of Association, Hexatronic Group's Board shall comprise a minimum of three and a maximum of nine members elected by the AGM for a term of office up to the end of the next AGM. At the AGM on 9 May 2019, Board Members Anders Persson, Erik Selin, Malin Frenning, Malin Persson and Jaakko Kivinen were re-elected, and Mats Otterstedt was elected onto the Board. There are no representatives of the Executive Management on the Board. Hexatronic Group's CEO and CFO sometimes participate in Board meetings, during which the CFO acts as the secretary for the Board. Other office personnel in the company take part in Board meetings to report on specific issues.

INDEPENDENCE OF THE BOARD

Under the Code, the majority of Board Members elected at the AGM shall be independent of the company and its management. The Board Members' positions regarding independence are shown in the Board composition table. All current Board Members are independent of the company and its management. Four members are also independent of the company's major shareholders. The company therefore meets the Code's requirements on independence.

THE CHAIRMAN OF THE BOARD'S RESPONSIBILITIES

The Chairman of the Board leads and controls the Board's work and ensures that the activities are carried out efficiently. The Chairman of the Board ensures that the company complies with the Swedish Companies Act and other applicable laws and regulations, and that the Board is given the necessary training and improves its knowledge of the company. The Chairman monitors the business in close dialogue with the CEO, communicates shareholders' views to other Board Members and acts as a spokesperson for the Board. Furthermore, the Chairman of the Board is responsible for providing other Board Members with information and data to make decisions, and for ensuring that the Board's decisions are implemented. The Chairman is also responsible for ensuring that annual evaluations of the Board's work are carried out.

THE BOARD'S RESPONSIBILITIES AND WORK

The Board's duties are primarily regulated in the Swedish Companies Act and the Code. The Board's work is also regulated by the formal work plan, which is adopted annually by the Board. The formal work plan sets out the division of responsibilities between the Board, the Chairman of the Board and CEO and specifies procedures for the CEO's financial reporting. The Board also approves instructions for the Board's committees.

The Board's duties include drawing up strategies, business plans and budgets; submitting interim reports and accounts and approving policies and guidelines. The Board shall also monitor financial developments, safeguard the quality of financial reporting and control functions, and also evaluate the company's operations based on the goals and guidelines established by the Board. Ultimately the Board also makes decisions about major investments as well as organizational and operational changes in the company. The Chairman of the Board shall monitor the company's results in close collaboration with the CEO, and chair Board meetings. The Chairman of the Board is also responsible for ensuring that the Board evaluates its work annually and has sufficient information to carry out its work effectively. During the financial year, the Board had 14 Board meetings, seven of which were per capsulam. All of the Board meetings follow an agenda that has been set in advance. Attendance at the meetings is reported in the table further down. In 2019, the Board chiefly dealt with issues relating to the operations, acquisitions, financing, investments and other ongoing legal issues relating to reporting and the company.

THE BOARD'S COMMITTEES

The Board has two committees: the Remuneration Committee and the Audit Committee. The topics discussed at the committee meetings is reported either in writing or verbally. Each committee's work is carried out in accordance with written instructions and a formal work plan issued by the Board.

REMUNERATION COMMITTEE

The Remuneration Committee is tasked with preparing issues relating to remuneration and other terms of employment for the CEO and other senior executives. This work includes proposing guidelines for dividing between fixed and variable remuneration and the relationship between results and compensation, the main terms for bonus and incentive programmes, terms for other benefits, pensions, notice periods and severance pay, as well as drawing up proposals for individual compensation packages for the CEO and other senior executives. The Remuneration Committee shall also monitor and evaluate the outcome of the variable remuneration and how the company complies with the guidelines for remuneration adopted by the AGM. The Remuneration Committee comprises the whole of the Board of Directors.

AUDIT COMMITTEE

The Audit Committee is primarily tasked with ensuring that the Board's monitoring responsibilities are carried out regarding internal control, audits, internal audits, risk management, reporting and financial reporting, as well as preparing certain reporting and audit issues. The Audit Committee shall also review the processes and procedures for reporting and financial control. In addition, the Audit Committee shall monitor the auditor's impartiality and independence, evaluate the audit work and discuss coordination between external audits and internal work on internal control issues with the auditor. The Audit Committee shall also assist the company's Nomination Committee in drawing up proposals for auditors and recommendations for auditor fees. The Audit Committee at Hexatronic Group comprises two members: Malin Persson (Chair) and Jaakko Kivinen. The Audit Committee meets the requirements on accounting and audit expertise as stipulated in the Swedish Companies Act. The Audit Committee held five meetings during the 2019 financial year and the members' attendance at the meetings is shown in the table below.

EVALUATION OF THE BOARD'S WORK IN 2019

The Chairman of the Board is responsible for evaluating the Board's work. In 2019, all of the members took part in a survey. The results of the evaluation have been presented and discussed, in both the Board and the Nomination Committee. The evaluation focused on the Board's work in general and on the work of the members, Chairman and CEO.

AUDITOR

The auditor is appointed at the AGM each year. The auditor reviews the company's and subsidiaries' financial reports and accounts as well as the Board and CEO's administration. The auditor participates in the Board meeting that deals with the year-end report. At that Board meeting, the auditor runs through, for example, the financial information and discusses the audit with the Board Members without the CEO and other senior executives present.

The auditor stays in contact with the Chairman of the Board, Audit Committee and Executive Management. Hexatronic Group's auditor shall review the Annual Report and consolidated financial statements for Hexatronic Group AB, as well as the administration of the Board and CEO. The auditor follows a review plan, which is discussed with the Audit Committee. Reporting has partly taken place during the course of the audit to the Audit Committee and partly at the end when the year-end report is approved in its entirety for the Board. The auditor shall also participate in the AGM where he/she

PRESENT (TOTAL NUMBER OF MEETINGS)

Member	Elected	Born	Board of Directors	Remuneration Committee	Audit Committee	Independent of the company	Independent of major shareholders	Remuneration paid, SEK
Anders Persson (Chairman)	2014	1957	13 (14)	1 (1)		Yes	Yes	450,000
Erik Selin	2014	1967	12 (14)	1 (1)		Yes	Yes	200,000
Malin Persson	2014	1968	14 (14)	1 (1)	5 (5)	Yes	Yes	275,000
Malin Frenning	2016	1967	13 (14)	1 (1)		Yes	Yes	200,000
Jaakko Kivinen	2018	1970	14 (14)	1 (1)	5 (5)	Yes	No	250,000
Mats Otterstedt[1)]	2019	1972	8(8)	1 (1)		Yes	Yes	200,000

1) Elected Board Member and member of the Audit Committee at the AGM on 9 May 2019.

describes the audit work and findings in an auditor's report. In addition to the audit, the auditor has had certain audit-related consultancy assignments during the year, which have primarily related to tax consultancy and consultancy on accounting issues. Öhrlings PricewaterhouseCoopers AB is responsible for auditing all of the Swedish subsidiaries in the Group and monitors the audits of all other companies as part of the audit for the Group.

Öhrlings PricewaterhouseCoopers AB has been the company's auditor since 2013/14. Johan Palmgren is the auditor in charge.

REMUNERATION TO AUDITORS IN 2019	MSEK
PWC	
Audit engagement	1.9
Audit business in addition to audit engagement	0.2
Tax consultancy	0.2
Other services	0.4
Total	**2.6**

CEO AND OTHER SENIOR EXECUTIVES

The CEO is subordinate to the Board and responsible for the company's ongoing administration and day-to-day operations. The division of work between the Board and CEO is set out in the formal work plan for the Board and instructions for the CEO. The CEO is also responsible for preparing reports and compiling information from management ahead of Board meetings and reports back on material at the Board meetings. In accordance with the instructions for financial reporting, the CEO is responsible for financial reporting in Hexatronic Group and, as a result, must ensure that the Board is given sufficient information to be able to continuously evaluate the financial position of the company and Group.

The CEO keeps the Board updated about developments in Hexatronic Group's operations, sales development, Hexatronic Group's results and financial position, its liquidity and credit situation, important business events as well as any other event, circumstance or relationship that could be considered to be of material importance to the company's shareholders. Information about remuneration, share-related incentive programmes and terms of employment for the CEO and other senior executives can be found on the company's website.

INTERNAL CONTROL

The Board's responsibility for internal control is regulated in the Swedish Companies Act, the Annual Accounts Act (1995:1554) and the Code. Information on the most important elements of the company's systems for internal control and risk management relating to financial reporting shall be included in the company's Corporate Governance Report each year. The procedures for internal control, risk assessment, control activities and monitoring with respect to financial reporting have been designed to ensure reliable, comprehensive financial reporting and external financial reporting in accordance with IFRS, applicable laws and regulations and other requirements on companies listed on Nasdaq Stockholm. This work involves the Board, Audit Committee, Executive Management and other personnel.

CONTROL ENVIRONMENT

The Board has established instructions and steering documents with the aim of regulating the division of roles and responsibilities between the CEO and the Board. The way in which the Board monitors and ensures the quality of the internal control is set out in the Board's formal work plan and Hexatronic Group's finance policy. The control environment also includes the Board evaluating the operations' performance and results via monthly and quarterly report packages, which contain outcomes, budget comparisons, forecasts, operational objectives, strategic plans, investments, assessments and evaluations of financial risks as well as analyses of important financial and operational key metrics. Responsibility for presenting the report package to the Board, along with responsibility for maintaining an effective control environment and the ongoing work on risk assessment and internal control with regard to financial reporting, is delegated to the CEO. However, the Board is ultimately responsible for this.

INFORMATION AND COMMUNICATION

The company's steering documents for financial reporting chiefly comprise guidelines, policies and manuals, which are continuously updated and communicated to the employees concerned via relevant information channels. As regards external communications, there is an information policy with guidelines on how to publish information externally. The aim of the policy is to ensure that the company fulfils its requirements to provide the market with accurate and complete information.

MONITORING, EVALUATION AND REPORTING

The Board continuously evaluates the information provided by the Executive Management. It also receives regular updates about Hexatronic Group's development between Board meetings. Hexatronic Group's financial position, strategies and investments are discussed at each Board meeting. The Board is also responsible for monitoring internal control and assessing the Group's risk management. This work includes, for example, ensuring that measures are taken to manage any shortcomings and monitoring proposed measures brought up in connection with the external audit.

INTERNAL AUDIT

In accordance with the Swedish Corporate Governance Code, an evaluation shall be carried out during the year to examine the need for a special review function to ensure compliance with established principles, standards and other applicable laws relating to financial reporting Taking into account the work carried out on internal control, the Board judged that there is not currently any need to introduce a special review function (internal audit function).

THE GROUP

CONSOLIDATED INCOME STATEMENT

AMOUNTS IN KSEK	Note	FINANCIAL YEAR 2019	2018
Revenue			
Net sales	5, 6, 15	1,842,266	1,597,768
Other operating income	7	14,043	17,526
Total		**1,856,310**	**1,615,294**
Operating expenses			
Raw materials and goods for resale		-1,022,632	-906,639
Other external costs	8, 18	-266,716	-259,596
Personnel costs	10	-368,880	-306,191
Other operating expenses		-1,294	-4,653
Depreciation of tangible assets	18,19	-60,876	-23,281
Earnings before interest, taxes and amortisation (EBITA)		**135,911**	**114,933**
Amortisation of intangible assets	17	-29,501	-22,388
Operating result		**106,410**	**92,545**
Financial income	11	285	194
Financial expenses	12,15	-15,664	-10,988
Net financial items		-15,379	-10,794
Earnings before taxes (EBT)		**91,031**	**81,751**
Income taxes	13	-23,965	-22,472
Net result for the period		**67,066**	**59,279**
Consolidated statement of comprehensive income:			
Items which can later be recovered in the income statement			
Translation differences		12,025	11,542
Cash flow hedge		0	3,077
Other comprehensive income for the period		**79,091**	**73,898**
Total comprehensive income for the period attributable to parent company shareholders		79,091	73,898
Earnings per share before dilution (SEK)	14	1,81	1.63
Earnings per share after dilution (SEK)	14	1,80	1.62

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

THE GROUP

CONSOLIDATED BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Intangible assets			
Capitalised R&D expenses	17	5,825	6,920
Goodwill	17	257,200	252,225
Customer relations	17	115,055	131,819
Trademarks	17	56,172	63,553
Total intangible assets		**434,253**	**454,517**
Tangible assets			
Buildings and land	19	29,135	17,790
Plant and machinery	19	137,872	99,677
Equipment, tools, fixture and fittings	19	29,551	21,730
Total		**196,558**	**139,197**
Right-of-use assets	18	156,004	0
Financial assets			
Long-term receivables		1,729	1,015
Total		**1,729**	**1,015**
Total non-current assets		**788,544**	**594,729**
Currrent assets			
Inventories etc.			
Raw materials and consumables		97,049	123,322
Products in progress		8,799	10,385
Finished goods and goods for resale		233,498	200,575
Total		**339,346**	**334,282**
Current receivables			
Accounts receivable	23	242,413	261,774
Current tax receivables		0	1,594
Other receivables	24	3,232	2,553
Prepaid expenses and accrued income	25	20,559	23,582
Total		**266,204**	**289,502**
Liquid assets	26	103,762	84,621
Total current receivables		**709,312**	**708,405**
TOTAL ASSETS		**1,497,856**	**1,303,134**

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

THE GROUP

CONSOLIDATED BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2019	31/12/2018
EQUITY AND LIABILITIES			
Equity	27		
Share capital		1,877	1,826
Other capital contributions		220,768	205,787
Reserves		17,930	5,905
Result brought forward, including result for the period.		333,825	280,897
Total Equity		**574,400**	**494,415**
Non-current liabilities			
Lease liabilities	18	123,415	0
Liabilities to credit institutions	30	320,430	351,741
Deferred tax	20	58,497	62,630
Total non-current liabilities		**502,342**	**414,372**
Current liabilities			
Lease liabilities	18	34,349	0
Liabilities to credit institutions	30	57,000	56,457
Overdraft facilities	30	45,258	29,863
Provisions	29	3,000	3,000
Accounts payable		162,584	173,772
Current tax liabilities		2,811	0
Other liabilities	31	48,346	72,815
Accrued expenses and deferred income	32	67,765	58,440
Total current liabilities		**421,114**	**394,347**
TOTAL EQUITY AND LIABILITIES		**1,497,856**	**1,303,134**

The notes on page 66 to 97 constitute an integrated part of this Annual Report. Information about the Group's pledged assets and contingent liabilities is provided in note 33.

THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AMOUNTS IN KSEK	Note	Share capital	Other capital contri-butions	Reserves: Hedging reserve	Reserves: Translation reserve	Result brought forward, including result for the period	Total equity
Balance brought forward as of 1 January 2018		**1,809**	**186,077**	**-3,077**	**-5,637**	**236,087**	**415,259**
Result for the period		0	0	0	0	59,279	**59,279**
Other comprehensive income		0	0	3,077	11,542	0	**14,619**
Total comprehensive income		**0**	**0**	**3,077**	**11,542**	**59,279**	**73,898**
New share issue related to business acquisitions		17	17,436	0	0	0	**17,453**
Employee stock option programme		0	2,274	0	0	0	**2,274**
Dividends paid		0	0	0	0	-14,469	**-14,469**
Total transactions with shareholders, reported directly in equity		**17**	**19,710**	**0**	**0**	**-14,469**	**5,258**
Balance carried forward as of 31 December 2018		**1,826**	**205,787**	**0**	**5,905**	**280,897**	**494,415**
Balance brought forward as of 1 January 2019		**1,826**	**205,787**	**0**	**5,905**	**280,897**	**494,415**
Result for the period		0	0	0	0	67,066	**67,066**
Other comprehensive income		0	0	0	12,025	0	**12,025**
Total comprehensive income		**0**	**0**	**0**	**12,025**	**67,066**	**79,091**
New shares related to employee stock option programme		34	12,795	0	0	0	**12,828**
Employee stock option programme		0	2,186	0	0	0	**2,186**
Share-based remuneration		18	0	0	0	736	**736**
Dividends paid		0	0	0	0	-14,874	**-14,874**
Total transactions with shareholders, reported directly in equity		**52**	**14,981**	**0**	**0**	**-14,138**	**894**
Balance carried forward as of 31 December 2019		**1,877**	**220,768**	**0**	**17,930**	**333,825**	**574,400**

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

THE GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

AMOUNTS IN KSEK	Note	2019	2018
Operating activities			
Operating result		106,410	92,545
Items not affecting cash flow	34	97,206	50,508
Interest received		285	194
Interest paid		-16,090	-10,403
Income tax paid		-27,679	-34,094
Cash flow from operating activities before changes in working capital		**160,132**	**98,749**
Cash flow from changes in working capital			
Increase(-)/decrease(+) in inventories		-5,065	-67,247
Increase(-)/decrease(+) in accounts receivable		19,361	1,378
Increase(-)/decrease(+) in operating receivables		3,938	-4,627
Increase(+)/decrease(-) in accounts payable		-11,188	5,183
Increase(+)/decrease(-) in operating liabilities		6,736	-17,872
Cash flow from changes in working capital		**13,782**	**-83,186**
Cash flow from operating activities		**173,915**	**15,564**
Investing activities			
Acquisition of intangible assets	17	-949	-1,771
Acquisition of tangible assets	19	-80,832	-39,263
Acquisition of subsidiaries after deduction of acquired liquid assets	35	-13,809	-319,776
Change in financial assets		-714	-703
Cash flow from investing activities		**-96,304**	**-361,512**
Financing activities			
Borrowings	35	20,000	348,728
Amortisation of loans	35	-92,628	-43,446
Changes in overdraft facilities	35	15,395	29,863
New share issues for the period	27	13,106	1,654
Dividends paid		-14,874	-14,469
Cash flow from financing activities		**-59,000**	**322,330**
Cash flow for the period	26	-18,610	-23,618
Liquid assets at the start of the period		84,621	108,239
Exchange rate difference in liquid assets		531	0
Liquid assets at the end of the period		**103,762**	**84,621**

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY

PARENT COMPANY INCOME STATEMENT

AMOUNTS IN KSEK	Note	2019	2018
Revenue			
Net sales	6,150	18,986	27,242
Total		**18,986**	**27,242**
Operating expenses			
Other external costs	8	-51,806	-28,163
Personnel costs	10	-23,032	-20,119
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**-55,852**	**-21,039**
Depreciation of tangible assets	19	-215	-215
Operating result		**-56,066**	**-21,254**
Result from financial items			
Result from participations in Group companies		0	-4,052
Interest income and similar items	11	1,813	1,456
Interest income from Group companies		1,820	1,052
Interest expense and similar items	12	-11,621	-11,183
Interest costs to Group companies		-286	-250
Total result from financial items		**-8,274**	**-12,978**
Result after financial items		**-64,340**	**-34,232**
Year-end appropriations			
Provision made to tax allocation reserve		-4,600	0
Group contribution		81,150	29,550
Total		**76,550**	**29,550**
Earnings before taxes (EBT)		**12,210**	**-4,682**
Tax on profit for the period	13	-3,042	90
Net result for the period		**9,167**	**-4,591**

Total comprehensive income is the same as net result for the period in the Parent company since there is no items is accounted for as other comprehensive income.

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY

PARENT COMPANY BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Intangible assets			
Capitalised R&D expenses	17	388	0
Total		**388**	**0**
Tangible assets			
Equipment, tools, fixture and fittings	19	333	548
Total		**333**	**548**
Financial assets			
Interests in Group companies	21	631,724	630,214
Long-term receivables		28	25
Total		**631,753**	**630,239**
Total non-current assets		**632,473**	**630,786**
Current assets			
Current receivables			
Receivables from Group companies		257,463	151,401
Current tax receivables		0	507
Other receivables	24	2,262	3,324
Prepaid expenses and accrued income	25	4,118	1,605
Total		**263,843**	**156,837**
Cash and bank balances	26	0	0
Total current assets		**263,843**	**156,837**
TOTAL ASSETS		**896,316**	**787,623**

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2019	31/12/2018
EQUITY AND LIABILITIES	16		
Equity			
Restricted equity			
Share capital		1,877	1,826
Statutory reserve		20	20
Total restricted equity		**1,897**	**1,846**
Non-restricted equity			
Share premium		212,303	199,508
Result brought forward		-12,977	-3,841
Result for the year		9,167	-4,591
Total		**208,493**	**191,076**
Total equity		**210,390**	**192,922**
Untaxed reserves			
Tax allocation reserve		16,950	6,330
Total untaxed reserves		**16,950**	**6,330**
Non-current liabilities			
Liabilities to credit institutions	30	320,430	350,828
Deferred tax		4	0
Total non-current liabilities		**320,434**	**350,828**
Current liabilities			
Liabilities to credit institutions	30	57,000	48,721
Overdraft facilities	30	45,258	29,863
Accounts payable		8,465	6,504
Liabilities to Group companies		200,084	98,914
Current tax liabilities		3,462	0
Other liabilities	31	29,270	49,104
Accrued expenses and prepaid income	32	5,002	4,437
Total current liabilities		**348,541**	**237,543**
TOTAL EQUITY AND LIABILITIES		**896,316**	**787,623**

The notes on page 66 to 97 constitute an integrated part of this Annual Report. Information about the Group´s pledged assets and contingent liabilities is provided in note 33.

PARENT COMPANY

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

AMOUNTS IN KSEK	Restricted equity		Non-restricted equity		
	Share capital	Statutory reserve	Share premium	Result brought forward, including result for the period	Total equity
Balance carried forward as of 1 January 2018	**1,809**	**20**	**182,072**	**9,579**	**193,480**
Comprehensive income					
Result for the period	0	0	0	-4,591	-4,591
Total comprehensive income	0	0	0	-4,591	-4,591
New share issue related to business acquisitions	17	0	17,436	0	17,453
Difference of merger	0	0	0	1,049	1,049
Dividends paid	0	0	0	-14,469	-14,469
Total transactions with shareholders,	17	0	17,436	-13,420	4,033
reported directly in equity					
Balance carried forward as of 31 December 2018	**1,826**	**20**	**199,508**	**-8,432**	**192,922**
Balance brought forward as of 1 January 2019	**1,826**	**20**	**199,508**	**-8,432**	**192,922**
Comprehensive income					
Result for the period	0	0	0	9,167	9,167
Total comprehensive income	**0**	**0**	**0**	**9,167**	**9,167**
New shares related to employee stock option programme	34	0	12,795	0	12,829
Employee stock option programme	18	0	0	736	754
Difference of merger	0	0	0	9,593	9,593
Dividends paid	0	0	0	-14,874	-14,874
Total transactions with shareholders, reported directly in equity	**52**	**0**	**12,795**	**-4,545**	**8,302**
Balance carried forward as of 31 December 2019	**1,877**	**20**	**212,303**	**-3,810**	**210,39**

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY

PARENT COMPANY CASH FLOW STATEMENT

AMOUNTS IN KSEK	Note	2019	2018
Operating activities			
Operating result		-56,066	-21,254
Items not affecting cash flow	34	548	1,442
Interest received		2,072	1,134
Interest paid		-10,246	-11,057
Income tax paid		467	-1,709
Cash flow from operating activities before changes in working capital		**-63,225**	**-31,444**
Cash flow from changes in working capital			
Increase(-)/decrease(+) in operating receivables		-2,207	16,003
Increase(+)/decrease(-) in accounts payable		1,961	4,016
Increase(+)/decrease(-) in operating liabilities		87,538	-19,858
Cash flow from changes in working capital		**87,292**	**161**
Cash flow from operating activities		**24,066**	**-31,283**
Investing activities			
Acquisition of subsidiaries		-57	-339,166
Acquisition of intangible assets		-388	0
Acquisition of tangible assets		0	-1,573
Cash flow from investing activities		**-445**	**-340,739**
Financing activities			
Borrowings	35	20,000	348,726
Amortisation of loans	35	-56,971	-43,446
Dividends paid		-14,874	-14,469
Changes in overdraft facilities		15,395	29,863
New shares related to employee stock option programme		12,828	0
Cash flow from financing activities		**-23,621**	**320,674**
Cash flow for the period	26	**0**	**-51,348**
Cash and bank balances at the start of the period		0	51,348
Cash and bank balances at the end of the period		**0**	**0**

The notes on page 66 to 97 constitute an integrated part of this Annual Report.

NOTE 1 GENERAL INFORMATION

The consolidated financial statements encompass the parent company Hexatronic Group AB (the Parent Company) with corporate identity number 556168-6360 and its subsidiaries (the Group). The Parent Company is a limited company registered in Sweden and based in Gothenburg at the address Sofierogatan 3A, SE-412 51 Gothenburg, Sweden.

On 15 April 2020, the Board of Directors approved these financial statements for publication.

All amounts are in thousands of Swedish kronor (SEK thousand) unless otherwise stated. The figures in parentheses refer to the previous year unless otherwise stated.

NOTE 2 SUMMARY OF KEY ACCOUNTING POLICIES

The most important accounting policies used in these consolidated financial statements are stated below. These policies have been applied consistently for all of the years presented, unless otherwise stated.

2.1 GROUNDS FOR PREPARING THE REPORTS

The consolidated financial statements for the Hexatronic Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by IFRIC as adopted by the EU, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act.

The consolidated financial statements have been prepared in accordance with the cost method with the exception of financial assets/ liabilities measured at fair value through profit or loss.

The Parent Company's financial statements have been prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and the Swedish Annual Accounts Act. The application of RFR 2 means that in its annual report for the legal entity, the Parent Company applies all IFRS and statements adopted by the EU as far as possible within the framework of the Swedish Annual Accounts Act, the Swedish Act on Safeguarding Pension Commitments etc., and with regard to the relationship between accounting and taxation. If the Parent Company applies different accounting policies to the Group, this is stated separately at the end of this note.

Preparing financial statements in accordance with IFRS requires the use of some important accounting estimates. Furthermore, the management is required to make certain assessments when applying the Group's accounting policies, see Note 4.

2.1.1 CHANGES TO ACCOUNTING POLICIES AND DISCLOSURES

New standards applicable from 1 January 2019

IFRS 16 Leases has been applied as of 1 January 2019.

The Group as a lessee

The Group's leases primarily comprise right-of-use assets regarding premises. The leases are recognised as right-of-use assets with a corresponding lease liability on the day the leased asset becomes available for use by the Group. Short-term leases and leases for which the underlying asset is of low value are excepted.

Each lease payment is distributed between repayment of lease liability and financial expense. The financial expense shall be distributed over the term of the lease so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability recognised in the respective period.

The lease period is established as the non-terminable period together with both periods covered by an opportunity to extend the lease if the lessee is reasonably certain to utilise that option, and periods covered by an opportunity to terminate the lease if the lessee is reasonably certain not to utilise that option.

The Group's lease liabilities are entered at the present value of the Group's fixed fees. Call options are included in the fees if it is reasonably certain that these will be utilised to acquire the underlying asset. Penalty fees which are charged on termination of the lease are included if the lease period reflects the fact that the lessee will utilise an opportunity to terminate the lease. The lease payments are discounted by the interest rate implicit in the lease if this interest rate can easily be established, otherwise the Group's incremental borrowing rate is used.

The Group's right-of-use assets are recognised at cost and initially include the present value of the lease liability, adjusted for lease fees paid on or before the start date, as well as initial direct costs. Restoration costs are included in the asset if a corresponding provision relating to restoration costs has been identified. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the length of the lease.

Hexatronic has identified many open agreements without a defined end date. This means that Hexatronic as a lessee must determine what length of contract can be deemed to be reasonable instead of considering the termination clauses in the leases. The lessee determines the term of the contract by assessing factors such as the importance of the property to the business operation, its own, planned or implemented measures in the rented property and the market situation for real estate. As a result of these considerations, the contract periods of many leases have been deemed to be longer.

Hexatronic has chosen to report the transition to the new standard using the simplified approach. The exemption of not preparing a comparison year has been applied. Right-of-use assets have been measured at an amount equal to the lease liability on the transition date. An incremental borrowing rate equating to the Parent Company's borrowing rate has been applied. Right-of-use leases with a term of less than 12 months or a remaining term of less than 12 months from the transition date are classified as short-term leases and are therefore not included in recognised liabilities or right-of-use assets. Right-of-use leases with a replacement value of less than SEK 50,000 have been classified as low-value leases and are not included in recognised liabilities or right-of-use assets.

New standards and interpretations that have yet to be applied by the Group

None of the IFRS or IFRIC interpretations that have been published but have yet to come into effect are expected to have a material effect on the Group.

2.2 CONSOLIDATED FINANCIAL STATEMENTS

2.2.1 FUNDAMENTAL ACCOUNTING POLICIES

Subsidiaries

A subsidiary is any company (including structured entities) over which the Group has a controlling influence. The Group has control over a company when it is exposed to or has the right to a variable return from its holding in the company and is able to influence the return through its influence in the company.

Subsidiaries are included in the consolidated financial statements from the date the controlling influence passes to the Group. They are excluded from the consolidated financial statements from the date the controlling influence ceases.

The acquisition method is used to recognise the Group's business combinations. The purchase price for the acquisition of a subsidiary comprises the fair value of the transferred assets, liabilities to the former owners of the acquiree incurred by the Group and the shares issued by the Group. The purchase price also includes the fair value of all liabilities that result from any agreement regarding contingent consideration. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the acquisition date. For each acquisition, i.e. on a transaction-by-transaction basis, the Group decides whether or not non-controlling interests (NCIs) in the acquiree are measured at fair value or at the NCI's proportionate share of the carrying amount of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as they arise.

Any contingent consideration to be transferred by the Group is measured at fair value on the acquisition date. Subsequent changes in the fair value of a contingent consideration classified as a liability are recognised in profit or loss in accordance with IFRS 9.

Goodwill is initially measured as the amount by which the total purchase price and any fair value for an NCI on the acquisition date exceeds the fair value of identifiable net assets acquired. If the purchase price is lower than the fair value of the acquiree's net assets, the difference is recognised directly in profit or loss.

Intra-Group transactions, balance sheet items, and income and expenses relating to transactions between Group companies are eliminated. Gains and losses that result from intra-Group transactions and are recognised in assets are also eliminated. The accounting policies for subsidiaries have been modified, if appropriate, to guarantee consistent application of the Group's policies.

2.3 SEGMENT REPORTING

Operating segments are reported in a way that corresponds with the internal reporting submitted to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the operating segments' results. In the Group this function has been identified as the President and CEO, who makes strategic decisions. Hexatronic's operation comprises the operating segment fiber optic communication solutions.

2.4 TRANSLATING FOREIGN CURRENCIES

Functional currency and presentation currency

The various entities in the Group have their local currency as their functional currency because the local currency has been defined as the currency used in the primary economic areas in which each entity mainly operates. The Swedish krona (SEK) has been used in the consolidated financial statements; it is the Parent Company's functional currency and the Group's presentation currency.

Transactions and balance sheet items

Transactions in foreign currencies are translated to the functional currency using the exchange rates in force on the transaction date. Currency gains and losses that arise from payments for such transactions and from translating monetary assets and liabilities in foreign currencies at the closing rate of exchange are recognised in operating profit in the income statement.

Translating foreign Group companies

The results and financial position for all Group companies with a functional currency other than the presentation currency are translated into the Group's presentation currency. Assets and liabilities for each of the balance sheets are translated from the foreign business's functional currency into the Group's presentation currency, the Swedish krona, at the closing rate of exchange. Income and expenses for each of the income statements are translated into Swedish kronor at the average exchange rate on each transaction date. Translation differences that arise from translating currencies for foreign businesses are recognised in other comprehensive income.

2.5 INTANGIBLE ASSETS

Capitalised development expenditure

Capitalised development expenditure refers to the development of fiber optic products. Development costs directly attributable to the development of fiber optic products are recognised as intangible assets when it is probable that the expected future economic benefits attributable to the asset will accrue to the company, if the cost of the asset can be calculated reliably and when the following criteria are met:

- It is technically feasible to complete the asset so that it can be used,
- The company intends to complete the asset and to use or sell it,
- There are opportunities to use or sell the asset,
- It can be shown how the asset generates probable future economic benefits,
- Adequate technical, economic and other resources are available to complete the development and use or sell the asset, and
- The expenditure attributable to the asset during its development can be calculated reliably.

Intangible assets are recognised at cost less accumulated amortisation and any write-down. The cost of an internally generated intangible asset is the sum of the expenditure that arises from the date the intangible asset first meets the above-mentioned criteria for capitalisation.

Directly attributable expenditure that is capitalised includes expenses for employees.

Amortisation begins when the asset can start being used. The useful life is assessed based on the period the expected benefits are estimated to accrue to the company. The useful life is estimated to be 5–10 years and amortisation is linear over this period.

Expenditure on development that does not meet the above criteria is expensed as it is incurred. Expenditure on development that was previously expensed, is not recognised as an asset in subsequent periods.

Trademarks and customer relations

Trademarks and customer relations acquired through a business combination are measured at fair value on the acquisition date. Trademarks and customer relations have an estimable useful life and are recognised at cost less accumulated amortisation and any write-downs. Amortisation is carried out linearly so as to spread the cost for trademarks and customer relations over their estimated useful life of 5–10 years.

Goodwill

Goodwill arises during the acquisition of subsidiaries and refers to the amount by which the purchase price plus the fair value of an NCI in the acquiree exceeds Hexatronic's share in the fair value of identifiable assets, liabilities and contingent liabilities in the acquiree.

To test for a write-down requirement, goodwill acquired in a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated shall represent the lowest level in the Group at which the goodwill in question is monitored for internal management purposes. Goodwill is monitored per cash-generating unit.

Goodwill is tested for a write-down requirement annually or more frequently if changes in circumstances indicate a possible impairment. The carrying amount of goodwill is compared with the recoverable amount, which is the higher of an asset's value in use and its fair value less costs of disposal.

2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost less depreciation and any write-down. The cost includes expenses that can be directly attributed to the acquisition of the asset.

Additional expenses are added to the asset's carrying amount or recognised as a separate asset, depending on which is suitable, only if it is probable that the future economic benefits associated with the asset will accrue to the Group and the asset's cost can be measured reliably. The carrying amount for a replacement part is derecognised from the balance sheet. All other forms of repair and maintenance are recognised as costs in the income statement during the period they are incurred.

Depreciation is carried out linearly as follows:
Buildings 15–30 years
Plant and machinery 3–10 years
Equipment, tools, fixtures and fittings 5–10 years

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

Gains and losses from disposing of property, plant and equipment are determined through a comparison of the sales proceeds and the carrying amount, and recognised in other operating income or other operating expenses in the income statement.

2.7 WRITE-DOWNS OF NON-FINANCIAL NON-CURRENT ASSETS

Intangible assets that have an indefinite useful life or are not ready for use are not amortised but tested annually for any write-down requirement. Assets that are amortised are tested for impairment at any time that events or changes in circumstances indicate that the carrying amount may not be recoverable. A write-down is carried out equal to the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. When assessing the write-down requirement, assets are grouped at the lowest levels where there are separate identifiable cash flows (cash-generating units). Tests for reversal should be carried out for assets other than financial assets that have previously been written down every balance sheet date. Previous write-downs of goodwill are not reversed.

2.8 INVENTORIES

Inventories are measured at the lower of cost and net selling price. The cost is determined using the first-in, first-out method (FIFO). The cost for semi-finished and finished goods made internally comprises direct production costs and a reasonable share of indirect production costs.

2.9 FINANCIAL INSTRUMENTS – GENERAL

There are financial instruments in many different balance sheet items. These are described below.

From 1 January 2018, Hexatronic distributes its financial instruments in the following categories in accordance with IFRS 9: amortised cost and fair value via the income statement. The classification is based on the nature of the asset's cash flows and on the business model to which the asset is subject.

Financial assets measured at amortised cost

Interest-bearing assets (debt instruments) held for the purpose of collecting contractual cash flows, where these cash flows consist solely of principal amount and interest, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses recognised (see impairment testing paragraph below). Interest income from these financial assets is recognised using the effective interest method and recognised as financial income. The Group's financial assets, which are measured at amortised cost, consist of accounts receivable, other receivables and liquid assets.

Financial liabilities measured at fair value via the income statement

Financial liabilities measured at fair value via the income statement consist of additional purchase prices for business acquisitions. Financial liabilities measured at fair value via the income statement are also recognised in subsequent periods at fair value, and the change in value is recognised in the profit for the year. Liabilities in this category are classified as current liabilities if they fall due within 12 months of the balance sheet date. If they fall due more than 12 months after the balance sheet date, they are classified as non-current liabilities.

Financial instruments measured at fair value through other comprehensive income

The Group's exposure from translating foreign subsidiaries' net assets into the Parent Company's functional currency has been hedged through liabilities in foreign currencies. Gains and losses in hedging instruments that meet the criteria for hedging net investments are recognised in the translation reserve in equity through other comprehensive income. The gain or loss attributed to the ineffective portion is recognised in the income statement. In the Parent Company, these liabilities comprise hedging instruments in a fair value hedge regarding currencies for shares in subsidiaries.

Financial liabilities at amortised cost

The Group's other financial liabilities are classified as measured at amortised cost using the effective interest method. Financial liabilities at amortised cost consist of liabilities to credit institutions, accounts payable, other current liabilities and accruals. Borrowing is initially recognised at fair value, net after transaction costs. Borrowing is then recognised at amortised cost and any difference between the amount received (net after transaction costs) and the repayment amount is recognised in the statement of comprehensive income distributed over the loan period, with application of the effective interest method.

Borrowing is classified as current in the balance sheet if the company does not have an unconditional right to postpone the settlement of the liability for at least 12 months after the reporting period. Dividends paid are recognised as a liability after the general meeting of shareholders has approved the dividend. Accounts payable and other operating payables have short expected maturities and are measured without discount at nominal amounts.

Derecognition of financial instruments

Purchases and sales of financial assets are recognised on the trade date. Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the Group has substantially transferred all of the risks and rewards associated with ownership of the asset.

Gains and losses that arise from derecognition from the balance sheet are entered directly in income under net sales, financial items as well as through other comprehensive income.
Financial liabilities are derecognised from the balance sheet when the obligations have been settled or annulled, or have expired in some other way. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the remuneration paid, including transferred assets that are not

cash or assumed liabilities, is recognised in the statement of comprehensive income.

If the terms of a financial liability are renegotiated, and not derecognised from the balance sheet, a gain or loss is recognised in the statement of comprehensive income. The gain or loss is recognised as the difference between the original contractual cash flows and the modified cash flows discounted to the original effective rate.

Impairment testing of financial assets

On each reporting occasion, the Group assesses the future expected credit losses associated with assets recognised at amortised cost based on forward-facing information. The Group reports a credit reserve for expected credit losses on each reporting date.

For accounts receivable, including contract assets, the Group applies the simplified approach to credit reserves, i.e. the reserve will correspond to the expected loss over the entire life span of the account receivable. In order to measure the expected credit losses, accounts receivable have been grouped based on the allocated credit risk characteristics and overdue days. The Group uses forward-looking variables for expected credit losses. Expected credit losses are recognised in the consolidated statement of comprehensive income under other external expenses.

The Group uses the general model for calculating future expected credit losses for intra-Group receivables, other non-current receivables and other receivables. The expected losses are not judged to be of material value and therefore no further explanation of the general model has been made.

Offsetting of financial instruments

Financial assets and liabilities are offset and recognised with a net amount in the balance sheet, only when there is a legal right to offset the reported amounts and an intention to settle them with a net amount or to realise the asset and settle the liability simultaneously.

2.10 PROVISIONS

Provisions in the balance sheet refer to warranty provisions. These provisions are recognised when the Group has a legal or informal obligation as a result of previous events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been calculated reliably. No provisions are made for future operating losses.

2.11 CURRENT AND DEFERRED TAX

The tax expense for the period encompasses current and deferred tax. The current tax expense is calculated on the basis of tax rules that have been decided or virtually decided on the balance sheet date in the countries in which the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax is recognised, in accordance with the balance sheet method, on all temporary differences that arise between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is calculated by applying tax rates that have been decided or announced on the balance sheet date and are expected to apply when the relevant deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets on loss carry-forwards are recognised to the extent that it is likely that future tax surpluses will be available, against which deficits can be used.

Deferred tax assets and liabilities are offset when there is a legal offset right for current tax assets and tax liabilities, the deferred tax assets and liabilities refer to taxes charged by a single tax authority and refer either to the same tax subject or different tax subjects and there is an intention to settle the balances through net payments.

2.12 REMUNERATION TO EMPLOYEES

Pension obligations

The Group has both defined benefit and defined contribution plans. The defined benefit plans consist of ITP 2 plans (see below for a more detailed description). A defined contribution plan is a pension plan whereby the Group pays fixed contributions to a separate legal entity. The Group does not have any legal or informal obligations to pay further contributions if the legal entity does not have sufficient assets to make all payments to employees relating to the employees' service in the current or earlier periods.

With defined contribution plans, the Group pays contributions into publicly or privately managed pension insurance plans on an obligatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they fall due for payment. Prepaid contributions are recognised as an asset to the extent that the Group may benefit from a cash repayment or decrease in future payments.

In parts of the Group, salaried employees in Sweden are part of an ITP 2 plan. The ITP 2 plan's defined benefit pension obligations for retirement and survivor pension are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 3 Classification of ITP plans financed through insurance in Alecta, this is a defined benefit plan encompassing multiple employers. The company has not had access to information for the period that would enable it to recognise its proportionate share of the plan's obligations, plan assets and costs, which means it has not been possible to recognise the plan as a defined benefit plan. The ITP 2 plan secured through insurance in Alecta is therefore recognised as a defined contribution plan. Premiums for the defined benefit retirement and survivor pension are calculated individually and depend on factors such as salary, previously earned pension and the expected remaining period of service.

Remuneration upon termination of employment

Remuneration upon termination of employment is paid when an employee's employment is terminated by the Group before the normal retirement age or when an employee accepts voluntary redundancy in exchange for remuneration. The Group recognises remuneration upon termination of employment when it is demonstrably obliged to terminate employment in accordance with a detailed formal plan without an opportunity to cancel. In cases where the company has made an offer to encourage voluntary redundancy, severance pay is calculated based on the number of employees who are expected to accept the offer. Benefits that are due more than 12 months after the end of the reporting period are discounted to the present value.

Performance-based incentive programme

The Group has established an incentive programme whereby for each acquired Hexatronic share (savings share), participants can receive 4–6 shares (performance shares) in Hexatronic free of charge. To qualify for performance shares participants must, in addition to meeting certain performance-based targets, acquire and retain a number of Hexatronic shares for the whole of the three-year vesting period and must, with certain exceptions, remain in employment during the same period.
The fair value per performance share is established when the programme is agreed. The number of performance shares expected to be earned with regard to the terms of remaining in employment and the performance terms, together with the fair value per share, forms the basis for the total cost recognised over the three-year vesting period. The cost is allocated linearly over the vesting period and is

updated at each reporting occasion with regard to the expected number of earned shares, related to the service and performance terms. The cost is recognised as an employee benefit expense with a corresponding entry in profit/loss carried forward.

Costs for social security contributions for the incentive programme are recognised in a corresponding way but with a contra entry as a liability instead of in equity, and with an ongoing revaluation based on the shares' fair value at each reporting occasion.

2.13 REVENUE RECOGNITION

Income from the Group's ordinary operations consists of the sale of goods and services. The Group's sales mainly consist of goods. The goods are taken up as revenue when control is transferred to the customer on one specific occasion. Indicators such as transfer of ownership and risks, customer acceptance, physical access and rights to issue invoices are taken into account. The sale is recognised net after discounts and other variable remuneration only to the extent that it is highly unlikely to be reversed.

The sales identified over time (service) consist partly of training, the scope of which in relation to the Group's total revenue is assessed as being of negligible value and therefore recognised on one specific occasion, and partly of the sale of marine cables, which is recognised over time. The revenue from the sale of marine cables is recognised over the term of the agreement using either input data or output data methods.

2.14 INTEREST INCOME

Interest income is recognised as revenue using the effective interest method. When the value of a receivable in the category financial assets measured at amortised cost has decreased, the Group reduces the carrying amount to the recoverable amount, which comprises the estimated future cash flow, discounted by the original effective rate for the instrument, and continues unwinding the discount as interest income. Interest income on written-down loan receivables and accounts receivable is recognised at the original effective rate.

2.15 LEASES

The Group's leases primarily comprise right-of-use assets regarding leased premises. The leases are recognised as right-of-use assets with a corresponding lease liability on the day the leased asset becomes available for use by the Group. Short-term leases and leases for which the underlying asset is of low value are excepted.

In order to calculate the right-of-use asset and corresponding lease liability, lease payments have been discounted by the interest rate implicit in the lease if this interest rate can easily be established, otherwise the Group's incremental borrowing rate is used. The weighted average incremental borrowing rate applied to the lease liabilities is 1.7%. Where there are leases with similar properties, the same discount rate has been used.

The lease period is established as the non-terminable period together with both periods covered by an opportunity to extend the lease if the lessee is reasonably certain to utilise that option, and periods covered by an opportunity to terminate the lease if the lessee is reasonably certain not to utilise that option.

Each lease payment is distributed between repayment of lease liability and financial expense. The financial expense shall be distributed over the term of the lease so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability recognised in the respective period.

The Group's lease liabilities are entered at the present value of the Group's lease fees. The Group's right-of-use assets are recognised at cost and initially include the present value of the lease liability, adjusted for lease fees paid on or before the start date, as well as initial direct costs. Restoration costs are included in the asset if a corresponding provision relating to restoration costs has been identified. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the length of the lease.

In 2019, the adjustments relating to additional right-of-use assets amounted to SEK 5,092,000.

2.16 CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. The recognised cash flow only includes transactions that involved inward and outward payments.

2.17 THE PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company applies different accounting policies to the Group in the cases stated below.

Formats

The income statement and balance sheet comply with the format in the Swedish Annual Accounts Act. The statement of changes in equity follows the Group's format but has to contain the columns specified in the Swedish Annual Accounts Act. Furthermore this means differences in terms, compared with the consolidated financial statements, mainly regarding financial income and expenses, and equity.

Participations in subsidiaries

Participations in subsidiaries are recognised at cost less any write-downs. The cost includes acquisition-related costs and any additional purchase prices.

If there is an indication that participations in subsidiaries have decreased in value, the recoverable amount is calculated. If this is less than the carrying amount, a write-down is carried out. Write-downs are recognised in profit/loss from participations in Group companies.

Group contributions

Group contributions from the Parent Company to subsidiaries and vice versa are recognised as appropriations.

Leases

All leases in the Parent Company are considered to be operating leases.

NOTE 3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISKS

Through its operation the Group is exposed to various financial risks such as market risk (foreign exchange risk and interest risk), credit risk, as well as cash flow and liquidity risk. The Group's overall risk management policy focuses on unpredictability on the financial markets and strives to minimise potential unfavourable effects on the Group's financial results.

Risk management is handled centrally by the Parent Company Hexatronic Group AB and is the responsibility of the President/CEO and CFO, in accordance with policies established by the Board of Directors. The President/CEO and CFO authorise the risk management measures implemented in accordance with the policy, and the Presidents of the respective subsidiaries have operational responsibility for ensuring compliance with the policy in day-to-day work. The Board prepares written policies both for the overall risk management and for specific areas.

(a) Market risk

(i) Foreign exchange risk

For Hexatronic, foreign exchange risk is partly a consequence of future payment flows in foreign currencies, so-called transaction exposure, and partly of recognised assets and liabilities as well as net operations in foreign businesses, so-called translation exposure.

The Group has a policy whereby each Group company manages the foreign exchange risk for its functional currency.

TRANSACTION EXPOSURE

Hexatronic operates on a global market and large parts of its sales and purchases are in currencies other than SEK. Aside from SEK, sales and purchases are mainly in US dollars (USD), euro (EUR), Norwegian kronor (NOK), New Zealand dollars (NZD) and British pounds sterling (GBP).

The Group's transaction exposure is divided between the following currencies:

Currency	Goods flows, gross 2019		Currency flows, net	
(thousands)	Inflow	Outflow	2019	2018
USD	63,447	55,915	7,532	-3,030
EUR	24,480	31,825	-7,345	-10,543
NOK	54,469	3,156	51,313	41,703
NZD	21,847	3,383	18,463	21,940
GBP	21,932	9,550	12,382	6,322

If the Swedish krona grew 10% weaker/stronger in relation to each currency below, with all other variables remaining constant, profit for the year would be affected as shown in the table below. The main part of the impact is a consequence of gains/losses from translating accounts receivable and accounts payable.

Sensitivity analysis, transaction exposure

Currency (thousands)	2019	2018
USD	7,020	2,718
EUR	7,661	10,839
NOK	5,439	4,170
NZD	11,540	13,208
GBP	15,118	7,175

TRANSLATION EXPOSURE

Foreign net assets/liabilities in the Group are divided into the following currencies:

Currency (thousands)	2019	2018
USD	53,372	40,050
NZD	9,676	7,118
NOK	40,573	25,161
GBP	8,238	5,707
EUR	11,783	12,239
CNY	961	1,395

(ii) Interest risk in borrowing

The Group's interest risk arises through long-term borrowing. A Board decision is required to raise new loans that exceed granted credit. Hexatronic does not generally use derivative instruments to adjust underlying interest exposure as this only occurs in exceptional cases. In 2019 and 2018, the Group's borrowing at variable interest rates was in Swedish kronor and US dollars.

Simulations show that a 0.25 per cent change would increase or decrease results by up to SEK 944,000 (1,020,000).

(b) Credit risk

Credit risk is managed at Group level, with the exception of credit risk relating to outstanding accounts receivable. Each Group company is responsible for monitoring and analysing the credit risk for each new customer before offering standard payment and delivery terms. Credit risk arises through liquid assets, derivative instruments, and balances at banks and financial institutions as well as through credit exposure vis-à-vis customers, including outstanding receivables and agreed transactions. The use of credit limits is monitored regularly and management do not expect any losses as a result of non-payment by counterparties.

(c) Cash flow and liquidity risk

Cash flow forecasts are prepared by the Group's larger operating companies and aggregated by the CFO. The CFO carefully monitors the Group's liquidity reserve to ensure that the Group has sufficient cash to meet the needs of the operating activities The Group's larger operating companies shall always have sufficient room for manoeuvre in the unutilised agreed credit facilities so that the Group does not breach the borrowing limits or borrowing terms (where applicable) on any of the Group's loan facilities. Such forecasts observe the Group's fulfilment of borrowing terms, fulfilment of internal balance sheet-based profit measures and, where applicable, external supervisory or legal requirements – such as currency restrictions.

With the aim of being prepared for the financing and liquidity needs that can arise, the goal is for the Group to have liquidity available that at least equals the corresponding overdraft facility.

Any surplus liquidity in the Group may only be invested in interest-bearing accounts. On the balance sheet date, the company had liquid assets of SEK 103,762,000 (84,621,000) which can quickly be converted into cash to manage the liquidity risk.

The table below analyses the Group's financial liabilities, divided according to the time remaining on the balance sheet date until the contractual due date. The amounts in the table are the contractual, non-discounted cash flows.

GROUP

Group, 31 December 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Liabilities to credit institutions	62,154	61,242	268,581
Accounts payable	162,584	0	0
Other current liabilities	21,277	5,382	2,689
Lease liabilities	34,059	32,885	68,293
Total	**280,074**	**99,509**	**339,563**

Group, 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Liabilities to credit institutions	61,587	60,824	301,117
Accounts payable	173,772	0	0
Other current liabilities	48,837	0	0
Lease liabilities	0	0	0
Total	**284,196**	**60,824**	**301,117**

PARENT COMPANY

Parent Company, 31 December 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Liabilities to credit institutions	62,154	61,242	268,581
Accounts payable	8,465	0	0
Other current liabilities	21,277	5,382	2,689
Total	**91,896**	**66,624**	**271,270**

Parent Company, 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Liabilities to credit institutions	61,587	60,824	301,117
Accounts payable	6,504	0	0
Other current liabilities	48,837	0	0
Total	**116,928**	**60,824**	**301,117**

3.2 MANAGING CAPITAL

The Group's goal regarding capital structure is to secure the Group's ability to continue its operation so that it can continue to generate returns for its shareholders and benefit for other stakeholders, and maintain an optimal capital structure so as to keep the costs of capital down.

In order to maintain or adjust the capital structure, the Group can issue new shares or sell assets to reduce liabilities.

The Group assesses its capital in accordance with an agreed bank covenant, which is the senior net debt to EBITDA ratio in accordance with IFRS 16 based on rolling 12 months pro forma (i.e. including EBITDA in any acquirees as though the company had been owned for 12 months).

Senior net debt is calculated as total borrowing (encompassing the posts short-term borrowing and long-term borrowing in the consolidated balance sheet) less liquid assets.

On 31 December 2019 the Group meets the bank's covenants.

3.3 CALCULATING FAIR VALUE

The table below shows financial instruments measured at fair value based on classification in the fair value hierarchy. The different levels are defined as follows:

- Quoted prices (not adjusted) on active markets for identical assets or liabilities (level 1).
- Observable data for the asset or liability other than quoted prices included in level 1, either directly (i.e. quoted prices) or indirectly (i.e. derived from quoted prices) (level 2).
- Data for the asset or liability that is not based on observable market data (i.e. non-observable data) (level 3).

The Group did not have any assets measured at fair value on 31 December 2019 or 31 December 2018.

The Group 31/12/2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities				
Financial liabilities measured at fair value via the income statement				
Additional purchase price for Blue Diamond Industries	0	0	10,191	10,191
Additional purchase price for Opternus	0	0	19,157	19,157
Total liabilities	**0**	**0**	**29,348**	**29,348**

The Group 31/12/2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities				
Financial liabilities measured at fair value via the income statement				
Additional purchase price for Blue Diamond Industries	0	0	22,427	22,427
Additional purchase price for PQMS	0	0	5,073	5,073
Additional purchase price for Opternus	0	0	21,337	21,337
Total liabilities	**0**	**0**	**48,837**	**48,837**

Financial instruments in level 3

On 2 January 2018, the Group acquired 100% of the share capital in Blue Diamond Industries LLC (see Note 36). The contingent consideration includes an additional purchase price that amounted to SEK 16,450,000 in the acquisition analysis. The fair value of the agreed contingent consideration has been discounted.

On 8 June 2018, the Group acquired 100% of the share capital in PQMS Ltd. (see Note 36). The contingent consideration includes an additional purchase price that amounted to SEK 10,357,000 in the acquisition analysis. The fair value of the agreed contingent consideration has been discounted.

On 1 November 2018, the Group acquired 100% of the share capital in Opternus GmbH (see Note 36). The contingent consideration includes an additional purchase price that amounted to SEK 22,507,000 in the acquisition analysis. The fair value of the agreed contingent consideration has been discounted.

The calculation of fair value on 31/12/2019 boosted profit by SEK 5,681,000 (3,631,000).

NOTE 4 IMPORTANT ACCOUNTING ESTIMATES

Accounting estimates are continuously evaluated and based on past experience and other factors, including expectations of future events that are deemed reasonable under prevailing conditions.

Important estimates and assessments for accounting purposes

The Group makes estimates and assumptions about the future. By definition, the resulting accounting estimates rarely correspond to the actual outcome. The estimates and assumptions that pose a significant risk of material adjustments to the carrying amounts of assets and liabilities in the forthcoming financial year are dealt with as outlined below.

Impairment test for goodwill

Every year the Group examines whether there is a write-down requirement for goodwill, in accordance with the accounting policy described in Note 2. The recoverable amounts for cash-generating units have been determined by calculating value in use. Certain assumptions have to be made for these calculations. A more detailed description of the impairment test for goodwill, along with significant assumptions that form part of the model for this, can be found in Note 17.

Measurement of additional purchase prices

Additional purchase prices are recognised at fair value based on assessed outcomes of agreed clauses in the share transfer agreement at the time of acquisition. On each reporting occasion, the financial liability is measured at fair value and any changes are recognised in the income statement. Since the Group has made several acquisitions in recent years, the liability for additional purchase prices has become a significant assessment item.

Warranty provision

The Group sets up provisions for warranty obligations based on past experience and individual assessment of transactions that may incur warranty costs.

Obsolescence reserves

If the net realisable value is lower than the recoverable amount, a value reserve is set up for obsolete stock. The Group applies a principle (obsolescence scale) whereby write-down is based on the length of time that a good has not moved. In the event of an obsolescence requirement in accordance with this principle, an individual assessment is made as to whether or not the good can be considered sellable.

The total stock value after obsolescence valuations was SEK 339,346,000 (334,282,000) on 31/12/2019. The total obsolescence reserve on 31/12/2019 amounted to SEK 30,125,000 (30,090,000).

NOTE 5 SEGMENTS

Hexatronic is an innovative Swedish Group specialising in fiber communication. The Group delivers products and solutions for fiber optic networks, and supplies a complete range of passive infrastructure for telecom companies.

Operating segments are reported in a way that corresponds with the internal reporting submitted to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the operating segments' results. Hexatronic's operation comprises the operating segment fiber optic communication solutions.

The operating segment is recognised in accordance with the same accounting policies as the Group.

NOTE 6 DISTRIBUTION OF NET SALES

	Group		Parent Company	
	2019	2018	2019	2018
Net sales by income type				
Product sales	1,748,118	1,526,389	0	0
Service sales	94,148	71,379	18,986	27,242
Total	**1,842,266**	**1,597,768**	**18,986**	**27,242**

The Parent Company mainly receives service income from subsidiaries in the Group.

	Distribution of net sales		Non-current assets	
Group	**2019**	**2018**	**2019**	**2018**
Sweden	546,339	606,701	625,846	534,837
Rest of Europe	587,740	287,636	41,865	9,529
North America	426,782	365,625	94,820	33,354
Rest of world	281,405	337,806	26,013	17,009
Total	**1,842,266**	**1,597,768**	**788,544**	**594,729**

Non-current assets refer to non-current assets other than financial instruments and deferred tax assets (there are no assets linked to benefits after the end of employment or rights in accordance with insurance agreements).

Income from the Group's three biggest customers in 2019 amounted to SEK 175,555,000, SEK 175,515,000 and SEK 92,572,000 respectively. No single customer accounts for more than 10% of the Group's sales.

Income from the Group's three biggest customers in 2018 amounted to SEK 196,800,000, SEK 138,057,000 and SEK 125,764,000 respectively. No other single customer accounted for more than 10% of the Group's sales.

In essence, all of the above income has been accounted for at a given time.

NOTE 7 OTHER OPERATING INCOME

	Group	
	2019	2018
Other operating income by income type		
Adjustment of additional purchase price relating to the acquisitions of PQMS, GFT, SAL and Opternus	8,569	9,154
Onward-invoiced freight	1,848	1,751
Compensation for legal costs in patent dispute	0	1,500
Grants received	1,248	878
Capital gain from sale of equipment	1,024	0
Other items	1,354	4,242
Total	**14,043**	**17,526**

NOTE 8 REMUNERATION TO AUDITORS

Audit engagement refers to auditing the annual report and accounts as well as the Board of Director and CEO's administration, other work duties incumbent on the company's auditors, along with advice or other assistance caused by observations during such an audit or while carrying out other such work duties. Everything else comes under 'Other assignments'.

	Group				Parent Company			
	2019	**Of which PwC Sweden**	**2018**	**Of which PwC Sweden**	**2019**	**Of which PwC Sweden**	**2018**	**Of which PwC Sweden**
PwC								
Audit engagement	1,865	1,564	1,820	1,423	1,021	1,021	635	635
Audit business in addition to audit engagement	200	200	252	252	200	200	52	52
Tax consultancy	174	78	141	73	78	78	73	73
Other services	400	400	95	95	400	400	95	95
Other auditors								
Audit engagement	140	0	0	0	0	0	0	0
Total	**2,779**	**2,243**	**2,308**	**1,843**	**1,699**	**1,699**	**855**	**855**

NOTE 9 TRANSACTIONS WITH RELATED PARTIES

Accendo Capital owns 10.5%, Handelsbanken Fonder owns 9.1%, Jonas Nordlund owns 8.1% (privately and via company) and Länsförsäkringar Bank owns 5.1% of the shares in Hexatronic Group AB, and they are deemed to have significant influence over the Group. Ownership of the remaining 67% of the shares is widely spread, with no individual having a holding of more than 5.0%. Other related parties are all of the subsidiaries within the Group, together with senior executives in the Group, i.e. the Board of Directors and Executive Management as well as natural and legal persons related to them.

The following transactions have taken place with related parties

Sales of products and services	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Sales of Group-wide services to subsidiaries	0	0	18,719	25,646
Total	**0**	**0**	**18,719**	**25,646**

Purchases of products and services	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Rental agreement with Fastighets AB Balder	4,714	4,681	1,258	1,201
Purchases of services from subsidiaries	0	0	3,754	1,441
Total	**4,714**	**4,681**	**5,012**	**2,642**

Receivables and liabilities at the end of the period as a result of sales and purchases of products and services	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Receivables from related parties:				
- Receivables from Group companies	0	0	257,463	151,401
Liabilities to related parties:				
- Liabilities to Group companies	0	0	200,084	98,914

The Group rents premises from Fastighets AB Balder, in which the Group's Board Member Erik Selin has a significant influence. The rental contract has been entered into under normal commercial conditions on a business basis.

99% (94%) of the Parent Company's sales are sales to Group companies and 7.2% (5.1%) of the Parent Company's purchases are purchases from Group companies.

Services are purchased and sold to subsidiaries on normal commercial conditions.

Remuneration to senior executives is detailed in Note 10.

NOTE 10 REMUNERATION TO EMPLOYEES ETC.

GROUP

Group	2019	2018
Salaries and other remuneration	270,192	219,382
Social security contributions	65,819	57,674
Pension expenses	22,481	20,699
Group total	**358,491**	**297,754**

Salaries and other remuneration	2019	2019	2018	2018
	Salaries and other remuneration (of which bonuses)	Pension expenses	Salaries and other remuneration (of which bonuses)	Pension expenses
Board Members, CEO and other senior executives	17,453	3,623	15,660	4,012
of which bonuses	*(906)*	*(0)*	*(871)*	*(0)*
Other employees	252,739	18,858	203,722	16,687
Group total	**270,192**	**22,481**	**219,382**	**20,699**

Gender breakdown in the Group (incl. subsidiaries) for Board Members and other senior executives

	2019		2018	
	Number on balance sheet date	Of whom women	Number on balance sheet date	Of whom women
Board Members	6	2	5	2
CEO and other senior executives	9	1	9	1
Group total	**15**	**3**	**14**	**3**

Average number of employees by country

	2019		2018	
	Average no. of employees	Of whom women	Average no. of employees	Of whom women
Sweden	13	8	11	5
Denmark	1	0	1	0
Parent Company total	**14**	**8**	**12**	**5**
Subsidiaries				
Sweden	293	76	308	77
USA	111	11	99	11
UK	79	33	47	19
New Zealand	33	4	33	4
Germany	47	15	8	3
Norway	8	1	6	1
Finland	3	0	3	0
China	1	0	1	0
Subsidiaries total	**575**	**139**	**505**	**114**
Group total	**588**	**147**	**517**	**119**

See Note 28 for information on current warrants.

PARENT COMPANY

Parent Company	2019	2018
Salaries and other remuneration	14,200	12,590
Social security contributions	5,396	4,475
Pension expenses – defined contribution plans	2,611	2,427
Parent Company total	**22,207**	**19,492**

Salaries and other remuneration	2019	2019	2018	2018
	Salaries and other remuneration (of which bonuses)	Pension expenses	Salaries and other remuneration (of which bonuses)	Pension expenses
Board Members, CEO and other senior executives	10,206	2,125	9,987	2,062
(of which bonuses)	*(424)*	*(0)*	*(506)*	*(0)*
Other employees	3,993	486	2,603	365
Parent Company total	**14,200**	**2,611**	**12,590**	**2,427**

Gender breakdown in the Parent Company for Board Members and other senior executives

	2019		2018	
	Number on balance sheet date	Of whom women	Number on balance sheet date	Of whom women
Board Members	6	2	5	2
CEO and other senior executives	5	1	5	1
Parent Company total	**11**	**3**	**10**	**3**

Average number of employees by country

	2019		2018	
	Average no. of employees	Of whom women	Average no. of employees	Of whom women
Sweden	13	8	11	5
Denmark	1	0	1	0
Parent Company total	**14**	**8**	**12**	**5**

See Note 28 for information on current warrants.

PENSIONS

The Group has both defined benefit and defined contribution plans. The pension expense refers to the cost that affected profit/loss for the year.

Defined benefit pension plans

The Group has ITP 2 plans, which are defined benefit pension plans secured through insurance with Alecta. See Note 2.12 for further information on the accounting policies for these pension plans. The expected payments in the next reporting period for ITP 2 insurance policies signed with Alecta amount to MSEK 8.4 (7.7).

The collective level of consolidation comprises the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's actuarial methods and assumptions, which do not correspond to IAS 19. The collective level of consolidation is usually permitted to vary between 125 and 155%. If Alecta's collective consolidation level is below 125% or above 155%, measures shall be taken to create conditions that bring the consolidation level back within the normal interval. If the consolidation level is low, one possible measure is to increase the agreed price for subscribing to or expanding existing benefits. If the consolidation level is high, one possible measure is to reduce premiums. On 31 December 2019, Alecta's surplus in the form of the collective consolidation level was 148% (142%).

REMUNERATION TO SENIOR EXECUTIVES

Guidelines

Fees are paid to the Chairman and members of the Board of Directors, in accordance with decisions made at the general meeting of shareholders.

The general meeting of shareholders has decided on the following guidelines for remuneration to management.

Remuneration to the CEO and other senior executives comprises basic salary, variable remuneration, other benefits and financial instruments, etc. 'Other senior executives' refers to the nine people who together with the CEO make up the Executive Management. See page 49 for the composition of the Executive Management.

The division between basic salary and variable remuneration shall be proportional to the officer's responsibilities and authority. For the CEO and other senior executives alike, variable remuneration can be up to 50% of their basic salary. Variable remuneration is based on outcomes relating to individually set goals.

Other benefits for the CEO and other senior executives form part of the overall remuneration.

REMUNERATION AND OTHER BENEFITS 2019

	Basic salary/ Board fee	Variable remuneration	Other benefits	Pension expenses	Total
Anders Persson, Chairman of the Board	450	0	0	0	450
Malin Persson, Board Member	275	0	0	0	275
Erik Selin, Board Member	200	0	0	0	200
Malin Frenning, Board Member	200	0	0	0	200
Jaakko Kivinen, Board Member	250	0	0	0	250
Mats Otterstedt, Board Member	200	0	0	0	200
Henrik Larsson Lyon, CEO	2,575	252	134	827	3,791
Martin Åberg, Deputy CEO	1,749	130	13	270	2,161
Other senior executives (8 people)	9,797	524	702	2,526	13,549
Total	**15,699**	**906**	**849**	**3,623**	**21,076**

REMUNERATION AND OTHER BENEFITS 2018

	Basic salary/ Board fee	Variable remuneration	Other benefits	Pension expenses	Total
Anders Persson, Chairman of the Board	400	0	0	0	400
Malin Persson, Board Member	222	0	0	0	222
Erik Selin, Board Member	150	0	0	0	150
Malin Frenning, Board Member	150	0	0	0	150
Jaakko Kivinen, Board Member	198	0	0	0	198
Henrik Larsson Lyon, CEO	2,523	200	118	805	3,647
Martin Åberg, Deputy CEO	1,185	0	3	270	1,458
Other senior executives (7 people)	9,189	671	651	2,795	13,306
Total	**14,018**	**871**	**771**	**3,870**	**19,530**

PENSIONS

The retirement age for the CEO is 65.

The CEO's pension contribution shall amount to 30% of the pensionable salary. Pensionable salary refers to fixed basic salary.

For other senior executives, the retirement age varies between 60 and 65 years. The pension agreement states that the pension contribution varies between 14% and 25% of the pensionable salary.

SEVERANCE PAY

The CEO's employment contract includes a period of notice of six months on the part of the CEO and 12 months on the part of the company, in addition to severance pay. The severance pay applies from the CEO's 50th birthday, and amounts to one month's salary (fixed) for each year of age above 50 when the CEO is given notice. This means, for example, that if the CEO is given notice at the age of 52, the severance pay will amount to two months' salary. No deductions are made from severance pay for other income. No severance pay shall be forthcoming if the CEO resigns.

There is a mutual period of notice of 3–12 months between the company and other senior executives. No severance pay has been agreed with other senior executives.

PERFORMANCE-BASED INCENTIVE PROGRAMME

At the AGM on 9 May 2019, a decision was made to introduce a long-term, performance-based incentive programme targeted at senior executives and other key people in the Group.

The programme encompasses up to 13 people and entails the participants actively purchasing shares (known as savings shares) at market price and locking in the savings shares for a three-year period. For each savings share acquired by a participant, the participant is assigned up to 4–6 rights, which entitle the participant to receive additional ordinary shares in Hexatronic Group AB (known as performance shares) free of charge on a date set by the Board, approximately three years after the rights are assigned. To earn performance shares, the participant must remain in the employ of Hexatronic Group AB and continue to hold the purchased savings shares. In addition, certain performance targets must be met, linked to the development of the per-share earnings, the Group's growth and the growth in EBITA during the vesting period.

With the aim of ensuring delivery of shares, the company has issued shares (class C shares that can be converted into ordinary shares) which can be transferred to participants within the framework of the programme. The maximum cost for the programme was estimated before the start of the programme at approximately MSEK 19, excluding social security contributions.

In May and June 2019, the 12 participants purchased shares in Hexatronic Group AB, and the maximum entitlement to performance shares was therefore for 293,018 shares. On 31 December 2019, there were 11 participants remaining in the incentive programme.

No. of rights to shares	2019
Outstanding rights to shares on 1 January	0
At start of programme	293,018
Assigned	-28,709
Forfeited	-91,364
Outstanding rights to shares on 31 December	172,945

The fair value of the performance shares was established when the programme was agreed. There has been a decrease in the fair value with regard to expected dividend.

The recognised cost in 2019 for the programme amounts to SEK 753,000 (0), excluding social security contributions of SEK 249,000 (0).
The effect of share-related remuneration on basic and diluted earnings per share is shown in Note 14.

NOTE 11 FINANCIAL INCOME/INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Exchange rate differences	0	0	1,562	1,374
Interest	285	194	252	82
Total	**285**	**194**	**1,813**	**1,456**

NOTE 12 FINANCIAL EXPENSES/INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

	Group		Parent Company	
	2019	2018	2019	2018
Exchange rate differences	-2,124	-1,582	-1,190	-2,254
Other interest expenses	-11,859	-7,150	-8,926	-6,961
Other financial expenses	-1,681	-2,256	-1,506	-1,969
Total	**-15,664**	**-10,988**	**-11,621**	**-11,183**

No costs of borrowing have been set up as an asset.

NOTE 13 INCOME TAX

	Group		Parent Company	
	2019	2018	2019	2018
Current tax:				
Current tax on profit for the year	-28,501	-18,419	-3,039	90
Total current tax	**-28,501**	**-18,419**	**-3,039**	**90**
Deferred tax (Note 20)	4,535	-4,053	-3	0
Income tax	**-23,965**	**-22,472**	**-3,042**	**90**

Income tax on profit for the year differs from the theoretical amount that would have emerged using a weighted average tax rate for profit in the consolidated companies as follows:

	Group		Parent Company	
	2019	2018	2019	2018
Income tax calculated using national tax rates for profit in each country	20,028	21,641	2,617	-1,030
Tax effects of:				
- Non-deductible expenses	2,893	2,141	351	3,559
- Non-deductible income	-1,628	-3,077	0	-2,525
- Tax on previous year's profit	78	-42	74	-95
- Increase in loss carry-forward without equivalent capitalisation of deferred tax	2,791	1,809	0	0
- Use of loss carry-forward not previously recognised	-197	0	0	0
Tax expense	**23,965**	**22,472**	**3,042**	**90**

The weighted average tax rate is 26% (27%) for the Group and 21.4% (22%) for the Parent Company.

NOTE 14 EARNINGS PER SHARE

	2019	2018
Basic earnings per share	1.81	1.63
Diluted earnings per share [1)]	1.80	1.62

Basic and diluted earnings per share related to Parent Company shareholders are calculated based on the following information:		
Earnings related to Parent Company shareholders, SEK thousand	67,066	59,279
Weighted average number of ordinary shares before dilution	37,127,825	36,278,940
Weighted average number of ordinary shares after dilution [1)]	37,217,336	36,676,240

1) Outstanding warrants create a dilutive effect when the discounted exercise price for the warrants is less than the average price for ordinary shares during the period. The dilutive effect of the warrant programmes is calculated in accordance with the prevailing dilution at the end of the period.

Before dilution

Basic earnings per share are calculated by dividing earnings related to Parent Company shareholders by a weighted average number of outstanding shares during the period. There have not been any bought-back shares held as own shares by the Parent Company during the period.

After dilution

Diluted earnings per share are calculated by dividing earnings related to Parent Company shareholders by a weighted average number of outstanding shares during the period. There have not been any bought-back shares held as own shares by the Parent Company during the period.

NOTE 15 EXCHANGE RATE DIFFERENCES

Exchange rate differences have been recognised in the income statement as follows:

	Group		Parent Company	
	2019	2018	2019	2018
Net sales (Note 6)	6,280	-7,797	0	0
Net financial income and expense (Notes 11, 12)	-2,124	-1,582	372	-880
Total exchange rate differences in the income statement	**4,156**	**-9,379**	**372**	**-880**

NOTE 16 PROPOSED APPROPRIATION OF PROFITS

The following funds are at the Parent Company's disposal

	SEK
Share premium reserve	212,303,366
Profit/loss brought forward	-12,977,843
Profit/loss for the year	9,167,237
Total	**208,492,760**

The Board of Directors proposes that the profits be appropriated as follows:

	SEK
To be transferred to profit/loss carried forward	208,492,760
Total	**208,492,760**

NOTE 17 INTANGIBLE ASSETS

Group

	Capitalised development expenditure	Customer relations	Trademarks	Goodwill	Total
As per 31 December 2017					
Cost	7,883	59,950	28,699	52,976	149,508
Accumulated amortisation and write-downs	-2,048	-19,600	-8,459	-818	-30,924
Carrying amount	**5,835**	**40,351**	**20,240**	**52,159**	**118,584**
2018 financial year					
Opening carrying amount	5,835	40,351	20,240	52,159	118,585
Purchases/cultivation	1,782	0	0	0	1,782
Increase through business acquisitions	445	103,261	47,126	200,066	350,898
Translation differences	0	5,727	0	0	5,727
Amortisation	-1,142	-17,519	-3,814	0	-22,474
Closing carrying amount	**6,920**	**131,819**	**63,553**	**252,225**	**454,517**
As per 31 December 2018					
Cost	10,312	163,211	75,825	253,043	502,391
Accumulated amortisation and write-downs	-3,392	-31,392	-12,272	-818	-47,874
Carrying amount	**6,920**	**131,819**	**63,553**	**252,225**	**454,517**
2019 financial year					
Opening carrying amount	6,920	131,819	63,553	252,225	454,517
Purchases/cultivation	949	0	0	0	949
Translation differences	14	3,015	286	4,975	8,289
Amortisation	-2,057	-19,779	-7,665	0	-29,501
Closing carrying amount	**5,825**	**115,055**	**56,172**	**257,200**	**434,253**
As per 31 December 2019					
Cost	10,511	172,448	76,060	258,018	517,037
Accumulated amortisation and write-downs	-4,686	-57,393	-19,888	-818	-82,784
Carrying amount	**5,825**	**115,055**	**56,172**	**257,200**	**434,253**

Parent Company

During the 2019 financial year the Parent Company invested SEK 388,000 (0) in capitalised development expenditure.
No amortisation was carried out during the financial year.

Impairment test for goodwill

Goodwill is not written down on an ongoing basis; rather, the value is tested at least annually in accordance with IAS 36. The test was most recently performed in December 2019.

In the case of acquisitions, goodwill is allocated to the Group's cash-generating units (CGUs). A CGU is the lowest level of assets for which separate cash flows can be identified. Hexatronic has two separate CGUs to which goodwill can be allocated according to the table below:

2019	Opening carrying amount	Acquisitions	Sales	Write-down	Other adjustments	Closing carrying amount
Group excl. Opternus	184,262	0	0	0	4,848	189,110
Opternus	67,963	0	0	0	127	68,090
Group total	**252,225**	**0**	**0**	**0**	**4,975**	**257,200**

2018	Opening carrying amount	Acquisitions	Sales	Write-down	Other adjustments	Closing carrying amount
Group excl. Opternus	52,159	132,103	0	0	0	184,262
Opternus	0	67,963	0	0	0	67,963
Group total	**52,159**	**200,066**	**0**	**0**	**0**	**252,225**

The recoverable amount for a CGU has been established based on calculations of value in use. These calculations are based on estimated future cash flows before tax based on financial budgets that have been approved by the Executive Management and span a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate as stated below. The growth rate is not higher than the long-term growth rate for the fiber optic market in which the CGUs concerned operate. The operational risk is deemed to be similar between the cash-generating units, and therefore the same discount rate (WACC) has been used for both cash-generating units.

Important assumptions used to calculate value in use:

Average annual volume growth for the first five years is 11% (10%) for the Group excluding Opternus and 9% (7%) for Opternus.

A weighted average growth rate of 2% (2%) has been used to extrapolate cash flows beyond the budget period for both cash-generating units. A discount rate of 15.6% (15.5%) before tax has been used to calculate the present value of estimated future cash flows for both cash-generating units.

The management has deemed that the annual volume growth for the CGU over the five-year forecast period is an important assumption. The sales volume for each period is the main reason for the development of income and expenses. Annual volume growth is based on previous results and management's expectations of market developments. The long-term growth rate used corresponds to the forecasts found in industry reports. The discount rates used are stated before tax and reflect specific risks that apply to the cash-generating units.

In the sensitivity analysis for the impairment test for goodwill, simulations of negative development of various key metrics have been carried out. No reasonable possible change (-4 %) in important assumptions would cause the carrying amount to exceed the recoverable amount in any of the cash-generating units.

NOTE 18 LEASES

Valuation of lease liabilities	
Commitments for operating leases as of 31 December 2018	212,520
Discounting by the lessee's incremental rate over the transition period	-9,407
Less: short-term leases that are not recognised as a liability	-22,563
Less: leases for which the underlying asset is of low value, which are not recognised as a liability	-235
Lease liability recognised as per 1 January 2019	**180,314**
Of which:	
Current lease liability	30,345
Non-current lease liability	149,969
Total	**180,314**

Recognised amounts in the balance sheet

The following amounts related to leases are recognised in the balance sheet:

	31/12/2019	01/01/2019
Right-of-use assets		
Property	156,004	180,314
Lease liabilities		
Current	34,349	30,345
Non-current	123,415	149,969
Total	**157,764**	**180,314**

Additional right-of-use assets in 2019 amounted to 5,092.

Recognised amounts in the income statement

The following amounts related to leases are recognised in the income statement:

	2019
Depreciation of right-of-use assets	
Property	-35,657
Interest expenses (included in financial expenses)	-2,861
Expenditure attributable to short-term leases/leases for which the underlying asset is of low value (included in other external expenses)	-5,212

The total cash flow relating to leases was SEK 41,965,000 in 2019.

NOTE 19 PROPERTY, PLANT AND EQUIPMENT

Group	Lands and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Total
2018 financial year				
Opening carrying amount	4,784	76,395	12,754	93,933
Purchases	289	26,188	10,893	37,370
Sales and disposals	-295	-99	-222	-615
Reclassifications	0	757	-757	0
Translation differences	-9	295	20	305
Depreciation	-1,590	-18,237	-3,370	-23,198
Closing carrying amount	**17,790**	**99,677**	**21,730**	**139,197**
As per 31 December 2018				
Cost	24,068	167,010	34,774	225,851
Accumulated depreciation and write-downs	-6,277	-67,333	-13,044	-86,654
Carrying amount	**17,790**	**99,677**	**21,730**	**139,197**
2019 financial year				
Opening carrying amount	17,790	99,677	21,730	139,197
Purchases	12,701	55,650	12,853	81,204
Sales and disposals	0	-902	-143	-1,045
Reclassification	0	-246	246	0
Translation differences	548	1,690	183	2,421
Depreciation	-1,904	-17,997	-5,319	-25,219
Closing carrying amount	**29,135**	**137,872**	**29,551**	**196,558**
As per 31 December 2019				
Cost	37,615	399,860	155,910	593,385
Accumulated depreciation and write-downs	-8,481	-261,988	-126,359	-396,827
Carrying amount	**29,135**	**137,872**	**29,551**	**196,558**

Parent Company

During the 2019 financial year the Parent Company invested SEK 0 (0) in equipment. Depreciation of SEK 215,000 was carried out during the financial year.

NOTE 20 DEFERRED TAX

Deferred tax assets and tax liabilities are distributed as follows:

	Group		Parent Company	
Deferred tax assets	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Deferred tax assets to be settled within 12 months	0	0	0	0
Total deferred tax assets	**0**	**0**	**0**	**0**
Deferred tax liabilities				
Deferred tax liabilities to be settled after more than 12 months	55,743	57,958	4	0
Deferred tax liabilities to be settled within 12 months	2,754	4,672	0	0
Total deferred tax liabilities	**58,497**	**62,630**	**4**	**0**

Changes in deferred tax assets and liabilities during the year, without taking into account offsetting carried out within the same fiscal jurisdiction, are shown below:

GROUP

Deferred tax liabilities	Intangible assets	Property, plant and equipment	Untaxed reserves	Other	Total
As per 31 December 2017	**13,906**	**2,364**	**20,528**	**-1,426**	**35,372**
Recognised in income statement	690	-1,936	2,806	2,494	4,053
Added through business acquisitions	22,337	0	0	0	22,337
Recognised in other comprehensive income	0	0	0	868	868
As per 31 December 2018	**36,933**	**428**	**23,334**	**1,935**	**62,630**
Recognised in income statement	-1,814	-428	-857	-1,436	-4,535
Recognised in other comprehensive income	382	0	0	20	402
As per 31 December 2019	**35,500**	**0**	**22,477**	**520**	**58,497**

Deferred tax receivables are recognised as tax loss carry-forwards to the extent that it is likely that they can be absorbed through future taxable profits.

NOTE 21 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	31/12/2019	31/12/2018
Opening cost	630,214	221,822
Acquisitions	57	407,103
Shareholders' contribution	422	0
Remeasurement of hedging, subsidiaries	14,747	0
Remeasurement of additional purchase prices	-5,681	0
Liquidation	0	-4,200
Write-down	0	-15,529
Merger	-8,036	21,018
Closing accumulated cost	**631,723**	**630,214**
Closing carrying amount	**631,723**	**630,214**

PARENT COMPANY

Company Corp. ID no.	Registered office	No./% of equity	31/12/2019	31/12/2018
Hexatronic Network Solutions AB		10,000	0	8,036
556574-2862	Gothenburg, Sweden	100%		
Hexatronic Cables & Interconnect AB		1,000	19,102	18,884
556514-9118	Gothenburg, Sweden	100%		
Proximion AB		58,058	58,687	58,582
556915-7323	Stockholm, Sweden	100%		
Hexatronic Fiberoptic AB		1,000	63,683	63,621
556252-0352	Örebro	100%		
Hexatronic AS		1,000	9,718	9,718
998 804 795	Engelsviken, Norway	100%		
Hexatronic (Tianjin) Trading Co., Ltd.		0	1,959	1,959
120 116 400 016 890	Tianjin, China	100%		
Hexatronic US Inc.		100	1	1
475 193 577	Quitman, USA	100%		
Hexatronic UK Ltd.		2,000	17,304	17,304
6329180	Gosport, UK	100%		
Hexatronic New Zealand Ltd.		1,000	21,068	21,068
5937353	Porirua, New Zealand	100%		
Edugrade AB		2,000	23,975	12,320
556985-3152	Hudiksvall, Sweden	100%		
ICT Education AB		1,000	0	11,619
556881-3306	Hudiksvall, Sweden	100%		
Blue Diamond Industries LLC.		544,445	265,509	249,946
20-1023457	Lexington, USA	100%		
Hexatronic GmbH		25,000	252	252
111674	Frankfurt, Germany	100%		
PQMS Ltd.		95	18,214	21,452
03696868	Bedworth, UK	100%		
Gordon Franks Training Ltd.		187,550	1,277	1,493
08445268	Birmingham, UK	100%		
Smart Awards Ltd.		100	5,109	5,972
09079735	Solihull, UK	100%		
Edugrade AS		100	32	32
920926452	Oslo, Norway	100%		
Opternus GmbH		37,500	125,777	127,956
4567	Bargteheide, Germany	100%		
Opternus Networks GmbH		25,000	0	0
13610	Bargteheide, Germany	100%		
Opternus Components GmbH		9,000	0	0
4934	Bargteheide, Germany	33%		
Hexatronic Danmark ApS		400	57	0
40639101	Copenhagen, Denmark	100%		
Total			**631,723**	**630,214**

The dormant company Hexatronic Network Solutions AB was merged with Hexatronic Group AB in 2019.

In 2019, ICT Education AB merged with Edugrade AB.

NOTE 22 FINANCIAL INSTRUMENTS BY CATEGORY

GROUP

Assets in balance sheet	Financial assets at amortised cost	Total
31 December 2019		
Accounts receivable	242,413	242,413
Other receivables	3,232	3,232
Liquid assets	58,504	58,504
Total	**304,149**	**304,149**
31 December 2018		
Accounts receivable	261,774	261,774
Other receivables	2,553	2,553
Liquid assets	54,758	54,758
Total	**319,084**	**319,084**

GROUP

Liabilities in balance sheet	Financial liabilities at amortised cost	Liabilities measured at fair value through profit or loss	Total
31 December 2019			
Liabilities to credit institutions	377,430	0	377,430
Accounts payable	162,584	0	162,584
Other current liabilities	0	29,348	29,348
Accrued expenses	24,017	0	24,017
Total	**564,031**	**29,348**	**593,379**
31 December 2018			
Liabilities to credit institutions	399,549	0	399,549
Accounts payable	173,772	0	173,772
Other current liabilities	0	48,837	48,837
Accrued expenses	26,969	0	26,969
Total	**600,290**	**48,837**	**649,127**

NOTE 23 ACCOUNTS RECEIVABLE

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Accounts receivable	244,546	262,118	0	0
Less: reserve for credit losses	-2,133	-344	0	0
Accounts receivable – net	**242,413**	**261,774**	**0**	**0**

On 31 December 2019, standard accounts receivable totalled SEK 242,413,000 (261,774,000) for the Group. On 31 December 2019, standard accounts receivable totalled SEK 0 (0) for the Parent Company. The fair value of accounts receivable corresponds to their carrying amount, which is why the discount effect is not significant.

No accounts receivable have been pledged as security for any liability.

The total loss level on 31/12/2019 was 0.1% (0.03%), which is deemed insignificant. The expected loss level is therefore not recognised per category.

As per 31 December 2019	Not due	Due <30 days	Due >30 days <60 days	Due >60 days <120 days	Due >120 days	Total
Recognised amount for accounts receivable	171,267	42,346	15,070	6,013	9,849	244,546

As per 31 December 2018	Not due	Due <30 days	Due >30 days < 60 days	Due >60 days <120 days	Due >120 days	Total
Recognised amount for accounts receivable	185,897	57,487	9,766	6,468	2,500	262,118

Changes in the reserve for credit losses during the year are specified below:

	2019	2018
As per 1 January	**344**	**454**
Increase in reserve for credit losses, change recognised in the income statement	1,996	0
Written-off accounts receivable during the year	-126	-110
Reversal of unused amount	-81	0
As per 31 December 2019	**2,133**	**344**

Provisions for the respective reversals of the reserve for credit losses are included under other external expenses in the income statement.

The carrying amounts, per currency, for accounts receivable and other receivables are as follows:

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
SEK	90,945	94,573	165,021	114,398
EUR	28,788	37,255	6,068	2,331
USD	60,556	73,611	39,289	10,800
GBP	44,020	36,579	44,712	23,872
Other currencies	18,103	19,756	2,373	0
Total	**242,413**	**261,774**	**257,463**	**151,401**

NOTE 24 OTHER RECEIVABLES

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Supplier receivable	916	402	0	0
Other receivables	2,316	2,150	2,262	3,324
Total	**3,232**	**2,553**	**2,262**	**3,324**

NOTE 25 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Prepaid rent	3,617	7,510	395	356
Contract assets	5,274	6,854	0	0
Prepaid insurance	3,361	1,204	2,686	556
Prepaid marketing costs	1,263	1,087	354	0
Other	7,044	6,926	683	692
Total	**20,559**	**23,582**	**4,118**	**1,605**

Contract assets include recognised income for work carried out that has yet to be invoiced.

NOTE 26 LIQUID ASSETS

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Bank balance	103,762	84,621	0	0
Total	**103,762**	**84,621**	**0**	**0**

NOTE 27 SHARE CAPITAL AND OTHER CONTRIBUTED CAPITAL

Group	No. of shares	Share capital	Other contributed capital	Total
As per 31 December 2018	**36,511,825**	**1,826**	**205,787**	**207,613**
Subscription for shares via warrant programme	672,000	34	12,795	12,828
Warrant programme	0	0	2,186	2,186
Share-related remuneration	360,000	18	0	18
As per 31 December 2019	**37,543,825**	**1,877**	**220,768**	**222,645**

The company's share is listed on the Nasdaq Stockholm Mid Cap.

On the balance sheet date, the share capital in Hexatronic Group AB (publ) amounted to SEK 1,877,190.95, distributed between a total of 37,543,825 shares, of which 37,183,825 ordinary shares and 360,000 class C shares. The quotient value of the shares is SEK 0.05. The ordinary shares have a voting power of one vote per share and the class C shares have a voting power of one-tenth of a vote per share.

All shares issued by the Parent Company are fully paid.

During the financial year, the following share issues have been carried out:
- New share issue of SEK 18,000 in May 2019 as part of an incentive programme.

At the AGM on 9 May 2019, the Board was authorised to acquire or transfer its own shares corresponding to up to 10% of existing shares before the next AGM in accordance with the Board proposal, and was also authorised to decide on the new issue of shares and/or warrants and/or convertibles amounting to up to 10% of the registered share capital.

The total number of shares before dilution from existing warrant programmes is 37,543,825 at the end of the financial year. See Note 28 for information on current warrant programmes.

NOTE 28 WARRANTS

In all of the warrant programmes, the fair value of the allocated warrants is calculated using the Black & Scholes model. In all of the programmes, each warrant entitles the holder to one share. Swedish participants pay market prices for warrants while foreign participants receive the warrants free of charge.

Existing warrant programmes on the balance sheet date:

- In 2016/17 a warrant programme was issued regarding 700,000 warrants targeted at some of the Group's personnel, 346,500 of which were subscribed. The market value per share was SEK 57.00 at the time of issue. The programme expired during the period 15 January to 15 February 2020 and 307,240 new shares were issued. The fair value of the warrant premium amounted to SEK 9.42 on 31/12/2019.
- In 2018 a warrant programme was issued regarding 1,000,000 warrants targeted at some of the Group's personnel, 603,000 of which were subscribed. The market value per share was SEK 91.00 at the time of issue. The redemption period is 15 May 2021 to 15 June 2021. The fair value of the warrant premium amounted to SEK 4.03 on 31/12/2019.
- In 2019 a warrant programme was issued regarding 500,000 warrants targeted at some of the company's personnel, 361,500 of which were subscribed. The market value per share was SEK 74.45 at the time of issue. The redemption period is 15 May 2022 to 15 June 2022. The fair value of the warrant premium amounted to SEK 5.81 on 31/12/2019.
- During 2019, a decision was made to introduce a long-term, performance-based incentive programme (LTIP 2019) for 12 senior executives in the Group who are resident in Sweden. At the time of publication of the Annual Report, the participants have invested in a total of 54,420 savings shares.

NOTE 29 PROVISIONS

Group	Warranty provisions	Total
As per 1 January 2018	**3,000**	**3,000**
Recognised in income statement:		
– reversed unused amounts	0	0
Used during the year	0	0
As per 31 December 2018	**3,000**	**3,000**
As per 1 January 2019	**3,000**	**3,000**
Recognised in income statement:		
– reversed unused amounts	0	0
Used during the year	0	0
As per 31 December 2019	**3,000**	**3,000**
Current portion	3,000	3,000
Total provisions	**3,000**	**3,000**

Closing provisions are warranty provisions for any faults and shortcomings in deliveries to customers. The amount is expected to be in accordance with the size of the provision in future.

NOTE 30 BORROWING

	Carrying amount		Fair value	
GROUP	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Long-term				
Liabilities to credit institutions	320,430	351,741	320,430	351,741
Total long-term borrowing	**320,430**	**351,741**	**320,430**	**351,741**
Short-term				
Liabilities to credit institutions	57,000	56,457	57,000	56,457
Overdraft facilities	45,258	29,863	45,258	29,863
Total short-term borrowing	**102,258**	**86,320**	**102,258**	**86,320**
Total borrowing	**422,688**	**438,061**	**102,258**	**438,061**

The fair value of short-term borrowing corresponds to its carrying amount. The fair values of non-current liabilities to credit institutions in SEK are based on discounted cash flows with an interest rate based on STIBOR 3 months +1.60% (+1.35%) and classified in level 2 of the fair value hierarchy. The fair values of last year's non-current liabilities to credit institutions in USD are based on discounted cash flows with an interest rate based on LIBOR 3 months +1.50% and classified in level 2 of the fair value hierarchy.

PARENT COMPANY	Carrying amount 31/12/2019	Carrying amount 31/12/2018	Fair value 31/12/2019	Fair value 31/12/2018
Long-term				
Liabilities to credit institutions	320,430	350,828	320,430	350,828
Total long-term borrowing	**320,430**	**350,828**	**320,430**	**350,828**
Short-term				
Liabilities to credit institutions	57,000	48,721	57,000	48,721
Overdraft facilities	45,258	29,863	45,258	29,863
Total short-term borrowing	**102,258**	**78,584**	**102,258**	**78,584**
Total borrowing	**422,688**	**429,412**	**422,688**	**429,412**

The fair value of short-term borrowing corresponds to its carrying amount. The fair values of non-current liabilities to credit institutions in SEK are based on discounted cash flows with an interest rate based on STIBOR 3 months +1.60% (+1.35%) and classified in level 2 of the fair value hierarchy. The fair values of last year's non-current liabilities to credit institutions in USD are based on discounted cash flows with an interest rate based on LIBOR 3 months +1.50% and classified in level 2 of the fair value hierarchy.

GROUP

Liabilities to credit institutions

The Group's borrowing is in SEK. The Group's borrowing comprises a senior bank loan, utilisation of some of the revolving credit and utilisation of some of the overdraft facilities.

The senior bank loan matures on 15/12/2022 and has an average interest rate of STIBOR 3 months +1.60% (1.35%). The revolving credit matures on 15/12/2022 and has an average interest rate of STIBOR 3 months +1.20% (0.95%). The interest rates are based on reported covenants, which are reported quarterly.

The Group has overdraft facilities granted in SEK of SEK 90,000,000 and in USD of USD 2,500,000, renegotiated annually. SEK 45,258,000 (29,863,000) of the overdraft facilities granted had been utilised on 31 December 2019. USD 0 (0) of the overdraft facilities granted had been utilised on 31 December 2019. The overdraft facility in SEK has an interest rate of STIBOR 3 months +1.21%, which is paid quarterly, and the overdraft facility in USD has an interest rate of LIBOR 1 month +2.00%. Conditions linked to the overdraft facility in SEK relate to the Group and the Nordic subsidiaries. Conditions linked to the overdraft facility in USD refer to Blue Diamond Industries.

Security for total borrowing comprises floating charges (Note 33) and the Parent Company's shares in certain subsidiaries (Note 21).

The Group's exposure to borrowing, changes in interest rates and contractual dates for renegotiating interest rates are as follows at the end of the reporting period:

Borrowing from credit institutions	31/12/2019	Due date	Interest rate
Senior bank loan, SEK	277,430	15/12/2022	STIBOR 3 months +1.65%
Use of part of revolving credit	100,000	15/12/2022	STIBOR 3 months +1.20%
Use of part of overdraft facilities	45,258	31/10/2020	STIBOR 3 months +1.21%
Total borrowing	**422,688**		

NOTE 31 OTHER LIABILITIES

	Group		Parent Company	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Additional purchase price	29,348	48,837	29,348	48,837
Employee withholding taxes	4,222	6,703	384	418
VAT liability	12,946	6,029	-463	-151
Other current liabilities	1,830	11,247	0	0
Total	**48,346**	**72,815**	**29,270**	**49,104**

NOTE 32 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Accrued holiday pay	25,164	21,539	1,678	1,622
Accrued pay	11,076	13,204	832	894
Accrued social security contributions	15,818	9,932	1,780	1,276
Accrued costs for purchases of goods	6,246	4,641	0	0
Contract liabilities	2,767	3,740	0	0
Other accrued expenses	6,695	5,384	711	646
Total	**67,765**	**58,440**	**5,002**	**4,437**

Contract liabilities include advance payments from customers for which income is recognised when the service is provided.

NOTE 33 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Pledged assets				
Floating charges	157,350	157,350	100	100
Shares in subsidiaries	269,517	281,484	82,785	82,504
Total	**426,867**	**438,834**	**82,885**	**82,604**
Contingent liabilities	None	None	None	None

NOTE 34 ITEMS NOT AFFECTING CASH FLOW

	Group		Parent Company	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Depreciation/amortisation	90,377	45,669	215	215
Adjusted liability, additional purchase price	-5,681	-4,502	0	0
Translation differences	9,849	8,722	0	0
Various other items	2,661	619	333	1,227
Total	**97,206**	**50,508**	**548**	**1,442**

NOTE 35 CHANGE IN LIABILITIES

	31/12/2018	Cash flow		Items not affecting cash flow				31/12/2019
		Borrow-ings	Repayment by instalment	Reclassifi-cation	Additional lease liability	Change in exchange rate	Costs of financing	
Group								
Non-current lease liabilities	**0**	0	0	-34,349	157,764	0	0	**123,415**
Current lease liabilities	**0**	0	-35,657	34,349	35,657	0	0	**34,349**
Non-current liabilities to credit institutions	**351,741**	20,000	0	-57,000	0	5,585	105	**320,430**
Current liabilities to credit institutions	**56,457**	0	-56,971	57,000	0	514	0	**57,000**
Overdraft facilities	**29,863**	15,395	0	0	0	0	0	**45,258**
Parent Company								
Non-current liabilities to credit institutions	**350,828**	20,000	0	-57,000	0	6,497	105	**320,430**
Current liabilities to credit institutions	**48,721**	0	-56,971	57,000	0	8,250	0	**57,000**
Overdraft facilities	**29,863**	15,395	0	0	0	0	0	**45,258**

	31/12/2017	Cash flow		Items not affecting cash flow			31/12/2018
		Borrowings	Repayment by instalment	Reclassifi-cation	Change in exchange rate	Costs of financing	
Group							
Non-current liabilities to credit institutions	**70,531**	328,790	0	-56,457	9,874	-997	**351,741**
Current liabilities to credit institutions	**23,510**	19,936	-43,446	56,457	0	0	**56,457**
Overdraft facilities	**0**	29,863	0	0	0	0	**29,863**
Parent Company							
Non-current liabilities to credit institutions	**70,531**	328,790	0	-48,721	1,225	-997	**350,828**
Current liabilities to credit institutions	**23,510**	19,936	-43,446	48,721	0	0	**48,721**
Overdraft facilities	**0**	29,863	0	0	0	0	**29,863**

NOTE 36 GROUP STRUCTURE

Name	Corp. ID no.	Registered office	The Group's participating interest
Hexatronic Cables & Interconnect AB	556514-9118	Gothenburg, Sweden	100%
Proximion AB	556915-7323	Stockholm, Sweden	100%
Hexatronic Fiberoptic AB	556252-0352	Örebro	100%
Hexatronic AS	998 804 795	Engelsviken, Norway	100%
Hexatronic (Tianjin) Trading Co., Ltd.	120 116 400 016 890	Tianjin, China	100%
Hexatronic US Inc.	475193577	Quitman, USA	100%
Hexatronic UK Ltd.	6329180	Gosport, UK	100%
Hexatronic New Zealand Ltd.	5937353	Porirua, New Zealand	100%
Edugrade AB	556985-3152	Hudiksvall, Sweden	100%
Blue Diamond Industries	20-1023457	Lexington, USA	100%
Hexatronic GmbH	111674	Frankfurt, Germany	100%
PQMS Ltd.	03696868	Bedworth, UK	100%
Gordon Franks Training Ltd.	08445268	Birmingham, UK	100%
Smart Awards Ltd.	09079735	Solihull, UK	100%
Edugrade AS	920926452	Oslo, Norway	100%
Opternus GmbH	4567	Bargteheide, Germany	100%
Opternus Networks GmbH	13610	Bargteheide, Germany	100%
Opternus Components GmbH	4934	Bargteheide, Germany	33%
Hexatronic Danmark ApS	40639101	Copenhagen, Denmark	100%

NOTE 37 EVENTS AFTER THE BALANCE SHEET DATE

Hexatronic entered into a global settlement agreement with Emtelle UK Ltd., which ended the previous patent dispute in the UK. Emtelle gave Hexatronic a licence right for the patent for blown-fiber products. Hexatronic can continue to produce and sell its blown-fiber products world-wide.

Based on the very uncertain situation in the world, the Board decided to withdraw the previously announced dividend proposal.

Like most companies Hexatronic were affected by Covid-19 during the first quarter of 2020. The sales during the quarter is estimated to be negatively affected by approximately 5% due to delayed deliveries from subcontractors in China. Deliveries have almost returned to normal at the beginning of the second quarter and expected to be fully back to normal again in May.

The impact of Covid-19 on Hexatronic, has effected the operation of Hexatronic and its customers. Tougher restrictions has been implemented in several of Hexatronic´s strategic markets. Even if Hexatronic´s operation is considered critical, as a supplier to the telecom industry, we believe that the sales will be negatively affected. In all companies, measures have been introduced to minimize the risk of Hexatronic staff being infected.

Hexatronic's financial position is strong and plans have been prepared to limit the impact on the Group in the event of a potentially greater decline in demand.

RECONCILIATION BETWEEN IFRS AND TERMS FOR KEY FIGURES

In this Annual Report, Hexatronic presents certain financial measures that are not defined in accordance with IFRS, known as alternative performance measures. The Group considers that these measures provide valuable additional information to investors as they enable an evaluation of the company's results and position. As not all companies calculate financial measures the same way, they are not always comparable with measures used by other companies. Investors should view these financial measures as a complement to, rather than a substitute for, financial reporting in line with IFRS.

Organic growth

Net sales 2019	1,842,266
Impact of acquisitions	-171,878
Comparable net sales	*1,670,388*
Net sales 2018	1,597,768
Increase in sales	**244,498**
Organic growth	**72,620**

Organic growth is calculated as net sales for the year adjusted for acquisitions in relation to the previous year's net sales adjusted for acquisitions.

Average annual growth

Net sales 2019	1,842,266
Net sales 2018	1,597,768
Average annual growth	**15%**

Average annual growth is calculated as the Group's total sales during the period compared with the same period the previous year.

Quick ratio	31/12/2019	31/12/2018
Current assets	709,312	708,405
Inventories	-339,346	-334,282
Current assets – inventories	*369,965*	*374,123*
Current liabilities	421,114	394,347
Quick ratio	**88%**	**95%**

The quick ratio is calculated as current assets minus inventories divided by current liabilities.

Core working capital	31/12/2019	31/12/2018
Inventories	339,346	334,282
Accounts receivable	242,413	261,774
Accounts payable	-162,584	-173,772
Core working capital	**419,176**	**422,284**

Core working capital is calculated as inventories plus accounts receivable minus accounts payable.

The consolidated income statement and balance sheet will be presented at the AGM on 7 May 2020 for adoption.

The Board of Directors and CEO confirm that the consolidated financial statements have been prepared in accordance with the IFRS international reporting standards adopted by the EU, and provide a true and fair overview of the Group's financial position and results. The annual report has been prepared in accordance with generally accepted accounting principles and provides a true and fair overview of the Parent Company's financial position and results.

The Board of Directors' Report for the Group and Parent Company provides a true and fair overview of the development of the business, financial position and results of the Group and the Parent Company, and describes significant risks and uncertainty factors with which the Parent Company and the companies forming the Group are faced.

Gothenburg, 15 April 2020

Anders Persson
Chairman of the Board

Malin Frenning
Board Member

Malin Persson
Board Member

Erik Selin
Board Member

Jaakko Kivinen
Board Member

Mats Otterstedt
Board Member

Henrik Larsson Lyon
CEO

Our auditor's report was submitted on 15 April 2020

Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Hexatronic Group AB (publ), corporate identity number 556168-6360

Report on the annual accounts and consolidated accounts

OPINIONS

We have audited the annual accounts and consolidated accounts of Hexatronic Group AB (publ) for the year 2019 except for the corporate governance statement on pages 50-55. The annual accounts and consolidated accounts of the company are included on pages 38-99 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 50-55. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

BASIS FOR OPINIONS

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

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

OUR AUDIT APPROACH

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table on the next page. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

KEY AUDIT MATTERS

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

Key Audit Matter	Audit response to Key Audit Matter
Valuation of intangible assets With the past years acquisitions, the group has acquired intangible assets as customer relations, brand and goodwill to an amount of MSEK 428. The group verifies annually or more frequently if there is a need for impairment of the goodwill. Monthly depreciations are done for customer relations and brand and when there is an indication of impairment an impairment test is performed. The impairment tests are essential in the audit because the intangible assets represent significant amounts in the group's balance sheet and management has to make significant estimates and judgments about the future in the impairment tests. Refer to disclosures 2 and 17 for a description of these items.	For the impairment test that is based on a calculation of value in use, the following audit procedures have been included: • An assessment of the mathematical accuracy of the cash flow calculation and a reconciliation of the cash flow forecasts towards the approved budget and business plan. • Assessment whether the used valuation model is compliant with recognized valuation techniqus. • Assessment of the assumptions with most significant impact on the impairment tests. For intangible assets that are depreciated, we have evaluated if there has been any indications of impairment.
Valuation of inventory Inventory valuation is essential for our audit since the valuation is based on several estimates and judgments and also the value of the inventoryof MSEK 339 is significant. An important assessment management do when they perform a valuation of the inventory is to assess if the group can sell the inventory to a price that is higher than the acquisition cost and also to assess potential obsolescence in inventory. If the estimated net sales value is less than the acquisition cost, an allowance for inventory obsolescence is recorded. This allowance is calculated based on a policy for inventory valuation meaning that an allowance of the inventory value is based on each inventory item's turnover ratio combined with an individual assessment of specific products. Refer to disclosures 2 and 4 for a description of these items.	To examine the groups allowance for inventory obsolescence, the following audit procedures have been included: • Assessment of whether the approved policy for inventory valuation gives a reasonable estimate of the actual inventory obsolescence. • Verified the mathematical accuracy of the calculated inventory allowance. • Evaluated management's positions when deviating from the approved model for inventory valuation and performed an individual assessment for allowance of specific products.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-37. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTOR'S AND THE MANAGING DIRECTOR

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

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

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

AUDITOR'S RESPONSIBILITY

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of Hexatronic Group AB (publ) for the year 2019 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 Director's and the Managing Director be discharged from liability for the financial year.

BASIS FOR OPINIONS

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTOR'S AND THE MANAGING DIRECTOR

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

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 50-55 has been prepared in accordance with the Annual Accounts Act.

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

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

Öhrlings PricewaterhouseCoopers AB, Skånegatan 1, 405 32 Göteborg, was appointed auditor of Hexatronic Group AB by the general meeting of the shareholders on May 9, 2019 and has been the company's auditor since December 18, 2013.

Gothenburg, April 7, 2020
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorized Public Accountant

WELCOME TO THE 2020 AGM

We would like to welcome all of our shareholders to the Group's AGM at Elite Park Avenue in Gothenburg, Sweden on 7 May 2020

The AGM will be held at 4.30 pm on 7 May 2020 at Elite Park Avenue Hotel (the "Götheborg" room), Kungsportsavenyn 36-38 in Gothenburg. Shareholders who wish to participate in the AGM must be entered in the shareholders' register held by Euroclear Sweden AB by 30 April 2020.

Participants must also notify Hexatronic Group AB by 12.00 noon on 30 April 2020.

This can be done by e-mailing Hexatronic at ekonomi@hexatronic.com

The e-mail must include the participant's name, personal identification number or corporate ID number, shareholding, address, telephone number and information about any assistance.

STAY UP TO DATE

Follow Hexatronic

Hexatronic is a group that is continuously developing. Follow us via our IR page or on social media.

FINANCIAL INFORMATION

All financial information is published on Hexatronic's website: **www.hexatronicgroup.com**

Financial reports can be ordered by e-mailing ekonomi@hexatronic.com

PRESS RELEASES

Subscribe to our press releases to make sure you get the latest information about Hexatronic Group. Subscribe at hexatronicgroup.com/en/press-releases.

FINANCIAL CALENDAR

Interim report January–March 2020	**29 April 2020**
Interim report April–June 2020	**14 August 2020**
Interim report July–September 2020	**5 November 2020**
Year-end report 2020	**24 February 2021**

FOLLOW HEXATRONIC

linkedin.com/company/hexatronic

LinkedIn is our main social media channel for communicating information about Hexatronic. Here you can find out about the products and technologies we are working on as well as our latest contracts and business events. LinkedIn is also where we advertise job vacancies.

The Group also uses Facebook, Twitter, YouTube and Issuu.

facebook.com/hexatronic

twitter.com/hexatronic

youtube.com/user/hexatronicpartners

issuu.com/hexatronic

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