HEXATRONIC
Group AB (publ)

HEXATRONIC GROUP ANNUAL REPORT 2018


We are part of the ongoing digitalisation
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Vision, mission, strategy and goal

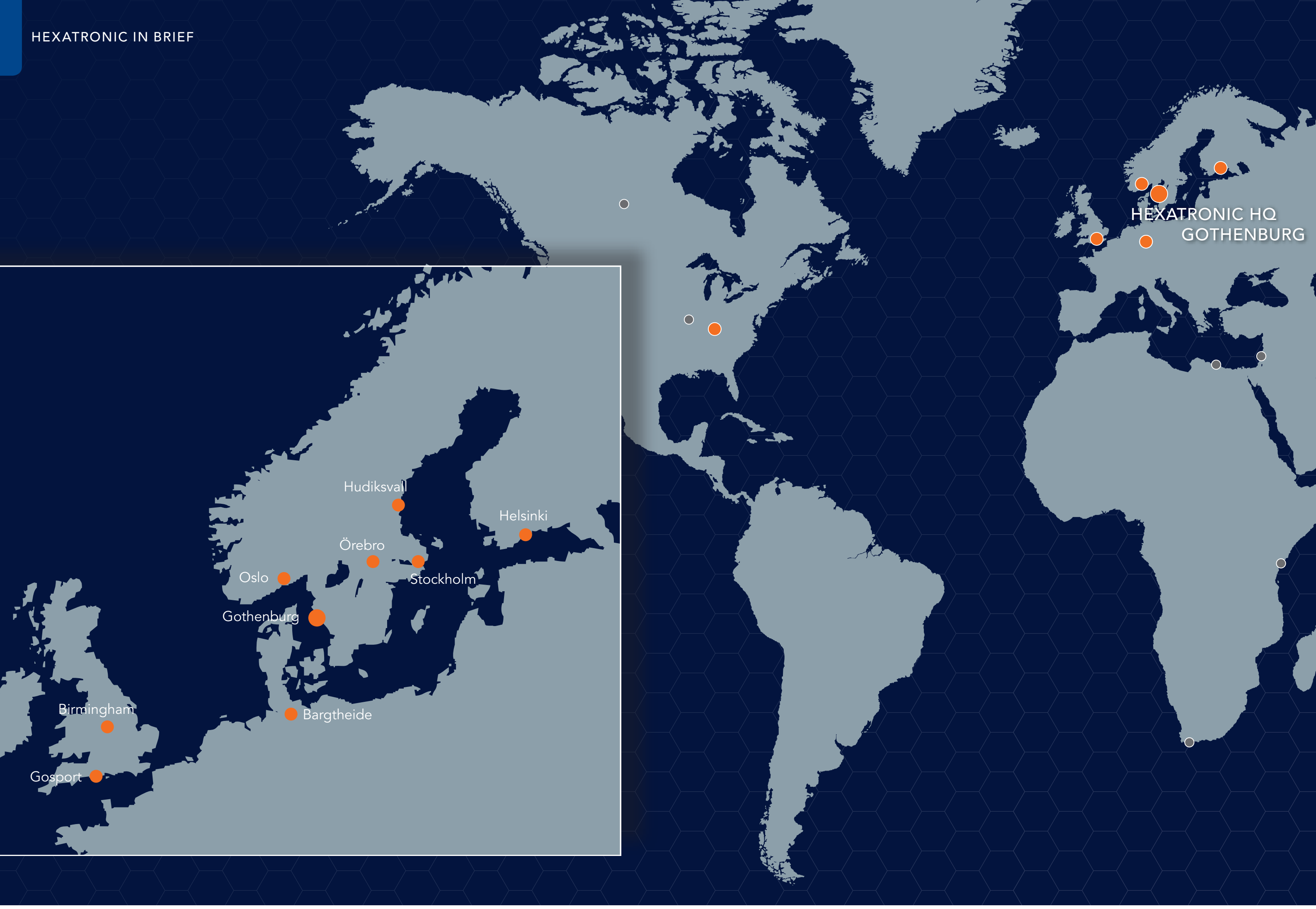
"2018 was the year when we successfully repositioned ourselves on distinct emerging markets."

BOARD OF DIRECTORS' REPORT

CORPORATE GOVERNANCE REPORT

FINANCIAL INFORMATION

INFORMATION TO SHAREHOLDERS



Hexatronic in brief

Another eventful year has passed. We made important acquisitions on several of our strategic markets.

Financial summary

	2018	2016/17 [1]	2017	2016	2015/16	2014/15	2013/14
Net sales	1,597.8	1,717.8	1,299.4	1,032.3	890.9	627.3	497.3
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	138.2	198.6	151.0	109.8	81.3	63.7	64.0
EBITDA margin	8.7%	11.6%	11.6%	10.6%	9.1%	10.1%	11.1%
Operating result (EBIT)	92.5	161.6	122.3	88.8	62.9	50.0	59.1
Net earnings	59.3	112.3	90.4	54.1	42.1	37.4	46.5
Total assets	1,303.1	777.1	777.1	657.3	605.2	482.0	280.3
Cash flow from operating activities	15.6	102.7	133.4	33.1	56.8	12.0	18.1
Earnings per share after dilution, SEK	1.62	2.97	2.38	1.50	1.19	1.21	1.83

[1] Extended financial year encompassing 16 months.

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COMPANIES
in seven countries

- **Head office: Gothenburg, Sweden**
- **Net sales: MSEK 1,598**
- **EBITDA margin: 8,7 %**
- **Number of employees: 564**
- **19 companies in seven countries**
- **Listed on Nasdaq Stockholm Mid Cap**

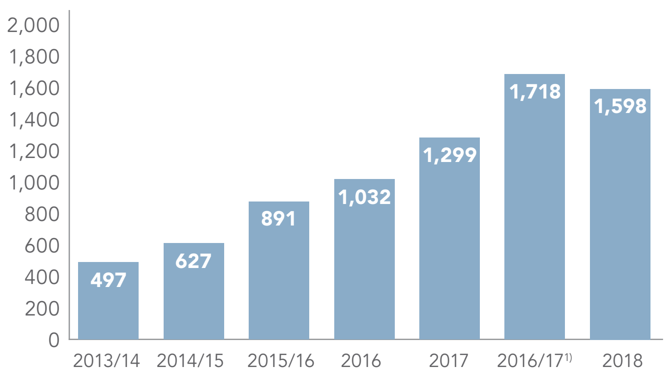
The year in brief

- Acquisition of the American duct manufacturer Blue Diamond Industries LLC.
- Acquisition of the British training company PQMS Ltd.
- Acquisition of the German fiber optic company Opternus GmbH.
- SKF and Proximion enters into a development partnership for the industrialization of fiber optic sensing systems.
- Hexatronic UK signs an agreement with CityFibre Ltd. totalling MSEK 70.
- Hexatronic was moved up to the Nasdaq Stockholm Mid Cap-segment.

Events since the end of the period

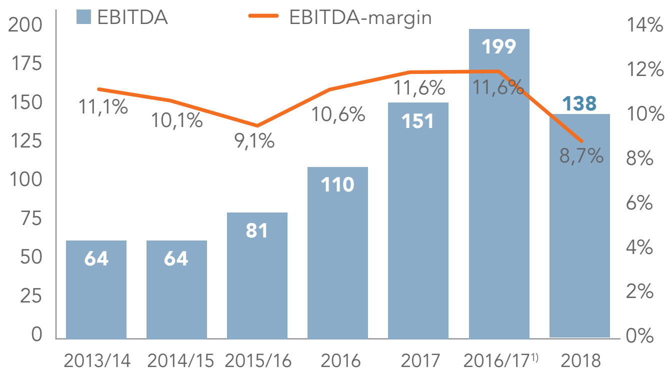
- Hexatronic UK signs a strategic agreement with CityFibre Ltd. totalling approximately MSEK 500.

Net sales, MSEK



[1)] Extended financial year encompassing 16 months.

EBITDA (MSEK and percent)



Consolidated strategic position

2018 was the year when we successfully repositioned ourselves on distinct emerging markets. A relatively well-expanded Swedish market has dominated sales in recent years. We went into 2019 with a considerably heavier tendency towards large emerging markets that are currently in their infancy.

During 2018, Hexatronic became an established player in both the UK and North America. We have had a local presence on these markets for several years, but it takes time to consolidate a position on a new market, and important steps forward were taken during the year.

In the UK we won the Group's first system order when, after a long collaboration, we were selected as the strategic partner to national challenger CityFibre. The contract was extended in February 2019 by some MSEK 500, the Group's largest ever order by a fair margin. The acquisition of training company PQMS in June 2018 was a strategically important event, both for business and for the Group's market position in the UK.

We have had a local sales company in North America since autumn 2015, but since acquiring duct company Blue Diamond Industries in January 2018 we now have local production and a brand new kind of presence on that market

In Germany we remain several years behind the UK and North America in terms of fully introducing our system offering. A local sales organisation was recruited during the first quarter of 2018, although the acquisition of fiber optic company Opternus in November 2018 has now given us a firm foothold on the market.

Thanks to the stronger position we have now created on these three markets during the year, we believe that we have everything in place to play an active part in far-reaching fiber expansion for many years to come.

FIBER EXPANSION STILL IN ITS INFANCY

With a few exceptions, the major economies in Europe and North America are still dominated by copper networks. Living in Sweden, where fiber networks are even reaching rural areas, it is easy to become blinkered to what is happening in the wider world. But as in many other contexts, Sweden is not so much the rule as the exception. Expansion of fiber-to-the-home in North America and the EU28 today is around 15 per cent, compared to almost 50 per cent in Sweden. Looking specifically at the UK and Germany, the figure is below 3 per cent.

Many countries today have targets for digitalisation and fiber expansion. Government subsidies are also being used to speed up this expansion, and this is bolstered by reports that show the socio-economic benefits of rolling out fiber. Historically speaking, fiber expansion has slowed in several economies as national operators have tried to postpone investments by optimising existing copper networks. While this practice still remains to some extent, there has been a clear shift. There is now talk of switching off copper networks for reasons of space and cost. Telefonica in Spain is an example of a major operator that has already begun switching off its copper network.

5G OR FIBER

When it comes to home connection, many people can now choose between a fixed fiber connection and mobile broadband.

In several cases mobile broadband is a good alternative, even though the vast majority choose fiber due to higher bandwidth and greater operating reliability. But since the general public essentially have to choose between fiber and mobile broadband, the question of 5G often comes up. When is 5G coming? And will the higher bandwidth of 5G mean that we don't need fiber? These are perhaps the questions I am asked most often today. I am convinced that the use of mobile broadband will increase, partly at the expense of fiber-to-the-home – but not at the expense of fiber expansion. It is easy to forget that even if fiber is not drawn into homes, every 5G antenna needs fiber, and going from 4G to 5G will require ten times the number of antennas because next generation antennas, by definition, cover a smaller area. So for me as an individual it's a matter of either fiber or 5G, but for Hexatronic it is one of both fiber and 5G. In actual fact, we view 5G as one of our greatest growth opportunities outside of fiber-to-the-home in the next 3–5 years.

INNOVATION

Innovation has been an important success factor in our growth journey, and I am convinced that it will be even more

important in the years to come. The fact is that some 80 per cent of the cost for our customer is related to installation and groundwork, while materials and products are only 20 per cent. 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.

As a telecom company we are at the centre of an ongoing megatrend in digitalisation and the Internet of Things (IoT). We see tremendous opportunities to grow and contribute to the ongoing digitalisation of society. In 2018 we introduced the InOne system, which can cost-effectively furnish different components – cameras, sensors, WiFi-points – on IoT with both fiber and power. During the year, we also entered into a partnership with SKF on the industrialisation of fiber optic sensing systems. This entails an opportunity to use bearings for process and quality control. Once again we are laying the foundation for our customers to contribute to the ongoing digitalisation of society.

FINANCIAL GOALS

In our year-end report we presented revised financial goals. We retained our growth goal of 20 per cent, which will mean a continued strong focus on growth. The profitability parameter was changed from EBITDA to EBITA following new accounting regulations in the area of leases. The profitability goal moving forward is 9 per cent EBITA on a rolling 12-month basis, which would mean EBITDA of almost 10.5 per cent under the previous accounting policies. We also decided to remove the equity ratio target from the Group's financial goals.

SUSTAINABILITY

We have continued to strive to develop our sustainability work in 2018. For instance, two sustainability weeks were held in the Group during the year. The first week focused on improvements in the field of sustainability and generated some 200 suggestions from all the Group's various companies. The second sustainability week focused on our Code of Conduct, with workshops on conflicts of interest and anti-corruption. An employee survey was also conducted during the year, and it was pleasing to see a continued positive development in our employees' perception of their work and working environment.

Further on in this Annual Report, you will find our first Sustainability Report, where you can read more about our significant sustainability areas, for example, which is where we will be focusing our efforts moving forward.

Henrik Larsson Lyon
CEO at Hexatronic Group

We are part of the ongoing digitalisation

VISION

"To bring connectivity to everyone through outstanding fiber optic solutions." Our ambition is that our products and solutions should contribute to the ongoing digitalisation. We strive 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.

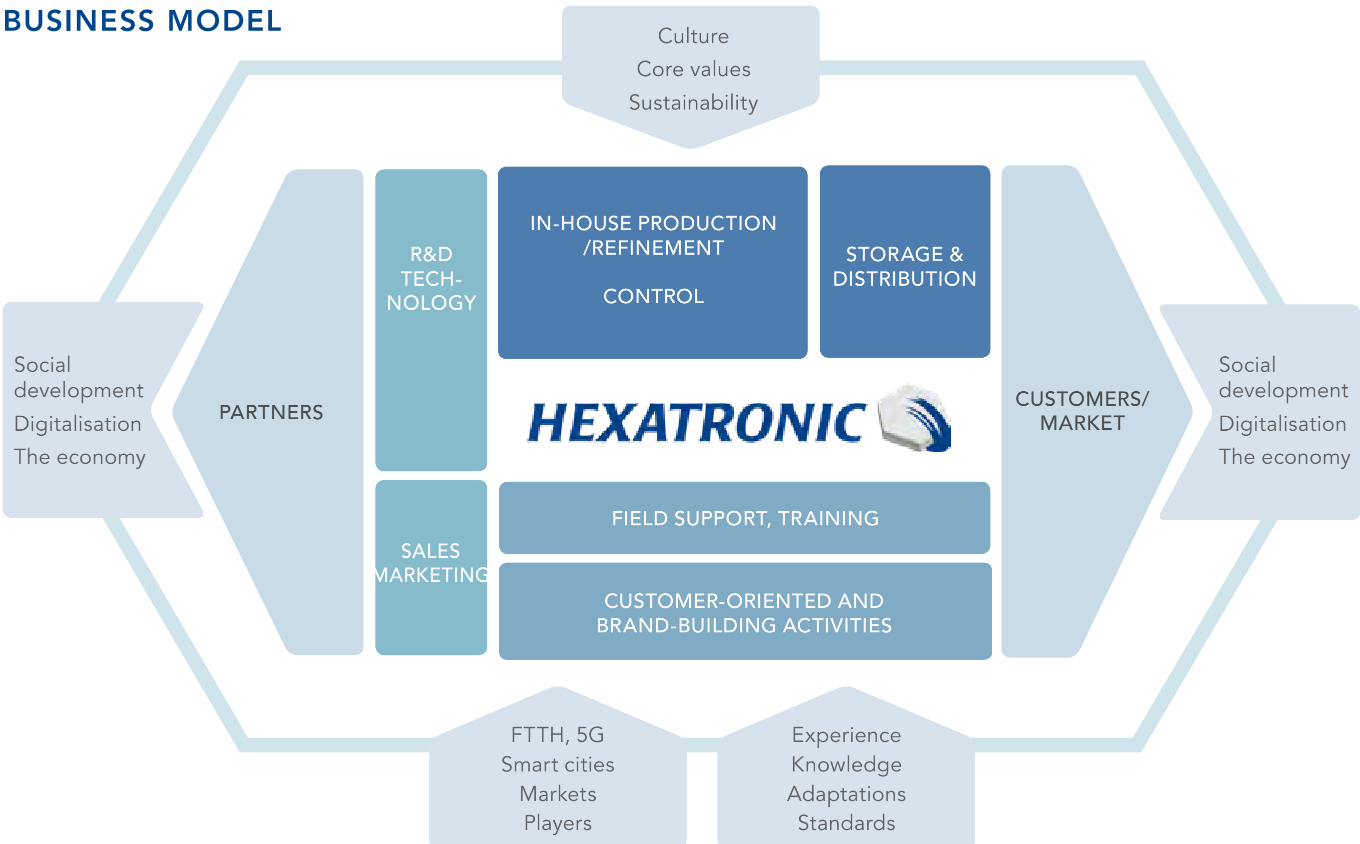
MISSION

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.

POSITIONING

With customer proximity, innovation and an entrepreneurial spirit, we develop and manufacture products and solutions that enable the lowest TCO (Total Cost of Ownership) on the market. Whether a customer needs all or only parts of our offering, we have a virtually unique position on the global market. This is because we ourselves develop and manufacture almost all of the products needed to build a reliable, sustainable fiber network. This means that we can conduct ongoing testing and evaluation, giving us full control over whether or not our offering is up to standard. The fact that our customers only need to contact one provider should they encounter problems frees up time and resources for them – while also building confidence in us.

BUSINESS MODEL



OFFERING

The Group offers a wide range for passive fiber infrastructure. Hexatronic develops and manufactures its own products and systems, and designs, manufactures and sells system solutions based on proprietary products, combined with products from leading partners around the world.

Hexatronic owns its own production chain, enabling the company to respond quickly to unique customer enquiries. With innovation, extensive technical know-how, a high level of service and turnkey solutions, the company works continuously to improve its customer offering. That 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.

CUSTOMERS

The Group's largest customer groups are telecom operators, network owners and installers, while a large proportion of its products and services are distributed via wholesalers. Network owners and installers are found on all of our markets, where we often work with small to medium-sized companies.

GROWTH STRATEGY

The Group has an explicit acquisition strategy on its strategic markets. We continually evaluate acquisitions of 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.

Concerted efforts are under way to establish Hexatronic more firmly on important strategic emerging markets such as the USA, UK and Germany. These markets have announced major investments in fiber to the home (FTTH) over the next few years, and this is where Hexatronic will grow.

The Group's growth strategy is to grow by continuously developing its product range and introducing more added value services such as servicing, aftermarket sales, support and training.

THE GROUP'S FINANCIAL GOALS

Up to 31 December 2018

10%

PROFITABILITY

An EBITDA margin (earnings before interest, taxes, depreciation and amortisation) of at least 10% on a rolling 12-month basis. The EBITDA margin was 8.7% (11.6%) for the 2018 financial year.

20%

GROWTH

The Group shall grow more than its market organically. The Group strives for average annual growth of at least 20%.

The growth will be both organic and acquisition-driven. Growth during 2018 was 23% (26%) compared with the 2017 calendar year.

30%

FINANCIAL STABILITY – EQUITY RATIO

The Group shall have an equity ratio of at least 30%. The equity ratio was 38% (53%) at the end of the financial year.

In acquisitions, the equity ratio may fall below 30% for a brief period of less than 12 months.

New 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.

9%

PROFITABILITY

The EBITA margin (earnings before interest, taxes and amortisation on intangible assets) should be at least 9% on a rolling 12-month basis. The EBITA margin for 2018 was 7.2%.

20%

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.

High-performance communication networks are the foundation of modern society. Fiber technology offers superior capacity.

The extension of fiber to the home, 5G and the development of smart cities is driving the need for stable, reliable fiber networks around the world.

The digitalisation of society globally entails a technological shift unlike any ever seen previously. This technological development is affecting the entire social structure and changing our view of what is possible to digitalise. The Internet of Things (IoT), artificial intelligence, big data, 3D printing and blockchain technology are all emerging, and new areas of application are being created. Powerful communication networks that enable perpetual connection are fundamental if more people are to benefit from these developments.

LARGE DIFFERENCE BETWEEN COUNTRIES

Although there is a very clear expansion trend, there are still major nations in Europe that have not made a proper start, such as the UK and Germany. This is because the existing networks there are built with old technology. Countries that were among the first to use fiber include Sweden, Spain and France. More and more countries are now realising just how important it is to have working communication networks made mainly of fiber.

QUICK AND EFFICIENT

Ensuring secure, efficient, robust fiber networks is now a political priority in laying the foundation for successful digitalisation. In the same way we have long expected 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 are only really aware of the internet connection itself when it's not working. Over the next few years, we will see a huge expansion of fiber networks around the world. 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 social functions and services, and make it possible to reach more people with fewer resources.

FRESH REPORT ON FTTH

A 2018 report by WIK-Consult GmbH, which analysed the Swedish and Dutch markets, indicates the socioeconomic benefits and gains of investing in FTTH and metropolitan area networks. The positive results are now being noticed by an increasing number of countries, and are providing incentives for higher investment.

EXAMPLES OF MARKET DRIVERS

Some of the biggest aspects influencing the need for fiber networks are FTTH (fiber to the home), 5G, and what are generally referred to as Smart Cities.

Many people take it for granted that a home should have a fast, secure internet connection. New user behaviours are creating a need for higher and higher capacity in the networks. The choice of material, extension technique and working method are all crucial to the results and the quality of the fiber network. The blown fiber technique, on which Hexatronic's solutions are based, are ideal in FTTH projects, where high demands are placed on efficiency and the opportunity for densification and post-installation.

The fifth generation mobile network, 5G, has been under discussion for a long time, and installations are now gathering momentum in various parts of the world, primarily Asia and the USA. The question is occasionally asked whether 5G will replace the need for fixed fiber networks. The fact is that more investment in fiber networks will be needed to connect the higher number of antennas involved in 5G over 4G. So essentially, feeding the powerful wireless 5G network will require a stable fixed network.

The development of smart cities is still in its infancy, but accelerating rapidly. The use of driverless cars and buses will increase, while new products and services are being developed for e.g. CCTV, traffic control, lighting, and parking space management. Even though not every sensor or camera will be connected to fiber, there will be a growing need for fiber, primarily in cities.

The fiber optic market

A continued strong international fiber market with great potential in 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 2017 and September 2018 was 7% in the Nordics, 21% in North America, 83% in the UK, 14% in Germany and 42% in New Zealand.

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

Magnus Angermund, Marketing Director, Hexatronic Group

Various reports and national forecasts indicate continued strong demand for FTTH on all of Hexatronic's strategic emerging markets (the UK, North America, Germany/Austria, New Zealand/Australia, Africa/Middle East) up to 2025–2030, and probably beyond as well.

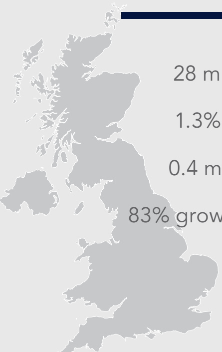
The Swedish FTTH market is expected to decrease progressively by 20% in 2019–2021, when the market will change from one of dramatic expansion to administration and maintenance. Future investments in the transport network and the expansion of 5G are expected to stimulate the market.

THE EUROPEAN FTTH MARKET

There are major differences in the level of expansion between the European countries, according to FTTH/B Panorama** September 2018. According to the survey, the 28 EU Member States have an average household penetration*** of 13.9%, while the figure for Sweden is 43.6%. By way of comparison, the figure for Norway is 35.6%, Portugal 37.0%, Finland 25.6% and France 19.4%. Household penetration is 4.0% in Italy and 2.3% in Ger-

HEXATRONICS FOKUSMARKNADER

UK



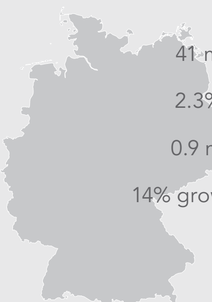
28 million households

1.3% penetration rate

0.4 million subscribers

83% growth in subscribers 2017–2018

GERMANY



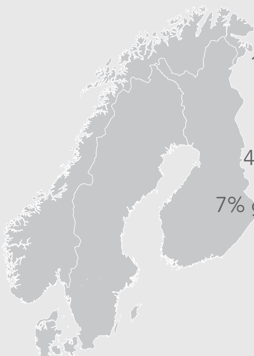
41 million households

2.3% penetration rate

0.9 million subscribers

14% growth in subscribers 2017–2018

NORDICS



13 million households

33% penetration rate

4.2 million subscribers

7% growth in subscribers 2017–2018

FTTH/B EUROPE RANKING – SEPTEMBER 2018
More than 1% Household Penetration

0–10%	Switzerland 7.8%	Ireland 3.8%	Serbia 1.9%		
	Poland 5.1%	**Germany 2.3%**	Austria 1.5%		
	Italy 4.0%	Croatia 1.9%	**UK 1.3%**		
10–20%	France 19.4%	Kazakhstan 15.2%	Turkey 11.2%		
	Denmark 19.0%	Czech Republic 14.6%	Ukraine 10.3%		
	Luxembourg 19.0%	EU28 13.9%			
	Hungary 15.8%	Macedonia 11.7%			
21–50%	Latvia 50.3%	**Sweden 43.6%**	Portugal 37.0%	Bulgaria 32.2%	Slovakia 24.4%
	Lithuania 46.8%	Belarus 40%	**Norway 35.6%**	Estonia 26.8%	Slovenia 23.0%
	Spain 44%	Romania 38.3%	Russia 35.4%	**Finland 25.6%**	Netherlands 20.2%

many, while the figure for the UK is 1.3%. The results reveal continued strong potential on the European market.

THE NORTH AMERICAN MARKET

The North American market continues to grow at a high rate. There are approximately 17 million subscribers in North America, with a continued positive trend in both FTTH and the expansion of 5G in the years to come.

5G

The expansion of 5G is progressing. Asia has come the farthest followed by the USA, while Europe is lagging behind somewhat. The commercial launch of 5G is expected within a couple of years, and this will affect our prioritised markets as technical maturity increases. According to the Ericsson Mobility Report, the proportion of 5G users in 2023 will be 16% in Europe, 34% in Asia and 37% in North America. Expansion will take place primarily in cities, and around universities and industries.

INFLUENCERS, DIGITALISATION GOALS, EECC

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 10 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 now have two years to incorporate the regulations into national law. Another aim of the EECC is to drive investment in new Very High Capacity Networks (VHCN), primarily in fiber networks and 5G.

* **A Subscriber** is a property that is connected to a fiber network and uses at least one paid service.

** **FTTH/B Panorama** is an annual report published by Fiber To The Home Council Europe in association with IDATE.

*** **Penetration Rate** is the number of Subscribers divided by the number of properties (homes, businesses).

NEW ZEALAND

1.8 million households

53.3% penetration rate

0.9 million subscribers

42% growth in subscribers 2017–2018

NORTH AMERICA

142 million households

12% penetration rate

17 million subscribers

21% growth in subscribers 2017–2018

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 is 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 UNIQUE TO HEXATRONIC

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 further support the customer's situation, 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.

Training

In the current global market situation, with many countries planning extensive fiber network installations, a great need has arisen for competent personnel. 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 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

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.

WOLD-CLASS PRODUCT DEVELOPMENT

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

BEST TCO

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

COMPLETE SYSTEM

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

FIELD SUPPORT AND TRAINING

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

BLUE DIAMOND INDUSTRIES

Duct that minimises maintenance

At the beginning of 2018, Blue Diamond Industries (BDI) became part of Hexatronic Group and was the first major acquisition on the North American market.

The company is headquartered in Lexington, Kentucky and has a production plant in Middlesboro, Kentucky. In 2016, BDI moved to a new facility with more production lines. The move marked the start of an amazing journey of expansion. Manufacturing capacity increased by 50 per cent and estimated production for Q1 2019 equates to 22,000 tonnes across 13 production lines. A fourteenth production line is planned to be up and running during Q4 2019. The new line will primarily support Hexatronic with local production of microducts.

MANY DIFFERENT TYPES OF PIPE

BDI manufactures a wide range of pipe types, from 12 mm microducts to 150 mm pipes, which are mainly used as protective casing. The company is well established on the market and has in-depth product expertise in the pipe industry, where it competes with the biggest manufacturers in CIC and 3N1™, two innovative solutions that streamline installation while reducing the risks.

"BDI is a customer oriented and flexible manufacturer, with a high level of customer service"

Sherri Simpson,
CEO Blue Diamond Industries

CIC is based on extruding a Teflon pipe over a cable such as a power cable, CATV, a fiber cable or telecom cable, in line with customer requirements. The result is a pipe solution with pre-installed cables, the cable being installed when the pipes are laid rather than afterwards. This enables savings in both time and money, while any problems feeding the cables through already laid pipes are eliminated.

3N1™ is a recently developed and patented solution that consists of underground pipes with pre-installed ducts. It dramatically improves efficiency compared to conventional approaches, as the underground pipe is pre-laid and several smaller ducts are subsequently installed in the pipe. With 3N1™, any problems when installing the ducts can be completely avoided.

BDI's sales are divided into two market segments, Power and Telecom. The Power market is showing double-digit growth every year, and an important reason for this rise in demand is that more and more power cables are being buried underground so as to avoid weather-related power cuts. Another is the growing expansion of renewable energy sources (solar and wind) in the USA. In Telecom, which encompasses the fiber market as well as 5G, the forecast is for a strong market for many years to come.

CUSTOMERS

Customers in Telecom comprise a large number of operators such as cable TV companies, local operators and national network operators.

The keys to BDI's success are an understanding of the customer's needs and an ability to quickly develop solutions that create and boost efficiency. By serving as a partner and being a solid supplier that can be relied on, BDI builds strong, long-term relationships with its customers.

OPTERNUS

Specialists in fiber technology

The company specialises in sophisticated fiber optic equipment, along with related service and calibration.

Opternus became a part of Hexatronic Group in 2018, and was the first acquisition on the German market. The company was founded in 2002 and is today a respected company on the German and Austrian market. Opternus has a very similar corporate culture to Hexatronic Group, with a distinct customer focus and an entrepreneurial spirit. Opternus specialises in fiber technology and works exclusively with recognised brands and products of the highest quality. The company's business model and its overall expertise are reminiscent of those in the Swedish company, Hexatronic Fiberoptic.

FTTH IN GERMANY

The German FTTH market is still in its infancy, but fiber networks have been built there for a long time. Vital factors in building effective, reliable fiber networks are knowledgeable personnel and dependable instruments for testing, verification and installation, as well as tools and assistive devices for cleaning and inspection. An instrument that does not show the right values with 100 per cent reliability may not only affect the quality of the network, but may also lead to time-consuming troubleshooting and repairs.

Opternus was early to see the opportunities of offering products and services in these areas, and over the years it has built up a broad portfolio and a strong brand. As a certified partner to internationally renowned, sought-after manufacturers such as Fujikura of Japan and EXFO of Canada, Opternus has a unique position on the market.

It offers sophisticated instruments for fusion splicing, and for testing and verification; precision instruments that require maintenance, servicing and calibration – and Opternus provides all these services from its modern workshop in Bargteheide, northern Germany. Being able to sell and maintain these instruments requires in-depth knowledge of their use and of installation engineering, and Opternus' personnel have these in abundance.

DIALOGUE AND PROXIMITY

In close dialogue with customers, Opternus has also developed a training programme that covers the use of tools and instruments, as well as installation engineering. Opternus is a skilled partner that not only supplies systems, but can also provide service, support and training in key skills. Being close to the customer is important, and a local presence enables rapid service and short turnaround times.

"The German market has a very exciting future, and we are well prepared to face it"

Sven Wiedemann,
CEO Opternus

PROXIMION

Sensors for demanding environments

Proximion develops, manufactures, markets and sells high-tech products for fiber optic communications.

Proximion has been developing high-tech fiber optic products since the late 1990s. Fiber Bragg Gratings (FBG), the core technology Proximion has developed and refined over the years, have proven to offer superior properties for signal conditioning in telecommunications, and as key elements in industrial measurement systems.

BENEFITS OF OPTICAL SENSORS

Distributed measurement is growing in importance in most sectors of industry, from telecom to pharmaceuticals, the manufacturing industry, process industry, energy and aerospace. Optical sensors and, more specifically, FBG sensors offer a range of essential advantages over conventional electronic sensors. They are highly sensitive but also resistant to electrical disruption, dramatic temperature fluctuations, fire and explosion. This makes FBG sensors ideal for extreme environments such as steel works.

DESIGN AND MANUFACTURE

Proximion designs and manufactures complete sensor systems including sensing elements, analysing instruments and software. These systems are based on the passive modules and network monitors the company has been supplying to the largest system suppliers and telecom operators in the world for the past 15 years.

FBG sensors can be packed very tightly, and alongside Proximion's sophisticated measurement instruments it is now possible to check processes far more precisely and reliably than with conventional technology.

The sensor system has been developed together with established industrial partners such as ABB, SAAB and SKF.

COLLABORATION WITH SKF

Proximion is also developing a product range alongside SKF, comprising integrated sensing elements in bearings to measure dynamic loads in operation, something that could lead to many new applications.

Potential for the years to come is found in both telecom and industry, since DCMs (Dispersion Compensating Modules) are needed for signal conditioning in 5G especially, and sensors are key components in the development of Industry 4.0, the fourth industrial revolution, which entails the digitalisation and automation of a wide range of industrial processes.

"The technique of Proximion has an exciting future in an increasingly digital world"

Martin Åberg, Chariman of the Board, Proximion

PQMS AND EDUGRADE

Training that raises efficiency

The market's increasing demand for quality and delivery reliability are driving the need for training and certification.

The far-reaching expansion of fiber networks in Europe is generating high demand for skilled fiber engineers, who are few and far between in many countries. There is also a need to train network designers, project managers and other roles on the network owner side. Ongoing training of existing engineers is important for installation companies, which constantly need to streamline and quality assure their installation work.

TRAINING COMPANIES IN SEVERAL COUNTRIES

Hexatronic offers training via its own subsidiaries in Sweden, Norway and the UK. On other markets training is provided in partnership with training companies or under the Group's own auspices. The companies that specialise in training are Edugrade in Sweden and Norway, and PQMS in the UK.

The training companies are run under their own brand names, which is a conscious choice so as to highlight their independence from Hexatronic. The companies are completely neutral in terms of which equipment they use, and they provide training in products and services from a wide range of different manufacturers, including competitors of Hexatronic. Independence is a key factor not only for the credibility of the training, but also to meet market demand.

A WIDE RANGE

The range of training offered is wide and encompasses several areas. Project-specific training tends to take the form of short courses for a particular company, sometimes designed or adapted specially for that client. Customers are primarily installation companies that realise the value of investing in skills development in the field of broadband expansion. In addition courses are offered in health and safety, helping our customers to meet prevailing regulations while preventing injuries and accidents.

COOPERATION WITH THE INDUSTRY

Another type of training is the apprenticeship, which is available in the UK as a way of creating jobs. Apprenticeships bring people far from the job market into contact with companies in the industry. In Sweden there is also job market training and vocational education in IT and telecom, both in close collaboration with the industry. Training of engineers for metropolitan area networks is one of several programmes that are currently in demand, and will be starting in autumn 2019.

In a world with a higher pace, you can see an increasing interest to invest in the competence of the employees

Erik de Pablos,
CEO, Edugrade

Increased internationalisation

Parts of Hexatronic's management welcome Opternus in the Group.

Our high acquisition rate continued during the year with several acquisitions on our major, foreign strategic markets.

We have an explicit acquisition strategy on its strategic markets. We continually evaluate acquisitions of 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.

Concerted efforts are under way to establish Hexatronic more firmly on important strategic emerging markets such as the USA, UK and Germany. These markets have announced major investments in fiber to the home (FTTH) over the next few years, and this is where Hexatronic will grow.

The Group's growth strategy is to grow by continuously developing its product range and introducing more added value services such as servicing, aftermarket sales, support and training.

ACQUISITIONS DURING 2018

One important development during the year was that a strategic position was established on the American market with the acquisition of American duct manufacturer Blue Diamond Industries LLC.

On the strategically important German market, Opternus GmbH was acquired during the year. The acquisition is strategically very important for Hexatronic in its vision of becoming a reliable, long-term player on the rapidly growing German market. Opternus GmbH has successfully built a leading position on the German FTTH market which is still in its infancy, with FTTH coverage of just 2.5 per cent or so, compared to over 43 per cent in Sweden. Large investments in fiber infrastructure can be expected for many years to come. An initial major programme is already in place, whereby the German government has decided to support FTTH investments worth 3–4 billion euro a year from 2018 until the end of 2020.

In light of the great need for training installers, project planners and project managers in the UK, three training companies were acquired there during the financial year: PQMS Ltd., Gordon Franks Training Ltd. and Smart Awards Ltd. Training is a vital aspect of the Group's international expansion with the focus on selling complete passive fiber optic systems including training.

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 to achieve cost synergies
- Integration and coordination in the Group focus on broader sales with the aim of strengthening the Group's product and system offering

PQMS meets representatives from the Hexatronic management

A Group focusing on global expansion

Following several acquisitions made during 2018, the Group comprises the parent company Hexatronic Group AB, with its registered office in Gothenburg, and 18 subsidiaries.

ACQUISITIONS DURING 2018

On 2 January 2018, American duct manufacturer Blue Diamond Industries LLC was acquired. On 8 June 2018, UK training companies PQMS Ltd., Gordon Franks Training Ltd. and Smart Awards Ltd were acquired. On 1 November 2018, German fiber optics company Opternus GmbH was acquired.

INDEPENDENT, ENTREPRENEURIAL COMPANIES

Hexatronic has 564 employees in 19 independent companies. Flexibility and freedom with responsibility are the fundamental principles that permeate Hexatronic's decentralised organisation, 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 sutainabilty.

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 GMBH (100%)
- OPTERNUS COMPONENTS GMBH (33%)

- HEXATRONIC CABLES & INTERCONNECT SYSTEMS
- HEXATRONIC CHINA
- HEXATRONIC UK
- HEXATRONIC US
- HEXATRONIC NORWAY
- OPTERNUS NETWORKS GMBH (100%)

Hexatronic Sales Day, September 2018

More institutional ownership

In January 2018, the share was moved up to Nasdaq Stockholm Mid Cap.

SHARE PRICEC TREND

During the financial year, the share price has fluctuated between a minimum of SEK 40.20 on 17 October 2018 and a maximum of SEK 82.00 on 24 January 2018. The closing price at the end of the financial year was SEK 46.70.

TRADING VOLUME

A total of 23,544,705 shares were traded to a total value of SEK 1,347,140,249. On average 94,179 shares were traded per trading day during the financial year.

OWNERSHIP STRUCTURE

There were 7,854 shareholders in the company on 31 December 2018. The ten largest shareholders owned 55.0% of the capital and votes. Foreign ownership accounted for 29.5%. (Source: Euroclear.)

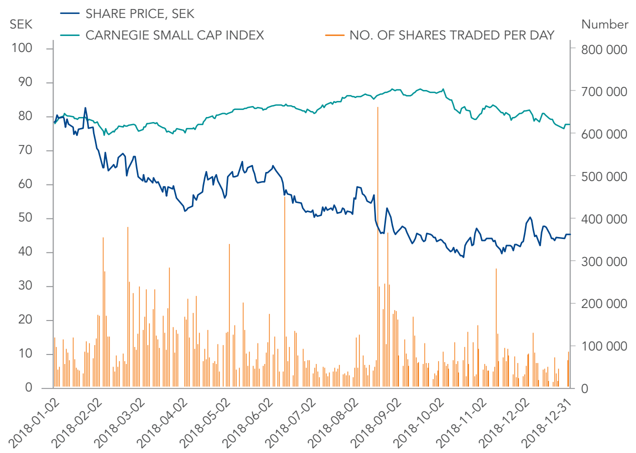
NUMBER OF SHARES

The number of shares totalled 36,511,825 on 31 December 2018. Each share has a quotient value of SEK 0.05. Holders of 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 a dividend of SEK 0.40 per share for the 2018 financial year. The Board will assess annually whether to propose a dividend or reinvestment of the profit into the operations.



AUTHORISATION

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

- A targeted non-cash issue of MSEK 7.0 (June 2018) as part of the acquisition of PQMS Ltd.
- A targeted non-cash issue of MSEK 10.4 (November 2018) as part of the acquisition of Opternus GmbH.

At the AGM on 19 April 2018, 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 2018, press releases were issued for business of strategic importance, acquisitions, a new lawsuit and a closed patent dispute.

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.

SHARE CAPITAL TREND

		No. of shares		Share capital	
Year	Transaction	Change	Total	Change	Total
1997	Bonus issue	400,000	2,000,000	50,000.00	100,000
2007	Bonus issue	8,000,000	10,000,000	400,000.00	500,000
2008	New share issue	1,900,000	11,900,000	95,000.00	595,000
2013	Non-cash issue [1)]	400,000	12,300,000	20,000.00	615,000
2013	Non-cash issue [2)]	1,440,000	13,740,000	72,000.00	687,000
2013	New share issue	1,200,000	14,940,000	60,000.00	747,000
2014	New share issue	1,000,000	15,940,000	50,000.00	797,000
2014	New share issue	6,402,857	22,342,857	320,142.85	1,117,143
2014	New share issue	2,000,000	24,342,857	100,000.00	1,217,143
2014	Non-cash issue [3)]	2,073,684	26,416,541	103,684.20	1,320,827
2015	Non-cash issue [4)]	632,911	27,049,452	31,645.55	1,352,473
2015	New share issue	4,508,242	31,557,694	225,412.10	1,577,885
2015	New share issue	1,100,000	32,657,694	55,000.00	1,632,885
2015	Exercise of warrants	600,000	33,257,694	30,000.00	1,662,885
2016	Non-cash issue [5)]	419,546	33,677,240	20,977.30	1,683,862
2016	Exercise of warrants	720,000	34,397,240	36,000.00	1,719,862
2016	New share issue through offsetting [6)]	58,830	34,456,070	2,941.50	1,722,804
2016	Non-cash issue [7)]	184,715	34,640,785	9,235.75	1,732,039
2016	Exercise of warrants	1,500,000	36,140,785	75,000.00	1,807,039
2017	New share issue through offsetting [8)]	30,892	36,171,677	1,544.60	1,808,584
2018	Non-cash issue [9)]	121,372	36,293,049	6,068.60	1,814,652
2018	Non-cash issue [10)]	218,776	36,511,825	10,938.80	1,825,591

1) In connection with the acquisition of Memoteknik Sweden AB
2) In connection with the acquisition of The Blue Shift AB
3) In connection with the acquisition of Proximion AB
4) In connection with the acquisition of Tele & Datanät Fiberoptik i Örebro AB
5) In connection with the acquisition of Hexatronic UK Ltd. (formerly OpticReach Ltd.)
6) New issue of shares through offsetting to settle additional purchase price in connection with the acquisition of Hexatronic UK Ltd. (formerly OpticReach Ltd.)
7) In connection with the acquisition of ICT Education AB
8) New issue of shares through offsetting to settle additional purchase price in connection with the acquisition of Hexatronic UK Ltd. (formerly OpticReach Ltd.)
9) In connection with the acquisition of PQMS Ltd.
10) In connection with the acquisition of Opternus GmbH

SHAREHOLDING BY SIZE OF HOLDING

31 December 2018

Holding	No. of known shareholders	No. of shares	% of votes and capital
1–1,000	6,368	1,642,780	4.5%
1,001–5,000	1,112	2,536,485	6.9%
5,001–10,000	147	1,114,982	3.1%
10,001–20,000	55	789,320	2.2%
20,001–50,000	49	1,549,892	4.2%
50,001–100,000	15	1,023,934	2.8%
100,001+	33	27,317,792	74.8%
Anonymous shareholders	-	536,640	1.5%
Total	**7,779**	**36,511,825**	**100%**

TEN LARGEST SHAREHOLDERS

31 December 2018

Owner	No. of shares	% of votes and capital
Accendo Capital	4,658,447	12.8%
Handelsbanken Fonder	3,187,176	8.7%
Jonas Nordlund, privately and via companies	2,989,841	8.2%
Martin Åberg and Erik Selin via Chirp AB	1,785,872	4.9%
Fondita Nordic Micro Cap	1,763,000	4.8%
Swedbank Robur Västfonden	1,342,039	3.7%
Nordea Fonder	1,272,355	3.5%
Försäkringsbolaget Avanza Pension	1,156,296	3.2%
Göran Nordlund, privately and via companies	1,083,954	3.0%
Consensus Asset Management	850,888	2.3%
Ten largest shareholders total	**20,089,868**	**55.0%**
Other shareholders	16,421,957	45.0%
Total	**36,511,825**	**100.0%**

Sustainability Report 2018

"We take a holistic approach to sustainable development. This means respecting and protecting the environment, human rights, employee rights and good business ethics. We strive to continuously improve our operation, and comply with rules and relevant requirements in all areas. Our intention is to work with contractors and suppliers who share our values when it comes to sustainability and business ethics."

Extract from Hexatronic's Sustainability Policy

About the Sustainability Report

THE GROUP'S FIRST SUSTAINABILITY REPORT

This is the Hexatronic Group's first Sustainability Report in accordance with the Swedish Annual Accounts Act's information requirements in the areas of environment, social aspects, personnel, respect for human rights and combating corruption, chapters 6 and 7, and encompasses the 2018 financial year. Inspiration and guidance for 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 global Sustainable Development Goals – Agenda 2030 and the Global Compact.

THE FOLLOWING COMPANIES ARE INCLUDED

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, ICT Education AB, Blue Diamond Industries LLC, Gordon Franks Training Ltd., Hexatronic AS, Hexatronic UK Ltd., Hexatronic New Zealand Ltd. and Opternus GmbH. For further information about the Group, the number of employees and sales, see pages 5 and 21.

Central policy documents and risks

During 2018 Hexatronic adopted three central, Group-wide policy documents related to steering and guidance in the field of sustainability: a Sustainability Policy, an internal Code of Conduct for the Board of Directors, Executive Management, employees and hired labour, and a Code of Conduct for Suppliers. Extracts from the policy documents can be found in the sustainability sections on our economic, social and environmental responsibility. To see the documents in their entirety, please go to the website: hexatronicgroup.com/en/sustainability/policies/.

DIVERSITY POLICY – BOARD OF DIRECTORS

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

SIGNIFICANT RISKS

Significant sustainability risks are included in the mapping of the Group's other risks. These risks and the Group's risk management are presented on pages 42–43.

WHISTLEBLOWER FUNCTION

In autumn 2018, Hexatronic introduced a system enabling employees, customers or anyone else in contact with the Group to anonymously report suspected serious anomalies that conflict with business ethics, and which could seriously affect Hexatronic as an organisation, or human life or health. The whistleblower function is important in ensuring good corporate governance and maintaining trust among our customers and the general public. Further information can be found on the website: https://hexatronicgroup.com/en/about-us/whistleblower-policy/.

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. Hexatronic's business model can be found on page 8.

Input resources

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

Hexatronic creates value 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

Support for local community

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

Significant sustainability areas

During the year, Hexatronic's most significant sustainability areas have been reviewed. The table below shows the areas which are deemed most important to steer, develop and improve. To find out more about developments in each area, please see the results indicators on page 36.

Three dimensions of sustainability	Significant sustainability areas	Link to the sustainability reporting requirement	Page reference
Our economic responsibility	Sustainable supply chain	Environment, social aspects and personnel, respect for human rights and combating corruption	28
	Strong business ethics	Combating corruption	29
	Stable profitability	No direct link to the requirement	30
Our social responsibility	Good health, safety and working environment	Social aspects and personnel	31
	Diversity and gender equality	Respect for human rights	32
	Social involvement	Social aspects	33
Our environmental responsibility	Environmentally sound products	Environment	35
	Low climate impact	Environment	35
	High resource efficiency	Environment	36

Our stakeholders
– the key to success

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.

The table below shows the most important stakeholder groups, how we come into dialogue with them, and what the primary expectations of the Group's sustainability work are:

Stakeholder	Dialogue through	Expectations
Shareholders	AGM	Positive share development Strong business ethics
Board of Directors	Board meetings Annual strategy meeting	Stable, profitable development Strong business ethics High resource efficiency Good health, safety and working environment Sustainable supply chain
Customers*	Customer survey Customer visits Supplier assessment from customer	Strong business ethics High, reliable product quality Low environmental impact
Employees	Employee survey Green All The Way project Performance reviews Departmental meetings	Good employment terms, working environment, health and safety Combating discrimination, harassment and victimisation Gender equality and diversity
Trade unions	Working environment committee Negotiations	Good work conditions Safe, secure working environment Gender equality and diversity
Suppliers	Orders/contracts Supplier visits Supplier surveys	Strong business ethics Clear demands and follow-up
Society and the wider world**	Social media/web Media contacts Conferences/industry organisations Schools/academic world	Help find solutions to social challenges Complying with industry agreements
Authorities***	Regular meetings Reporting	Legal compliance Low environmental impact Good working environment
Banks, insurance companies, creditors, investors	Regular meetings Reporting	Good financial management Transparent reporting Sustainable enterprise

* Telecom operators, network owners, data centre companies, telecom companies and installers.

** The local community, local residents, industry organisations, media.

*** Swedish Environmental Protection Agency, County Administrative Board, local authority, Work Environment Authority, Chemicals Agency, Energy Agency.

How we contribute to the UN Sustainable Development Goals (SDGs)

At the UN summit in September 2015, the world's heads of state and government adopted 17 global goals and 169 associated targets to eradicate extreme poverty, reduce inequality and injustice in the world, and resolve environmental challenges. Many say that this is the world's most important to-do list, with 11 years left to achieve the goals. As a global player in fiber expansion, we play an important part in helping to achieve Agenda 2030.

In this Sustainability Report, SDG icons appear under each dimension to show readers which goals we are particularly focusing on and contributing to. Also see the section on sustainability results indicators on page 36, where a link to Agenda 2030 is also shown. For further information about the SDGs, go to: https://www.un.org/sustainabledevelopment/sustainable-development-goals/.

Green All The Way

During the year, the Green All The Way sustainability project has continued according to plan. For example a digital training film on sustainability has been sent out to all companies in the Group, two themed weeks on sustainability have been arranged, and a sustainability competition has been held to raise knowledge, increase commitment and involvement in internal sustainability work. For further information, see pages 29, 32 and 34–35.

"There has been great commitment and involvement among employees, which is good to see and a real inspiration. Many useful suggestions for improvement have been submitted. Green All The Way is now a familiar term, with many people reflecting on sustainability work in their jobs."

Maria Löfgren, EHS Quality & Process Manager, Hexatronic Cables & Interconnect Systems AB

Our economic responsibility

"We strive to be a positive force with local and global presence, whereby the Group works and makes wise investments for the future. Economic responsibility – for all companies in our Group – means taking responsibility for stable, profitable, yet ethically justifiable, development over time."

Extract from Hexatronic's Sustainability Policy

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

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.

NEW CODE OF CONDUCT FOR SUPPLIERS

A Group-wide Code of Conduct for Suppliers was adopted and launched during 2018, with guidelines on the following areas:

- Environment
- Human rights – eradication of discrimination, avoiding child labour
- Fair employment terms – reasonable employment conditions, avoiding slavery, freedom of association
- Health and safety – working environment, safety
- Anti-corruption

We stand by and run our business in line with the ten principles for responsible enterprise as defined in the UN Global Compact.

The Code of Conduct for Suppliers has been sent to 184 suppliers, who jointly represent 62 per cent of the Group's total purchase volume. The suppliers are spread across Europe, Asia, North America and Oceania. To date, 81 suppliers have stated that they run their operation according to the requirements we set in our Code of Conduct.

We also urge our suppliers to report any violations of our Code of Conduct directly to us, or using the whistleblower function on our website.

For further information about our requirements and the current Code of Conduct, please go to: hexatronicgroup.com/en/supplier/.

PLANNED FOR 2019

- Continued launch of the Code of Conduct
- Efforts to ensure our suppliers respect and comply with our Code of Conduct
- Inspect/review strategic suppliers
- Develop further key metrics to govern the area

Strong business ethics

All Group employees are expected always to act for the best of the Group and never for personal gain. If anyone feels unsure or notices something that conflicts with strong business ethics, and could seriously affect our organisation or human life or health, we expect the individual to take this up with their immediate manager.

NEW CODE OF CONDUCT IN 2018

A Group-wide Code of Conduct was adopted and launched for all employees during 2018, including guidelines in areas linked to conflicts of interest/anti-corruption:

- BUSINESS OPPORTUNITIES/PERSONAL GAIN
  As an employee, you may never exploit a business opportunity for your own personal gain if that opportunity has been identified in your work for Hexatronic and is in conflict with Hexatronic's interests. Nor may you use Hexatronic's property or information, or your position at Hexatronic, in any other way for personal gain.
- OFFERING/RECEIVING
  You may not offer or receive gifts, favours, payment or entertainment to or from third parties which could constitute a criminal offence or affect, or appear to affect, your professional judgement while carrying out work for or in service for Hexatronic or a third party.
- BRIBERY
  No person may directly or indirectly demand or receive, offer or give any kind of bribe, illegal commission or other illegal or unethical benefit to employees or other representatives or contract parties of Hexatronic or any third party. All such offers or suggested arrangements must immediately be reported to the immediate manager.

HEXATRONIC AGAINST CORRUPTION

We want to contribute to the UN's global target 16.5 "substantially reduce corruption and bribery in all its forms".

In order to boost knowledge and create an opportunity to discuss risks and ethical dilemmas, workshops on the subject were arranged during the year in the Swedish and international subsidiaries as part of our Green All The Way sustainability project.

PLANNED FOR 2019

- Formulate a policy for corporate representation and gifts.
- Follow up on compliance of the current Code of Conduct with an internal and/or external audit.
- Keep the discussion on ethical dilemmas and other aspects of the Code of Conduct alive.

Green All The Way

What do you think about the Group initiative to put extra attention to risks & ethical dilemmas linked to bribery & corruption?

"It's a great idea. Our Customers naturally deserve, expect and need to know that their Supply Partners maintain the highest of standards in terms of bribery and corruption, so focus on this is important."

John Witkowski, CEO Hexatronic New Zealand.

"Blue Diamond is proud to join the Hexatronic efforts to prevent bribery and corruption in the workplace. Transparency in all business dealings is our goal and we expect our employees to act with integrity when representing Blue Diamond and Hexatronic."

Sherri Simpson, CEO Blue Diamond Industries

This year's customer survey shows that our customers feel that collaborating on sustainability issues is very important.

Stable profitability

Stable profitability is about being able to deliver good value, competitive products and services of high quality. Our customers are the starting point of our operation, and by retaining existing customers and attracting new ones we lay the foundation for continued growth.

VERY SATISFIED CUSTOMERS

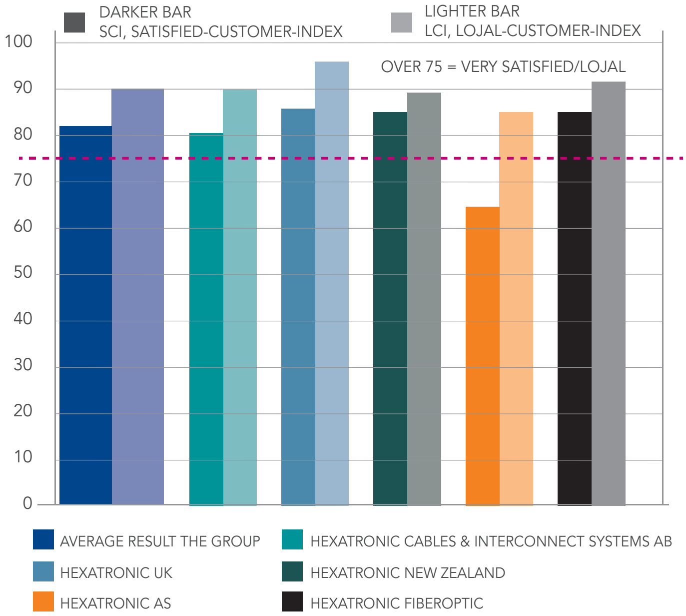
This year's customer survey, which was conducted by five of our subsidiaries in Sweden, Norway, the UK and New Zealand, indicates that customers are still very satisfied. The Customer Satisfaction Index varies between 75 and 86 in the companies (on a scale of 0–100), with an average of 82. A figure of 75 or above signifies "very satisfied". In the same survey, the Customer Loyalty Index indicates an even better result, varying from 84–96 out of 100 between the companies, with an average of 90.

We are of course very proud and delighted about this result, while also constantly striving to be better. Areas for improvement the Group generally will continue working on in 2019 are:

- Availability (getting hold of and being helped by the right person)
- Delivery reliability
- Ability to deal with any problems and complaints
- Right quality and service in relation to price

HIGH EXPECTATIONS AND HIGH CUSTOMER SATISFACTION LINKED TO SUSTAINABILITY

This year's customer survey shows that our customers feel that collaborating on sustainability issues is very important. On a scale of 1–5, where 1 is not at all important and 5 is very important, collation of the various companies' results shows that Economic Sustainability (including business ethics) is most important to our customers (4.3), followed by Social Responsibility for personnel and society (4,2) and Environmental Work (4.1). The same survey shows that customer satisfaction with our sustainability work is generally very high, with each sustainability dimension achieving 4.2 on average.



LOWER COSTS AND MORE SATISFIED CUSTOMERS

During the year, the Group has worked in different ways to contribute to lower costs, higher profitability and more satisfied customers. Examples include:

- Workforce adaptation
- Production streamlining, changing materials in certain products, energy savings, steel drum recycling, new packaging solutions
- Regular cost/income analyses, monitoring of sales statistics
- Close dialogue with leading customers, proactive sales teams and strong presence at trade fairs/congresses

PROFIT FOR THE YEAR

For details of profit and other financials, please see the Administration Report on page 39.

Again in the 2018 customer survey, Hexatronic Fiberoptic AB achieved a very high customer satisfaction rating.
– Why do you as a customer think this is?

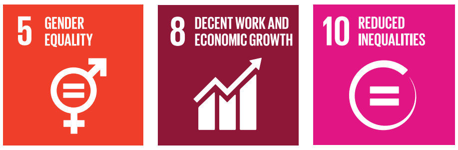
"I'm convinced that the primary contributing factors are your high technical expertise, excellent reliability and ability to deliver, and world-class personal customer relations."

Tony Soffiantini, Head of FTTH Projects,
Eltel Networks Infranet AB

Our social responsibility

"We see differences as an asset – working with diversity strengthens our expertise and thereby our competitiveness. We aim to offer an inspiring working environment that contributes to job satisfaction, enjoyment and profitability while also preventing ill health, injury and exclusion from working life. Our workplaces shall be equal, safe and secure, and free from drugs and sexual harassment."

Extract from Hexatronic's Sustainability Policy



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

Good health, safety and working environment

This year's employee survey shows that the most important sustainability issue for our employees is 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.

The Code of Conduct's section on personnel care deals with the following aspects related to health, safety and working environment:

- Employee health and safety in the workplace shall always be the priority
- We work together in a preventive, health-promoting way to ensure a good working environment that increases well-being and job satisfaction

ACTION TAKEN DURING THE YEAR

The Group has taken action in the following areas, among others, to contribute to good health, safety and working environment:

- Systematic health and safety work in accordance with the companies' management systems and prevailing legislation
- Training courses, e.g. fire safety, CPR, hot work, truck safety, safe lifting and leadership
- Evacuation and emergency exercises, formulation of a checklist for emergencies
- Regular review of safety issues in the organisation
- Health and fitness subsidies
- Regular internal communication for everyone
- Free fruit and coffee for employees
- Celebrating good news
- Proactive efforts to enable all employees to put forward their views on the working environment and well-being to the management, and then also swiftly deal with any problems/requests
- Green Cross teams that continuously monitor working environment issues in the organisation and take action where required
- Team-building activities

SATISFIED EMPLOYEES

This year's employee survey, which was conducted in all the Group's subsidiaries, shows that our employees are satisfied with us as an employer, but that of course we can be better. The Employee Satisfaction Index in the companies varies between 65 and 87 (on a scale of 0–100), with the overall result for the Group being 69. A figure of 75 or above signifies "very satisfied". In the same survey, the Employee Loyalty Index indicates excellent results, varying from 77–94 out of 100 between the companies, with an overall Group average of 80.

The survey shows that two out of three employees are satisfied with the physical working environment. By far the most important sustainability issues among employees are employment conditions and working conditions (health, safety and working environment), with 88 per cent saying this.

Based on this year's results, during 2019 we will continue working on the following improvement areas:

- Involvement and empowerment
- Corporate culture and team spirit
- Competence development
- Physical and psychosocial working environment
- Work tempo/work load

Green All The Way

Third prize in this year's sustainability competition went to Hanna Sandberg, HR manager at Hexatronic Fiberoptic, with a suggestion of introducing an 'exercise break' every week or month throughout the Group. This would help to improve personnel's well-being, concentration and efficiency.

Diversity and gender equality

We know that people with different experiences and perspectives are crucial in creating the innovative climate required for long-term commercial success. As a global corporation, we know that our strong results depend on the diversity and competence of our personnel.

HIGH DEGREE OF DIVERSITY

By diversity, we at Hexatronic mean the differences that make us all unique. These include visible differences such as age, gender, ethnicity and physical ability, as well as underlying differences such as religion, culture, and ways of thinking and acting. Many of the Group's companies have good diversity in terms of age distribution, ethnicity and religious affiliation, level of education and socioeconomic background.

FOR A MORE GENDER EQUAL WORKPLACE

The term gender equality refers to the equal rights, obligations and opportunities of men and women Hexatronic operates in a male-dominated industry, and one challenge is to attract women to all positions in the Group. This year's employee survey shows that what employees (87 per cent) are most satisfied with is gender equality in the workplace. Gender equality and diversity is the third most important sustainability issue among employees, according to 40 per cent of them in this year's survey.

"I am convinced that a high diversity within the Group would have a positive effect on our development."

Henrik Larsson Lyon, President and CEO, Hexatronic Group

The Code of Conduct's section on personnel care deals for instance with the following aspects related to gender equality and diversity:

- No employee may be discriminated against due to skin colour, gender, sexual orientation, civil status, pregnancy, parenthood, religion, political opinion, nationality, ethnicity, social origin, social status, belonging to an indigenous population, disability, age, union membership or any other kind of ground for discrimination protected by local law.
- Employees with the same qualifications, experience and abilities shall receive equal pay for equal work.

NO DISCRIMINATION AGAINST EMPLOYEES

At Hexatronic we treat all people equally with respect and dignity. Combating discrimination, harassment and victimisation is the second most important sustainability issue among employees, according to 45 per cent of respondents.

This year's employee survey does, however, unfortunately indicate that 17 people feel they have been the subject of some form of discrimination and/or victimisation in the past 12 months. We take this result very seriously and measures will be taken in the companies in question.

PROMOTIONAL ACTIVITIES

During the year, the Group's companies have made various moves to contribute to a gender equal workplace with a high degree of diversity. Examples include:

- Mapping of pay
- Work based on local action plans combating victimisation
- Broader recruitment to attract women, young people and people from different ethnic backgrounds
- Introduction of strategy input meetings, which enable employees to put forward suggestions and ideas about how the workplace can be more safe, welcoming and positive

Social involvement

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

Employees from Blue Diamond Industries in the USA serve Christmas dinner to more than 100 vulnerable women at the Hope Center in Lexington.

Goodie bags are packed and handed out at the Hope Center Christmas dinner.

During the year the Group's companies, along with their employees, customers and other stakeholders, have contributed to the following initiatives for a better society, among others:

- Cooperation with the Swedish Public Employment Service to help vulnerable people into working life
- Fundraising for the Swedish Cancer Society Pink Ribbon and Blue Ribbon campaigns; we auctioned some of our latest products on the market, and all the proceeds went to the Cancer Society's work against breast and prostate cancer
- Support at the major fires in Sweden in summer 2018
- Again in 2018 the annual Christmas gift went to PLAN International, which works to ensure that refugee children have access to education and safe environments where they are allowed to be children
- School collaboration where pupils do a fourth year of high school; during an interim year they work closely alongside product developers and engineers, giving them a great introduction to a career in engineering
- Support for Situation Baltikum, an organisation that aims to improve the situation for vulnerable children and young people in eastern Latvia
- Support for children with special needs
- Hospitality and meal service for vulnerable women and families, e.g. during holidays
- Encouraging people to get involved in society by volunteering

PLANNED FOR 2019:

- Continue with social involvement begun in 2018

Our environmental responsibility

"We shall protect the environment for present and future generations by preventing emissions and minimizing the use of resources in our product handling. Environmental work shall be an integral part of our day-to-day work, and we strive to reduce our own environmental impact locally and globally."

Extract from Hexatronic's Sustainability Policy

Hexatronic will do what we can to contribute to as low a climate impact as possible.

The environmental section in our Code of Conduct for Suppliers:

- Hexatronic strives to develop, manufacture and offer products and services with excellent properties in terms of sustainability. To ensure that our products are manufactured in a sustainable way along the entire production chain from raw material to finished item, environmental commitment throughout the supplier chain is a must.
- The supplier should therefore have active environmental management in place and should take measures to avoid hazardous substances and minimize emissions and the use of resources, in areas such as energy consumption, transportation, materials handling and waste management.

For further information about the demands we impose, see the supplier environmental requirements on our website: hexatronicgroup.com/en/supplier/.

Green All The Way

Winner of second prize in the 2018 sustainability competition, Oskar Gyllenhammar, Market Communicator, highlights another of the critical issues of our time: climate change, and how we can ease the transition to a fossil-free economy. Oskar suggests that the Group should have a target of running 100 per cent of its production on renewable energy, by installing solar panels on our roofs. This will help to minimise Hexatronic's carbon footprint.

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 a environmental footprint.

EFFORTS FOR MORE ENVIRONMENTALLY SOUND PRODUCTS

So that we can offer our customers products with as low environmental impact as possible, the following action has been taken:

- Environmentally approved product range for SundaHus and Byggvarubedömningen (which work for environmentally adapted building materials)
- Transition to 100% recyclable packaging made of water-resistant containerboard for our Stingray blown fiber
- Introduction of InONE hybrid cable, which is more resource efficient with a lower installation impact
- Packaging materials made of recycled plastic
- Introduction of the Viper range of micro cables, which has led to lower material consumption in manufacturing and 35 per cent lower freight volumes due to the smaller packaging

PLANNED FOR 2019:

- Continued monitoring and development of new environmentally adapted materials and technologies
- Replacing current plastic packaging with renewable/biodegradable materials
- Transition from petroleum-based polystyrene to containerboard

Green All The Way

The winner of this year's sustainability competition was Peter Lo Curzio, Product Manager at Hexatronic Cables & Interconnect Systems, whose entry highlights one of today's most crucial environmental issues: our planet drowning in plastic. Plastic bags, packaging and microplastics present a major threat, particularly to life at sea.

The winning entry proposes that the plastic bags and plastic wrapping used for some of the Group's products should be replaced by biodegradable alternatives – although above all, Peter stresses that the Group should ideally review which products need to be packed in thin plastic in the first place.

Low climate impact

In order not to exceed a temperature rise of 1.5°C, global net emissions need to fall by about half up to 2030 (compared to 2010), and to achieve almost zero by 2050. The challenges are great and time is short. Hexatronic will do what we can to contribute to as low a climate impact as possible.

EFFORTS TO MINIMISE CLIMATE EMISSIONS

To contribute to lower climate impact, the following actions have been taken, among others:

- Coordination of product deliveries to minimise transport
- Adaptation of pack sizes for different products to reduce transport volumes
- Initiated transition from air to shipping cargo when transporting our products
- Energy mapping and energy efficiency programme
- Switch to LED lighting
- Review of production equipment to reduce the electric power requirement
- Energy recovery whereby surplus energy from cooling water and ventilation is harnessed to heat premises

PLANNED FOR 2019:

- Map our direct and indirect climate emissions (scope 1, 2 and 3)
- Continued endeavour to reduce greenhouse gas emissions from the Group's various operations
- Carry on working on the suggestion to run the Group's production on 100 per cent renewable energy, and look into various alternatives such as solar panels on our roofs

High resource efficiency

The transition to a circular economy, whereby the value of products, materials and resources is kept in the economy for as long as possible and waste generation is minimised, is very important if we are to develop a sustainable, carbon dioxide-efficient, resource-efficient and competitive economy.

HOW WE ARE ACHIEVING HIGHER RESOURCE EFFICIENCY

To contribute to a more circular, resource-efficient economy, the Group's efforts include:

- High percentage of waste recycling
- Higher efficiency in production, thus supporting a lower proportion of scrap
- Closed system for cooling water, thus aiding lower water consumption
- Energy mapping and energy efficiency programme

PLANNED FOR 2019

- Continued energy efficiency efforts

Results indicators for sustainability work

For 2018, the following key metrics have been selected to monitor developments in the significant sustainability areas. Further key parameters will be developed during 2019 and 2020.

For each area, the link is shown to Agenda 2030 targets. For further information on the targets, go to www.un.org/sustainabledevelopment.

Significant sustainability areas/where the impact is	Link to Agenda 2030	Key metric	2018	2017	2016
Strong business ethics **Where:** Purchasing, sales, manufacturing, acquisitions, finance, marketing	8.4, 8.8, 16.5	Number of employees who have signed the internal Code of Conduct, %	78	*	*
		Number of confirmed instances of corruption	0	0	0
Sustainable supply chain **Where:** Manufacturing and goods transport	8.4, 8.8, 16.5	Percentage of suppliers who have received the Code of Conduct [1]	62	*	*
		Percentage of suppliers who have signed the Code of Conduct for Suppliers [1]	34	*	*
Stable profitability **Where:** Entire Group	No link	Percentage of ISO 9001-certified companies in the Group [2]	75	80	80
		Customer Satisfaction Index	82	**	78
		Customer Loyalty Index	90	**	85
Good health, safety and working environment **Where:** Entire Group	8.8	Percentage of OHSAS 18001/ISO 45001-certified companies in the Group [2]	13	20	20
		Sick leave, %	3.0	3.0	3.3
		Employee Satisfaction Index	69	**	66
		Employee Loyalty Index	80	**	79
Diversity and gender equality **Where:** Entire Group	5.1, 5.5, 10.2	Percentage of women	25	25	26
		Percentage of women managers	25	19	14
		Percentage of women in Executive Management	11	11	0
		Percentage of women on Board of Directors	40	40	25
		Number of confirmed instances of discrimination	17 [3]	**	**
Low climate impact **Where:** Energy use, fuels, business travel, goods transport	7.1, 7.2, 7.3	Percentage of ISO 14001-certified companies in the Group [2]	38	60	40
		Electricity consumption, MWh [4]	17,793	17,846	16,754
High resource efficiency **Where:** Manufacturing	8.4, 9.4, 12.2, 12.4, 12.5, 12.6	Total volume of waste including hazardous waste, tonnes	1,023	1,119	1,267
		Total volume of hazardous waste, tonnes	69	49	85

* Code of Conduct was launched in 2018

** No survey conducted

[1] Based on total purchase volume.

[2] Figure includes companies with more than 15 employees.

[3] Figure based on the 2018 employee survey.

[4] 48% of electricity consumption in 2018 was green electricity.

Note: Key metrics for the significant sustainability areas social involvement and environmentally sound products will be developed during 2019.

Auditor's report on the statutory sustainability report

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

ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the statutory sustainability report for the year 2018 on pages 24-36 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

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

OPINION

A statutory sustainability report has been prepared.

Gothenburg, 9 April 2019
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorised Public Accountant

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 2018 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.

Unless otherwise stated, all of the comparison figures below refer to 16 months due to the extended financial period in the previous financial year.

SALES

Net sales during the financial year amounted to MSEK 1,597.8 (1,717.8). The Group's sales decreased by 7% compared with the previous financial year, which was four months longer.

In a comparison with the 2017 calendar year, sales grew by 23%. This increase can be attributed to the acquisitions of Blue Diamond Industries, PQMS, Gordon Franks Training, Smart Awards and Opternus. Organic growth decreased with 6% compared with the 2017 calendar year due to a weaker Swedish market.

RESULTS FOR THE FINANCIAL YEAR

The operating result before depreciation and amortisation (EBITDA) totalled MSEK 138.2 (198.6), which corresponds to an EBITDA margin of 8.7% (11.6%).

EBITDA during the financial year was burdened by MSEK 3.1 of acquisition costs relating to the acquisitions of PQMS and Opternus.

EBITDA during the financial year was burdened by MSEK 7.5 of legal costs incurred for a patent dispute in the UK.

During the financial year, EBITDA was boosted by a total of MSEK 4.5 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 92.5 (161.6), which equates to an EBIT margin of 5.8% (9.4%).

Net financial income/expense during the financial year amounted to MSEK -10.8 (-17.9), of which net interest income/expense amounted to MSEK -6.9 (-2.7), unrealised exchange rate differences to MSEK -1.6 (-15.3) and other financial income and expense to MSEK -2.3 (0).

Profit for the year was MSEK 59.3 (112.3) for the financial year.

FINANCIAL POSITION AND LIQUIDITY

The Group's financial position and liquidity remain strong. Liquid assets on 31 December 2018 totalled MSEK 84.6 (108.2). Available assets, including overdraft facilities, amount to MSEK 127.2.

The Parent Company has an agreed acquisition facility of MSEK 565. This facility was utilised during the financial year for the acquisitions of Blue Diamond Industries, PQMS and Opternus. The utilised amount on 31 December 2018 totalled MSEK 408.2, and MSEK 351.7 of this is long-term bor-

Multi-year comparison, Group

SEK thousand	2018	2016/17 [1)]	2017	2016	2015/16	2014/15
Net sales	1,597,768	1,717,790	1,299,419	1,032,342	890,896	627,338
Profit/loss before tax	81,751	143,618	116,130	69,784	55,108	48,567
Profit/loss before tax as a percentage of net sales	5.1%	8.4%	8.9%	6.8%	6.2%	7.7%
Total assets	1,303,134	777,098	777,098	657,292	605,160	482,039
Equity ratio	37,9%	53.4%	53.4%	50.3%	49.7%	51.6%

1) Extended financial year encompassing 16 months.

rowing. During the financial year, MSEK 43.4 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 15.6 (102.7), including a change in working capital of MSEK -83.2 (-48.1).

Cash flow from investing activities during the financial year amounted to MSEK -361.5 (-91.3). The negative figure for cash flow can be attributed to the acquisitions of Blue Diamond Industries, PQMS, Gordon Franks Training, Smart Awards and Opternus, and to some extent to investments in property, plant and equipment and intangible assets.

Cash flow from financing activities during the financial year amounted to MSEK 322.3 (45.8). The cash flow is due to the raising of new loans in connection with the acquisitions of Blue Diamond Industries, PQMS, Gordon Franks Training, Smart Awards and Opternus, loan repayments and dividends paid.

ACQUISITIONS AND INVESTMENTS

Investments

Investments during the financial year mainly comprised acquisitions of new businesses and investments to increase production capacity in Hudiksvall.

Acquisition of Blue Diamond Industries LLC

The acquisition of Blue Diamond Industries LLC took place as a share transfer, see Note 35. The acquisition was completed on 2 January 2018 and has subsequently been consolidated. Blue Diamond Industries is an American duct manufacturer.

The fixed purchase price was MUSD 26.8 and was paid in cash. There may be a possible additional purchase price of a maximum of MUSD 2.5 based on the EBITDA for the 2018 and 2019 calendar years.

The acquisition was financed by utilising part of the agreed acquisition facility from credit institutes.

Acquisition of PQMS Ltd.

The acquisition of PQMS Ltd. took place as a share transfer, see Note 35. The acquisition was completed on 8 June 2018 and has subsequently been consolidated. PQMS provides training and certification in several sectors, including telecom.

British companies Smart Awards Ltd. and Gordon Franks Training Ltd. were included in the acquisition. Smart Awards is a national certification body that develops and certifies training programmes for many sectors, including telecom. Gordon Franks offers apprentice and specialist training programmes.

The fixed purchase price amounted to MGBP 2.0, of which MGBP 1.4 was paid in cash and MGBP 0.6 through newly issued shares in Hexatronic. There may be a possible additional purchase price of a maximum of MGBP 2.0 based on the EBITDA for the periods May 2018 – April 2019, May 2019 – April 2020 and May 2020 – April 2021.

The acquisition was financed by utilising part of the agreed acquisition facility from credit institutes and the non-cash issue.

The non-cash issue comprised 121,372 newly issued shares in Hexatronic.

Acquisition of Opternus GmbH

The acquisition of Opternus GmbH took place as a share transfer, see Note 35. The acquisition was completed on 1 November 2018 and has subsequently been consolidated. Opternus is a German fiber optics company that operates in sales and service of fiber-optic fusion splicing and measuring instruments.

The fixed purchase price amounted to MEUR 10.0, of which MEUR 9.0 was paid in cash and MEUR 1.0 through newly issued shares in Hexatronic. There may be a possible additional purchase price of a maximum of MEUR 2.5 based on the EBITDA for the periods October 2018 – December 2019, the 2020 calendar year and January – September 2021.

The acquisition was financed by utilising part of the agreed acquisition facility from credit institutes and the non-cash issue.

The non-cash issue comprised 218,776 newly issued shares in Hexatronic.

MERGER HEXATRONIC INVEST AB

Hexatronic Invest AB was merged with Hexatronic Group AB on June 7 2018.

LEGAL PROCESSES

In June 2018, Emtelle UK Ltd. filed a lawsuit in the UK against three Hexatronic companies – Hexatronic UK Ltd., Hexatronic Interconnect & Systems AB and Hexatronic Group AB – for infringing on two British patents relating to air-blown fiber. Hexatronic has contested the claim.

Multi-year comparison, Parent Company

SEK thousand	2018	2016/17 1)	2017	2016	2015/16	2014/15
Net sales	27,242	27,686	22,245	16,772	16,333	22,666
Profit/loss after financial items	-34,232	-19,017	-14,630	-15,137	-16,378	-7,472
Profit/loss after financial items as a percentage of net sales	-125.7%	-68.7%	-65.8%	-90.3%	-100.3%	-33.0%
Total assets	787,623	406,616	406,616	353,915	294,299	251,580
Equity ratio	25.1%	48.7%	48.7%	51.6%	61.4%	67.2%

1) Extended financial year encompassing 16 months.

THE GROUP´S FINANCIAL GOALS UP UNTIL 31 DECEMBER 2018

Profitability

An EBITDA margin (operating result before depreciation and amortisation) of at least 10% on a rolling 12-month basis. The EBITDA margin on a rolling 12-month basis was 8.7% (11.6%).

Growth

The Group shall grow more than its market organically. The Group strives for an average annual growth of at least 20%. The growth will be both organic and acquisition-driven. Growth during the financial year was -7% compared with 2016/17, which encompassed 16 months.

Growth during the 2018 calendar year was 23% (26%) compared with the 2017 calendar year.

Financial stability

The Group shall have an equity ratio of at least 30%. The equity ratio was 38% (53%) at the end of the financial year.

In acquisitions, the equity ratio may fall below 30% for a period of less than 12 months. This may occur when the Board deems that the profitability and cash flow from acquired units will cause a swift improvement in the equity ratio.

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 (Earnings before interest, taxes, and amortisation) should be at least 9% on a rolling 12-month basis. The EBITA margin for year 2018 was 7.2%.

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.

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.

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.

Hexatronic Cables & Interconnect Systems AB, with operations in Hudiksvall, has had a licence from the county admin-

Key figures for the Group

	2018	2016/17 [1]	2017 [2]	2016 [2]	2015/16	2014/15
Growth in net sales	23%	93%	26%	43%	42%	26%
EBITDA margin	8.7%	11.6%	11.6%	10.6%	9.1%	10.1%
Operating margin	5.8%	9.4%	9.4%	8.6%	7.1%	7.9%
Equity ratio	37,9%	53.4%	53.4%	50.3%	49.7%	51.6%
Earnings per share before dilution (SEK)	1.63	3.13	2.50	1.59	1.26	1.27
Earnings per share after dilution (SEK)	1.62	2.97	2.38	1.50	1.19	1.21
Profit/loss per employee (SEK thousand)	115	305	241	182	56	186
Quick ratio	0.9	1.3	1.3	1.3	1.1	1.1
Average number of employees	517	368	376	297	270	201
No. of shares	36,511,825	36,171,677	36,171,677	36,140,785	33,677,240	32,657,694
Average number of shares	36,278,940	35,838,561	36,148,508	34,087,733	33,387,391	29,370,204
Average number of shares after dilution	36,676,240	37,848,540	37,942,528	36,103,801	35,273,102	30,956,772

[1] Extended financial year encompassing 16 months. Growth in net sales based on comparison with 2015/16.

2) Growth in net sales based on comparison with the previous calendar year.

istrative 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 March 2018. It resulted in three minor deviations which have been remedied. None of the deviations were remarked on from an environmental perspective.

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

The Group is covered by the new 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.

THE 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 27.2 (27.7) and profit/loss for the year amounted to MSEK -4.6 (4.4). The value of shares in ICT Education and Edugrade have been written down by a total of MSEK 15.5 during the financial year. Net financial income/expense was MSEK -13.0 (-1.3) and liquid assets amounted to MSEK 0 (51.3) at year-end. The number of employees was 13 (11) 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.

Proposed appropriation of profits

THE FOLLOWING FUNDS ARE AT THE PARENT COMPANY'S DISPOSAL

	SEK
Share premium reserve	199,508,486
Profit/loss brought forward	-3,841,211
Profit/loss for the year	-4,591,282
Total	**191,075,993**

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

	SEK
SEK 0.40 per share to be distributed to shareholders [1]	14,873,530
To be transferred to profit/loss brought forward	176,202,463
Total	**191,075,993**

[1] The proposed record date for dividends is 13 May 2019.

As the Board of Directors proposes that the AGM on 9 May 2019 decides on a dividend of SEK 0.40 per share, the Board may hereby submit the following statement in accordance with chap. 18 §4 of Sweden's Companies Act.

The Board finds that full coverage exists for the Parent Company's restricted equity after the proposed dividend. The Board also finds that the proposed dividend is justifiable taking into account the parameters stated in chap. 17 §3, second and third paragraphs of Sweden's Companies Act. The Board would thereby like to draw attention to the following. The proposed dividend reduces the Parent Company's equity ratio from 25.1% to 23.3% and the Group's equity ratio from 37.9% to 36.8%, calculated on 31 December 2018.

The Board considers this equity ratio to be satisfactory taking into account the industry in which the Group operates. In the Board's view, the proposed dividend will not affect the Parent Company and Group's ability to meet their payment obligations, and the Company and the Group are well prepared to manage changes relating to liquidity and unexpected events. The Board considers that the Company and the Group have a basis for taking future business risks and bearing possible losses too.

The proposed dividend is not expected to have an adverse impact on the Company and Group's ability to make further commercially motivated investments in line with the Board's plans.

In addition to that stated above, the Board has considered other known circumstances that may be important to the Company's and Group's financial position. No circumstances have emerged during this process to prevent the proposed dividend from appearing to be justifiable. The Board's assessment is that the Company and Group will have sufficient equity after the proposed dividend in relation to the nature, scope and risks of the operation.

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 map and prevent risks minimises the risk of unforeseeable events occurring and 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. Mapping, planning and management of identifiable risks support the management in making strategic decisions. Another purpose of risk assessment is to increase the whole organisation'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 organisation.

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	
An excessive dependence on individual major customers. There is a risk that larger customers choose alternative suppliers. The Group's three largest customers account for roughly 26% of the Group's net sales.	The Group has continued to broaden its customer structure as the degree of internationalization is increasing. 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. The Group has extended comprehensive cover for access and restoration following replacement of a faulty product. Intellectual property rights are monitored and controlled in consultation with external advisors. The provision for future guarantee obligations is assessed continuously.
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. Hexatronic has drawn up a number of Group-wide policies to ensure as smooth an integration as possible.

Risks	Risk management
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. Such stoppages or interruptions could therefore have an adverse impact on Hexatronic's operations, results and financial position. 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 mapping take place in consultation with external advisors.
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.
Natural disasters Extreme climate-related weather events such as hurricanes, floods and wildfires could lead to disruptions to production and damage to company property. 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 are prioritised sustainability areas for Hexatronic. Hexatronic's Code of Conduct is clear on the guidelines in these areas. Broader recruitment and local action plans to combat discrimination aim to minimise the risks.
Non-compliance with the Code of Conduct among suppliers The Hexatronic Code of Conduct for Suppliers has been formulated to protect human rights, and to promote fair employment conditions, safe working conditions, responsible management of environmental issues and high ethical norms. 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 for Hexatronic. 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 strategic suppliers.
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, ongoing dialogue regarding risks and ethical dilemmas, at management level and in particularly vulnerable roles, all aim to minimise the risks in this area. 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 and technology Parts of Hexatronic are dependent on the organisation'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.

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, as well in other currencies to a lesser extent.	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 and Coloreel AB.

Shareholding in Hexatronic: 51,000 shares.

Independent of the company, the company management and 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. Board Member and President of Fastighets AB Balder. Board Chairman of Brinova AB. Board Member of Erik Selin AB, Erik Selin Fastigheter AB, Collector AB, Collector Bank AB and Västsvenska Handelskammaren Service AB. Also a member in subsidiaries of the above companies.

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

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 Member of Peab AB, Hexpol AB, Getinge AB, Silver Life and Universeum AB.

Shareholding in Hexatronic: 1,000 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.

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.

According to the Hexatronic Group Articles of Association, the Board of Directors shall comprise a minimum of three and a maximum of five Board Members. The Hexatronic Board currently comprises five 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 2019 AGM. The shareholdings given for each person above were true as of 31 December 2018.

Executive Management

Henrik Larsson Lyon

CEO of Hexatronic Group AB (publ) since 2014.

Year of birth: 1966.

Education: MSc in Economics.

Shareholding in Hexatronic: 791,666 shares and 45,000 warrants.

Thomas Andersen

President of Hexatronic AS since 2012.

Year of birth: 1974.

Education: Electrical Engineer, Østfold University College, Norway.

Shareholding in Hexatronic: 18,000 shares via Engelsviken AS and 12,500 warrants held privately.

Lennart Sparud

CFO of Hexatronic Group AB (publ) since 2015.

Year of birth: 1969.

Education: Economics and Law programmes, University of Gothenburg.

Shareholding in Hexatronic: 30,000 shares and 10,000 warrants.

Anna Bailey

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

Year of birth: 1969.

Education: MSc in Industrial Economics.

Shareholding in Hexatronic: 1,500 shares and 10,000 warrants.

Magnus Angermund

Marketing Director of Hexatronic Group AB since 2016.

Year of birth: 1968.

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

Shareholding in Hexatronic: 63,000 warrants.

Anders Tessmann

President of Hexatronic Fiberoptic since 2004.

Year of birth: 1955.

Education: Market Economics, IHM Business School.

Shareholding in Hexatronic: 65,000 warrants.

Martin Åberg

Deputy CEO of Hexatronic Group AB since 2017.

Year of birth: 1981.

Education: MSc in Applied Physics and MBA, Uppsala University, also Chartered Financial Analyst, Stockholm School of Economics Executive Education.

Shareholding in Hexatronic: 1,785,872 shares via part ownership of Chirp AB and 25,000 warrants held 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: 154,000 shares and 35,000 warrants.

Peter Hem

Business Development Director since 2017.

Year of birth: 1963.

Education: MBA.

Shareholding in Hexatronic: 10,000 warrants.

The Group's Executive Management holds monthly meetings.

The shareholdings given for each person above were true as of 31 December 2018.

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 2018 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.

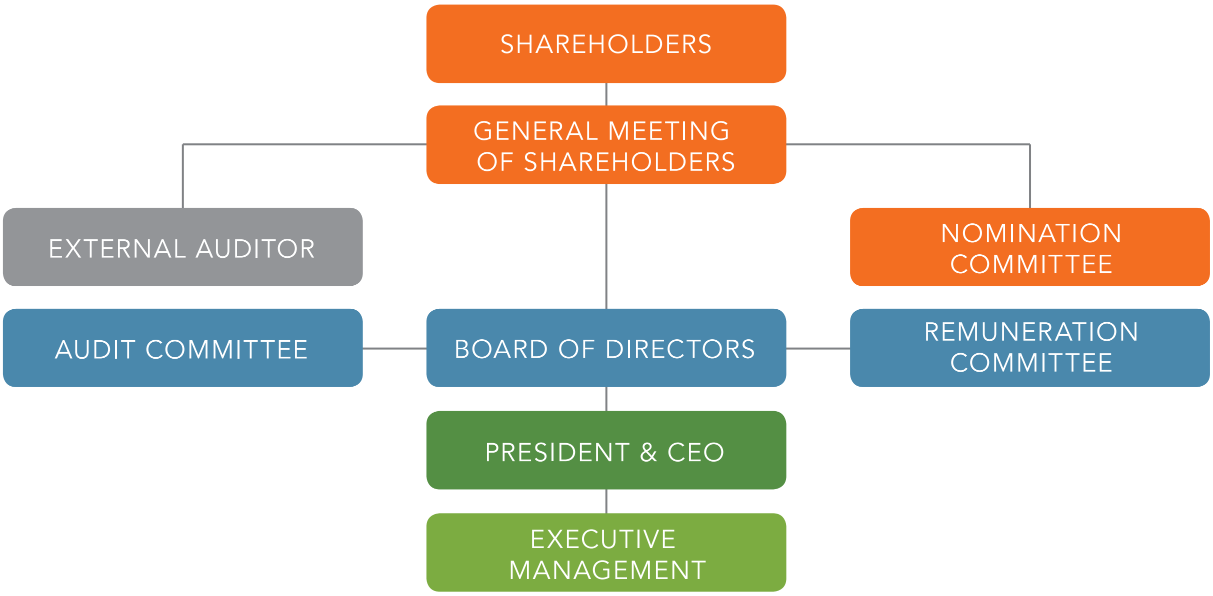
Deviations from the Code

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

CORPORATE GOVERNANCE STRUCTURE



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 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 of shareholders 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 in the publication *Post- och Inrikes Tidningar* 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 2018 totalled SEK 1,825,590.95, divided between 36,511,825 shares. All shares are of the same type and all shares in the company have equal rights in every respect. The number of shareholders on 31 December 2018 was 7,779. The biggest shareholders on this date were Accendo Capital (12.8% of the share capital), Handelsbanken Fonder (8.7%), Jonas Nordlund privately and via companies (8.2%), Martin Åberg and Erik Selin via Chirp AB (4.9%) and Fondita Nordic Micro Cap (4.8%).

Further information about the share and shareholders is available on the company's website.

ANNUAL GENERAL MEETINGS

Decisions at the 2018 AGM

The following decisions were made at the AGM on 19 April 2018:

- 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 and Erik Selin.
- New election of Board Members: Jaakko Kivinen.
- 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.
- Decision to introduce an incentive programme through a targeted issue of up to 1,000,000 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 400,000 for the Chairman of the Board and SEK 150,000 per Board Member.
- Remuneration for the Audit Committee shall be SEK 72,000 for the Chairman and SEK 48,000 for its other members.

The entire minutes from the 2018 AGM can be found at www.hexatronicgroup.com.

The 2019 AGM

The 2019 AGM will be on Thursday 9 May 2019 at 17:00 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 2019 AGM

The composition of the Nomination Committee was published in a press release and on the Hexatronic Group website (www.hexatronicgroup.com) on 15 October 2018.

The Nomination Committee in the run-up to the 2019 AGM comprises Jonas Nordlund (representing: himself), Erik Selin (Chirp AB), Henri Österlund (as Chairman and Accendo Capital), Staffan Ringvall (Handelsbanken Fonder) and Anders Persson (Chairman of the Board of Hexatronic Group) as co-opted. The Nomination Committee has had four minuted meetings between the 2018 AGM and the date the Annual Report was submitted. As a basis for its proposals ahead of the 2019 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 Code, which has resulted in the Nomination Committee proposal to the AGM regarding the election of Board Members.

COMPOSITION OF THE NOMINATION COMMITTEE

Name	Representing	% of votes on 31 December 2018
Henri Österlund	Accendo Capital	12.8%
Staffan Ringvall	Handelsbanken Fonder	8.7%
Jonas Nordlund	Himself	8.2%
Erik Selin	Chirp AB	4.9%
		34.6%

BOARD OF DIRECTORS

Composition in 2018

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 five members elected by the AGM for a term of office up to the end of the next AGM. At the AGM on 19 April 2018, Board Members Anders Persson, Erik Selin, Malin Frenning and Malin Persson were re-elected and Jaakko Kivinen 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 organisational 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 15 Board meetings, two 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 2018, 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 four meetings during the 2018 financial year and the members' attendance at the meetings is shown in the table below.

EVALUATION OF THE BOARD'S WORK IN 2018

The Chairman of the Board is responsible for evaluating the Board's work. In 2018, 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 consoli-

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 1)
Anders Persson (Chairman)	2014	1957	15 (15)	1 (1)		Yes	Yes	400,000
Erik Selin	2014	1967	13 (15)	1 (1)		Yes	Yes	150,000
Malin Persson	2014	1968	15 (15)	1 (1)	4 (4)	Yes	Yes	222,000
Malin Frenning 2)	2016	1967	14 (15)	1 (1)		Yes	Yes	150,000
Jaakko Kivinen 1)	2018	1970	11 (11)	1 (1)	3 (4)	Yes	No	198,000
Mark Shay 2)	2016	1972	4 (4)	0 (0)	1 (4)	Yes	No	64,000

1) Elected Board Member and member of the Audit Committee at the AGM on 19 April 2018.
2) Left position as Board Member and member of the Audit Committee at the AGM on 19 April 2018.

dated 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 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 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 2018	MSEK
PWC	
Audit engagement	1.8
Audit business in addition to audit engagement	0.3
Tax consultancy	0.1
Other services	0.1
Total	**2.3**

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 2018	2016/17
Revenue			
Net sales	5, 6, 16	1,597,768	1,717,790
Other operating income	7	17,526	19,331
Total		**1,615,294**	**1,737,121**
Operating expenses			
Raw materials and goods for resale		-906,639	-961,836
Other external costs	8, 9	-259,596	-233,607
Personnel costs	11	-306,191	-340,845
Other operating expenses		-4,653	-2,191
Earnings before interest, taxes, decpreciation and amortisation (EBITDA)		**138,214**	**198,642**
Depreciation of tangible and amortisation of intangible assets	18, 19	-45,669	-37,083
Operating result		**92,545**	**161,559**
Financial income	12	194	634
Financial expenses	13, 16	-10,988	-18,576
Net financial items		-10,794	-17,942
Earnings before taxes (EBT)		**81,751**	**143,618**
Income taxes	14	-22,472	-31,299
Net result for the period		**59,279**	**112,318**
Consolidated statement of comprehensive income:			
Items which can later be recovered in the income statement			
Translation differences		11,542	-1,473
Cash flow hedge		3,077	-3,077
Other comprehensive income for the period		**73,898**	**107,768**
Total comprehensive income for the period attributable to parent company shareholders		73,898	107,768
Earnings per share before dilution (SEK)	15	1.63	3.13
Earnings per share after dilution (SEK)	15	1.62	2.97

The notes on page 64 to 97 constitute an integrated part of this Annual Report.

THE GROUP

CONSOLIDATED BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Intangible assets			
Capitalised R&D expenses	18	6,920	5,835
Goodwill	18	252,225	52,159
Customer relations	18	131,819	40,351
Trademarks	18	63,553	20,240
Total intangible assets		**454,517**	**118,585**
Tangible assets			
Buildings and land	19	17,790	4,784
Plant and machinery	19	99,677	76,395
Equipment, tools, fixture and fittings	19	21,730	12,754
Total		**139,197**	**93,933**
Financial assets			
Long-term receivables		1,015	312
Total		**1,015**	**312**
Total non-current assets		**594,729**	**212,830**
Currrent assets			
Inventories etc.			
Raw materials and consumables		123,322	67,553
Products in progress		10,385	9,794
Finished goods and goods for resale		200,575	159,578
Total		**334,282**	**236,925**
Current receivables			
Accounts receivable	23	261,774	204,062
Current tax receivables		1,594	0
Other receivables	24	2,553	1,649
Prepaid expenses and accrued income	25	23,582	13,394
Total		**289,502**	**219,104**
Liquid assets	26	84,621	108,239
Total current receivables		**708,405**	**564,268**
TOTAL ASSETS		**1,303,134**	**777,098**

The notes on page 64 to 97 constitute an integrated part of this Annual Report.

THE GROUP

CONSOLIDATED BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2018	31/12/2017
EQUITY AND LIABILITIES			
Equity	27		
Share capital		1,826	1,809
Other capital contributions		205,787	186,077
Reserves		5,905	-8,714
Result brought forward, including result for the period.		280,897	236,087
Total Equity		**494,415**	**415,259**
Non-current liabilities			
Liabilities to credit institutions	30	351,741	70,530
Deferred tax	20	62,630	35,372
Total non-current liabilities		**414,372**	**105,903**
Current liabilities			
Liabilities to credit institutions	30	56,457	23,510
Overdraft facilities	30	29,863	0
Provisions	29	3,000	3,000
Accounts payable		173,772	140,886
Current tax liabilities		0	11,779
Other liabilities		72,815	26,215
Accrued expenses and deferred income	31	58,440	50,546
Total current liabilities		**394,347**	**255,936**
TOTAL EQUITY AND LIABILITIES		**1,303,134**	**777,098**

The notes on page 64 to 97 constitute an integrated part of this Annual Report. Information about the Group's pledged assets and contingent liabilities is provided in note 32.

THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AMOUNTS IN KSEK	Note	Share capital	Other capital contributions	Reserves	Result brought forward, including result for the period	Total equity
Balance brought forward as of 1 Sept. 2016	27	**1,684**	**165,803**	**-807**	**134,161**	**300,841**
Result for the period		0	0	-2,792	112,436	**109,645**
Other comprehensive income		0	0	-5,115	-118	**-5,233**
Total comprehensive income		**0**	**0**	**-7,907**	**112,318**	**104,412**
New share issue related to business acquisitions		14	7,952	0	0	**7,966**
Employee stock option programme		0	1,837	0	0	**1,837**
Premiums paid in on the issue of stock options		111	10,485	0	0	**10,596**
Dividends paid		0	0	0	-10,392	**-10,392**
Total transactions with shareholders, reported directly in equity		**125**	**20,274**	**0**	**-10,392**	**10,007**
Balance carried forward as of 31 Dec. 2017*		**1,809**	**186,077**	**-8,714**	**236,087**	**415,259**
Balance brought forward as of 1 Jan. 2018		**1,809**	**186,077**	**-8,714**	**236,087**	**415,259**
Result for the period		0	0	0	59,279	**59,279**
Other comprehensive income		0	0	14,619	0	**14,619**
Total comprehensive income		**0**	**0**	**14,619**	**59,279**	**73,898**
New share issue related to business acquisitions		17	17,436	0	0	**17,453**
Employee stock option programme		0	2,274	0	0	**2,274**
Dividends paid		0	0	0	-14,469	**-14,469**
Total transactions with shareholders, reported directly in equity		**17**	**19,710**	**0**	**-14,469**	**5,258**
Balance carried forward as of 31 Dec. 2018		**1,826**	**205,787**	**5,905**	**280,897**	**494,415**

* Other capital contributions have been decreased and result brought forward including result for the period has been increased by MSEK 4.751 compared to the last annual report regarding incorrect accounting of adjustment within the item Equity.

The notes on page 64 to 97 constitute an integrated part of this Annual Report.

THE GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

AMOUNTS IN KSEK	Note	2018	2016/17
Operating activities			
Operating result		92,545	161,559
Items not affecting cash flow	33	50,508	16,211
Interest received		194	230
Interest paid		-10,403	-2,582
Income tax paid		-34,094	-24,613
Cash flow from operating activities before changes in working capital		**98,749**	**150,804**
Cash flow from changes in working capital			
Increase(-)/decrease(+) in inventories		-67,247	-38,810
Increase(-)/decrease(+) in accounts receivable		1,378	-35,051
Increase(-)/decrease(+) in operating receivables		-4,627	1,997
Increase(+)/decrease(-) in accounts payable		5,183	36,917
Increase(+)/decrease(-) in operating liabilities		-17,872	-13,146
Cash flow from changes in working capital		**-83,186**	**-48,092**
Cash flow from operating activities		**15,564**	**102,712**
Investing activities			
Acquisition of intangible assets	18	-1,771	-2,670
Acquisition of tangible assets	19	-39,263	-35,004
Acquisition of subsidiaries after deduction of acquired liquid assets	35	-320,478	-53,604
Cash flow from investing activities		**-361,512**	**-91,277**
Financing activities	34		
Borrowings	30	348,728	43,900
Amortisation of loans	30	-43,446	0
Changes in overdraft facilities	30	29,863	0
New share issues for the period	27	1,654	12,246
Dividends paid		-14,469	-10,392
Cash flow from financing activities		**322,330**	**45,754**
Cash flow for the period	26	-23,618	57,188
Liquid assets at the start of the period		108,239	51,051
Liquid assets at the end of the period		**84,621**	**108,239**

The notes on page 64 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY

PARENT COMPANY INCOME STATEMENT

AMOUNTS IN KSEK	Note	FINANCIAL YEAR 2018	2016/17
Revenue			
Net sales	6, 16	27,242	27,686
Total		**27,242**	**27,686**
Operating expenses			
Other external costs	8, 9	-28,163	-18,853
Personnel costs	11	-20,119	-26,253
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**-21,039**	**-17,419**
Depreciation of tangible assets	19	-215	-299
Operating result		**-21,254**	**-17,719**
Result from financial items			
Result from participations in Group companies		-4,052	0
Interest income and similar items	12	1,456	485
Interest income from Group companies		1,052	1,422
Interest expense and similar items	13	-11,183	-2,959
Interest costs to Group companies		-250	-246
Total result from financial items		**-12,978**	**-1,298**
Result after financial items		**-34,232**	**-19,017**
Year-end appropriations			
Provision made to tax allocation reserve		0	-2,590
Group contribution		29,550	28,100
Total		**29,550**	**25,510**
Earnings before taxes (EBT)		**-4,682**	**6,493**
Tax on profit for the period	14	90	-2,088
Net result for the period		**-4,591**	**4,405**

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 64 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY

PARENT COMPANY BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Tangible assets			
Equipment, tools, fixture and fittings	19	548	762
Total		**548**	**762**
Financial assets			
Interests in Group companies	21	630,214	221,822
Long-term receivables		25	24
Total		**630,239**	**221,847**
Total non-current assets		**630,786**	**222,609**
Current assets			
Current receivables			
Receivables from Group companies		151,401	128,644
Current tax receivables		507	0
Other receivables	24	3,324	2,871
Prepaid expenses and accrued income	25	1,605	1,144
Total		**156,837**	**132,659**
Cash and bank balances	26	0	51,348
Total current assets		**156,837**	**184,007**
TOTAL ASSETS		**787,623**	**406,616**

The notes on page 64 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY BALANCE SHEET

AMOUNTS IN KSEK	Note	31/12/2018	31/12/2017
EQUITY AND LIABILITIES	17		
Equity			
Restricted equity			
Share capital		1,826	1,809
Statutory reserve		20	20
Total restricted equity		**1,846**	**1,829**
Non-restricted equity			
Share premium		199,508	182,072
Result brought forward		-3,841	5,174
Result for the year		-4,591	4,405
Total		**191,076**	**191,651**
Total equity		**192,922**	**193,480**
Untaxed reserves			
Tax allocation reserve		6,330	6,330
Total untaxed reserves		**6,330**	**6,330**
Non-current liabilities			
Liabilities to credit institutions	30	350,828	70,530
Total non-current liabilities		**350,828**	**70,530**
Current liabilities			
Liabilities to credit institutions	30	48,721	23,510
Overdraft facilities	30	29,863	0
Accounts payable		6,504	2,488
Liabilities to Group companies		98,914	101,166
Current tax liabilities		0	1,050
Other liabilities		49,104	1,839
Accrued expenses and prepaid income	31	4,437	6,222
Total current liabilities		**237,543**	**136,276**
TOTAL EQUITY AND LIABILITIES		**787,623**	**406,616**

The notes on page 64 to 97 constitute an integrated part of this Annual Report. Information about the Group's pledged assets and contingent liabilities is provided in note 32.

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 brought forward as of 1 September 2016	**1,684**	**20**	**163,635**	**12,346**	**177,685**
Comprehensive income					
Result for the period	0	0	0	4,405	4,405
Total comprehensive income	**0**	**0**	**0**	**4,405**	**4,405**
New share issue related to business acquisitions	14	0	7,952	0	7,966
Employee stock option programme	0	0	0	3,220	3,220
Premiums paid in on the issue of stock options	111	0	10,485	0	10,596
Dividends paid	0	0	0	-10,392	-10,392
Total transactions with shareholders, reported directly in equity	**125**	**0**	**18,437**	**-7,172**	**11,390**
Balance carried forward as of 31 December 2017	**1,809**	**20**	**182,072**	**9,579**	**193,480**
Balance brought 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, reported directly in equity	**17**	**0**	**17,436**	**-13,420**	**4,033**
Balance carried forward as of 31 December 2018	**1,826**	**20**	**199,508**	**-8,432**	**192,922**

The notes on page 64 to 97 constitute an integrated part of this Annual Report.

PARENT COMPANY

PARENT COMPANY CASH FLOW STATEMENT

AMOUNTS IN KSEK	Note	FINANCIAL YEAR 2018	2016/17
Operating activities			
Operating result		-21,254	-17,719
Items not affecting cash flow	33	1,442	1,658
Interest received		1,134	1,819
Interest paid		-11,057	-3,118
Income tax paid		-1,709	-2,997
Cash flow from operating activities before changes in working capital		**-31,444**	**-20,356**
Cash flow from changes in working capital			
Increase(-)/decrease(+) in operating receivables		16,003	-456
Increase(+)/decrease(-) in accounts payable		4,016	95
Increase(+)/decrease(-) in operating liabilities		-19,858	68,760
Cash flow from changes in working capital		**161**	**68,400**
Cash flow from operating activities		**-31,283**	**48,044**
Investing activities			
Acquisition of subsidiaries	35	-339,166	-75,400
Acquisition of tangible assets		-1,573	18,503
Cash flow from investing activities		**-340,739**	**-56,896**
Financing activities			
Borrowings	30	348,726	43,900
Amortisation of loans	30	-43,446	0
Dividends paid		-14,469	-10,392
Changes in overdraft facilities		29,863	0
New share issues for the period	27	0	13,816
Cash flow from financing activities		**320,674**	**47,323**
Cash flow for the period	26	**-51,348**	**38,471**
Cash and bank balances at the start of the period		51,348	12,877
Cash and bank balances at the end of the period		**0**	**51,348**

The notes on page 64 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 9 April 2019, 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 preparing 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 Hexatronic Group AB have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by IFRIC as adopted by the EU, 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 2018

As of 1 January 2018, IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" are applied.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 presents a new model for the classification and measurement of financial instruments, a forward-facing write-down model based on expected credit losses, and a reformed hedge accounting approach. The new standard also means a change in the nature of the Group's disclosures of financial instruments. The Group has assessed the standard as not having any significant effects on the consolidated financial statements, and the transition did not therefore result in an adjustment of the opening balance for 2018.

IFRS 15 sets out the principles for reporting useful information to users of financial reports on the nature, amount, timing and uncertainty of income and cash flows as a result of a corporate contract with customers. Income from the Hexatronic Group's ordinary operations comes from the sale of goods and services. The Group's sales mainly consist of goods whose sales are identified on one occasion. The sales identified over time 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 occasion, and partly of the sale of marine cables, which is recognised in accordance with the percentage-of-completion method.

The Hexatronic Group satisfies the requirements that IFRS 15 stipulates for revenue recognition for the sale of goods. As the marine cable contract is limited in scope, the new standard has not had any material effect on the Group's financial statements. The opening balances for 2018 have not therefore been recalculated.

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

During the preparation of this Annual Report, several standards and interpretations have been published that apply to the Group and have yet to come into effect. Below is a preliminary assessment of the effects of the standards that are deemed to be relevant to the Group:

IFRS 16 Leases was published in January 2016 by IASB and is a new standard that will supersede IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities relating to all leases, with a few exceptions, be recognised in the balance sheet. This reporting is based on the view that the lessee has a right to use an asset for a specific time period and at the same time has an obligation to pay for this right. For the lessor, the reporting will in all material respects be unchanged. The standard applies to financial years commencing 1 January 2019 or later. Hexatronic has assessed the effect of the transition and provided a more detailed description below.

No other IFRS or IFRIC interpretations that have yet to come into effect are expected to have a material effect on the Group.

IFRS 16

Hexatronic has evaluated the effect of the transition to the new IFRS 16 Leases accounting standard, which is being applied as of 1 January 2019. Hexatronic's initial assessment is that in 2019 IFRS 16 will have a small positive effect on operating result and a negative effect on profit/loss after financial items. The estimated effects on the balance sheet are shown in the table below. The lease portfolio mainly comprises operating leases for renting premises. Existing finance leases that were previously reported in accordance with IAS 17 Leases have been reclassified in accordance with IFRS 16 at the amounts that were recognised the day before the new standard was applied.

Hexatronic has identified many open agreements without a defined end date. This means that Hexatronic as a tenant must determine what length of contract can be deemed to be reasonable instead of considering the termination clauses in the leases. The tenant 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. A marginal lending rate equating to the Parent Company's borrowing rate has been applied. Right-of-use leases with a term of 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.

Consolidated balance sheet

	31/12/2018	Adjust-ment	01/01/2019
Non-current assets	594,729	180,685	775,414
Current assets	708,405	0	708,405
Total assets	**1,303,134**	**180,685**	**1,483,819**
Equity	494,415	0	494,415
Non-current liabilities	414,372	147,944	562,316
Current liabilities	394,347	32,741	427,088
Total liabilities and equity	**1,303,134**	**180,685**	**1,483,819**
Effect of IFRS 16 on Group's equity ratio	*37.9%*		*33.3%*

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 that are classified as a liability are recognised in profit or loss in accordance with IAS 39.

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 Group'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 a finite 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 finite 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 at segment level.

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:
Lands and buildings 15–30 years
Plant and machinery 5–10 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 will distribute 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 at amortised cost

Interest-bearing assets (debt instruments) held for the purpose of collecting contractual cash flows, where these cash flows consist of principal amount and interest, are measured at amortised cost. The carrying amount of these assets will be adjusted for any expected credit losses recognised (see write-downs 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 trade receivables, other receivables, and cash and cash equivalents.

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 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, trade payables, 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 a 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 Annual General Meeting has approved the dividend. Trade payables and other operating payables have short expected maturities and are measured without discount at nominal amounts.

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's financial assets for which expected credit losses are assessed are, in all essentials, trade receivables. The Group's reserve method is based on whether there has been a significant change in credit risk or not. The Group reports a credit reserve for such expected credit losses on each reporting date.

For the Group's financial assets, in all essentials trade receivables, 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 trade receivable. In order to measure the expected credit losses, trade receivables have been grouped based on the allocated credit risk characteristics and overdue days. The Group uses forward-looking variables for expected loan losses.

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 or that 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.

2.13 REVENUE RECOGNITION

Income from the Group's ordinary operations consist of the sale of goods and services. The Group's sales mainly consist of goods. The goods are recognised 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 loan receivables and accounts receivable category 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 LEASING

All of the leases within the Group are classified as operating leases.

The Group's leases mainly refer to vehicles and renting premises. Leases where a substantial part of the risks and rewards associated with ownership are retained by the lessor are classified as operating leases. Payments made during the term of the lease are expensed in the income statement linearly over the term.

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 listed 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. This also means differences in terms compared to the consolidated financial statements, mainly regarding financial income and expenses, and equity.

Participations in subsidiaries

Shares in subsidiaries are reported at acquisition value less any impairment losses. 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.

Financial instruments

IFRS 9 is not applied in the parent company and financial instruments are measured at acquisition value.

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 2018		Currency flows, net	
(thousand)	Inflow	Outflow	2018	2016/17
USD	61,682	64,712	-3,030	-25,168
EUR	13,264	23,807	-10,543	-23,061
NOK	43,864	2,161	41,703	88,580
NZD	25,158	3,218	21,940	11,875
GBP	12,220	5,898	6,322	5,987

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 (thousand)	2018	2016/17
USD	2,718	20,713
EUR	10,839	22,715
NOK	4,170	8,857
NZD	13,208	6,947
GBP	7,175	6,646

TRANSLATION EXPOSURE

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

Currency (thousand)	2018	2016/17
USD	40,050	15
NZD	7,118	5,007
NOK	25,161	16,719
GBP	5,707	2,636
EUR	12,239	0
CNY	1,395	1,801

(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 2018 and 2016/2017, the Group's borrowing at variable interest rates was in Swedish kronor and US dollars.

Simulations carried out show that a 0.25 per cent change would increase or decrease results by up to SEK 1,020 thousand (235 thousand).

(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 while at the same time ensuring that the Group's larger operating companies 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 plans for meeting borrowing terms, satisfying internal balance sheet-based profit measures and, if 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 84,621 thousand (108,239 thousand) 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 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
Total	**284,196**	**60,824**	**301,117**

Group, 31 December 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Liabilities to credit institutions	24,978	24,543	47,782
Accounts payable	140,886	0	0
Other current liabilities	1,232	0	0
Total	**167,096**	**24,543**	**47,782**

PARENT COMPANY

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**

Parent Company, 31 December 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Liabilities to credit institutions	24,978	24,543	47,782
Accounts payable	2,488	0	0
Other current liabilities	1,232	0	0
Total	**28,698**	**24,543**	**47,782**

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 based on rolling 12 months pro forma.

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.

The senior net debt to EBITDA ratio on 31 December 2018 and 31 December 2017 was as follows:

	31/12/2018	31/12/2017
Total borrowing (Note 30)	438,061	94,041
Less: liquid assets (Note 26)	-84,621	-108,239
Senior net debt	353,440	-14,198
Pro forma EBITDA 2018	164,672	151,004
Senior net debt/EBITDA (times)	**2,15**	**-0,1**

The Group's equity ratio amounted to 38% (53%).

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 2018 or 31 December 2017.

The Group 31/12/2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
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**	**48,437**

Group 31/12/2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Additional purchase price for ICT Education	0	0	2,500	2,500
Additional purchase price for Iftac	0	0	150	150
Financial liabilities measured at fair value through other comprehensive income				
Cash flow hedge of foreign exchange risk	0	3,945	0	3,945
Total liabilities	**0**	**3,945**	**2,650**	**9,095**

Financial instruments in level 3

On 2 January 2018, the Group acquired 100% of the share capital in Blue Diamond Industries LLC (see Note 35). The contingent consideration includes an additional purchase price that amounted to SEK 16,450 thousand in the acquisition analysis. The fair value of the agreed contingent consideration, SEK 22,427 thousand, was estimated by applying the so-called income approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed probability-adjusted EBITDA in Blue Diamond Industries.

On 8 June 2018, the Group acquired 100% of the share capital in PQMS Ltd. (see Note 35). The contingent consideration includes an additional purchase price that amounted to SEK 10,357 thousand in the acquisition analysis. The fair value of the agreed contingent consideration, SEK 5,073 thousand, was estimated by applying the so-called income approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed probability-adjusted EBITDA in PQMS.

On 1 November 2018, the Group acquired 100% of the share capital in Opternus GmbH (see Note 35). The contingent consideration includes an additional purchase price that amounted to SEK 22,507 thousand in the acquisition analysis. The fair value of the agreed contingent consideration, SEK 21,337 thousand, was estimated by applying the so-called income approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed probability-adjusted EBITDA in Opternus.

The calculation of fair value on 31/12/2018 boosted profit by SEK 3,631 thousand.

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 18.

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 net sales are 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 334,282 thousand (236,925 thousand) on 31/12/2018. The total obsolescence reserve on 31/12/2018 amounted to SEK 30,090 thousand (32,863 thousand).

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 Group'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	
	2018	2016/17	2018	2016/2017
Net sales by income type				
Goods	1,526,389	1,656,348	0	0
Services	71,379	61,442	27,242	27,686
Total	**1,597,768**	**1,717,790**	**27,242**	**27,686**

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

	Distribution of net sales		Non-current assets	
Group	2018	2016/17	2018	2016/17
Sweden	606,701	1,062,398	534,837	192,178
Rest of Europe	287,637	333,565	9,529	1,964
North America	365,625	12,364	33,354	32
Rest of world	337,806	309,463	17,009	18,656
Total	**1,597,768**	**1,717,790**	**594,729**	**212,830**

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 largest customers in 2018 amounted to SEK 196,800 thousand, SEK 138,057 thousand and SEK 125,764 thousand respectively. No other single customer accounts for more than 10% of the Group's sales.

Income from the Group's three largest customers in 2016/2017 amounted to SEK 262,037 thousand, SEK 209,515 thousand and SEK 194,130 thousand respectively. No other single customer accounts for more than 10% of the Group's sales.

All revenue above has been accounted for at a given time

NOTE 7 OTHER OPERATING INCOME

	Group	
	2018	2016/17
Other operating income by income type		
Adjustment of additional purchase price relating to the acquisitions of PQMS, GFT, SAL and Opternus	9,154	0
Adjustment of additional purchase price relating to the acquisitions of ICT Education and Iftac	0	9,169
Onward-invoiced freight	1,751	0
Compensation for legal costs in patent dispute	1,500	6,908
Grants received	878	1,660
Other items	4,242	1,594
Total	**17,526**	**19,331**

NOTE 8 LEASES

Operating leases

The Group has leases for vehicles, printers/photocopiers, machines and similar, and for renting premises. Future minimum lease payments for non-terminable operating leases in force at the end of the reporting period fall due as follows:

Group	31/12/2018	31/12/2017
Within one year	42,761	34,509
After one year but within five years	125,321	89,951
After five years	44,438	9,720
Group total	**212,520**	**134,180**

Costs for operating leases in the Group amounted to SEK 39,967 thousand (46,329) during the financial year.

Parent Company	31/12/2018	31/12/2017
Within one year	1,565	1,378
After one year but within five years	2,162	3,252
After five years	0	0
Parent Company total	**3,727**	**4,630**

Costs for operating leases in the Parent Company amounted to SEK 1,793 thousand (2,191) during the financial year.

NOTE 9 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			
	2018	Of which PwC Sweden	2016/17	Of which PwC Sweden	2018	Of which PwC Sweden	2016/17	Of which PwC Sweden
PwC								
Audit engagement	1,820	1,423	1,143	1,143	635	635	560	560
Audit business in addition to audit engagement	252	252	178	178	52	52	178	178
Tax consultancy	141	73	1,029	313	73	73	1,014	298
Other services	95	95	1,392	107	95	95	1,392	107
Total	**2,308**	**1,843**	**3,742**	**1,741**	**855**	**855**	**3,144**	**1,143**

NOTE 10 TRANSACTIONS WITH RELATED PARTIES

Accendo Capital owns 12.8%, Handelsbanken Fonder owns 8.7% and Jonas Nordlund owns 8.2% (privately and via companies) of the shares in Hexatronic Group and they are deemed to have significant influence over the Group. Ownership of the remaining 70% 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**	
	2018	**2016/17**	**2018**	**2016/17**
Sales of Group-wide services to subsidiaries	0	0	25,646	27,556
Total	**0**	**0**	**25,646**	**27,556**

Purchases of products and services	**Group**		**Parent Company**	
	2018	**2016/17**	**2018**	**2016/17**
Rental agreement with Fastighets AB Balder	4,681	6,137	1,201	1,573
Purchases of services from subsidiaries	0	0	1,441	279
Total	**4,681**	**6,137**	**2,642**	**1,852**

Receivables and liabilities at the end of the period as a result of sales and purchases of products and services	**Group**		**Parent Company**	
	2018	**2016/17**	**2018**	**2016/17**
Receivables from related parties:				
- Receivables from Group companies	0	0	151,401	128,644
Liabilities to related parties:				
- Liabilities to Group companies	0	0	98,914	101,166

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.

94% (100%) of the Parent Company's sales are sales to Group companies and 5.1% (1.5%) 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 11.

NOTE 11 REMUNERATION TO EMPLOYEES ETC.

GROUP

Group	2018	2016/17
Salaries and other remuneration	219,381	240,592
Social security contributions	57,674	70,696
Pension expenses	20,699	25,276
Group total	**297,754**	**336,564**

Salaries and other remuneration	2018	2018	2016/17	2016/17
	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	15,660	4,012	21,711	4,064
of which bonuses	*(871)*	*(0)*	*(4,583)*	*(0)*
Other employees	203,722	16,687	218,752	21,212
Group total	**219,382**	**20,699**	**240,463**	**25,276**

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

	2018		2016/17	
	Number on balance sheet date	Of whom women	Number on balance sheet date	Of whom women
Board Members	5	2	5	2
CEO and other senior executives	9	1	9	1
Group total	**14**	**3**	**14**	**3**

Average number of employees by country

	2018		2016/17	
	Average no. of employees	Of whom women	Average no. of employees	Of whom women
Sweden	11	5	9	5
Denmark	1	0	1	0
Parent Company total	**12**	**5**	**10**	**5**
Subsidiaries				
Sweden	308	77	310	80
USA	99	11	2	0
UK	47	19	16	6
New Zealand	33	4	22	3
Germany	8	3	0	0
Norway	6	1	5	1
Finland	3	0	2	0
China	1	0	1	0
Subsidiaries total	**505**	**114**	**358**	**90**
Group total	**517**	**119**	**368**	**95**

Remuneration for Board of Directors, CEO and other senior executives, Group

	2018	2016/17
Salaries and other remuneration	15,660	21,711
(of which bonuses)	*(871)*	*(4,583)*
Pension expenses	4,012	4,064
Number of people	14	14
Group total	**19,672**	**25,775**

See Note 28 for information on current warrants.

PARENT COMPANY

Parent Company	2018	2016/17
Salaries and other remuneration	12,590	18,294
Social security contributions	4,475	5,799
Pension expenses – defined contribution plans	2,427	2,702
Parent Company total	**19,492**	**26,795**

Salaries and other remuneration	2018	2018	2016/17	2016/17
	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	9,987	2,062	12,568	2,200
(of which bonuses)	*(506)*	*(0)*	*(2,539)*	*(0)*
Other employees	2,603	365	5,726	502
Parent Company total	**12,590**	**2,427**	**18,294**	**2,702**

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

	2018		2016/17	
	Number on balance sheet date	Of whom women	Number on balance sheet date	Of whom women
Board Members	5	2	5	2
CEO and other senior executives	5	1	5	1
Parent Company total	**10**	**3**	**10**	**3**

Average number of employees by country

	2018		2016/17	
	Average no. of employees	Of whom women	Average no. of employees	Of whom women
Sweden	11	5	9	5
Denmark	1	0	1	0
Parent Company total	**12**	**5**	**10**	**5**

Remuneration for Board of Directors, CEO and other senior executives, Parent Company

	2018	2016/17
Salaries and other remuneration	9,987	12,568
(of which bonuses)	*(506)*	*(2,539)*
Pension expenses	2,062	2,200
Number of people	10	10
Total	**12,049**	**14,768**

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 2.13 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 7.7 (6.1).

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. At the end of December 2018, Alecta´s surplus in the form of the collective consolidation level was 142% (154%)

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 AGM.

The AGM 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 seven people who together with the CEO make up the Executive Management. See page 47 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 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	412	1,599
Other senior executives (7 people)	9,189	671	651	2,795	13,306
Total	**14,018**	**871**	**771**	**4,012**	**19,672**

REMUNERATION AND OTHER BENEFITS 2016/2017

	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	224	0	0	0	224
Erik Selin, Board Member	160	0	0	0	160
Malin Frenning, Board Member	160	0	0	0	160
Mark Shay, Board Member	256	0	0	0	256
Henrik Larsson Lyon, CEO	3,088	1,453	105	961	5,607
Other senior executives (7 people)	11,957	3,130	674	3,103	18,863
Total	**16,398**	**4,583**	**779**	**4,064**	**25,670**

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. Severance pay is not deducted against 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.

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

	Group		Parent Company	
	2018	**2016/17**	**2018**	**2016/17**
Exchange rate differences	2,265	373	1,374	373
Interest	197	261	82	113
Total	**2,462**	**634**	**1,456**	**485**

NOTE 13 FINANCIAL EXPENSES/INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

	Group		Parent Company	
	2018	**2016/17**	**2018**	**2016/17**
Exchange rate differences	-3,847	-15,641	-2,254	-88
Other interest expenses	-7,153	-2,935	-6,961	-2,871
Other financial expenses	-2,256	0	-1,969	0
Total	**-13,256**	**-18,576**	**-11,183**	**-2,959**

NOTE 14 INCOME TAX/TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2018	**2016/17**	**2018**	**2016/17**
Current tax:				
Current tax on profit for the year	18,419	29,744	90	2,088
Total current tax	**18,419**	**29,744**	**90**	**2,088**
Deferred tax (Note 20)	4,053	1,555	0	0
Income tax	**22,472**	**31,299**	**90**	**2,088**

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	
	2018	**2016/17**	**2018**	**2016/17**
Income tax calculated using national tax rates for profit in each country	21,641	32,754	-1,030	1,428
Tax effects of:				
- Non-deductible expenses	2,141	2,268	3,559	286
- Non-deductible income	-3,077	-3,333	-2,525	0
- Tax on previous year's profit	-42	-220	-95	374
- Increase in loss carry-forward without equivalent capitalisation of deferred tax	1,809	0	0	0
- Use of loss carry-forward not previously recognised	0	-170	0	0
Tax expense	**22,472**	**31,299**	**90**	**2,088**

The weighted average tax rate is 27% (23%) for the Group and 22% (22%) for the Parent Company.

NOTE 15 EARNINGS PER SHARE

	2018	2016/17
Earnings per share before dilution	1.63	3.13
Earnings per share after dilution [1]	1.62	2.97

Earnings per share related to Parent Company shareholders before and after dilution is calculated based on the following information:

Earnings related to Parent Company shareholders, SEK thousand	59,279	112,318
Weighted average number of ordinary shares before dilution	36,278,940	35,838,561
Weighted average number of ordinary shares after dilution [1]	36,676,240	37,848,540

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

Earnings per share before dilution 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

Earnings per share after dilution 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 16 EXCHANGE RATE DIFFERENCES

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

	Group		Parent Company	
	2018	2016/17	2018	2016/17
Net sales (Note 6)	-7,797	-797	0	51
Net financial income and expense (Notes 12, 13)	-1,582	-15,268	-880	285
Total exchange rate differences in the income statement	**-9,379**	**-16,065**	**-880**	**336**

NOTE 17 PROPOSED APPROPRIATION OF PROFITS

The following funds are at the Parent Company's disposal

	SEK
Share premium reserve	199,508,486
Profit/loss brought forward	-3,841,211
Profit/loss for the year	-4,591,282
Total	**191,075,993**

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

	SEK
SEK 0.40 per share to be distributed to shareholders [1]	14,873,530
To be transferred to profit/loss carried forward	176,202,463
Total	**191,075,993**

1) The proposed record date for dividends is 13 May 2019.

NOTE 18 INTANGIBLE ASSETS

Group	Capitalised develop-ment expenditure	Customer relations	Trademarks	Goodwill	Total
As per 31 August 2016					
Cost	5,613	47,136	24,399	33,112	110,261
Accumulated amortisation and write-downs	-2,335	-9,309	-4,745	-818	-17,206
Carrying amount	**3,279**	**37,827**	**19,655**	**32,295**	**93,055**
2016/2017 financial year					
Opening carrying amount	3,279	37,827	19,655	32,295	93,055
Purchases/cultivation	3,693	0	0	0	3,693
Increase through business acquisitions	0	12,814	4,299	19,864	36,977
Reclassification	-492	0	0	0	-492
Amortisation	-645	-10,291	-3,714	0	-14,649
Closing carrying amount	**5,835**	**40,351**	**20,240**	**52,159**	**118,585**
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**

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 2018.

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:

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**

2016/2017	Opening carrying amount	Acquisitions	Sales	Write-down	Other adjustments	Closing carrying amount
Group total	**32,295**	**19,864**	**0**	**0**	**0**	**52,159**

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 10% (11%) for the Group excluding Opternus and 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 15.5% (18.0%) 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 19 PROPERTY, PLANT AND EQUIPMENT

Group

	Lands and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Total
As per 31 August 2016				
Cost	3,111	88,359	13,020	104,489
Accumulated depreciation and write-downs	-391	-18,798	-4,756	-23,945
Carrying amount	**2,720**	**69,561**	**8,264**	**80,545**
2016/2017 financial year				
Opening carrying amount	2,720	69,562	8,264	80,545
Purchases	2,705	26,512	6,061	35,280
Increase through business acquisitions	0	720	671	1,391
Sales and disposals	0	-304	0	-304
Reclassifications	0	-677	1,169	492
Translation differences	0	-971	-25	-996
Depreciation	-641	-18,447	-3,386	-22,473
Closing carrying amount	**4,784**	**76,395**	**12,754**	**93,933**
As per 31 December 2017				
Cost	5,816	121,950	18,549	146,316
Accumulated depreciation and write-downs	-1,032	-45,555	-5,795	-52,384
Carrying amount	**4,784**	**76,395**	**12,754**	**93,933**
2018 financial year				
Opening carrying amount	4,784	76,395	12,754	93,933
Purchases	289	26,188	10,893	37,370
Inrease through business acquisitions	14,611	14,378	2,412	31,402
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**

Parent Company

During the 2018 financial year the Parent Company invested SEK 0 (0) in equipment. Depreciation of SEK 299 thousand 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	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
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	57,958	32,176	0	0
Deferred tax liabilities to be settled within 12 months	4,672	3,196	0	0
Total deferred tax liabilities	**62,630**	**35,372**	**0**	**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 August 2016	**12,654**	**4,256**	**11,584**	**1,492**	**29,986**
Recognised in income statement	-2,513	-1,892	8,009	-2,050	1,554
Added through business acquisitions	3,765	0	935	0	4,700
Recognised in other comprehensive income	0	0	0	-868	-868
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**

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	**31/12/2018**	**31/12/2017**
Opening cost	221,822	180,163
Acquisitions	407,103	41,659
Liquidation	-4,200	0
Write-down	-15,529	0
Merger	21,018	0
Closing accumulated cost	**630,214**	**221,822**
Closing carrying amount	**630,214**	**221,822**

See Note 35 for further information on acquisitions.

PARENT COMPANY

Company Corp. ID no.	Registered office	No./% of equity	31/12/2018	31/12/2017
Hexatronic Network Solutions AB		10,000	8,036	8,036
556574-2862	Gothenburg, Sweden	100%		
Hexatronic Cables & Interconnect AB		1,000	18,884	18,884
556514-9118	Gothenburg, Sweden	100%		
Proximion AB		58,058	58,582	58,582
556915-7323	Stockholm, Sweden	100%		
Hexatronic Fiberoptic AB		1,000	63,621	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	0
5937353	Porirua, New Zealand	100%		
Edugrade AB		2,000	12,320	15,426
556985-3152	Hudiksvall, Sweden	100%		
ICT Education AB		1,000	11,619	24,042
556881-3306	Hudiksvall, Sweden	100%		
Blue Diamond Industries LLC.		544,445	249,946	0
20-1023457	Lexington, USA	100%		
Hexatronic GmbH		25,000	252	0
111674	Frankfurt, Germany	100%		
PQMS Ltd.		95	21,452	0
03696868	Bedworth, UK	100%		
Gordon Franks Training Ltd.		187,550	1,493	0
08445268	Birmingham, UK	100%		
Smart Awards Ltd.		100	5,972	0
09079735	Solihull, UK	100%		
Edugrade AS		100	32	0
920926452	Oslo, Norway	100%		
Opternus GmbH		37,500	127,956	0
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 Invest AB		-	0	50
559053-6826	Gothenburg, Sweden	-		
Hexatronic Elektroteknik & Data AB		-	0	200
556494-3990	Gothenburg, Sweden	-		
Memoteknik Sweden AB		-	0	4,000
556479-0458	Skellefteå, Sweden	-		
Total			**630,214**	**221,822**

The dormant companies Hexatronic Elektronik & Data AB and Memoteknik Sweden AB were liquidated in 2018, resulting in a liquidation loss of SEK 11,477 thousand in 2018. The value of shares in ICT Education AB and Iftac AB has been written down by a total of SEK 15,529 thousand during 2018.

Hexatronic Invest AB was merged with Hexatronic Group AB during 2018.

Iftac AB changed name to Edugrade AB in January 2019.

NOTE 22 FINANCIAL INSTRUMENTS BY CATEGORY

GROUP

Assets in balance sheet	Loan receivables and accounts receivable	Total
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**
31 December 2017		
Accounts receivable	204,062	204,062
Other receivables	1,649	1,649
Liquid assets	108,239	108,239
Total	**313,950**	**313,950**

GROUP

Liabilities in balance sheet	Derivatives, hedge accounting applied	Other financial liabilities	Liabilities measured at fair value through profit or loss	Total
31 December 2018				
Liabilities to credit institutions	0	399,549	0	399,549
Accounts payable	0	173,772	0	173,772
Other current liabilities	0	0	48,837	48,837
Accrued expenses	0	26,969	0	26,969
Total	**0**	**600,290**	**48,837**	**649,127**
31 December 2017				
Liabilities to credit institutions	0	94,041	0	94,041
Accounts payable	0	140,886	0	140,886
Other current liabilities	3,945	0	2,650	6,595
Accrued expenses	0	20,006	0	20,006
Total	**3,945**	**254,933**	**2,650**	**261,528**

NOTE 23 ACCOUNTS RECEIVABLE

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Accounts receivable	262,118	204,516	0	0
Less reserve for bad debts	-344	-454	0	0
Accounts receivable – net	**261,774**	**204,062**	**0**	**0**

On 31 December 2018, standard accounts receivable totalled SEK 261,774 thousand (204,062 thousand) for the Group. On 31 December 2018, standard accounts receivable totalled SEK 0 (0) for the Parent Company. The fair value on accounts payable is the same as the carrying amount since the discount effect is immaterial.

No accounts payable has been used as a debt security.

On 31 December 2018, accounts receivable totalling SEK 43,327 thousand (52,959 thousand) were overdue for the Group. Overdue accounts receivable for the Parent Company amounted to SEK 0 (0). The overdue receivables relate to a number of customers that have not previously had any payment difficulties.

An age analysis of these accounts receivable is shown below:

	31/12/2018	31/12/2017
1-30 days	30,985	46,750
31-60 days	8,854	4,912
> 60 days	3,489	1,297
Total overdue accounts receivable	**43,327**	**52,959**

On 31 December 2018, the Group recognised accounts receivable where a write-down requirement of SEK 344 thousand (454 thousand) exists. The corresponding figure for the Parent Company was SEK 0 (0).

The age analysis of these is as follows:

	Group	
	31/12/2018	31/08/2017
1 to 6 months	0	0
More than 6 months	344	454
Total	**344**	**454**

Changes in the reserve for bad debts are as follows:

	Group	
	31/12/2018	31/12/2017
Opening carrying amount	**454**	**623**
Reserve for bad debts	0	0
Written-off receivable	-110	-169
Closing carrying amount	**344**	**454**

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

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
SEK	94,573	151,068	114,398	128,644
EUR	37,255	13,507	2,331	0
USD	73,611	29,575	10,800	0
GBP	36,579	1,756	23,872	0
Other currencies	19,756	8,156	0	0
Total	**261,774**	**204,062**	**151,401**	**128,644**

Provisions for the respective reversals of reserves for bad debts are included under 'Other external expenses' in the income statement.

NOTE 24 OTHER RECEIVABLES

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Supplier receivable	402	1,565	0	0
Other receivables	2,150	84	3,318	2,871
Total	**2,553**	**1,649**	**3,318**	**2,871**

NOTE 25 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Prepaid rent	7,510	6,231	356	351
Compensation for legal costs in connection with patent dispute	0	1,818	0	0
Accrued income	6,854	643	0	0
Prepaid insurance	1,204	680	556	479
Prepaid marketing costs	1,087	166	0	0
Other	6,926	3,855	692	314
Total	**23,582**	**13,394**	**1,605**	**1,144**

NOTE 26LIQUID ASSETS

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bank balance	84,621	108,239	0	51,348
Total	**84,621**	**108,239**	**0**	**51,348**

NOTE 27 SHARE CAPITAL AND OTHER CONTRIBUTED CAPITAL

Group	No. of shares	Share capital	Other contributed capital	Total
As per 31 December 2017	**36,171,677**	**1,809**	**186,077**	**187,886**
Warrant programme	0	0	2,274	2,274
New share issue relating to business acquisitions	340,148	17	17,436	17,453
As per 31 December 2018	**36,511,825**	**1,826**	**205,787**	**207,613**

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

The share capital in Hexatronic Group AB amounts to SEK 1,825,590.95 divided between 36,511,825 shares in total. The quotient value of the shares is SEK 0.05. The shares have a voting power of one 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:

- A targeted non-cash issue of MSEK 7.0 (June 2018) as part of the acquisition of PQMS Ltd.
- A targeted non-cash issue of MSEK 10.4 (November 2018) as part of the acquisition of Opternus GmbH.

At the AGM on 19 April 2018, the Board was authorised to acquire or transfer its own shares respectively before the next AGM in accordance with the Board proposal and to decide on new issues of its own 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 36,511,825 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 2015/16 a warrant programme was issued regarding 1,000,000 warrants targeted at some of the Group's personnel, 672,000 of which were subscribed. The market value per share was SEK 21.29 at the time of issue. The programme expired during the period 15 January 2019 to 15 February 2019 and all of the holders chose to exercise the warrant.
- 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 redemption window is 15 January 2020 to 15 February 2020.
- 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.

NOTE 29 PROVISIONS

Group	Warranty provisions	Total
As per 1 September 2015	**5,000**	**5,000**
Recognised in income statement:		
– reversed unused amounts	-2,000	-2,000
Used during the year	0	0
As per 31 December 2017	**3,000**	**3,000**
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**
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	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Long-term				
Liabilities to credit institutions	351,741	70,530	351,741	70,530
Total long-term borrowing	**351,741**	**70,530**	**351,741**	**70,530**
Short-term				
Liabilities to credit institutions	56,457	23,510	56,457	23,510
Overdraft facilities	29,863	0	29,863	0
Total short-term borrowing	**86,320**	**23,510**	**86,320**	**23,510**
Total borrowing	**438,061**	**94,040**	**438,061**	**94,040**

The fair value of short-term borrowing corresponds to its carrying amount, which is why the discount effect is not significant. The fair values of non-current liabilities to credit institutions in SEK and USD respectively are based on discounted cash flows with an interest rate based on STIBOR 3 months +1.35% (+1.85%) and LIBOR 3 months +1.50% respectively and are classified in level 2 of the fair value hierarchy.

PARENT COMPANY	Carrying amount 31/12/2018	Carrying amount 31/12/2017	Fair value 31/12/2018	Fair value 31/12/2017
Long-term				
Liabilities to credit institutions	350,828	70,530	350,828	70,530
Total long-term borrowing	**350,828**	**70,530**	**350,828**	**70,530**
Short-term				
Liabilities to credit institutions	48,721	23,510	48,721	23,510
Overdraft facilities	29,863	0	29,863	0
Total short-term borrowing	**78,584**	**23,510**	**78,584**	**23,510**
Total borrowing	**429,412**	**94,040**	**429,412**	**94,040**

The fair value of short-term borrowing corresponds to its carrying amount, which is why the discount effect is not significant. The fair values of non-current liabilities to credit institutions in SEK and USD respectively are based on discounted cash flows with an interest rate based on STIBOR 3 months +1.35% (+1.85%) and LIBOR 3 months +1.50% respectively and are classified in level 2 of the fair value hierarchy.

GROUP

Liabilities to credit institutions

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

The senior bank loan in SEK and USD respectively matures on 15 December 2021 and has an average interest rate of STIBOR 3 months +1.35% a year (1.85%) and LIBOR 3 months +1.50%. The revolving credit matures on 15 December 2021 and has an average interest rate of STIBOR 3 months +0.95%. The interest rates are based on reported covenants, which are reported quarterly.

The Group has overdraft facilities granted in SEK of SEK 50,000 thousand and in USD of USD 2,500 thousand renegotiated annually. SEK 29,863 thousand (0) and USD 0 of the overdraft facilities granted in SEK and USD respectively had been utilised on 31 December 2018. The overdraft facility in SEK has an interest rate of STIBOR 3 months +1.00%, 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 32) 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	31/12/2018	Due date	Interest rate
Senior bank loan, SEK and USD	328,198	15/12/2021	STIBOR 3 months +1.35%/LIBOR 3 months +1.50%
Use of part of revolving credit	80,000	15/12/2021	STIBOR 3 months +0.95%
Use of part of overdraft facilities	29,863	31/10/2019	STIBOR 3 months +1.00%
Total borrowing	**438,061**		

NOTE 31 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Accrued holiday pay	21,539	25,021	1,622	1,022
Accrued pay	13,204	5,915	894	1,789
Accrued social security contributions	9,932	5,526	1,276	1,178
Accrued stock items	0	3,364	0	0
Accrued costs for purchases of goods	4,641	5,330	0	0
Prepaid income from customer	3,740	0	0	0
Other accrued expenses	5,384	5,390	646	2,233
Total	**58,440**	**50,546**	**4,437**	**6,222**

NOTE 32 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Pledged assets				
Chattel mortgages	157,350	57,166	100	100
Shares in subsidiaries	281,484	338,190	82,504	134,258
Total	**438,834**	**395,356**	**82,604**	**134,358**
Contingent liabilities	None	None	None	None

NOTE 33 ITEMS NOT AFFECTING CASH FLOW

	Group		Parent Company	
	2018-12-31	**2017-12-31**	**2018-12-31**	**2017-12-31**
Depreciation	45,669	37,083	215	299
Provisions	0	-2,000	0	0
Debt adjustment additional purchase prices	-4,502	0	0	0
Translation differences	8,722	-19,860	0	0
Other items	619	988	1,227	1,359
Total	**50,508**	**16,211**	**1,442**	**1,658**

NOTE 34 LIABILITIES TO CREDIT INSTITUTIONS

	31/12/2017	Cash flow		Items not affecting cash flow			31/12/2018
		Borrowings	Amortisa-tion	Reclassifi-cation	Foreign currency change	Financing costs	
The Group							
Long-term liabilities to credit institutions	**70,531**	328,790	0	-56,457	9,874	998	**351,741**
Short-term 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							
Long-term liabilities to credit institutions	**70,531**	328,790	0	-48,721	1,225	998	**350,828**
Short-term 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**

	31/8/2016	Cash flow		Items not affecting cash flow			31/12/2017
		Borrowings	Amortisa-tion	Reclassifi-cation	Foreign currency change	Financing costs	
The Group							
Long-term liabilities to credit institutions	**50,151**	43,900	0	-23,510	0	0	**70,541**
Short-term liabilities to credit institutions	**0**	0	0	23,510	0	0	**23,510**
Overdraft facilities	**0**	0	0	0	0	0	**0**
Parent Company							
Long-term liabilities to credit institutions	**50,151**	43,900	0	-23,510	0	0	**70,541**
Short-term liabilities to credit institutions	**0**	0	0	23,510	0	0	**23,510**
Overdraft facilities	**0**	0	0	0	0	0	**0**

NOTE 35 BUSINESS ACQUISITIONS

BUSINESS ACQUISITIONS 2018

Blue Diamond Industries LLC

On 2 January 2018, the Group acquired 100% of the share capital in Blue Diamond Industries LLC for MUSD 26.8. There may be a possible additional purchase price of a maximum of MUSD 2.5 based on the EBITDA of the forthcoming two financial years.

The table below summarises the purchase price paid for Blue Diamond Industries and the fair value of acquired assets and assumed liabilities recognised on the acquisition date.

Purchase price as of 2 January 2018	
Liquid assets	222,898
Contingent purchase consideration (not paid)	16,450
Total purchase price	**239,348**

Recognised amounts for identifiable acquired assets and taken-over liabilities	
Liquid assets	4,601
Tangible assets	23,932
Customer contracts and customer relations	71,066
Inventories	21,397
Accounts receivable	30,432
Other receivables	512
Accounts payable	-15,035
Other payables	-2,668
Total identifiable net assets	**134,237**
Goodwill	**105,111**

Acquisition-related costs of SEK 2,900 thousand are included in other external costs in the consolidated statement of comprehensive income for the 2018 financial year. Total cash flow, excluding acquisition related costs, attributable to the business acquisition amounted to SEK -218,296 thousand. Goodwill is attributable partly to the added earning capacity the company is expected to bring, and partly to the anticipated synergistic effects of merging the Group's operations with those of Blue Diamond Industries.

Under the terms of the conditional purchase price, the Group will pay a maximum of SEK 20,750 thousand, up to a maximum of SEK 11,676 thousand based on EBITDA in the period 2 January 2018 – 31 December 2018, and a maximum of SEK 9,081 thousand based on EBITDA in the period 1 January 2019 – 31 December 2019.

The fair value of the conditional purchase price of SEK 16,450 thousand was estimated by applying the return of value approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed EBITDA in Blue Diamond Industries. The fair value of accounts receivable totals SEK 30,432 thousand. No accounts receivable is deemed to be doubtful.

Blue Diamond Industries net sales have been included in the consolidated income statement since 2 January 2018 and amount to SEK 301,956 thousand. Blue Diamond Industries also generated a net profit of SEK 21,138 thousand in the same period on group level.

Professional Quality Management Services Ltd. ("PQMS")

On 8 June 2018, the Group acquired 100% of the share capital in PQMQ for MGBP 1.5. There may be a possible additional purchase consideration of a maximum of MGBP 1.95 based on the EBITDA of the forthcoming three financial years.

The table below summarises the purchase price paid for PQMS and the fair value of acquired assets and assumed liabilities recognised on the acquisition date.

Purchase price as of 8 June 2018	
Liquid assets	11,376
Equity instruments (91,029 shares, based on the share price per acquisition date)	5,279
Contingent purchase consideration (not paid)	10,357
Total purchase price	27,012

Recognised amounts for identifiable acquired assets and taken-over liabilities	
Liquid assets	755
Tangible assets	2,684
Customer contracts and customer relations	13,078
Trademarks	3,799
Accounts receivable	9,051
Other receivables	4,915
Trade creditors	-3,253
Other liabilities	-10,818
Total identifiable net assets	**20,221**
Goodwill	**6,753**

Acquisition-related costs of SEK 1,324 thousand are included in other external costs in the consolidated statement of comprehensive income for the 2018 financial year. Total cash flow, excluding acquisition related costs, attributable to the business acquisition amounted to SEK -10,620 thousand. Goodwill is attributable to the added earning capacity the company is expected to bring.

Under the terms of the conditional purchase price, the Group will pay a maximum of SEK 22,877 thousand, up to a maximum of SEK 7,919 thousand based on EBITDA in the period 1 May 2018 – 30 April 2019, a maximum of SEK 7,919 thousand based on EBITDA in the period 1 May 2019 – 30 April 2020, and a maximum of SEK 7,039 thousand based on EBITDA in the period 1 May 2020 – 30 April 2021.

The fair value of the conditional purchase price of SEK 10,357 thousand was estimated by applying the return of value approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed EBITDA in PQMS. The fair value of accounts receivable totals SEK 9,051 thousand. No accounts receivable is deemed to be doubtful.

PQMS net sales have been included in the consolidated income statement since 8 June 2018 and amount to SEK 35,535 thousand. PQMS also generated a net profit of SEK -184 thousand in the same period on group level.

Had PQMS been consolidated from 1 January 2018, the consolidated income statement for the period 1 January 2018 to 31 December 2018 would have shown increased net sales amounting to SEK 56,348 thousand and a net profit of SEK 1,902 thousand.

Gordon Franks Training Ltd. ("GFT")

As part of the acquisition of PQMS, on 8 June 2018 the Group acquired 100% of the share capital in GFT for MGBP 0.1. There may be a possible additional purchase price of a maximum of MGBP 0.13 based on the EBITDA of the forthcoming three financial years.

Smart Awards Ltd. (SAL)

As part of the acquisition of PQMS, on 8 June 2018 the Group acquired 100% of the share capital in SAL for MGBP 0.4. There may be a possible additional purchase price of a maximum of MGBP 0.52 based on the EBITDA of the forthcoming three financial years.

Opternus GmbH ("Opternus")

On 1 November 2018, the Group acquired 100% of the share capital in Opternus GmbH for EUR 10,000 thousand. There may be a possible additional purchase consideration of a maximum of EUR 2,500 thousand based on the EBITDA of the forthcoming three financial years.

The table below summarises the purchase price paid for Opternus and the fair value of acquired assets and assumed liabilities recognised on the acquisition date.

Purchase price as of 1 November 2018	
Liquid assets	94,020
Equity instruments (218,776 shares, based on the share price per acquisition date)	10,414
Contingent purchase consideration (not paid)	22,507
Total purchase price	**126,941**

Recognised amounts for identifiable acquired assets and taken-over liabilities	
Liquid assets	7,259
Tangible assets	2,407
Other intangible assets	451
Customer contracts and customer relations	19,036
Trademarks	43,327
Accounts recievable	19,487
Inventories	8,712
Other receivables	1,760
Accounts payable	-9,460
Other payables	-34,001
Total identifiable net assets	**58,978**
Goodwill	**67,963**

Acquisition-related costs of SEK 1,811 thousand are included in other external costs in the consolidated statement of comprehensive income for the 2018 financial year. Total cash flow, excluding acquisition related costs, attributable to the business acquisition amounted to SEK -86,761 thousand. Goodwill is attributable to the added earning capacity the company is expected to bring.

Under the terms of the conditional purchase price, the Group will pay a maximum of SEK 26,025 thousand, up to a maximum of SEK 11,061 thousand based on EBITDA in the period 1 October 2018 – 31 December 2019, a maximum of SEK 8,849 thousand based on EBITDA in the period 1 January 2020 – 31 December 2020, and a maximum of SEK 6,116 thousand based on EBITDA in the period 1 January 2021 – 30 September 2021.

The fair value of the conditional purchase price of SEK 22,507 thousand was estimated by applying the return of value approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed EBITDA in Opternus. The fair value of accounts receivable totals SEK 19,487 thousand. No accounts receivable is deemed to be doubtful.

Opternus net sales have been included in the consolidated income statement since 1 November 2018 and amount to SEK 28,221 thousand. Opternus also generated a net profit of SEK 1,383 thousand in the same period on group level.

Had Opternus been consolidated from 1 January 2018, the consolidated income statement for the period 1 January 2018 to 31 December 2018 would have shown increased net sales amounting to SEK 163,346 thousand and a net profit of SEK 8,675 thousand.

NOTE 36 GROUP STRUCTURE

Company name	Corporate ID number	Domicile	The Groups´ participating interest
Hexatronic Network Solutions AB	556574-2862	Gothenburg, Sweden	100%
Hexatronic Cables & Interconnect AB	556514-9118	Gothenburg, Sweden	100%
Proximion AB	556915-7323	Stockholm, Sweden	100%
Hexatronic Fiberoptic AB	556252-0352	Örebro, Sweden	100%
Hexatronic AS	998 804 795	Engelsviken, Norway	100%
Hexatronic (Tianjin) Trading Co., Ltd.	120116400016890	Tianjin, China	100%
Hexatronic US Inc.	475193577	Quitman, USA	100%
Hexatronic UK Ltd.	6329180	Gosport, Great Britain	100%
Hexatronic New Zealand Ltd.	5937353	Porirua, New Zealand	100%
Edugrade AB	556985-3152	Hudiksvall, Sweden	100%
ICT Education AB	556881-3306	Hudiksvall, Sweden	100%
Blue Diamond Inustries	20-1023457	Lexington, USA	100%
Hexatronic GmbH	111674	Frankfurt, Germany	100%
PQMS Ltd.	03696868	Bedworth, Great Britain	100%
Gordon Frank Training Ltd.s	08445268	Birmingham, Great Britain	100%
Smart Awards Ltd.	09079735	Solihull, Great Britain	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%

NOTE 37 EVENTS AFTER THE BALANCE SHEET DATE

Hexatronic signed a strategic agreement with CityFibre Ltd. In Great Britain, with an approximate value of 40 MGBP, to supply passive fibre optic solutions including fibre optic cables, micro duct and connection boxes.

The agreement concerns the supply of components in the deployment of the first one million homes in CityFibre’s roll-out.

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 2018	1,597,768
Impact of acquisitions	-371,076
Comparable net sales	*1,226,692*
Net sales 2017	1,299,419
Impact of acquisitions	0
Comparable net sales	*1,299,419*
Increase in sales	**298,349**
Organic growth	**-72,727**

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 2018	1,597,768
Net sales 2017	1,299,419
Average annual growth	**23%**

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

Equity ratio	31/12/2018	31/12/2017
Equity	494,415	415,259
Total assets	1,303,134	777,098
Equity ratio	**38%**	**53%**

Equity is calculated as a percentage of total assets.

Quick ratio	31/12/2018	31/12/2017
Current assets	708,405	564,268
Inventories	-334,282	-236,925
Current assets – inventories	*374,123*	*327,343*
Current liabilities	394,347	255,936
Quick ratio	**95%**	**128%**

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

Core working capital	31/12/2018	31/12/2017
Inventories	334,282	236,925
Accounts receivable	261,774	204,062
Accounts payable	-173,772	-140,886
Core working capital	**422,284**	**300,101**

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

The consolidated financial statement will be submitted for approval to the Annual General Meeting held on 9 May 2019.

The Board of Directors and President confirm the consolidated financial statement and annual accounts to be prepared in accordance with international accounting standards, IFRS, as adopted by the EU, and that they provide a true and fair overview of the financial position and results of the Parent company.

The board of directors´ report for the Group and the Parent Company gives a true and fair overview of the business development, financial position and results of operations and describes significant risks and uncertainty factors with which the Parent Company and the companies forming the Group are faced.

Gothenburg, 9 April 2019

Anders Persson
Chairman of the board

Erik Selin
Director

Jaakko Kivinen
Director

Malin Frenning
Director

Malin Persson
Director

Henrik Larsson Lyon
President and CEO

Our auditor´s report was submitted on 9 April 2019

Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Hexatronic Group AB, 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 for the year 2018 except for the corporate governance statement on pages 48-53. The annual accounts and consolidated accounts of the company are included on pages 38-100 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 2018 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 2018 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 48-53. 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 below. 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 448. 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 18 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 MSEK334 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 for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of 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 48-53 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/ the Annual Accounts Act for Credit Institutions and Securities Companies/ the Annual Accounts Act for Insurance Companies.

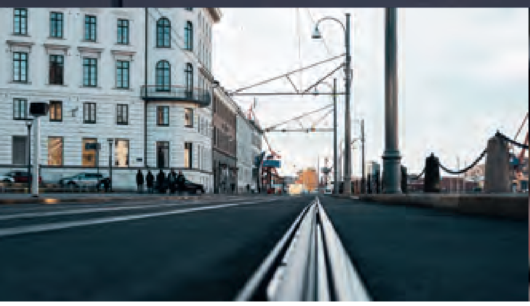
Öhrlings PricewaterhouseCoopers AB, Skånegatan 1, 405 32 Göteborg, was appointed auditor of Hexatronic Group AB by the general meeting of the shareholders on 9 april 2018 and has been the company's auditor since 18 december 2013.

Gothenburg, April 9th 2019
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorized Public Accountant

WELCOME TO THE

Annual General Meeting 2019



We welcome all shareholders to our Annual General Meeting at Elite Park Avenue Hotel in Gothenburg on 9 May 2019

The Annual General Meeting will be held at 5.00 p.m. on 9 May 2019 at Elite Park Avenue Hotel (room "Götheborg"), Kungsportsavenyn 36-38, Gothenburg. Shareholders who wish to participate in the Annual General Meeting must be entered in the shareholders´register held by Euroclear Sweden AB on Friday, 3 May 2019.

Participants must also provide the Company with notification of their attendance by 12.00 a.m. on Friday, 3 May 2019.

Notification is done by e-mailing ekonomi@hexatronic.com.

Such notice must contain the shareholder´s name, personal identification number (or corporate ID number), address, telephone number and the number of shares represented as well as name of advisors/assistance.

BE UPDATED

Follow Hexatronic

Hexatronic Group is in constant development, please follow us via our IR communication or in social media

FINANCIAL INFORMATION

All financial information is published on Hexatronic´s website: **www.hexatronicgroup.com**

Financial reports can also be ordered by e-mail to ekonomi@hexatronic.com.

PRESS RELEASES

To receive the most updated information about Hexatronic Group please subscribe on our press releases. Enter your email address on www.hexatronicgroup.com/en/press-releases.

FINANCIAL CALENDAR

Interim report January to March 2019	**3 May 2019**
Interim report April to June 2019	**16 August 2019**
Interim report July to September 2019	**6 November 2019**
Year-end report 2019	**21 February 2020**

FOLLOW HEXATRONIC

linkedin.com/company/hexatronic

LinkedIn is our primely used social media channel to share information about Hexatronic. Here you will get information about products and technologies used by us and information about recent business-related events. LinkedIn is our channel to post job openings.

Facebook, Twitter, YouTube and Issuu are other channels we use.

facebook.com/hexatronic

twitter.com/hexatronic

youtube.com/user/hexatronicpartners

issuu.com/hexatronic

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