

# Annual Report 2018

Balco Group AB



BALCONIES  
FOR  
GREATER  
LIVING





# BUSINESS DESCRIPTION

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# Balco in brief

## Balco was founded in Växjö in 1987.

*The Company has developed from being a local, product-oriented supplier of concrete balconies to being a leading market-oriented supplier of innovative balcony solutions, under its own brand, to tenant-owner associations, private landlords, public housing companies and construction companies.*

Balco's core expertise lies in delivering glazed balconies and balcony solutions to tenant-owner associations, primarily on the renovation market, by replacing existing balconies with new glazed balconies in accordance with the Balco method. The Company is nowadays market leader in the Nordic region and enjoys a strong challenger position on other northern European markets.

Balco has a sales procedure which involves assumption of full responsibility and guides the customer through the entire construction process, from project planning to completed final inspection and aftermarket service. Another success factor is the ability to provide customised, high-quality balcony solutions, irrespective of order size and complexity, with short delivery times.

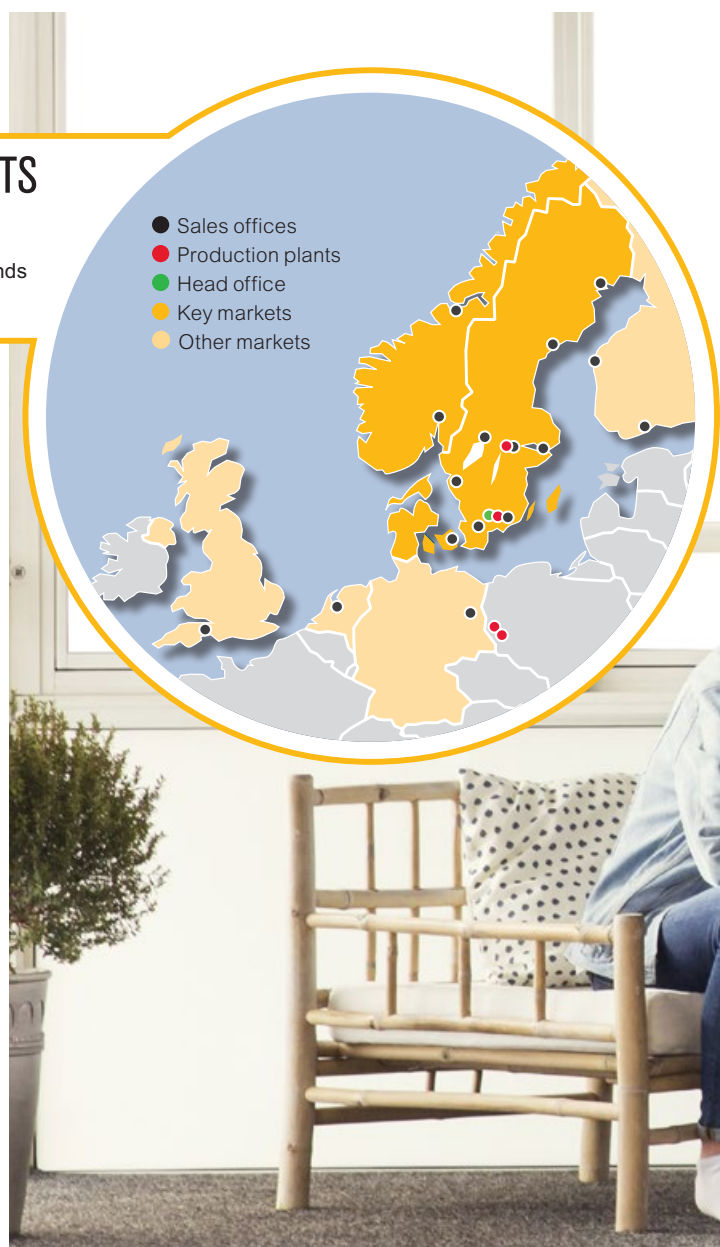
With a life in excess of 50 years, Balco's glazed balconies are not merely the best solution from a financial perspective, but also the most environmentally friendly. An average project comprising 60 glazed balconies yields a positive carbon footprint corresponding to the planting of one hectare (10,000 m<sup>2</sup>) of growing forest.

Since its inception, Balco has expanded in Europe and has sales offices in seven countries, as well as two production plants in Sweden and two in Poland. In addition, Balco is part-owner of a Polish sub-contractor. The Company has made significant investments in its operating platform, which creates positive conditions for continued growth in sales and earnings.

Balco's operations are divided into two business segments: Renovation and New Build. As of December 2018, Renovation accounted for approximately 90% of the Company's sales.

## SEVEN MARKETS

- Sweden
- Norway
- Denmark
- Finland
- UK
- Germany
- Netherlands



Key ratio	2018	2017
Net sales	1,058.1*	989.0
Order intake	1,003.1	1,113.5
Order backlog	1,203.5	1,238.4
Operating profit (EBIT)	105.6*	92.3
Operating margin (EBIT), %	10.0	9.3
Adjusted operating profit	120.2*	116.7
Adjusted operating margin, %	11.4	11.8
Profit for the year	76.8	37.7
Operating cash flow	49.9	182.9

\*Adaptation to the new reporting standard IFRS 15 "Revenue from contracts with customers" has affected the time when revenues and earnings from projects are reported during the year compared with previously and has resulted in net sales which are SEK 21.8 million lower and an operating profit which is SEK 9.4 million lower. Adjusted operating profit has been affected to the same extent as operating profit.

**12,847**  
balconies in 2018  
**154,071**  
balconies built since 1987

NET SALES

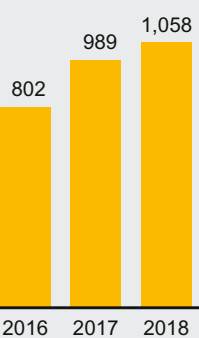
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2015

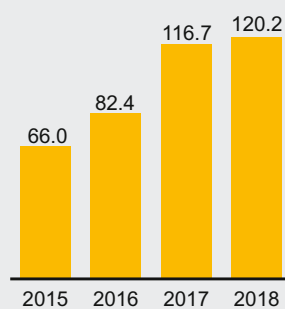




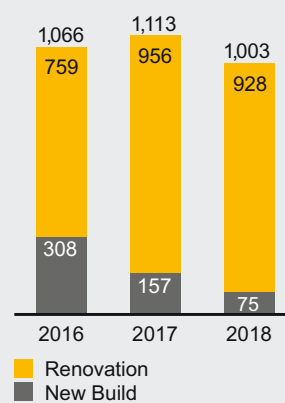
ES (SEK M)



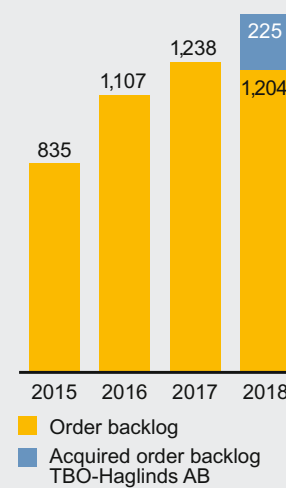
ADJUSTED OPERATING PROFIT (SEK M)



ORDER INTAKE PER SEGMENT (SEK M)



ORDER BACKLOG (SEK M)





## Renovation

SHARE OF SALES

90%

GROWTH

12%

Within Renovation, Balco provides solutions for replacing and expanding existing balconies and the installation of new balconies on apartment buildings that lack balconies. The majority of sales within the area comprise glazed balconies to tenant-owner associations. Sweden is the Company's largest market within Renovation, with the primary driver being the pent-up need for renovation and prevailing age profile of the property stock. Since Balco's operations are mainly linked to the Renovation segment, the Company has not been affected by the downturn in the market for newly-produced apartments in 2018.



## New Build

SHARE OF SALES

10%

GROWTH

neg.

Within New Build, Balco installs balconies in conjunction with the construction of new apartment properties, as well as balcony solutions within maritime applications. Balco offers its entire product range within New Build. The largest product areas comprise glazed balconies and open balconies. Balco is expanding selectively in the segment and is proceeding by focusing on profitability and low risk. Demand is driven by the pace of new residential construction and growth within the maritime segment. In 2018, sales within New Build declined by one-third as a consequence of Balco's strategy of focusing on Renovation.



### IMPORTANT EVENTS IN 2018

Q1

- New reporting rules in the form of IFRS 15 and IFRS 9 are to be applied by Balco. IFRS 15 entails a delay in the time when sales and earnings are reported, while IFRS 9 will not have any appreciable impact.
- The Nomination Committee has proposed that the Annual General Meeting elect Carl-Mikael Lindholm and Johannes Nyberg as new directors.
- The Board proposes that the Annual General Meeting adopt a dividend of SEK 1.00 per share.

Q2

- Balco secures an order in Stockholm with an order value of approximately SEK 100 million.
- In order to finance acquisitions or other growth in the Company, Balco's Annual General Meeting authorises the Board to decide on new issues of shares, warrants or convertible instruments with respect to such shares, entailing an increase or potential increase of not more than ten (10) per cent in the Company's share capital, or not more than 2,142,877 shares.
- Balco's Annual General Meeting authorises the Board to decide on buybacks of up to one-tenth of all shares in the Company and to authorise the Board to decide on transfers of treasury shares.

Q3

- Balco extends its current bank agreement on unchanged terms and with a new maturity date in September 2021.
- Balco wins the "Best Annual Report" prize for companies listed on NASDAQ Small Cap.

Q4

- Balco strengthens its position in Sweden through the acquisition of TBO-Haglinds AB. The acquired company has annual sales of approximately SEK 130 million and is expected to contribute SEK 0.50 in earnings per share in 2019.
- Delivery of Balco's first maritime project comprising more than 1,500 balconies and balcony rails for the market's first cruise ship operating on LNG (natural gas) and manufactured by Meyer Werft for the cruise company AIDA/Carnival Corporation.

# 2018 – A platform for continued growth

*At the beginning of the year we knew that our offering within balcony renovation was both financially advantageous and unaffected by changes in the economic climate. Work undertaken during the year regarding sustainability and life cycle analysis has increased our knowledge and we consider our offering to be the environmentally friendly alternative and that our glazed products generate a positive carbon footprint. We have also strengthened our core business through the acquisition of TBO-Haglinds AB and thereby enter 2019 with an order backlog which is 15% higher, the highest we have ever had.*

Our sales during the year increased to SEK 1,058 million, corresponding to organic growth of 7%. With the acquisition of TBO-Haglinds AB at the end of the year, we will add a further SEK 130 million in annual sales and create positive conditions for continuing to deliver a high rate of growth.

Operating profit for the year was SEK 105.6 million, an increase of SEK 13.3 million or 14.4%. The adjusted operating profit increased to SEK 120.2 million, corresponding to an adjusted operating margin of 11.4%.

The adjustment to IFRS 15 affected sales and earnings in each quarter of the year and the aggregated total impact is SEK 21.8 million in lower sales and SEK 9.4 million in lower earnings. Nothing has been lost, and the difference will be recovered over time.

The Renovation segment, which constitutes Balco's core business, has continued to expand and accounted for 90% of sales in 2018. This means that we have also not been adversely affected by the weaker market for newly produced apartments.

The New Build segment, which accounts for the remaining 10% of the Company's sales, includes the new maritime applications area, where the first boat was delivered during the year. The project has been challenging, with delays resulting in significant disruptions and additional costs for final installation, which are reported as an item affecting comparability (SEK 13.3 million). We have monitored the reasons for the deviations and anticipate that future projects within the area will be profitable.

## PROJECT-BASED BUSINESS

A project-based business entails fluctuations in order intake, but at Balco we feel certain that our proven business model yields results over time. Since our larger glazed balconies require planning permis-

sion, the implementation of projects depends on the time required for processing planning permission applications.

The largest project in the Company's history was completed in 2018 and involved the production and delivery of approximately 1,000 glazed balconies to Östersundshus. The project was secured as early as 2015, but it nevertheless took until the third quarter of 2017 before planning permission was granted and the project could be carried out. This is a clear example of the reality involved in Balco's project-based business.

In Denmark, the entire industry has had problems with long planning permission procedures, but during the second half of the year a positive improvement was noted which enabled more projects to be implemented and thereby generate increased sales. City balconies are dominant on the Danish market, and in 2018 production was transferred from Denmark to our Polish production unit. This will increase delivery capacity and flexibility in Denmark and strengthen profitability. We perceive good possibilities for expansion within this product area.

## ACQUISITION OF TBO-HAGLINDS

During the fourth quarter, Balco acquired TBO-Haglinds AB, one of the established companies on the Swedish balcony renovation market. Through the acquisition we are significantly strengthening our position on the important Swedish main market. We are also strengthening our product and customer offering to cover the needs of the entire market within the Renovation segment.

The acquisition of TBO-Haglinds is in line with Balco's growth strategy and will contribute significant values for Balco's future customers and the Company's shareholders. The purchase price was SEK 120 million, of which SEK 20 million comprises a variable supplemental purchase price

based on the company's future growth and results in 2021.

## GROWING MARKETS

Balco's main markets are Sweden and Norway, where we are market leader, as well as Denmark (where we are the second largest company), while we have smaller market shares in Germany and the UK. Since 2016, Balco also has a presence in Finland and the Netherlands, where we consider the customer structure to have a great deal in common with our core markets.

In the Nordic region, the need for balcony renovation is visible through frost weathering in the concrete. In Central Europe, where the phenomenon of frost weathering does not occur, the need for balcony renovations does not gain regular attention, and as a consequence there is a neglected balcony stock.

The scope and importance of problems have resulted in different types of subsidies and financing support being offered, linked to energy savings and reduced environmental impact. We therefore anticipate a very interesting development here in the near future, particularly in the Netherlands.

## AN ENVIRONMENTALLY FRIENDLY ALTERNATIVE

Most markets are still dominated by traditional balcony renovation, which has a life of approximately 15 years. Renovation using the unique Balco method has a life in excess of 50 years and, with certain upkeep, up to 90 years. Compared with traditional balcony renovation, an average Balco project yields a positive carbon footprint corresponding to planting one hectare (10,000 m<sup>2</sup>) of growing forest. In addition, all of the material is recyclable once the balcony's 50-year life has passed; this is a factor which distinguishes our product significantly from traditional concrete renovation.

Our solution is not merely the best from



“The Balco method is not merely the best solution from a financial perspective and for the resident's personal quality of life, but is also environmentally friendly.”

a financial perspective and for the residents' personal experience but is also the most environmentally friendly.

### THE FUTURE IS LIGHT AND GREENER

Balco currently has capacity for a turnover of approximately SEK 1.7 billion without major investments. During the year we have become used to being a listed company, with attendant requirements as regards corporate governance and reporting, and we have had many positive meetings with current and potential investors.

During the year we have noted a marked increase in interest in sustainability issues, from both customers as well as public authorities and investors. The more we address these issues, the more we see the strength in the positive climate effects of our products, the importance of increasing those effects further, and not least in making them clear in our offering. We have undergone a transition from merely being a balcony renovator to a company which offers an environmentally friendly alternative.

The work that has commenced on a complete life-cycle analysis will teach us even more about this and provide new perspectives for future development. The fact that we already have the most environmentally friendly solutions on the market will become an even greater competitive advantage than previously.

We have the ability, the capacity, the products and a favourable market. Through hard work, in 2018 we have laid stable foundations for 2019 and we look forward to continued profitable growth. It is with great confidence that I look forward to the coming year.

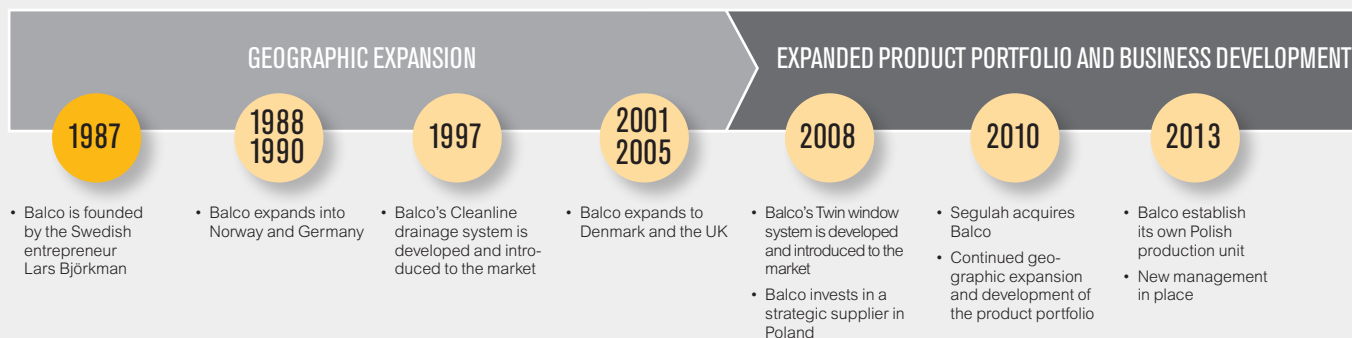
**Kenneth Lundahl**  
President and CEO



# A leading producer of innovative balcony solutions



## BALCO'S DEVELOPMENT JOURNEY





*Balco was founded in 1987 by an entrepreneur from Småland and, since then, has developed based on the same basic concept, namely to offer an innovative and attractive product within a clear market niche. The objective, which was to become a leading player within the balcony industry, has thereby already been achieved.*

Since being founded 31 years ago, Balco has developed into what is today a clear niche player within the balcony renovation segment, with a strong market position in northern Europe. The Company is one of a few balcony suppliers that possesses the skill to provide customised, high-quality balcony solutions, irrespective of order size and complexity, with a short delivery time.

Balco operates in seven countries in the Nordic region and northern Europe, is market leader in Sweden and Norway, and the second largest company in Denmark in terms of sales. In terms of order intake, Balco is also the largest company on the Danish market. Balco is headquartered in Växjö, where the Company was also founded, and operates four production units – two in Sweden and two in Poland. The total production area of these four units is approximately 17,280 m<sup>2</sup> and the capacity utilisation rate is approximately 70%. It is believed that in the case of full capacity utilisation, the current production plants will be able to meet annual sales of approximately SEK 1.7 billion. In addition, Balco has for a long time been part-owner of a subcontractor in Poland. In 2018, Balco produced in total 12,847 balconies.

Balco specialises in supplying glazed balconies and balcony solutions to customers whose existing balconies are in need of renovation. If nothing is done, the balconies risk becoming dangerous for the residents. Balco's sales representatives work to meet the customer at an early stage once a need has been identified, so that the customer can be informed and learn about the customer benefits of renovation in accordance with the Balco method. The method involves totally replacing the existing balcony, often with a larger glazed balcony which has a longer life. This facilitates installation, contributes to energy savings, and provides increased customer value since it can be used during a greater part of the year.

Balco's balcony solutions are customised, from sketch to installation. The Company's employees assist customers throughout the process and contribute with their expertise regarding structural engineering calculations and construction draw-

ings, provide advice, assist with information and cost calculations for tenant-owner association meetings, assist with planning permission applications, and handle the installation in-house. Each balcony project is governed by the customer order and is unique for the property in question. Balco works proactively to be at the forefront of technology so as to differentiate the Company's products from those of its competitors. Balco develops and produces all products internally, under its own brand, and has 44 (45) patents within the balcony area. In 2018, glazed balconies accounted for 75% of total sales, open balconies for 20%, and other products for 5%.

Satisfied customers who recommend Balco to others are an important asset for Balco. The objective is that 85% of customers shall be prepared to do so. Customer surveys in 2018 revealed that this objective is achieved, since no fewer than 93% responded that they would recommend Balco.

Balco implemented a new growth and expansion strategy in 2014. A market study, which showed that growth potential in the Nordic countries was significantly larger than previously thought, became the starting point for the strategy. Heavy investments were made to expand the sales organisation. Alongside the now proven successful sales model, a strategy of meeting potential customers by participating at focused sales fairs ("mini-fairs") was begun. Thanks to the new sales model and by teaching customers about the alternative to traditional balcony renovation, and expanding production capacity as the number of customer projects increases, Balco has been able to create its own market and continue to grow strongly.

Since 2014, the sales organisation has increased from 38 to 64 in staff and the number of fairs at which Balco has participated has increased five-fold. In 2016, the decision was taken to focus to a greater extent on the Renovation segment and reduce risk and exposure to New Build, and this decision has contributed to increased profitability and an improved focus.

Satisfied customers  
**93%**

of Balco's customers would recommend Balco to others with the same needs.

Capacity utilisation  
**70%**

The existing capacity utilisation in the four wholly-owned production units is 70%

#### GROWTH PHASE WITH SIGNIFICANT INVESTMENTS IN MORE SALES STAFF AND AN INCREASED PRESENCE AT MINI-FAIRS

2014

- Balco implements a new expansion and growth strategy involving significant investments in more sales staff. At the same time, the sales model is developed involving mini-fairs to meet customers

2015

- Balco acquires Kontech – a Danish producer of city balconies
- Balco expands to Finland

2016

- New strategy within the New Build segment (low risk)
- Market leader in main markets with 45 patents and 300 employees
- Expansion to the maritime applications area.

2017

- Balco's IPO on Nasdaq Stockholm
- New production unit in Poland of 5,800 m<sup>2</sup>
- Achieves sales of approximately SEK 1 billion
- Celebrates 30th anniversary

2018

- In less than a year, Balco completes 964 glazed balconies for the Östersundshus tenant-owner association.
- Balco acquires TBO-Haglinds AB.
- Delivery of Balco's first maritime project.

# Market and trends

*The total balcony market in the countries in which Balco operates is worth approximately SEK 30 billion<sup>1)</sup> and mainly covers renovation of existing balconies, but also new production. The market is driven primarily by the age profile of the housing stock and the desire of the residents of the properties for an enhanced quality of life and a possible increase in the value of their homes.*

Balco operates on the northern European market for balcony solutions, with a major focus on glazing, which is a niche market within the broader building market. The balcony market primarily includes renovation of existing balconies and installation of new balconies on existing properties, as well as the installation of balconies in conjunction with the construction of new properties. According to a market study by Arthur D Little, the total balcony market on the markets on which Balco operates is worth approximately SEK 30 billion.

Balco's main markets are Sweden, Norway and Denmark. The value of the balcony market in these countries was approximately SEK 4.8 billion in 2017, of which SEK 2.8 billion within Renovation, which is Balco's focus segment. The Renovation segment in these countries is expected to grow on average by 9.6% per year up to 2022, when a market value for the segment of approximately SEK 4.5 billion is expected to be achieved, and the total market will grow to approximately SEK 6.9 billion.<sup>1)</sup>

In addition to its main markets, Balco also operates in Finland, the UK, Netherlands and Germany. In addition, Balco has carried out projects in Iceland and Switzerland. The total value of the balcony market in these countries was approximately SEK 25.6 billion in 2017, of which approximately SEK 19.0 billion within the Renovation segment. These markets are expected to grow on average by 2.0% per year during the period 2018-2022, and achieve a total of approximately SEK 29.1 billion in 2022. Also on those markets, Renovation is expected to demonstrate higher growth than New Build.

In a number of selectively chosen projects, Balco also manufactures, sells and installs maritime balconies that are sold to cruise ships in Europe. The value of the maritime balcony market in Europe in 2017 was approximately SEK 1 billion.

The balcony market is divided into two segments: Renovation and New Build, with the Renovation segment accounting for approximately 90% of Balco's sales in 2018.

## MARKET POSITION AND COMPETITORS

The balcony market is fragmented and comprises a small number of larger companies with vertically integrated value chains, operating in several countries, as well as a large number of smaller, local balcony fitters, balcony manufacturers and concrete renovation contractors. The larger companies are gaining a greater role in the entire value chain, from product development to offering in-house installation services. Balco is the leading company on the Nordic balcony market and is market leader in Sweden and Norway, and the second largest company in Denmark in terms of sales. In terms of order intake, Balco is also the largest company in Denmark. Balco's total market share in Sweden in 2018 was 21%, corresponding to 32% within Renovation and 5% within New Build. In Norway, Balco's market share was 18%, and in Denmark it was 11%.

The largest companies on the Nordic balcony market are Balco, Lumon, Windoor (part of Wingroup) and Solarlux. The smaller local companies include Teknova, Alnova, TBO-Hagblinds, Balcona, Svalson, Altan.dk, MinAltan and Weland Aluminium.

## TRENDS ON THE BALCONY MARKET

There are many factors that affect the balcony market. These include price changes on the housing market, disposable income, interest rate changes, economic growth and the construction industry business cycle. In addition, the industry is affected by a number of trends.

### TRANSFER OF OWNERSHIP TO TENANT-OWNER ASSOCIATIONS

Tenant-owner associations are the most common form of home ownership in Sweden and the share represented by associations increased by 12% between 2014–2018. This is a development which is expected to continue strongly going forward. The increase in tenant-owner associations is driven primarily by the sell-off of publicly and privately owned properties, which are converted into tenant-owner associations in order to finance new construction projects and future maintenance investments.

#### EFFECT ON BALCO

Tenant-owner associations are currently Balco's most important customer group, accounting for 69% of the Company's sales, and the group most inclined to make value-enhancing investments. Balco has a well-functioning model and an attractive solution to meet the needs of tenant-owner associations.

### ENVIRONMENTAL LEGISLATION AND ENERGY SAVINGS

Assumption of responsibility for a sustainable society and ensuring that products are produced in a responsible manner is an increasingly important driver for today's consumers. A global trend towards reduced energy consumption has resulted in increasingly exacting laws and regulations to achieve greater energy efficiency and thereby a reduced environmental impact. Energy and environment issues are important for today's property owners since correct handling of the issues contributes to a reduced detrimental impact on the environment, and to lower costs.

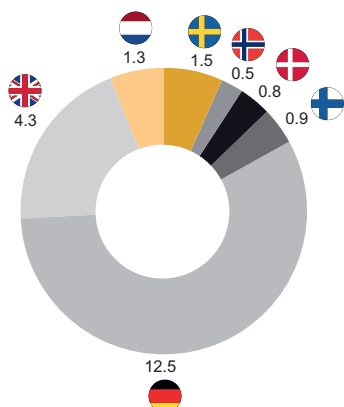
#### EFFECT ON BALCO

Glazed balcony systems have a longer life, a factor which in the long term is beneficial from an energy and environmental perspective. In addition, energy efficiency improves in properties with glazed balconies, which contributes to reduced energy use and lower costs.

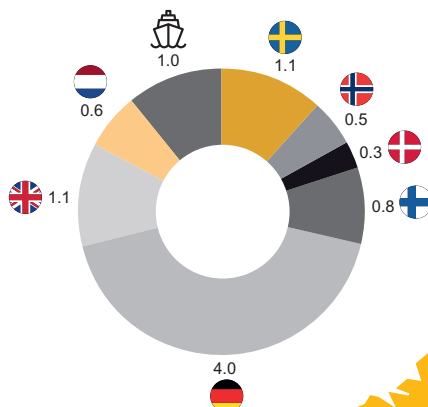
<sup>1)</sup> Arthur D. Little market study on behalf of Balco, September, 2018



Total size, renovation market  
SEK 21.8 billion<sup>1)</sup> (2017)



Total size, new build market,  
SEK 8.6 billion<sup>1)</sup> excl. Maritime (2017)

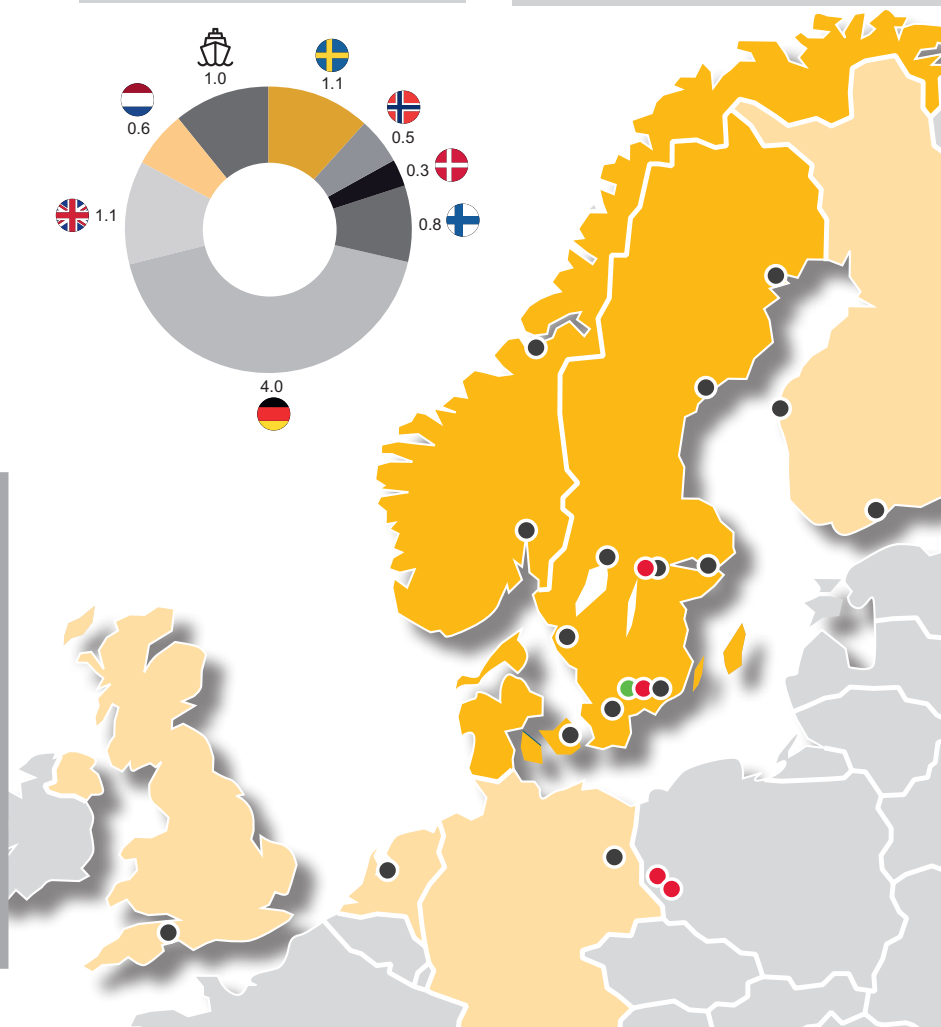


Main markets  
Other markets

## SEVEN MARKETS

Sweden  
Norway  
Denmark  
Finland  
UK  
Germany  
Netherlands

● Sales offices  
● Production plants  
● Head office  
● Key markets  
● Other markets



## COMFORT AND DESIGN

Glazed balconies contribute to increased enjoyment, comfort and sound insulation of apartments. They retain a higher temperature than traditional balconies, thereby increasing usability. In the Nordic region, the residents' balcony use increases from approximately 4 months to 8 months per year. The balconies also improve the external appearance of the property and can give a lift to an entire residential area.

### EFFECT ON BALCO

Balco's high-quality products create peace of mind and security for their users. Not infrequently, glazing of a previously open balcony results in doubled balcony space, which provides increased user benefit.

## DEGREE OF PENETRATION BY GLAZED BALCONIES

There are clear differences as regards the degree of penetration by glazed balconies in the Nordic region and northern Europe. A previous survey showed that only 11 percent of all homes with balconies in Sweden were glazed. The percentage is small compared with Finland, where the glazing accounts for approximately 46% of the total number of balconies. The advantages such as longer lifespan and energy savings, combined with the fact that the climate is cooler in the Nordic region and northern Europe, indicate that the percentage of glazing will continue to increase.

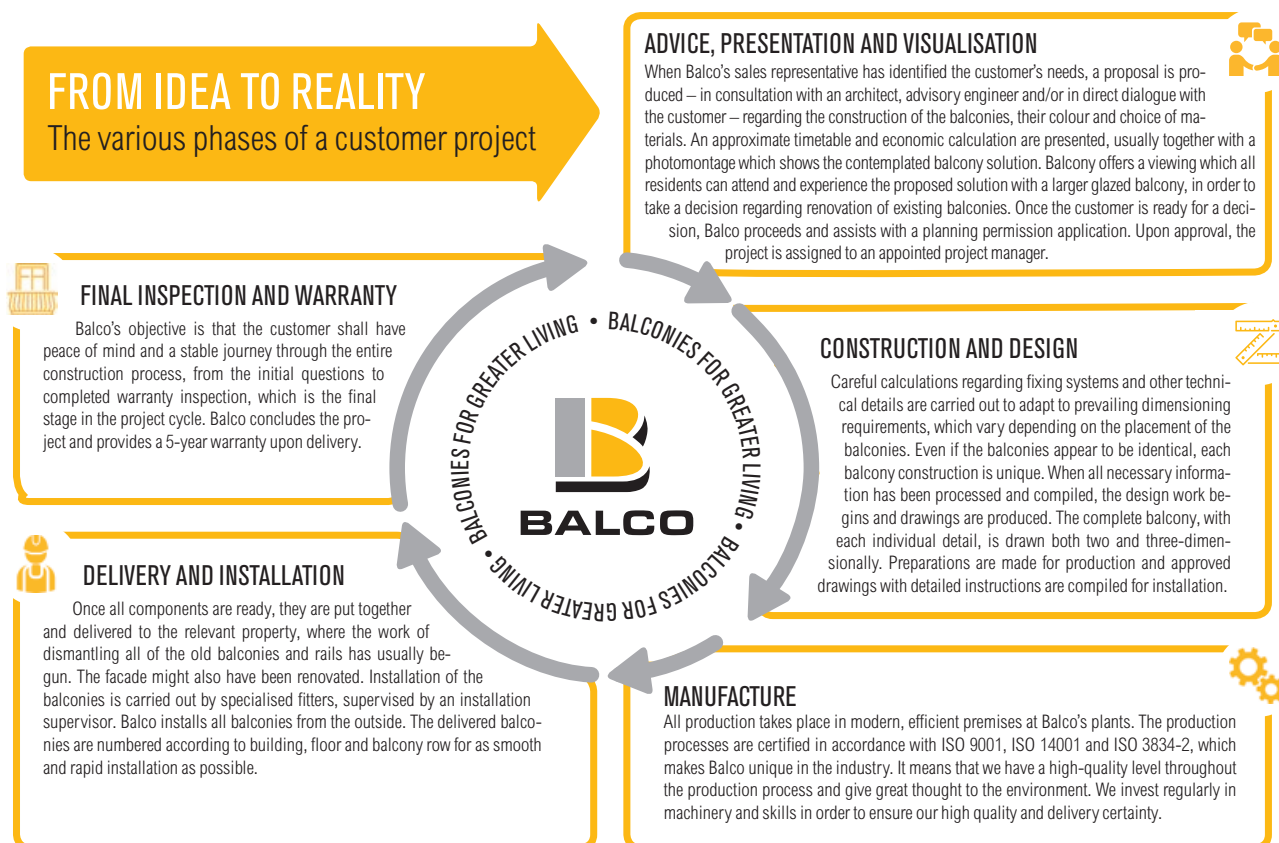
### EFFECT ON BALCO

Balco is nowadays market leader within glazed balconies on its main markets. The Company's product development and innovations are a step ahead of its competitors, which provides Balco with a good starting position to continue to grow within the area.

1) Arthur D. Little market study on behalf of Balco, September 2018

# Our project cycle – from idea to reality

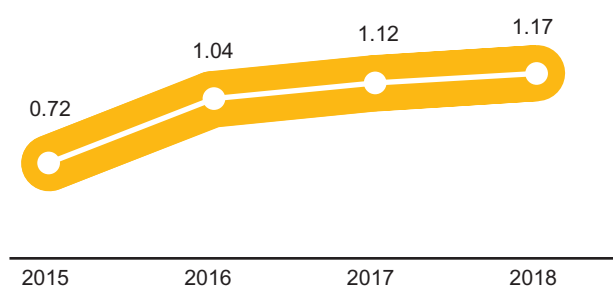
Balco's customer projects extend over a long period and undergo a number of different phases. The process below describes the chain of events from the sales representative meeting the customer for the first time to completion of the project and Balco's delivery of a completed balcony solution to the customer.



## ORDER INTAKE AND SEASONAL PATTERNS

One of the most important key ratios for understanding how Balco's business will develop in the coming years is the accumulated value and growth in the order backlog. An order is registered once a customer has held a general meeting regarding a cooperation project. Thus, in the short term the rate of growth in the order backlog is affected by when during the year general meetings are held.

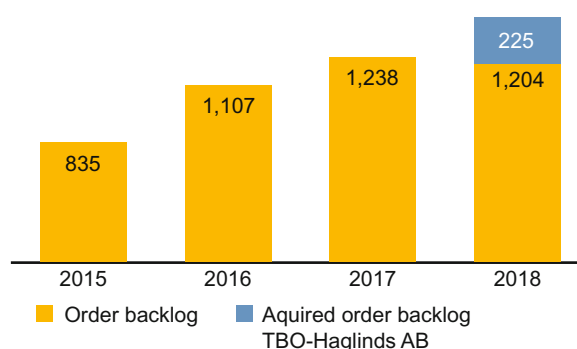
### Turnover rate, order backlog



## SALES

Balco's sales growth is affected by when in time the Company's customers are granted planning permission for the balcony project. The process of securing planning permission is often time-consuming, which creates lead times in projects. The average time for the order backlog to be translated into sales is 1.2 years. Balco's order backlog provides good visibility as to how the Company is performing and is an important indicator as to how the Company's sales will develop in the coming financial year. Sales and earnings will, however, fluctuate over time and between quarters depending on the factors described above.

### Order backlog (SEK m)





# Project in Östersund generates millions in savings for the tenant-owner association

*Balco's largest project in 2018, comprising in total 964 glazed balconies, was located in Östersund. It was the high quality of Balco's products that was decisive for the Östersundshus 18, 21 and 22 tenant-owner associations, and the residents are already extremely happy with their new balconies.*

*"The last area was inspected just before Christmas, and we had hardly managed to provide the report before the members began decorating their new balconies for Christmas. The balconies have been lit up and it's been quite magical," says Sixten Persson, chairman of the Balcony Group of Brf Östersundshus 18, 21 and 22.*



## CASE



### ABOUT THE PROJECT

#### Delivery:

Balco's largest project in 2018 comprising 964 glazed balconies.

#### Objective:

- To repair balconies in need of immediate renovation where reinforcement iron had rusted and timber structures were in poor condition.
- Improve the degree of utilisation and energy savings.



In September 2014, the work began on providing the three tenant-owner associations with a much-needed facelift. The buildings, which were constructed in the 1970s, were in great need of new balconies since the reinforcement iron had rusted and parts of the timber structure were in poor condition. The appointed Balcony Group, comprising representatives from all three tenant-owner associations, made a choice from among some ten balcony renovation companies. The Group chose Balco, among other things due to the high quality and patents on attractive technical solutions.

"It has been extremely easy to work with Balco. They've had a great deal of patience and been helpful through a long process involving planning permission and appeals. The patience they have shown and the support they have given us are admirable," says Sixten Persson.

### ALMOST 1,000 BALCONIES IN ONE YEAR

When the okay was finally given in January 2018, after almost 4 years of preparatory work, Balco immediately began working on installing the new balconies. And once the okay was given, things happened quickly –

the 964 balconies were completed in less than a year. Brf Östersundshus is extremely pleased with the collaboration with Balco and believes that the Company has discharged its obligations in an exceptional fashion, both before, during and after the construction.

"It was absolutely fantastic. There's been a good personal chemistry between us, and communication has functioned extremely well. After working together for four years, we've almost become pals," says Sixten Persson.

Mikael Eriksson, Balco's sales representative for the Östersundshus project, is also extremely positive and pleased with the end result.

"It was a long, strenuous period until planning permission was received at the end of 2017, but the board and particularly the association's balcony group persevered, worked intensively and had a positive spirit throughout. The cooperation between all parties involved throughout the entire project has been the best conceivable," says Mikael Eriksson.

### ENERGY SAVINGS AND GREATER USABILITY

The associations decided on glazed balconies due to the weather conditions in the area, with occasional strong winds and cold. The glazed balconies also contribute to reducing carbon dioxide emissions and help the associations save energy. According to calculations made, the glazed balconies will lead to energy savings of approximately SEK 1 million per year. In addition, the glazed balconies will be more usable than the previously open balconies. Sixten Persson states that previously it was possible to sit out on the balconies a mere three to four weeks a year, but that the residents now enjoy entirely different conditions. The members are extremely pleased to have large, fine conservatories which they can use during a larger part of the year.

"It's become clean, fresh and neat after the conversion. Many people have approached me and said how glad they are. This includes people who were initially somewhat sceptical to the renovation but now say that they are extremely pleased. It really has given a lift to the entire residential area," concludes Sixten Persson.





# Innovative and sustainable products GLAZED BALCONIES

**75%**

of the total net sales related  
glazed balconies.

An average Balco  
project generates a  
positive CO<sub>2</sub> footprint  
corresponding to planting  
one hectare (10,000m<sup>2</sup>)  
of growing forest.

**6%**

growth for glazed balconies.





Glazed balcony can be used during most of the year

#### GLAZED BALCONIES

Glazing in the balcony and at the same time having the possibility to obtain a larger balcony represents a cost-effective, attractive and environmentally friendly alternative to traditional balcony renovation.

**Glazed balconies** create extra space which can be used however one wants, outside or inside, all year-round.

**It's an investment** which contributes to strengthening the building's character, at the same time as the residential environment feels safer and more attractive.

**A glazing system** generates economic advantages through reduced energy and maintenance costs. It also contributes to reducing noise and reduces corrosion and frost weathering.

## GLAZED BALCONIES

Glazed balconies represent Balco's largest product category and are sold primarily within the Renovation segment. In 2018, they accounted for 75% of total net sales. The solutions are generally regarded as a cost-effective and attractive alternative to traditional balcony renovation and provide customers with economic benefits through reduced energy and maintenance costs. The solutions also contribute to noise reduction and reduce corrosion of the reinforcement, which in turn reduces the risk of frost weathering.

Balco tailors its solutions to the customers' needs, with the customers being able to choose from a wide range of e.g. windows, roofs, frontages, fixing systems and floor modules. Balco holds a number of patents on unique functions such as ventilation and drainage systems, which make the glazed solutions extremely competitive. The product category also includes clima walls, access balconies and etage balconies.

### Clima walls

Clima walls involve the entire facade being covered with glazed balconies. The solution functions as a climate-proofing shell for the property, resulting in significant energy savings. Clima walls also reduce the need for renovation of balconies as well as facades, windows and doors.



Clima walls protect the facade and provide major energy savings

### Access balcony

Balco has a specially adapted glazing system for access balconies, also referred to as entry balconies, which have problems with ice and snow in the winter time. The access balcony glazing provides effective protection against the weather and wind, stops the walkways from becoming slippery, and contributes to lower energy consumption.



Access is Balco's glazing system for entry balconies combined with fire alarm

### Etage

Glazed etage balconies are sold to stepped apartment buildings with challenging needs for innovative solutions to deal with problems of water run-off. Balco's etage balconies are developed with effective drainage systems.



Balco's Etage solution is used for glazing stepped balconies



A woman with brown hair tied back, wearing a dark blue t-shirt and light blue jeans, is sitting on a wicker chair on a balcony. She is looking out over a cityscape with a river and a large building with a spire in the background. The balcony has a black metal railing and a wooden floor. There are two potted plants on the balcony: one with orange fruit and another with white hydrangeas. The scene is framed by a large window or glass door.

# Innovative and sustainable products

## OPEN BALCONIES

**20%**

of total net sales related to open balconies.

Balco has established a new production plant for City balconies, which increases capacity profitability as well as strengthening delivery capability.

**44%**

growth for open balconies.





An open balcony can be varied in terms of colour, form and design.

### OPEN BALCONIES

An open balcony can be varied simply in terms of form and design to meet the customer's needs and wishes.

The customers have, among other things, the possibility to choose between different designs as regards floor, covering, balcony rail and handrails.

Balco also produces open steel balconies adapted for inner-city environments where different design requirements prevail.

## OPEN BALCONIES

Balco sells open balconies with steel frames, concrete base and railing to both the Renovation and New Build segments. Open balconies can be varied simply in terms of form and design to meet the customers' needs. Customers have the possibility to choose between different designs for floor, covering, balcony rail and handrails.

The product area includes different types of open balconies, as well as parts such as balcony rail, floor, roof and fixing systems which can be installed on existing balconies or bought by construction companies in the case of new construction. The open balconies product category, which accounted for 20% of net sales in 2018, comprises City balconies, maritime balconies and prefabricated balconies.

### City balconies

City balconies are generally smaller than the Company's other open balconies and are made of steel with wooden floors. Apart from the choice of material, the fixing principles for City balconies are different, from a design perspective, they are adapted for inner-city environments where other design requirements prevail.

### Maritime balconies

Within the cruise industry, there is a trend towards replacing steel components on cruise ships with light-weight structures made of aluminium and glass. Balco has specially developed a solution for maritime balconies, which is sold to cruise ships in Europe.

## Prefabricated balconies

### • AluOne

AluOne is a prefabricated and specially adapted balcony solution, mainly produced in aluminium in twelve different sizes, which can be easily adapted to different buildings, thereby making the system flexible and cost-effective, and cutting the installation time.

### • PGS

Balco's PGS balconies are produced for the Swedish market and comprise a prefabricated balcony module made of steel and concrete, which Balco has developed on behalf of the customer.



Open balconies AluOne



Balco produces balconies for cruise ships



Innovative and sustainable products

# OTHER PRODUCTS

5%

of total net sales relate  
to other products.

Balcony accessories make  
every balcony project unique.  
Balco's most common balcony  
accessories are sun screening  
in the form of roller blinds  
or pleated blinds.

53<sup>SEK m</sup>

Net sales of  
other products.

Graphic: Pleated curtain





## OTHER PRODUCTS

Balco also sells a large number of different accessories to the Company's balcony solutions. The accessories include screens, glass

corners, balcony doors, powered awnings, solar cells, sunscreen, roller blinds, window boxes, flag holders and locks. The category accounted for 5% of net sales in 2018.



# Committed employees are the key

*The employees' commitment, personal responsibility and willingness to develop contribute to Balco's success. The corporate culture is characterised by closeness, entrepreneurship and a decentralised organisation in which all employees contribute to the end result. Together, we strive towards achieving our vision – of offering the market the best balconies through innovative solutions and high-quality products.*

Balco has 385 employees in seven countries, with different work duties and areas of responsibility. However, Balco's employees have the same mission – to provide the market's best balcony solutions. Closeness, commitment and clarity are catchwords which permeate the entire organisation, with the goal being that all employees shall be proud of Balco and their own work contribution. Balco promotes an equal, sustainable and healthy working life in which employees are provided with conditions to perform, develop and be stimulated.

In order to facilitate our future growth, it is important for us to constantly work on our brand and continue to strengthen our attractiveness as an employer.

Balco has operations in several countries but most employees are to be found in Sweden (51%), followed by Poland (26%), Denmark (12%) Germany (5%), Norway and the UK (2%), as well as 1% in Finland and the Netherlands. 15% of employees are women and 85% are men. Balco is endeavouring to achieve a more even gender breakdown. 63% of the Company's employees are white-collar staff. Balco's employee turnover rate and sick leave rate have been at low, healthy levels in recent years, which indicates that the employees enjoy their work.

## FOCUS AREAS IN 2018

In 2018, Balco has focused on a number of important areas in order to retain our attractive brand as an employer and ensure continued growth and delivery. The focus areas on which we have concentrated include development of our introduction programme, our remuneration and benefits package, and management training. In addition, we have carried out an employee survey.

## Successful employee survey and focus areas in 2019

In 2018, we carried out an employee survey together with Great Place To Work (GPTW). The level of participation was high and the survey showed that Balco's employee satisfaction considerably exceeded GPTW's index for Sweden. We are very proud and pleased about this – at the same time as we have formed a clear impression about where we need to improve.

In 2019 we will continue to process the results of our employee survey, on both a departmental and group level. Action

plans and implementation plans will be produced focusing on areas such as credibility, respect, fairness, pride and comradeship.

## An attractive workplace

We expect a lot from our employees and our employees can expect a lot from us. Therefore, in recent years we have invested in benefits and offers for increased peace of mind and life quality. We have a joint bonus programme which is based on the Company's earnings, the possibility to save for increased pension benefits in lieu of a part of salary, subsidised gym cards, fitness and cultural activities. In 2019, we will take the next step in our endeavour to be an obvious choice as employer and, among other things, we will review our office working environment and the balance between our undertakings at work and in leisure time.

## THE COMPANY'S CORNERSTONES

### Entrepreneurial spirit

Our most important assets are our employees and culture, which is based on an entrepreneurial spirit.

### Commitment and skills

As a company and employer we endeavour every day to deliver attractive balcony solutions and services to our customers. Our exacting goals and ambitions would not have been achievable were it for our responsible, committed and skilled employees, combined with our unique customer know-how and innovative balcony solutions.

### Attract and develop

Balco wishes to be, and will be, an organisation which is involved and makes a difference for its employees. We wish to create mutual commitment and a culture in which everyone participates.

Results are achieved and common goals are met





## VALUE CREATION, VISION, MISSION AND BUSINESS CONCEPT

*Balco is convinced that a combination of an entrepreneurial corporate culture, great innovative power, commercial sense and great know-how are cornerstones that create value. Balco's success is based on the expertise, commitment and enthusiasm of its employees, and their willingness to do the little extra which takes the Company a step forward. Together with the customer, Balco tailors a complete modern balcony solution, from sketch to installation, which contributes to an enhanced quality of life for the end-customer. Balco's sustainable products, developed in-house, create direct customer benefits such as lower costs, enhanced quality of life, reduced energy consumption and increased property value.*

### Vision

Balco shall, through innovative solutions and high quality products sought by the customer, provide the best balconies on the market.

### Mission

To offer balconies that contribute to an enhanced quality of life.

### Business concept

Based on the customer's needs, to develop modern, sustainable and attractive balcony solutions that provide people with an improved quality of life.

### Core values

Innovation - Expertise - Enthusiasm

#### Innovation

Balco is an innovative and entrepreneurial company which endeavours to constantly create improved, more modern and more purposeful solutions. Balco shall be at the forefront in the development of the next generation of balcony systems. Product development shall be driven based on the customers' needs and the wish to create simple, sustainable solutions.

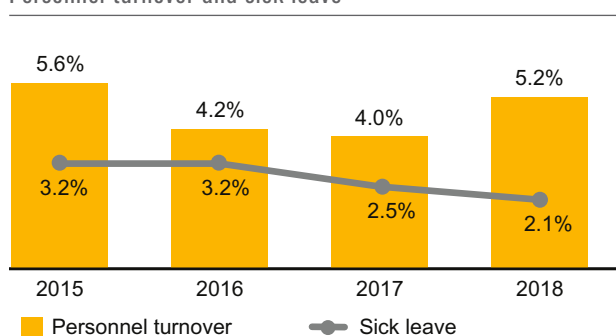
#### Expertise

Balco's customers shall have peace of mind when they retain Balco. Balco must always act in accordance with sound business ethics, professional skill and a high level of competence. Balco shall be one step ahead, do the right thing from the outset, remove risks and deliver on time. Balco shall comply with laws and requirements, use the best possible technology and deliver the best customised comprehensive solution of the highest possible quality.

#### Enthusiasm

Enthusiasm means being proud of one's work and being an important part of a group which contributes to a whole. Balco believes in an environment devoid of prestige in which all employees are respected, rely on each other and work together to achieve good results. In the work of developing the business in the best way, personnel shall have satisfaction, feel good and show appreciation for each other.

Personnel turnover and sick leave



## MEET MARIANNE – ONE OF BALCO'S SWEDISH EMPLOYEES

*Marianne Johansson began working as a designer at Balco in June 2000 and, after seven years, was appointed head of the design department. She also became involved in quality work and Balco's ISO certification. Marianne has worked with all countries, but especially with Germany. Since 2017 she has been Head of the Structural Engineering Department, where she is responsible for planning and ensuring availability of structural engineering resources, risk assessments/assessing project complexity and, together with Operations, ensuring that Balco has the best team for each project.*

**You left Balco in 2014 but returned after a short time elsewhere. How come?**

After 14 years at Balco I felt that I wanted something different, and the three years I was elsewhere were extremely valuable. Several factors influenced my return, but I felt that I wanted to return home to Växjö and thus Balco was an obvious choice for me. Johan Fälth, Head of Operations at Balco, called me at regular intervals and wondered when I would return, and one day it was time. I have extremely good colleagues and there's a pleasant atmosphere at Balco. In addition, I've always appreciated working at a place which has its own products. You then have a feel for the whole.

**How has the work changed since you began at Balco in 2000?**

It was a very small company then and one was more involved in all processes. I supervised my own projects in which I did both calculations and drawings. Nowadays, my department works on making calculations and we have a different department which produces drawings.

**Describe your job as a structural engineering analyst.**

**What does it involve?**

The structural engineering department calculates and ensures that we deliver a safe product which meets the requirements and norms applicable in each country. It makes calculations regarding both the new construction and the existing building. People often want a significantly larger balcony, and the fixing method required differs from the original one.

The result is converted into drawings for production and installation. Our department is also involved in product development as regards the sustainability of the products.

**What's the greatest challenge in your job?**

To combine wishes from customers and architects into a solution which we can stand behind. One often finds oneself in a situation beyond permitted parameters, and in those cases new thoughts and ideas are required. It's sometimes necessary to go back to the customer and discuss alternative solutions in order to handle the project. Different countries also have different standards. For example, in Sweden the useful load is 350 kg/km, whereas in Norway it's 400 kg/km. Different geographic locations also influence the design, but thanks to a smart team we solve most problems!

**Which characteristics do you consider to be important in your work?**

Working calmly and methodically. Sloppiness in the calculations can have disastrous consequences.

**Which part of the work is most enjoyable?**

Solving problems and answering questions that I get, or at least trying to. When I'd been at Balco for only half a year, I got a project involving an obverse design, where the balconies were suspended from the roof. It involved a special solution which I remember well, partly due to the fact that I was new and partly since we managed to carry it out. It was incredibly instructive and I've had much benefit from the experience, even if this type of design doesn't turn up so often.



### STRUCTURAL ENGINEERING CALCULATIONS:

Structural engineering knowledge is used by building engineers in order to dimension building designs, for example the thickness of columns or bearing walls, so that the bearing capacity exceeds the anticipated load.

### LOADS:

Buildings are exposed to various weights and loads as a consequence of which the building material is dimensioned correctly.

**Snow and wind loads** vary with the geographic location.

**Useful loads** such as furniture and fittings, number of people in normal situations and temporary loads in special situations.

Erik Källsson, District Manager, and Ulrika Jidflo, Business Manager Sweden (middle) conduct a project review together with Marianne Johansson, Head of the Structural Engineering Analysis Department.



# From storage space to wintergarden

*Stig Walter Holm, vice-chairman of Bokfinkvegen Borettslag in Kongsvinger, is "100% satisfied" with the new glazed balconies. And the association's residents can be pleased with reduced energy costs and a neater facade.*



## CASE



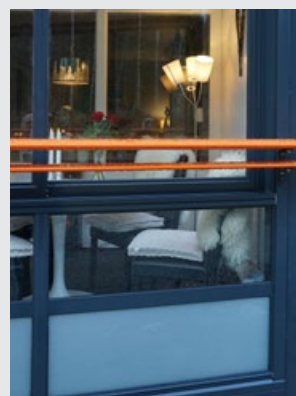
### ABOUT THE PROJECT

#### Delivery:

Glazed balconies to 27 apartments in Bokfinkvegen Brl AI, Kongsvinger.

#### Objective:

Eliminate cracks and concrete damage, larger balconies, enhanced residential quality.



The Bokfinkvegen Brl AI property was built in 1973 and both balconies and apartments were previously relatively small. Over the course of the years the balconies had mainly been used as storage space and very little else. Therefore, in the spring of 2017 the board of the tenant-owner association contacted Balco in order to commence the project of replacing all of the balconies. After a mere three months construction period, the residents in the 27 apartments had received an extra area – a glazed balcony which can be used all year round.

"It should have taken half a year to complete, but everything went very quickly and suddenly it was finished. We enjoyed good contact with architects, building supervisor and Balco's project manager throughout the entire process," says Stig Walter Holm.

## DISTINGUISHING DETAILS

In addition to gaining more liveable area, the board is also determined that, thanks to the renovation, they will be able to reduce up to 20% energy use for heating the apartments. Another economic gain generated by the glazed balconies is an increase in the value of the property.

In the glazing work, Balco's architect was inspired by the colours of the chaffinch's plumage, and this has given the facade a real boost.

"Privacy protection around the balconies means that we can't see straight into the neighbours. In addition, it's given the balco-

nies and the entire building a unique character. The design is modern and trendy, but it is primarily the function which is so great," says Holm.

Project supervisor Dennis Frejd is also very pleased with the results of the new balconies.


"It's the small details, and satisfied residents, which give the assignment that little extra. We're proud and pleased to be able to deliver these fine balconies to the residents of Bokfinkvegen Borettslag. Communication was very quick, open and flexible, and therefore we were able to cut the construction time by half compared with what we had initially calculated. Balco's construction team was both meticulous and efficient," says Dennis Frejd.

## WARMLY RECOMMENDED TO OTHERS

The board came into contact with Balco after another tenant-owner association in Kongsvinger had been helped by Balco. An extraordinary general meeting thereafter unanimously decided on expansion of the balconies.

"We didn't know Balco previously, but we've heard that both the board and the residents were extremely satisfied. We can now say the same. There's been good cooperation the entire way. The design of some of the apartments is such that it was an extra challenge to find smart solutions, but Balco and the architect came up with many good suggestions. I recommend that all tenant-owner associations hire Balco," concludes Stig Walter Holm.





## Our business model – how we create value

*Balco's business model works as a value chain in which each part of the process contributes to producing the final product. All parts are key to the business and the Company's success. Many steps and decisions are taken along the way, from the initial contact with a potential customer to completing the installation of the customer's balcony on the facade. All steps in the process contribute to the total value and the customer's overall experience.*

### 1) THE CUSTOMER'S NEEDS AND TOTAL EXPERIENCE

Balco's business and product development are based on the customer's needs and wishes. Balco shall provide customers with sought-after products adapted to the customer's specific needs. By working in close proximity to the customer, being receptive to new ideas and proposals, we become an important cooperation partner at an early stage in the process.

### 2) EMPLOYEES

Employees are Balco's most important resource. Balco is characterised by an entrepreneurial corporate culture which encourages employees to dare to find new and innovative solutions. A high level of skills and specialisation within each separate part of the value chain contribute to the end product. Attracting and developing skilled, motivated employees are important conditions for future growth.

### 3) INNOVATION

Balco has a tradition of developing and improving existing product areas and developing its own new products. Balco endeavours to be at the forefront in order to differentiate itself from its competitors and create good conditions for continued long-term growth and profitability. The Company's product development process and patent portfolio strengthen the Company's offering and market position.

### 4) PRODUCTION AND LOGISTICS

Balco has an efficient and well-invested production platform with good access to delivery capacity. A significant share of manufacture takes place at our own production plants in Sweden and Poland. Own production contributes to greater quality, flexibility and cost efficiency. Balco also manages logistics, which ensures that deliveries reach the building site at the right time, thereby cutting lead times and contributing to improved profitability. Other key areas that contribute to the business include efficient use of energy as well as sustainable transportation with high load rates which generate a lower carbon footprint and create an improved economy.

### 5) INSTALLATION AND FOLLOW-UP

Balco works on a turnkey basis and is responsible for all parts of the process, which creates a competitive advantage. Installation is carried out by specialist fitters, presided over by an installation supervisor. Once the balconies are installed, a final inspection takes place at the worksite and a budget of completion and customer evaluation are carried out.



# Resources

## Employees

385 employees

## Specialisation

8 product developers

## Production capacity

4 production units

## Local presence

7 geographic markets

16 sales offices

## Patents

44 in number

# Value creation

## A COMPREHENSIVE SOLUTION

Balco's skilled employees help the customer throughout the process, from idea to realisation. Balco is a turnkey supplier which assumes full responsibility for the end result. The Company's employees contribute valuable skills and perspective, which contribute to the development of Balco's customer offering.

## PEACE OF MIND

Balco is a cooperation partner with local presence close to the customer. During the 31 years in which the Company has been in operation, we have performed many projects and acquired great knowledge of the conditions on the local markets, of the characteristics of different properties and of the needs of different customer groups. An established supplier who assumes responsibility for the product creates valuable piece of mind.

## INNOVATION

Balco's products offer great choice possibilities, since all solutions are tailored to the customer's needs. Flexibility imposes demands on Balco as a manufacturer and supplier. Balco invests regularly in product development in order to guarantee the best products on the market. Balco currently has 44 patented solutions which create value for the end customer.

## JUST IN TIME AND SHORT LEAD TIMES

Balco has a well-functioning logistics and warehouse management structure which is based on delivering the right product at the right time. Efficient logistics and rapid installation are an important part of the service offering. Balco has invested in the expansion of its production capacity, which enables the Company to cut lead times, resulting in lower costs and contributing value for the customer.



# SUSTAINABILITY REPORT

“ Everything becomes better. You obtain an entirely new space which can be used for whatever you want during most of the year. You save energy and reduce maintenance costs, while at the same time increasing the value of the property. As far as I’m concerned, glazing should be standard in northern Europe. ”

*Finn Ørstrup, Associate Professor  
Emeritus, Arkitekt Maa, Danske Ark*

## SUSTAINABILITY

### About the sustainability report

Balco's sustainability report relates to the 2018 financial year. The sustainability report covers the parent company Balco Group AB (reg.no. 556821-2319) and all entities that are consolidated in Balco Group AB's consolidated financial statements for the same period, as specified in Note 14 of the annual report and consolidated financial statements. The sustainability report is prepared in accordance with the provisions of Chapters 6 and 7 of the Annual Accounts Act.

In signing the annual report and consolidated financial statements, the Board of Directors of Balco Group AB has also approved the sustainability report.



# The green company

*Balco's glazed systems are environmentally friendly. Compared with open balconies, the energy saving in an average Balco project involving glazed balconies corresponds to a reduction in carbon dioxide emissions into the atmosphere equal to one hectare (10 000 m<sup>2</sup>) of growing forest.*

For Balco, sustainability is closely linked to its business concept and is an integral part of the product. Balco's core expertise lies in delivering glazed balconies and balcony solutions, primarily on the renovation market. Through the Balco method, whereby existing balconies are replaced with new glazed balconies, the customer obtains several durable advantages. In addition to the balcony increasing the apartment's value and usability, energy costs are reduced at the same time as the lifespan of the balcony is extended. Compared with traditional balcony renovation, which does not create corresponding added values and must be repeated approx. every 15 years, the Balco method is a sustainable investment, economically as well as from environmental and social perspectives.

The social benefits are clear. Satisfaction increases among the residents and relocations from the property are reduced. It has also been shown that it results in an increased sense of security in the residential area, since damage and rowdiness are reduced due to the increased "presence". Quite simply, residents spend more time on the balcony during a greater part of the year.

Through Balco's solutions, the apartments become more attractive. This creates greater demand, which often leads to an increase in value. In addition, glazing is an energy-smart investment which result in a reduction of up to 20% in heating costs. This is due to the fact that outdoor air is preheated in the glazed area before entering the apartment. The energy saving, together with a reduced need for renovation of facades and windows, contributes to making the investment economically advantageous and positive for society and the environment.

## RESPONSIBLE PROCESSES

Sustainability is not merely an inherent part of the product. It also permeates Balco's work method. As a turnkey supplier of balcony solutions and glazing, Balco assumes responsibility for the entire process, from project planning to final

inspection and aftermarket service. This entails a long-term assumption of responsibility and a presence on the local market which creates peace of mind for the customer.

Balco's production process takes place in accordance with a modularised work method. This means that, as early as the production and packaging of balcony systems, Balco has planned for the installation work at the building site. By delivering products in batches of modules, with a high load rate on the trucks, transportation is reduced not merely from the factory to the destination but logistics are also reduced locally at the building site. The building process becomes more efficient and secure since the material arrives "just in time."

Balcony systems are produced in modern and efficient premises at the Swedish head office in Växjö, in Łowyn in Poland, as well as by subcontractors. The operations in Sweden are certified in accordance with ISO 9001 and ISO 14001. This means a high quality level throughout the entire production and that great consideration is given to the environment. Production in Poland follows the same principles as at the Swedish plant, but is not ISO certified. Balco invests regularly in machinery and skills in order to ensure high quality and delivery certainty. In 2018, the Company developed an e-learning platform to systematically disseminate to, and ensure the quality of knowledge of, all employees.

## FOCUS ON THE ENVIRONMENT

Balco's production of balcony systems has little environmental impact. Despite that, environmental aspects are a constant factor in Balco's production and product development. Materials with a long lifespan and robust constructions contribute to making the products sustainable in the long term. All material that is used, and in principle all production waste, is recyclable in some form and most of the material used in glazing systems requires no maintenance.

Commitment to a better environment is also expressed in the fact that Balco is constantly seeking new solutions so that

production processes and the products will contribute to a reduced environmental impact. Based on the environmental management system, Balco identifies the areas where the operations have the greatest environmental impact, so that necessary measures can be taken and monitored. Work on a life-cycle analysis has begun in collaboration with an independent party, and all aspects are being reviewed ranging from recycling and material acquisition to the need for renovation and dismantling in order to identify the environmental impact of a glazed balcony.

## AN AWARE COMPANY

The sustainability perspective is noted in Balco's endeavours to produce safe and reliable products, to offer a healthy working environment and to act ethically, both internally and externally. During 2018, an increased number of internal audits were carried out at the building sites, as part of the preventive work as regards the working environment, the environment and safety in the contractor stage. Balco has also implemented a system, TIA<sup>1)</sup>, with an app which simplifies the reporting of risk observations, near accidents and accidents.

The sustainability work proceeds based on the Company's sustainability policy and is also covered by Balco's code of conduct which sets out the Company's social, ethical and environmental rules and approach. The code of conduct includes rules concerning human rights, non-discrimination and the working environment. Through dialogue, each Balco employee has been made aware of the code of conduct, since it is of greatest importance that all employees support the spirit conveyed in it.

1) AFA Försäkring's reporting system for managing deviations from working environment standards.

# Here's how Balco creates value for customers and stakeholders

## RESOURCES

- NATURAL RESOURCES
- PERSONNEL
- ECONOMIC RESOURCES
- PRODUCTION
- INTELLECTUAL CAPITAL

### NATURAL RESOURCES

- Concrete 2,535 m<sup>3</sup>
- Steel 2,913 tonnes
- Glass 1,040 tonnes
- Aluminium 1,463 tonnes
- Timber 10 tonnes and 355 m<sup>3</sup>
- Fuel (passenger transports) 30,015 liters petrol, 209,643 liters diesel
- Electricity consumption 2,819 MWh
- Water consumption 2,080 m<sup>3</sup>

### PERSONNEL

- 385 employees
- Personnel turnover 5.2%

### ECONOMIC RESOURCES

- Debt/equity ratio 1.4 times
- Capital employed SEK 169.2 million

### PRODUCTION

- 4 wholly-owned production plants in two countries as well as part-ownership of a subcontractor.
- Strong supplier network

### INTELLECTUAL CAPITAL

- Patents, brands, skills
- Customer offering – from idea to finished product

### SOCIAL/RELATIONS

- Safety and health
- Relations with customers locally, customer satisfaction
- Cooperation with partners, suppliers, prescribed stages

## VALUE CREATION

### GROWTH AND SUSTAINABILITY

#### TOTALITY

From idea to finished product

#### INNOVATION

Product development and customised solutions

#### CAPACITY

Efficient production, short lead times, skills

#### SAFETY

Knowledge, responsibility and local presence

#### SUSTAINABILITY

Maintenance-free, recyclable and long-term perspective

## CREATE

- SERVICES
- PRODUCTS
- WASTE

### SERVICES

- 3D visualisation
- Product development
- Construction and structural engineering analysis
- Installation and building supervision
- Customer project management

### PRODUCTS

- Glazed balconies
  - Open balconies
  - City balconies
  - Maritime balconies
  - Prefabricated balconies
- Breakdown: glazed balconies (75%), Open balconies and City balconies (20%), other products (5%).

### WASTE (Balco's production plants)

#### RECYCLABLE

- Steel 469.4 tonnes
- Aluminium 178.9 tonnes
- Concrete 27.6 tonnes
- Timber 61.5 tonnes
- Paper 18.5 tonnes
- Glass 14.9 tonnes
- Plastic 8.3 tonnes
- Combustible waste 23.9 tonnes
- Hazardous waste 66.8 tonnes
- Other 10.5 tonnes

#### BY-PRODUCTS

- Hazardous waste 21.2 tonnes



# Effects

*“Probably one of the best decisions the association has taken was when, a few years ago, it decided to install large, fine balconies on all apartments.”*

Quote from resident upon sale of an apartment in Brf Annero 3, Smålandsstenar via Fastighetsbyrån.

## SOCIAL

### FOR THE USER

- **Increased usability:** Balco's glazing system makes it possible to achieve larger, lighter balconies. Usability increases and the home achieves an extra dimension.
- **Increased comfort:** Glazed balconies are used more and contribute to increased comfort and reduced relocation.
- **Increased peace of mind:** Since the residents spend more time on their glazed balconies, “presence” in the area increases, resulting in less damage.

### OTHER SOCIAL EFFECTS

- Increased living standard and sense of security in the residential area.
- Indirect and direct jobs.
- High enjoyment, low personnel turnover and low level of sick leave in the Company.

*“At Gårdstensbostäder we have worked actively for several years using the “Gårdsten model” to enhance the profile of the area in various ways. With the glazed balconies, properties have been given an external facelift. Our residents have obtained an improved quality of life by spending more time on the balconies than they did previously. We are also witnessing increased enjoyment. Balco's glazed balconies have given the area an extra dimension.*

*I'm pleased to be able to state that as from 1 March 2019, the Gårdsten neighbourhood is no longer regarded by the police in Gothenburg as a particularly deprived area.”*

Michael Pirosanto, CEO Gårdstensbostäder AB, Angered, Gothenburg

## ENVIRONMENTAL

### FOR THE USER

- **Protection for the facade:** The life of a balcony with Balco's glazing is extended by at least 50 years compared with an unprotected concrete floor. Glazed balconies protect not merely the facade but also reduce the need for maintenance of doors and windows.
- **Less noise:** Glazing effectively dampens disturbing traffic noise from nearby motorways or railways. Integrated Balco glazing reduces the noise by up to 20 dB.
- **Improved indoor climate:** Glazed balconies warm input air before it enters the apartment. The effect is an improved thermal indoor climate.

### OTHER ENVIRONMENTAL EFFECTS

- Carbon dioxide emissions from transportation are reduced through modularisation and freight optimisation.
- Material and waste from production are 98% recyclable.
- Low emissions of welding particulates from production.
- Reduced energy use in properties with glazing contributes to lower carbon footprint.

*“Luckily, the general meeting didn't choose the cheapest alternative at the time, namely renovation of the old open balconies, but instead chose a long-term solution whereby we insulated the facade, which gave an improved indoor climate and, at the same time, we obtained new, large glazed balconies.”*

Tone Elisabeth Johansen Bjerkely, Chairman of Sameiet Austadveien 91–105, Drammen

## ECONOMIC

### FOR THE USER

- **Lower energy costs:** Glazed balconies reduce the property's heating costs by up to 20%.
- **Increased value:** Glazed balconies make the property and apartments more attractive. They often contribute to an increased market value, which makes the investment profitable in the long run.

### OTHER ECONOMIC EFFECTS

- Lower external maintenance costs.
- A long-term sustainable and vibrant company with low sick leave rates which generates value for customers, employees, owners and the community:
  - Sales SEK 1,058.1 m
  - Operating profit SEK 105.6 m
  - Cash flow SEK 28.0 m

*“In addition to the new usable balcony areas, we appreciate that we will be able to reduce energy use for heating up the apartments by up to 20%. Another economic benefit from the investment is that it increases the value of the building, which has received a facade facelift.”*

Stig Walter Holm, Vice-chairman of Bokfinkvegen Borettslag, Kongsvinger

# Governance and responsibility for sustainability aspects of the business

For Balco, sustainable enterprise is a condition for creating a business which grows, is profitable and creates value for the Company's customers, employees, owners and other stakeholders. Balco strives for sustainable enterprise and complies with the areas included in the UN Global Compact, the OECD's guidelines for multinational enterprises, as well as the UN's guiding principles for businesses and human rights.

Balco's Board has overall responsibility for questions relating to sustainable enterprise. The CEO is responsible for execution of the Board's decisions and strategies. As an aid to the CEO and the rest of the business, Balco has an environmental and quality manager who is responsible for producing bases for decisions, conducting analyses and otherwise assisting management in executing the decisions taken by the Board of Directors. Balco's approach to sustainable enterprise issues is defined in the Company's sustainability policy. The policy serves as a framework for operational decisions, and also for Balco's assessments and decisions on questions concerning the long-term strategic development of the Company. The sustainability policy describes Balco's position on sustainability issues, the Company's values and its preventive work within the area. The policy also states the Company's sustainability goals.

Balco's management group is responsible for compliance with the sustainability policy, for its development, and ensuring that it constitutes a part of the day-to-day work at Balco. The management group, the managing directors of subsidiaries and other managers work together so that the sustainability work is naturally integrated in the day-to-day work and in strategic decisions. The sustainability work is broken down into a number of goals with related activities. The activities are carried out regularly in the day-to-day operations. The goals are measured each month in accordance with clearly defined measurement methods. The result is presented regularly to the management group and the Company's Board of Directors.



## GOVERNANCE DOCUMENTS AND GUIDELINES

- **Sustainability policy:** The sustainability policy and related sustainability goals have been produced in collaboration between Balco's management group and the Company's Board of Directors. The policy covers operations in the parent company and the Company's subsidiaries. Date of adoption: 26 June 2017, updated 21 December 2018.
- **Environmental management system:** Balco's environmental management system has been certified in accordance with ISO 14001 since 3 May 2004. Balco AB, with its head office and production in Växjö, is certified in accordance with the standard, while the production plants in Poland follow the same principles but are not ISO certified.
- **Code of conduct:** Balco's ethical guidelines, values in external business relations, social responsibility and position as an employer are described in detail in the Company's code of conduct. Date of adoption: 1 September 2013.

The fundamental starting point for Balco sustainability work is to minimise the potential adverse effects of the business and to utilise the opportunities which sustainable enterprise entails. Balco's ambition is that all employees shall feel ownership of sustainable enterprise issues which are close to their own position. Several training courses have been held for Company employees.

## BALCO AND THE UN'S GLOBAL GOALS

Balco's business and work methods support the UN's global goals for sustainable development and the Company is able to make a positive contribution to most of the 17 goals. Here are several areas where Balco makes a difference.

 <p><b>3</b> GOOD HEALTH AND WELL-BEING</p>	<p>Balco has a zero vision as regards workplace accidents and focuses on retaining employees who are healthy in the long term. A prerequisite for this is that work duties are performed safely and that employees have a sound balance in life between work and leisure. We focus a great deal on preventive measures such as continuous education, wellness, regular health checks and ensuring ergonomic designs at workplaces.</p>	 <p><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>Balco's balcony solutions are an investment which contributes to strengthening the character of the building at the same time as making the residential environment feel safer and more attractive. Glazed balconies also reduce energy costs by up to 20% and extend the life of the balcony by more than 50 years.</p>
 <p><b>5</b> GENDER EQUALITY</p>	<p>Balco's objective is to achieve a more even gender balance at all departments, work areas and positions. Working conditions must be suitable for all employees irrespective of gender. For example, there must be good possibilities for both men and women to combine work, parenthood and leisure.</p>	 <p><b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>We are constantly seeking new solutions that can contribute to reducing the environmental impact of our production and products. For example, materials that are used in our glazing system are maintenance-free and recyclable. Material with a long life and robust designs contribute to making our products sustainable in the long term.</p>
 <p><b>8</b> DECENT WORK AND ECONOMIC GROWTH</p>	<p>Balco's code of conduct imposes demands for decent working conditions and these demands are also imposed on contractors. New, innovative solutions which provide the customer with added value together with long-term economic growth are important for Balco.</p>	 <p><b>13</b> CLIMATE ACTION</p>	<p>We monitor our environmental impact each year and review what we can do better as a company. We are reducing our contribution to climate change by, among other things, optimising our transports of material and energy efficiency improvements in our production.</p>
 <p><b>10</b> REDUCED INEQUALITIES</p>	<p>Balco forbids discrimination and harassment. This is clearly stated in Balco's equality policy and in Balco's code of conduct. This year, Balco has also chosen to support the Musikhjälpen project with the theme "Everyone's right to function differently".</p>		







# Significant sustainability aspects

In the autumn of 2017 Balco, together with the consulting firm PwC, carried out a materiality analysis in which 23 significant sustainability aspects were identified which Balco prioritises from a sustainability perspective. The sustainability aspects have been weighted based on the degree of impact on the organisation's business and its stakeholders. Taken together, the sustainability aspects govern the focus of Balco's sustainability work and each individual sustainability aspect is to be taken into account and monitored.

The analyses have been made based on both risks and opportunities related to sustainable entrepreneurship. The overarching areas taken into account are the environment, social conditions, personnel issues, respect for human rights, anticorruption and governance issues.

*The result of the materiality analysis is evident from the subjects and result indicators presented in this report.*

## Four focus areas

Four significant sustainability aspects have been deemed to be of particularly great importance for the business and its stakeholders. Therefore, in its sustainability work Balco has chosen to place greatest focus on activities connected to these areas.

### TRANSPORTATION (ENVIRONMENTAL)

A description of how Balco is working to minimise the environmental impact of transportation is reported under Sustainability-related Risks, page 33, and under Prioritised Sustainability Goals, page 34.

### HEALTH AND SAFETY (SOCIAL)

Balco shall be a serious employer which endeavours to provide its employees with long-term, sustainable employment in a sound working environment. Social conditions and personnel issues are described in greater detail under Sustainability-related risks, page 33, and under Prioritised Sustainability Goals, pages 34-35.

### THE PRODUCTS' LIFESPAN, ENERGY SAVINGS AND PRODUCT SAFETY (COMMERCIAL)

The concept of sustainability is strongly integrated in Balco's business concept and characterises the products, manufacturing and delivery processes. Read more about Balco's products and product development under "Innovative and sustainable products" on pages 14-19 and under "The Green Company" on page 27.

### CUSTOMER SATISFACTION (COMMERCIAL)

For Balco, which works from sketches via production to final installation, it is important that all elements in the process meet the customer's expectations. Customer satisfaction is measured, analysed and followed up as part of Balco's regular operational goals. Read more about the customer satisfaction work under Prioritised Sustainability Goals on page 35.





# Significant sustainability-related risks and risk management


*Balco presents here the significant sustainability-related risks which it has identified linked to the business, and describes the way in which each sustainability risk is addressed by the Company.*

Significant risks	Description of risk management
<b>ENVIRONMENT</b>	
<b>FIRE</b> Within the business, machines and chemicals are used which may cause fire. Insufficient fire protection can cause great damage for Balco, Balco's neighbours or for the environment.	Balco work systematically with fire protection. Access to fire protection equipment, unrestricted evacuation passages and order and tidiness are checked regularly in connection with safety inspections. Fire safety equipment is maintained and checked. In 2018, evacuation exercises were carried out at the production plant in Växjö and fire safety checks were carried out at local sales offices. Balco is working constantly to improve its fire protection.
<b>TRANSPORTATION</b> Balco's production has increased and, with it, the number of transports has also increased. CO <sub>2</sub> emissions in connection with transports are one of Balco's significant environmental aspects.	Project leaders and logistics cooperate to optimise deliveries in a project, so that the number of deliveries is minimised. Balco also measures the load rate on the trucks which travel from the production site to the building site, and checks off against Balco sustainability goals, to minimise the environmental aspect. During the year, personnel transports have been noted as a significant environmental aspect and, in 2019, Balco will produce templates for monitoring and evaluating this environmental aspect.
<b>SOCIAL RELATIONS INCLUDING PERSONNEL ISSUES</b>	
<b>WORKPLACE ACCIDENTS</b> In parts of the business, at Balco's production units and especially at building sites in connection with installation of balconies, there is a heightened risk of workplace accidents. A serious accident can have serious consequences for the individual in the form of injury, permanent pain, trauma and reduced work capability. It can also mean serious consequences for the Company in the form of damage to reputation, damages, and fines for deficient regulatory compliance.	Responsibility as an employer includes guaranteeing a safe workplace. Safety inspections take place regularly both at our production plants and at Balco's building sites in order to prevent accidents. The reporting of accidents and near accidents constitutes an important basis for Balco's risk and injury management. Therefore, in 2018 a new reporting system was implemented which, through use of an app, simplifies the reporting of risk observations, near accidents and accidents. All incidents are followed up and measures are taken. All managers and work supervisors have received an introduction to the tool.
<b>DISCRIMINATION AND LACK OF GENDER EQUALITY</b> Balco is aware that it operates in a traditionally male-dominated industry. Although we now have an express policy of zero tolerance as regards discrimination and endeavour to achieve a gender equal work-place, the historical structure can take time to change. Discrimination on the basis of gender, age, origin, religious belief and sexual orientation is unlawful and any shortcomings in this regard may result in damage to reputation, a deteriorated workplace environment with reduced productivity as a consequence, difficulties to recruit and retain personnel, as well as damages.	Balco prohibits discrimination and harassment. No one needs to suffer discrimination or harassment connected with gender, cross-gender identity or expression, ethnicity, religion or other religious belief, functional impairment, sexual orientation and age. This is clearly stated in Balco's equality policy and in Balco's code of conduct. Balco's equality policy includes goals and measures described for the following areas: working conditions, parenthood and work, prohibition on discrimination and harassment, gender breakdown, skills development and recruitment as well as wage issues. The Company has routines in place as to how discrimination and harassment at the workplace are to be handled.
<b>RESPECT FOR HUMAN RIGHTS</b>	
Balco perceives no obvious risks of violations of human rights as a consequence of the Company's business. Balco conducts no business in countries identified as high-risk countries in this respect. We address risks of violations of human rights in our value chain under "Corruption and bribery" below.	Balco's sustainability policy and code of conduct are partially based on the human rights decided upon by the UN and must be complied with by all employees.
<b>CORRUPTION AND BRIBERY</b>	
Balco has zero tolerance as regards bribery and corruption. This is clearly stated in Balco's code of conduct. The risk of corrupt behaviour is considered to be relatively limited and arises primarily in connection with purchasing and sales. Balco's suppliers are also expected to comply with the code of conduct and Balco requests them to sign a copy of the code as a confirmation thereof.	Balco's code of conduct covers also bribery and corruption and the code is communicated to employees and suppliers. Balco's purchasing policy states that suppliers must respect the principles in the code of conduct. If Balco discovers that any supplier has violated the code of conduct, a plan of action will be drawn up to address the situation.
<b>OTHER RISKS</b>	
Balco has identified no other significant sustainability risks. As regards other risks, see pages 52–55 of the Annual Report and Note 3 on pages 81–83.	



# Goals, outcome and assessment

Balco's sustainability work is broken down into a number of goals with related activities for achieving the goals. The activities are carried out regularly in the day-to-day business and measured based on clearly defined measurement methods. The result is regularly reported to the management group and the Company's Board of Directors. Here, Balco sets out the results of a number of prioritised sustainability goals.

## TRANSPORTS

Goal:	Outcome:	Comments, outcome:
<b>Freight optimisation* on 100% of all transports</b>	<b>Freight optimisation</b>  	<b>Activities for achieving the goal:</b> <ul style="list-style-type: none"> <li>• Increased standardisation of design solutions</li> <li>• Increased resources for optimisation of packaging of products</li> <li>• In-depth control and monitoring of the project flow</li> <li>• Increased resources for enhanced site logistics at the building sites</li> </ul> <b>Measurement interval:</b> Monthly. <b>Measurement method:</b> The theoretical optimal value is divided by the number of actual freights. Measured on projects concluded during the month. <b>Goal for 2020:</b> Maintained 100% freight optimisation. <small>*Theoretical optimal value defined by Balco based on the modularised work method in production, compared with actual number of freights. Results in excess of 100% show that fewer freights are used compared with the optimally calculated number.</small>

## SOCIAL RESPONSIBILITY

Goal:	Outcome:	Comments, outcome:
<b>Max 1% short time absence (days 1–14)</b>	<b>Short time absence in 2018</b>  	<b>Activities for achieving the goal of max 1% short time absence (days 1–14):</b> <ul style="list-style-type: none"> <li>• Monthly follow-up meetings</li> <li>• Regular health checks</li> <li>• Active work with AFS (2015:4)</li> <li>• Activities to promote well-being, satisfaction and health</li> </ul> <b>Measurement interval:</b> Monthly. <b>Measurement method:</b> The percentage who are home due to sickness (days 1–14) divided by total scheduled time. Statistics are produced by the relevant HR system. <b>Goal for 2020:</b> Achieve and maintain 1% short term absence.
<b>Max 6% personnel turnover during a financial year</b>	<b>Personnel turnover in 2018</b>  	<b>Activities for achieving the goal of max 6% personnel turnover:</b> <ul style="list-style-type: none"> <li>• Improve the communication flow</li> <li>• Improve the working environment</li> <li>• Active work on personnel benefits and employer brand</li> <li>• Expanded personnel training and development opportunities</li> <li>• Clear career paths</li> <li>• Culture and enjoyment-promoting activities</li> </ul> <b>Measurement interval:</b> Monthly and annually. <b>Measurement method:</b> Number of employees leaving through number of employees per month/year. <b>Goal for 2020:</b> To be within the range 4–5% personnel turnover.



## SOCIAL RESPONSIBILITY

## Goal:

**Zero workplace accidents\* leading to absence during a financial year**

## Outcome:

## Workplace accidents



**Accident frequency\* for companies with manufacturing units**



## Comments, outcome:

In 2018, we had 10 accidents at our production plants, 5 of which resulted in short-term absence. Balco is also charged with ensuring that subcontractors work in accordance with our instructions and that they monitor and report near accidents in accordance with Balco's rules.

**Activities for achieving the goal of zero workplace accidents during a financial year:**

- Internal audit focused on working environment
- Work for increasing reporting of near accidents and risk observations
- Regular monitoring and investigation of accidents, near accidents and risk observations
- Safety inspections at production plants and building sites
- Training of supervisors and work managers focusing on environmental work and safety
- Ensuring compliance with safety regulations

**Measurement interval:** Quarterly in connection with safety committee meetings.

**Measurement method:** Calculate number of reported accidents, near accidents and observations in reporting system.

**Goal for 2020:** Zero workplace accidents leading to absence.

*\* Number of workplace accidents (per 1 million hours worked), i.e. work-related accidents leading to absence of at least one working day or one work shift.*

## CUSTOMER SATISFACTION

## Goal 1:

**85% of customers willing to recommend Balco**

## Outcome:

**Customers who recommend Balco**



## Comments, outcome:

**Activities for achieving the goal :**

- Correct from the factory – fewer complaints
- Quicker installation
- Attractive, market-leading product
- Regular measurement and monitoring of customer satisfaction

**Measurement interval:** Ongoing.

**Measurement method:** Measured via questionnaires sent to customers.

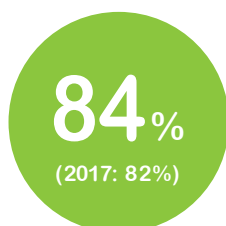
**Goal for 2020:** 90% of customers are prepared to recommend Balco to relatives/friends/colleagues/the general public.

## Goal 2:

**80% of customers shall regard the residential area as having change for the better since the balcony construction.**

## Outcome:

**Customers who think that the residential area has changed for the better**



## Comments, outcome:

**Activities for achieving the goal :**

- Correct from the factory – fewer complaints
- Quicker installation
- Attractive, market-leading product
- Regular measurement and monitoring of customer satisfaction

**Goal for 2020:** 85% of customers shall regard the residential area as having change for the better since the balcony construction.

# Looking ahead to 2019

Balco will continue to provide attractive and innovative balcony solutions that contribute for reduced energy use, improved quality of life for the residents and a safer and more appealing environment for the surroundings in general.

Many residential areas in Balco's chosen markets in Europe are in need of major, costly renovation. With the Balco method, whereby existing balconies are replaced with new glazed balcony systems, Balco offers a cost-effective solution which is sustainable in the long term.

Balco's glazed system is an environmentally-friendly investment. Through proven environmental advantages in the form of lower energy use, Balco's solutions are contributing to reducing CO2 emissions into the atmosphere. The life-cycle analysis, which was commenced and will be concluded in 2019, provides a basis for environmental improvement measures in terms of the products as well as manufacturing and sales process – an environmental focus which Balco is emphasising with the concept "the green company".

In 2019, Balco will continue its work on improving the working environment and increased safety. A focus will be placed on increasing knowledge of the Group's policies and personnel will be trained regularly via e-learning. Balco will also carry out measures based on the energy survey completed in 2018.

The materiality analysis which Balco carried out in 2017 emphasised 23 prioritised sustainability aspects. Work on them is continuing in 2019. The life-cycle analysis which is now being carried out represents a result of the validation with the Balco Group's most important stakeholders.



# Auditor's report on the statutory sustainability report

*This is a literal translation of the Swedish original report*

To the general meeting of the shareholders in Balco Group AB, corporate identity number 556821-2319

## Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2018 on pages 26-36 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.

Jönköping, 11 April 2019

Öhrlings PricewaterhouseCoopers AB

Martin Odqvist  
*Authorised Public Accountant*

# Balco as an investment

*Balco is a growth company offering innovative, patented and energy-saving, high-quality balcony solutions. The Company is the market leader in the Nordic region and operates on several markets in northern Europe. Balco's customised products contribute to increased peace of mind, quality of life and an increase in value for residents of apartment buildings.*

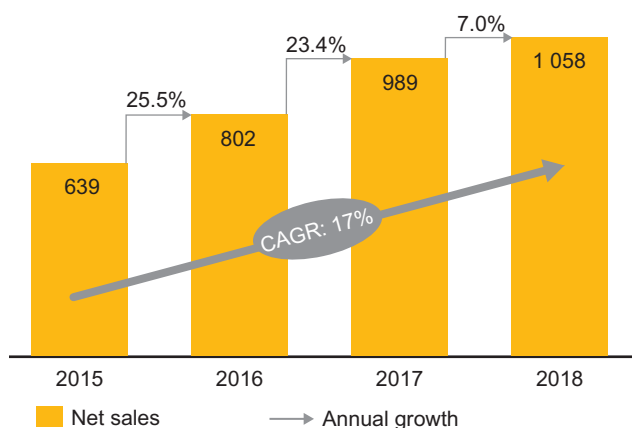
## A CLEAR MARKET POSITION

Balco is currently market leader in the Nordic region on the attractive balcony niche market. The Company offers customised balcony solutions under its own brand to tenant-owner associations, private landlords, public housing companies and construction companies, primarily in Sweden, Norway and Denmark (the Company's main markets), as well as in Germany, Finland, the UK and the Netherlands.

## MARKET LEADER ON A LARGE NICHE MARKET

The northern European balcony market was estimated to be worth more than SEK 30 billion<sup>1)</sup> in 2017. The anticipated rate of growth is approximately 3% annually during the period 2018-2022. Growth is being driven by a continued strong trend on Balco's main markets, where the renovation segment is expected to experience value growth of approximately 10% annually during the period 2018-2022.

### Annual average growth in sales 17%



## BALCO – A GROWTH COMPANY

Since 1996, Balco has grown from being a local company with approximately 25 employees and sales of approximately SEK 30 million to 385 employees and sales of SEK 1,058 million at the end of 2018. Since the introduction in 2014 of the new expansion strategy focused on more sales personnel and attendance at more mini-trade fairs, sales have grown at an annual average rate of 17%.

## PROVEN BUSINESS MODEL WITH EXCLUSIVE CUSTOMER VALUE

Balco's balcony solutions are made to measure units comprising a number of different components and materials. Each order is unique and tailored to the customer's specific needs and requirements.

Balco's favourable position on the market is largely a result of the successful implementation method which the Company uses – the Balco method – combined with the Company's expertise and unique sales process. Renovation in accordance with the Balco method means that the existing open balconies are replaced with new glazed balcony systems. This is an attractive and sustainable alternative to traditional balcony renovation, with benefits such as longer lifespan, enhanced living standard, reduced energy consumption and increased property value.

## ATTRACTIVE FINANCIAL PROFILE

Balco has an attractive financial profile with strong growth in orders and sales, high profitability and a strong cash flow. Historically, Balco has demonstrated a high order intake which increases sales over time as projects are completed. At the same time, profitability has improved through price increases, increased efficiency and economies of scale as a consequence of the increased sales. Working capital needs are low since the balcony solutions are customised and the payment plans follow the course of the project.

Regular investments in the business, excluding expansion investments, are also low, which overall contributes to the cash flow. Historically, Balco has delivered a strong cash flow and an operating cash conversion of more than 80% of EBITDA. This facilitates continued investments for growth, at the same time as Balco has an objective of distributing at least one half of net profit to the shareholders.

## ENVIRONMENTALLY FRIENDLY

Balco's products have a lifespan of more than 50 years and provide a documented energy-saving effect of up to 20%. The ongoing life-cycle analysis has demonstrated that the product's lifespan, with replacement of the windows after 50 years, can be increased to 90 years and is entirely recyclable at the end of the product's lifespan. Compared with traditional concrete renovation, which during the first 50 years must be carried out at least twice and possibly three times, the Balco method and Balco's products are superior from both an economic and a climate perspective. In an average glazing project, energy savings alone contribute a positive CO<sub>2</sub> effect corresponding to one hectare (10,000 m<sup>2</sup>) of growing forest.

The Balco method is not merely the best solution from an economic perspective and for the residents' quality of life, but is also environmentally friendly.

1) Arthur D. Little Market study on behalf of Balco, September, 2018



# Growth strategy

*Balco is a niche player with a strong position within balcony solutions. The Balco method is economically attractive and provides the customer with the peace of mind of a fixed-price turnkey project. The Company largely creates its own growth in the market by teaching potential customers about the advantages of the Balco method as an alternative to traditional balcony renovation. The possibilities for continued growth, both organic and through selective acquisitions, are considered to be very good.*

## A NICHE PLAYER WITH A STRONG POSITION ON A GROWING SEGMENT

Through growth, Balco will entrench and strengthen its leading market position within balcony solutions in northern Europe. A strong rate of market growth is expected within Balco's niche. Thanks to the Company's leading positions in Sweden, Norway and Denmark, combined with its modern and innovative product portfolio, Balco has a head start on its competitors. Market demand is being driven by a pent-up need for renovation, an ageing property stock and an endeavour to establish energy efficient solutions.

## POTENTIAL TO CONTINUE TO GROW ON EXISTING MARKETS

Balco has great potential to continue its strategy of expanding with increased sales staff and by increasing its presence at trade fairs. The assessment is that it is possible to double participation at fairs in the Nordic region and to increase the sales force by 20% during the next four years. Since each customer is unique and Balco's products are tailored to the customer's needs, local presence and proximity to the customer are important. Market needs and thereby growth on Balco's main markets remain strong and Balco's offering, which brings with it a long lifespan, a low cost for the apartment owner and a balcony which can be used most of the year, gives potential to continue to gain market shares from local firms and concrete repair firms. In order to utilise market potential on existing markets, the Company will continue to increase and strengthen its existing salesforce and increase exposure to the Renovation segment. Balco also perceives the possibility to expand its presence in important customer segments, such as public housing companies and private landlords.

## POSSIBILITIES FOR EXPANSION

There are very good possibilities for Balco to continue to grow on markets in which the Company is still a relatively small player. Balco is currently established on markets with strong market potential such as the Netherlands, Germany, Finland and the UK. Alongside geographic markets, Balco has recently developed products within the maritime area, which is a growing market, with balcony solutions for cruise ships. In addition, there are great possibilities to expand the City balcony product segment (which is focused on inner-city environments and buildings previously without balconies), to more markets than the Danish market cultivated to date.

## GROWTH THROUGH ADDITIONAL CAPACITY AND EFFICIENCY IMPROVEMENTS

Balco is constantly endeavouring to improve existing production and installation processes in order to cut lead times and reduce costs, while at the same time creating satisfied customers since the total project time can be cut. In 2018, Balco invested in a new production unit for City balconies in Poland to increase production capacity, strengthen competitiveness and thereby support future growth.

## SELECTIVE ACQUISITION POSSIBILITIES

Balco's growth has historically taken place organically, and the Company's primary growth strategy remains organic growth. Corporate acquisitions are to be regarded as a possibility to strengthen existing presence on a market, in existing or adjacent product areas or within new customer segments. Acquisitions can also be analysed to facilitate a more rapid expansion on a new market. The IPO carried out in the autumn of 2017 has strengthened the Company's financial position and thereby its possibilities to make future acquisitions. 2018 saw the acquisition of TBO-Haglinds AB, which operates within the renovation segment in Sweden. Their products and customer offering mean that Balco becomes a complete balcony supplier.

### GROWTH ACTIVITIES IN FOCUS, 2019:

- Organic growth by recruiting new sales staff and increasing the number of fairs.
- Expand the City balcony product segment outside Denmark and expand to outside Sweden the customer offering which has become available through the acquisition of TBO-Haglinds AB.
- Work for rapid establishment in the Netherlands, where there is a very large pent-up need for balcony renovations.
- Complete the ongoing life-cycle analysis which, together with our previous result regarding CO<sub>2</sub>, will show that the Balco method is the most sustainable renovation method for both the environment and economically, irrespective of time horizon.
- Extend the life of Balco's balcony system from more than 50 years to more than 90 years.
- Teach customers and public authorities about the advantages of the Balco method, its positive effects for the economy and climate, and compare these facts with traditional balcony renovation.
- Continue to optimise shorter lead times and thereby increase the order backlog conversion rate.
- Analyse acquisition opportunities.

## FINANCIAL TARGETS

**10%**

### GROWTH:

Balco shall grow by 10% per year

**13%**

### PROFITABILITY:

Balco shall have an operating margin (EBIT) of at least 13%

**2.5**

### CAPITAL STRUCTURE:

Net interest-bearing debt shall not exceed 2.5 times operating profit before depreciation and amortisation (EBITDA), other than temporarily.

**50%**

### DIVIDEND POLICY:

Balco shall distribute at least one half of profit after tax, taking into account the needs for Balco's long-term development and prevailing market conditions

# New balconies gave Brf Klosters Fälad a real lift

*When the old balconies from the mid-60s began to show their age, Brf Klosters Fälad in Lund retained Balco to replace them with glazed balconies and, in addition, to build entirely new conservatories on the ground floor. Everything was completed in the summer of 2018.*

*"We wanted to enhance the residential quality and offer added value by extending the apartments with an additional, cosier conservatory," says Aida Hosseini, chairman of Brf Klosters Fälad in Lund.*



## CASE



### ABOUT THE PROJECT

#### Delivery:

Glazed balconies and conservatories for 412 apartments in Brf Klosters Fälad, Lund.

#### Objective:

To increase residential quality, generate added value and give a facelift to old facades.



In recent years, the board of the tenant-owner association has worked on a maintenance plan which, among other things, involved draining the ground around the ground floor apartments and upgrading the facade. In connection with these measures, plans also began for new balconies and conservatories. The buildings in the tenant-owner association were built in the mid-60s and some balconies were in a worse condition than others and so, in order to obtain an overall impression and enhance living quality and the appearance of the facades, it was decided that all balconies would be replaced. In addition, the apartments on the ground floor would obtain glazed conservatories, instead of only having a garden as previously.

"In some cases the old balconies were used as extra storage space or a nook for storing things. We wanted to provide our residents with a place in which to socialise. In addition, the new balconies also enhance the appearance of the area generally, which makes it more pleasant for everyone there," says Aida Hosseini.

### RETAINED BALCO FOR THE ENTIRE PROCEDURE

In the spring of 2017 Balco won the procurement process to renovate the balconies of Brf Klosters Fälad. Aida Hosseini explains that they chose Balco since they had many good reference properties, good communication paths, were transparent and had their production in Sweden. The principle of proximity was important since it can reduce any delays when it comes to shipment of material and goods. According to Aida, the project went very smoothly

since Balco was always open to questions, accessible and inclusive. One challenge which arose during the course of the project was that asbestos was found in some of the old balconies.

"The only right thing to do was to remove the asbestos, which resulted in a slight delay for Balco. They requested extra time for completion. Despite this, they kept to the original timetable and managed to make up for the delay," says Aida Hosseini.

### WELL-RECEIVED BY RESIDENTS

All of the new balconies and conservatories were ready for use by the summer of 2018 and Aida says that they were praised by the residents. When the autumn and winter darkness arrived, the area was much more pleasant,

"The residents have really taken advantage of the opportunity provided by the new balconies. Many of them have furnished them with lighting and furniture, and feel that they have obtained a lighter overall impression in the apartments. Some residents have also turned to me and said that they had peace of mind throughout the entire building process, that Balco's craftsman appeared to have enjoyed their time at their workplace, and that the work was performed in a professional manner," says Aida Hosseini.

Johan Bengtsson, Balco's project manager, was also a positively impressed by the good collaboration.

"We've had an open and good dialogue with the association's representatives throughout the project and this has helped us in being able to stick to the timetable," concludes Johan Bengtsson.



# New meets old when A/B Angelgården replaced its balconies

*When the Angelgården tenant-owner association decided they should have a new balconies, the catchwords were quality and design. The objective was to improve and lift the property to a new level. Balco Kontech was involved in the entire process and the tenant-owner association is extremely pleased with the end result.*



## CASE



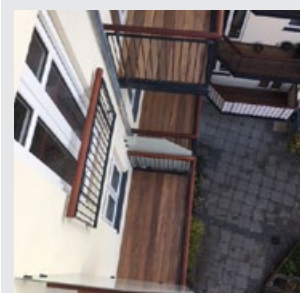
### ABOUT THE PROJECT

#### Delivery:

176 inner city balconies installed on Angelgården in Copenhagen.

#### Objective:

Install balconies where there had previously been none, with a design in keeping with the old architecture of the building.



In 2016, the Angelgården tenant-owner association in Copenhagen decided to renovate the property. The renovation included plastering and painting of the facade, replacement of windows and installation of new balconies. The building, comprising a total of 200 apartments, was built in 1923 and it was important for the association that the design of the new balconies be in keeping with the architecture of the building. The idea behind the design was “old meets new” and “rustic versus finesse”. The dark balconies became a striking contrast to the yellow facade and the white windows.

Michael Rønnow Kjærulff Jacobsen from the association says that they chose Balco Kontech since they offered the best quality at the best price.

“Our building consultant obtained three tenders from different companies. Balco Kontech best suited our profile, in terms of quality and price, and we are very satisfied and pleased with the cooperation,” he says.

### GOOD END RESULT

During the course of the project problems arose due to a shortage of fitters, but Michael Rønnow Kjærulff Jacobsen is very satisfied with how Balco Kontech handled the situation.

“They did what they could and the shortage of staff is more a reflection of a societal problem, with a lack of skilled craftsmen with specific industry knowledge,” he says.

Once service-minded fitters were available, the project reached its destination.

“We had a few unexpected challenges with fixings in the floor structure and a couple of cases of illness. However, Balco Kontech’s fitters were incredibly service-minded and I really wish to thank them. Despite the challenges, they succeeded in carrying out the project with pride and high quality,” says Michael Rønnow Kjærulff Jacobsen.

Project manager Patrick Ödewall is also very pleased with both of the result and the way in which the project was carried out.

“I want to highlight the words “Golden Triangle”, the three corners of which are represented by developer, adviser and contractor. The key to success is when all three are in harmony and work together, regularly checking off against expectations, and having understanding and respect for each other’s areas of responsibility and work duties. A/B Angelgården is excellent testimony to the fact that the golden triangle works.

“In an otherwise very tough construction industry, as a contractor it’s a real pleasure to have the opportunity to represent one of these cornerstones, which also resulted in the association having expanded its newly renovated facade with 176 fine new high-quality balconies,” concludes Patrick Ödewall.

# ADMINISTRATION REPORT

*The Board of Directors and CEO of Balco Group AB, registration number 556821- hereby present the annual report and consolidated financial statements for the 2018 financial year.*

## THE BUSINESS

Balco offers customised and innovative balcony solutions under its own brand to tenant-owner associations, private landlords, public housing companies and construction companies. Balco is currently market leader in the Nordic region and enjoys a strong challenger position on other northern European markets. Since it was founded in 1987 in Växjö, Balco has developed from being a local product-oriented supplier of balconies to a leading market-oriented supplier of glazed balcony solutions. The parent company conducts its business directly and through Swedish and foreign subsidiaries. In addition, the Group has a branch in Norway, Balco NUF (984997353).

Balco has expanded substantially in recent years, both on existing markets and through establishment in new countries, and today has sales offices in seven countries. The Company has four wholly-owned production plants in Sweden and Poland and is part-owner of a Polish subcontractor. Unique products, good delivery capacity and skilled employees lie at the heart of Balco's business. The Company has made significant investments and possesses capacity for continued growth. Balco offers an extensive range of products and solutions to the balcony market under its own brand with patented technical designs. The products are tailored to the customers' specific needs and can be installed in conjunction with both renovations and new construction.

## MARKET

Balco operates on the northern European market for balcony solutions, with a major focus on glazing, which is a niche market within the broader construction market. The balcony market primarily comprises renovation of existing balconies and the installation of new balconies on existing properties, but also includes installation of balconies in conjunction with the construction of new properties. Balco's main markets are Sweden, Norway and Denmark.

In addition to its main markets, Balco also operates in Germany, the UK, the Netherlands and Finland (referred to as 'Other Markets') and, in addition, has made a number of investments in Iceland and in Switzerland.

In a number of selectively chosen projects, Balco also develops, sells, manufactures and installs balconies for maritime applications on cruise ships. Balco has identified the maritime area as a growing market in need of more suppliers, where Balco possesses applicable know-how and has developed a floor design patent.

The balcony market is divided into two market segments: Renovation and New Build, with Renovation accounting for approximately 90 (86) percent of Balco's sales.

## Important events in 2018

### JAN-MAR Q1

- New reporting rules in the form of IFRS 15 and IFRS 9 are to be applied by Balco. IFRS 15 involves a deferment of the time when sales and earnings are reported, while IFRS 9 will have no significant impact.
- The Nomination Committee proposes that the Annual General Meeting elect Carl-Mikael Lindholm and Johannes Nyberg as new directors.
- The Board proposes that the Annual General Meeting adopt a dividend of SEK 1.00 per share.

### APR-JUN Q2

- Balco secures an order in Stockholm worth approximately SEK 100 million.
- Balco's Annual General Meeting authorises the Board of Directors to finance acquisitions or other growth in the Company by deciding on new issues of shares or warrants, or convertible instruments with respect to such shares, entailing an increase or potential increase of not more than ten (10) percent, or not more than 2,142,877 shares, in the Company's share capital.
- Balco's Annual General Meeting authorises the Board of Directors to decide on buybacks of up to one-tenth of all shares in the Company and to authorise the Board to decide on transfers of treasury shares.

### JUL-SEP Q3

- Balco extends its current bank agreement on unchanged terms and with a new maturity date of September 2021.
- Balco wins the "Best Annual Report" prize for companies listed on Nasdaq Stockholm, Small Cap.

### OCT-DEC Q4

- Balco strengthens its position in Sweden through the acquisition of TBO-Haglinds AB. The acquired company has annual sales of approximately SEK 130 million and it is expected to contribute SEK 0.50 to earnings per share in 2019.
- Delivery of Balco's first maritime project comprising more than 1,500 balconies and balcony rails for the market's first a cruise ship operating on LNG (natural gas), which is manufactured by Meyer Werft on behalf of the cruise company AIDA/Carnival Corporation.





## NET SALES AND OPERATING PROFIT

### The Group

Net sales in 2018 increased by 7% to SEK 1,058.1 million (989.0), an increase of SEK 69.1 million. The rate of growth, which was entirely organic, was 7%. Adjustment to IFRS 15 affected the Company's sales by SEK 21.8 million, corresponding to 2% of sales. The increase in sales is due to the strong growth in the order backlog in recent years. The time when sales are generated depends on the phase the project is in during the project cycle. Growth is also due to investments in an expanded sales organisation, geographic expansion, increased production capacity as well as continued development of the product portfolio. Apart from the maritime area, all markets developed well during the year.

Gross profit increased during the year was SEK 253.8 million (247.8), corresponding to a gross margin of 24.0% (25.1). The increase in gross profit is primarily due to increased sales, productivity and pricing. Selling expenses increased during the year to SEK 94.1 million (87.6). Total operating expenses were SEK 148.2 million (155.5), corresponding to 14.0% of sales (15.7). Total operating expenses for the preceding year included SEK 24.4 million in items affecting comparability related to the IPO, while total operating expenses for the year include SEK 1.2 million in transaction expenses for the acquisition of TBO-Haglinds AB. Adjusted for this factor, total operating expenses for the year correspond to 13.9% of sales (13.3). This is in line with Balco's strategy of continuing to invest in an expanded organisation.

Operating profit for the year increased compared with the preceding year and amounted to SEK 105.6 million (92.3), corresponding to an operating margin of 10% (9.3%). Adjusted for items affecting comparability, operating profit was SEK 120.2 million (116.7), corresponding to an adjusted operating margin of 11.4% (11.8%). The increase in earnings is due to increased sales, the new strategy within the New Build segment and improved productivity. The earnings trend constitutes a step towards the Company's medium-long term profitability target of an operating margin of not less than 13%.

### Renovation

The Renovation segment includes both replacement and extension of existing balconies as well as the installation of new balconies on apartment buildings that lack balconies. Most of Balco's sales within the area comprise glazed balconies for tenant-owner associations. Sales within the Renovation business segment increased during the year by SEK 100.2 million, to SEK 947.7

million (847.5). The increase was entirely organic. The segment accounted for 90% of Balco's total sales.

Operating profit for the Renovation segment increased to SEK 117.2 million (114.5), corresponding to an operating margin of 12.4% (13.5). The lower margin is attributable to an increased allocation of shared group costs to the segment as well as the effect of adjustment to IFRS 15.

### New Build

The New Build segment covers installation of balconies in conjunction with the new construction of apartment properties as well as maritime applications. Balco offers its entire product range within the New Build segment. The largest product areas comprise glazing and open balconies.

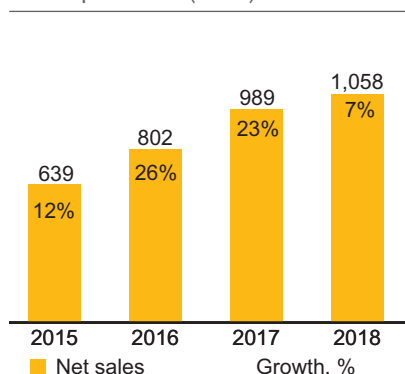
Sales within the New Build business segment fell by SEK 31.0 million, to SEK 110.4 million (141.4). The reduction is a natural consequence of the selective strategy adopted by Balco in 2016. The segment accounted for 10% of Balco's total sales.

Operating profit for the New Build segment was weaker during the year primarily due to the maritime section, and amounted to SEK -10.6 million (7.3), corresponding to an operating margin of -9.6% (5.2). Delays and disruptions in the final phase of the first maritime project resulted in added costs of SEK 13.3 million, which have been reported as an item affecting comparability. Adjusted operating profit was SEK 2.7 million, corresponding to a margin of 2.4%.

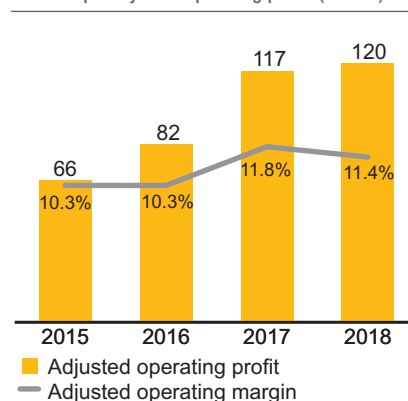
## ACQUISITIONS

Balco is a growth company within the balcony industry. The objective is that the Company shall primarily grow organically through its own forces, but acquisitions are also interesting where the acquisition contributes to strengthening Balco's competitiveness or is able to accelerate the pace of establishment on a market. On 15 November 2018, Balco announced that it had acquired all of the shares in TBO-Haglinds AB. TBO-Haglinds AB is one of the established companies on the Swedish balcony renovation market and, through the acquisition, Balco is strengthening its product and customer offering to cover the entire market's needs within the Renovation segment. The acquisition was completed on 5 December 2018 at a purchase price of SEK 120 million, of which SEK 20 million comprises a variable supplemental purchase price which will be based on the company's future development and results in 2021. TBO-Haglinds AB has sales of approximately SEK 130 million with an underlying profit of SEK 15 million.

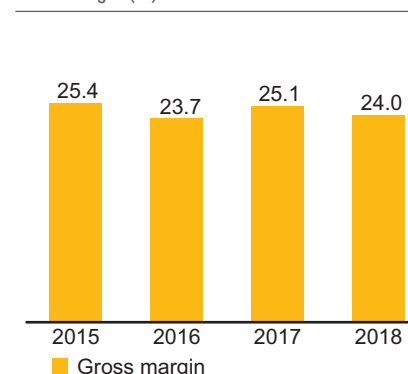
The Group's net sales (SEK m)



The Group's adjusted operating profit (SEK m)



Gross margin (%)



## RESEARCH AND DEVELOPMENT

Balco has a tradition of products developed in-house and regularly invests in product development, which is one of Balco's most important strategic advantages. The Company has a proven ability to develop new, innovative and technical solutions. The product development department is constantly working on improving existing products and producing new products. The department also participates in the production of customised balcony solutions and has the capacity to develop products for new segments in which Balco sees great potential. Examples of new products that Balco has launched in recent years include maritime balconies, City balconies, Alu-One and Balco etage. At the end of the financial year, Balco had eight full-time employees in the product development department and product development expenses amounted to SEK 10.4 million (8.6). As of 31 December 2018, the Company had 44 product patents (45).

Booked and capitalised product development expenses

SEK m	2018	2017
Capitalised product development expenses	0.5	-
Product developments booked as costs	10.4	8.6
<b>Total</b>	<b>10.9</b>	<b>8.6</b>

## AMORTISATION/DEPRECIATION AND EBITDA

Amortisation/depreciation in 2018 increased and amounted to SEK 20.2 million (17.1). Profit before amortisation/depreciation and write-downs, EBITDA, was SEK 125.9 million (109.4), corresponding to an EBITDA margin of 11.9% (11.1).

## FINANCIAL EXPENSES

The Group's financial expenses fell significantly during the year to SEK 6.2 million (37.1), and consequently net financial items improved by SEK 30.9 million. The reduction in financial expenses is due to the improved capital structure established in conjunction with the Company's IPO in December 2017.

## TAX, PROFIT FOR THE YEAR AND EARNINGS PER SHARE

The tax expense was SEK 22.8 million (17.6), corresponding to an effective tax rate of 22.9% (31.9). Profit for the year after tax was SEK 76.8 million (37.7), corresponding to SEK 3.67 per share (2.43), both before and after dilution.

## CURRENCY FLUCTUATIONS

Balco's group currency is Swedish kronor (SEK), while the Group's revenues and expenses are normally stated in the local currencies of the countries in which Balco operates. As a result, Balco's earnings and financial position are exposed to exchange rate risks that affect the consolidated income statement and consolidated balance sheet. The currency exposure includes both transaction exposure and translation exposure. Balco is primarily exposed to changes in NOK, EUR, DKK, PLN and GBP compared to SEK. Currency fluctuations have a minor influence on the Company's sales and profitability since Balco reduces currency exposures in transactions and hedges its ongoing transaction exposure in projects where the balance in foreign currencies cannot be achieved.

## SEASONAL VARIATIONS

Balco's sales and profit are partially affected by the time when orders are placed, seasonal variations and the fact that the general meetings of tenant-owner associations are normally held in the second or fourth quarter. In addition, the Group is positively affected by months with a large number of work days and lack of leave, and somewhat adversely affected by weather factors where winters with large volumes of snow result in increased expenses. The Group's strongest quarters are normally the second and fourth quarters.

## BALANCE SHEET AND FINANCIAL POSITION

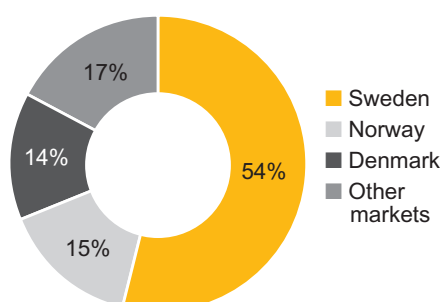
Balco's balance sheet total increased by 20% in 2018 compared with 2017, to SEK 1063.2 million (885.4). The increase is primarily due to increased investments and the Company's growth and expansion, which have resulted in more projects and thereby an increase in trade receivables.

In connection with Balco's IPO on Nasdaq Stockholm on 6 October 2017, a refinancing was carried out and a new bank agreement entered into. The agreement, which following extension runs until 14 September 2021, covers a bank loan of approximately SEK 142 million, an overdraft facility of SEK 65 million, and SEK 100 million in credit headroom intended for future acquisitions, of which SEK 80 million was drawn in connection with the acquisition of TBO-Haglinds AB.

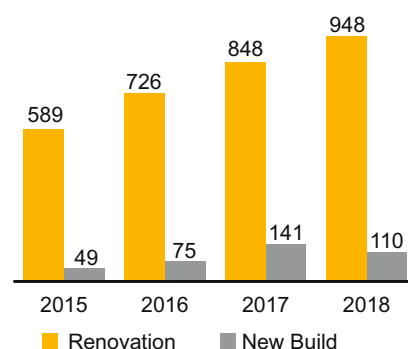
## Non-current assets

The Group's non-current assets, comprising intangible assets, property, plant and equipment and financial assets, increased during the year by 25% to SEK 649.8 million (518.9). The largest non-current item, 62%, comprises goodwill, SEK 401.1 million (372).

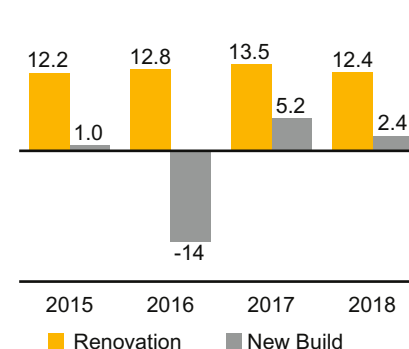
Sales per market 2018 (%)



Net sales per segment (SEK m)



Adjusted operating margin per segment (%)





## Investments in non-current assets

SEK m	2018	2017
Investments in intangible non-current assets	1.9	0.2
Investments in property, plant and equipment	21.1	54.8
Investments in financial assets	70.6	0.1
<b>Total</b>	<b>93.6</b>	<b>55.1</b>

## Current assets

Trade receivables and contractual receivables comprise the largest items among current assets. Trade receivables during the year increased by 36% to SEK 161.6 million (119.1), while contractual receivables increased by 17%, to SEK 116.9 million (100.1). The increase in the balance sheet items is due to the Company's growth. Cash and cash equivalents fell during the year to SEK 87.0 million (106.5).

## Investments

Balco's investments comprise investments in property, plant and equipment in the form of machinery, equipment and other technology. Investments in intangible non-current assets relate primarily to goodwill, trademarks and licenses. The Group's total investments in 2018 amounted to SEK 93.6 million (55.1), of which SEK 70.6 million relate to the acquisition of TBO-Haglinds AB.

## Equity and liabilities

As of 31 December 2018, equity amounted to SEK 440.5 million (386.4), representing a net increase of SEK 54.1 million. Balco's interest-bearing net debt at the end of the year was SEK 194.7 million (90). Net debt relative to adjusted EBITDA was 1.4 (0.7), which is within the parameters for the Group's objective that net debt shall not exceed 2.5 times operating profit before amortisation/depreciation (EBITDA), other than temporarily.

## Number of shares

The share capital comprises 21,428,773 shares and each share has a quotient value of SEK 6.0002. Balco has one class of share and each share carries the same voting rights and the same entitlement to dividends. The issued shares are freely transferable without any statutory limitation or limitation pursuant to Balco's articles of association. Balco is unaware of any agreement between shareholders which may result in limitations on the right to transfer shares in the Company.

Balco's AGM held on 17 May 2018 authorised the Board of Directors to decide on new issues of shares or warrants, or convertible instruments with respect to such shares, applying or disapplying shareholders' pre-emption rights, to be paid for in cash, through non-cash consideration or through debt for equity swaps, entailing an increase or potential increase in the Company's share capital of not more than ten (10) percent or not more than 2,142,877 shares. In addition, Balco's AGM authorised the Board to decide on buybacks of such number of shares that the Company's holding of treasury shares from time to time does not exceed one-tenth of all shares in the Company, and to authorise the Board to decide on transfers of treasury shares. For further information, see pages 50-51 and 58-59.

## TRADING AND MARKET CAPITALISATION

The Balco share is traded on Nasdaq Stockholm's Small Cap list. In 2018, in total just over 7.4 million shares were sold for a value of approximately SEK 468 million. The average daily turnover in 2018 was SEK 1.9 million. All trading in the share took place on

Nasdaq Stockholm. The market capitalisation at the end of the year was SEK 1.1 billion.

## THE SHARE'S PERFORMANCE IN 2018

During the year, the share price fell by 19% and ended the year at SEK 50.10. The highest transaction price during the year was recorded on 13 June at SEK 75.50, while the lowest price was recorded on 27 December at SEK 50.05.

## CASH FLOW

The Group's cash flow from operating activities fell by SEK 127.4 million, to SEK 28.0 million (155.4). The reduction is primarily attributable to an increase in working capital, which at the end of the year amounted to SEK 54.6 million (-25.1).

## Changes in working capital

Working capital increased during the year by SEK 82.9 million (-56.8), primarily due to a higher amount of capital being tied up in ongoing projects. At the end of the year, a net amount of SEK 57.7 million (-6.0) was tied up in ongoing projects.

## Cash flow from investing activities

Cash flow from investing activities amounted to SEK -93.6 million (-55.1). Investments during the year primarily comprised the acquisition of TBO-Haglinds AB, pipe plasma for Växjö and establishment of production plant for city balconies in Poland.

## Financial position

SEK m	31 Dec 2018	31 Dec 2017
Non-current interest-bearing liabilities	271.3	187.7
Current interest-bearing liabilities	10.4	8.8
Cash and cash equivalents	-87.0	-106.5
<b>Interest-bearing net debt</b>	<b>194.7</b>	<b>90.0</b>
Equity ratio	41.4	43.6
Interest-bearing net debt/adjusted EBITDA 12 months, times	1.4	0.7

## Cash flow from financing activities

Cash flow from financing activities was SEK 46.1 (-15.5), with SEK 80 million relating to a drawn acquisition loan. Cash flow for the year fell compared with the preceding year, to SEK -19.5 million (84.8), as a consequence of an increased tie-up of working capital, paid out dividend and acquisitions.

## EMPLOYEES

As of 31 December 2018, Balco had 385 (346) full-time employees, representing an increase of 11% compared with the preceding year. The increase in the number of employees is due to the expansion of the business which occurred during the year as well as organisational reinforcements to meet growth. 51% (54) of employees work in Sweden. The majority of Balco employees worked within Production (35%) and Operations (32%). Equality of opportunity constitutes a part of the diversity work.

Balco's long-term objective is to achieve a more even gender balance among the Company's employees. In 2018 the balance was 15% (16) women and 85% (84) men. Sick leave fell to 2.1% (2.5) in 2018. Balco's objective is to achieve short-term absence of not more

than 1%. Short-term absence, which is defined as the percentage at home on days 1-14 due to illness, increased to 1.3% (1.0) during the year. Balco also endeavours to achieve a low personnel turnover. The short-term objective is that personnel turnover shall not exceed 6%. In 2018, personnel turnover was 5.2% (4.0).

## GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

For a detailed description of applicable guidelines for remuneration and other employment conditions for the CEO and other senior executives, reference is made to the section regarding The Share on page 50, to pages 57-61 of the Corporate Governance Report and to Note 7 on pages 85-86.

## LONG-TERM INCENTIVE PROGRAM

At an extraordinary general meeting held on 5 October 2017, it was decided to introduce a long-term incentive programme for the Company's senior executives and other key employees, in total 49 employees. The incentive programme covers in total not more than 1,071,440 warrants, which carry an entitlement to subscribe for not more than the same number of shares. Approximately 80% of the total number of warrants have been offered to senior executives and Balco employees in two series. The programmes are for a term of two years (series I) and three years (series II). The participants have acquired warrants at market value; one-quarter of series I and three-quarters of series II. Approximately 20% of the total number of warrants have been put aside to allow for sale to future employees. Balco's total cost for the incentive programme during the programme term is not expected to exceed SEK 150,000. The pro-

gramme entails a dilution corresponding to not more than 5% of the total number of shares in the Company.

In addition to the incentive programme, in September 2017 Balco's former main owner, Segulah, issued call options on Balco shares to the Company's senior executives. Each call option under the programme entitles the holder to acquire one share in the Company from Segulah. The exercise price for each share is 110% of the introduction price. In total, the programme covers 1,100,000 shares in Balco, corresponding to approximately 5% of the voting capital and share capital in the Company. The Company is not expected to incur any costs in connection with the call option programme.

## THE GROUP'S RELATED-PARTY TRANSACTIONS

Key individuals in the Group comprise the Board of Directors, the CEO and group management, through their ownership stakes in Balco and through their role as senior executives. The group of related parties also includes the Company's largest shareholder, Segulah, which is represented on the Board by Board Chairman Lennart Kalén and Percy Calissendorff. Related-party transactions take place on market terms. For further information, see Note 36 on page 95.

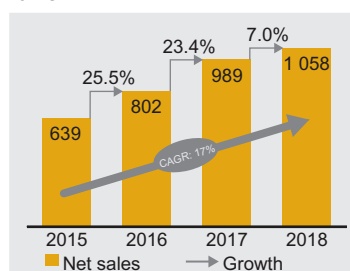
## THE ENVIRONMENT, SUSTAINABILITY AND SOCIAL RESPONSIBILITY

Balco conducts no operations requiring a licence in accordance with the Environmental Code (1998:808). On the other hand, there is a reporting obligation with respect to a part of the business. The reporting obligation is due to powder painting, production area and welding of concrete bases. The reporting obligation thus

To read more about programmes, see pages 49-50 of the Corporate Governance Report and Note 7 on pages 73-74.

### Targets and target fulfilment

#### GROWTH



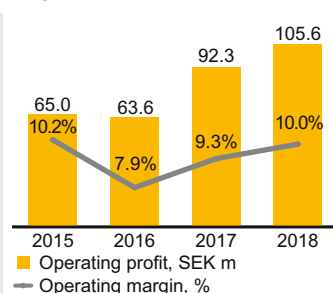
##### Target

Balco shall grow by 10% per year

##### Target fulfilment

Net sales increased during the year by 7.0%, to SEK 1,058 SEK m (989), which was somewhat below Balco's target. Within Renovation, growth was 12%.

#### PROFITABILITY



##### Target

Balco shall achieve an operating margin (EBIT) of at least 13%.

##### Target fulfilment

The operating margin strengthened during the year to 10% (9.3). Adjusted for items affecting comparability with respect to Maritime (SEK 13.3 m) and acquisition expenses (SEK 1.2 m), the adjusted margin was 11.4% (11.8).

#### CAPITAL STRUCTURE

2.5

##### Target

Interestbearing net debt shall not exceed 2.5 times operating profit before amortisation/depreciation (EBITDA), other than temporarily.

##### Target fulfilment

The interest-bearing net debt relative to EBITDA was 1.4, which is within the scope for the target.

#### DIVIDEND POLICY

1/2

##### Target

Balco shall distribute at least one-half of profit after tax, taking into consideration needs for Balco's long-term development and prevailing market conditions.

##### Target fulfilment

The Board's proposal to the 2019 AGM is for a dividend of SEK 2.0 per share, corresponding to distribution of approximately 54% of profit for the year.



relates solely to the Group's production operations, which correspond to approximately 30% of Balco's total sales.

Balco's environmental work is included as an integral part of the Company and permeates the entire business. Balco has initiated activities to minimise the Company's environmental impact and is working constantly towards this goal. Balco considers itself to be at the forefront in the development of balconies that are both environmentally friendly and energy efficient, with products which not merely reduce energy consumption but are also manufactured of environmentally friendly materials. In addition, Balco produces all balconies in modules in order to minimise unnecessary transportation. Balco is environmentally certified in accordance with ISO 9000 and is working actively to reduce waste and energy consumption through efficient production at the Company's production plants, as well as increased recycling of material and production waste which cannot be reduced or avoided. Balco's purchasing organisation endeavours to ensure that suppliers comply with the Company's code of conduct and assume their environmental responsibility. Balco demands that all suppliers comply with the environmental legislation and provisions applicable in each country.

Sustainability issues are important for Balco. This is reflected, among other things, in Balco actively endeavouring to produce safe and reliable products, to offer a healthy working environment, to act ethically both internally and through its commercial partners. Balco's sustainability work is also expressed in the Company's code of conduct, which sets out the Company's social, ethical and environmental rules. The code of conduct also includes rules regarding human rights, non-discrimination and the working environment. The content of the code of conduct is included as a presentation and discussion point on the introduction which each new employee undergoes. For further information, see Balco's sustainability report on pages 26-36.

## THE PARENT COMPANY

The parent company is headquartered in Vaxjö and conducts operations directly and through 14 Swedish and foreign subsidiaries.

The business of the parent company is primarily focused on strategic development, economic control, corporate governance issues, the work of the Board of Directors and bank relations. The Group CEO and CFO are employed by the parent company and the Group's Head of IR is contracted as a consultant to the parent company. In connection with Balco's IPO, the Company was refinanced and the parent company's capital structure was changed. The profit for the year was SEK 0.8 million (-26.9). The parent company's equity ratio was 64.8% (62.6).

## EVENTS SINCE THE CLOSING DAY

No significant events have occurred since the closing day.

## OUTLOOK FOR THE COMING FINANCIAL YEAR

Balco issues no financial forecasts regarding its future growth. The Group's financial targets are set forth to the bottom left below. Balco has a strong position on a fragmented, attractive and growing European balcony market. According to a study by Arthur D. Little<sup>1</sup>, the total northern European balcony market was estimated to be worth approximately SEK 30 billion in 2017. Balco is one of the few complete balcony suppliers on the market with the ability to provide customised balcony solutions.

## DIVIDEND

The Board of Directors has established a dividend policy whereby at least 50% of profit after tax shall be distributed to the shareholders. For the 2018 financial year, the Board proposes a dividend of SEK 2.00 per share, corresponding to approximately 54% of the Group's profit after tax. Based on 21,428,773 shares, the dividend amounts to SEK 42.9 million. Calculated on the final transaction price on 28 December 2018 (SEK 50.10), the proposed dividend entails a return of 4.0%.

1) Arthur D. Little Market study on behalf of Balco, September 2018

## APPROPRIATION OF PROFIT

The Board of Directors proposes that the Group's income statement and balance sheet be presented for adoption to the Annual General Meeting on 21 May 2019. The Board proposes to the AGM that a dividend of SEK 2.00 per share be paid in respect of the 2018 financial year.

The Board believes that the proposal is compatible with the prudence principle set forth in Chapter 17, section 3 of the Companies Act, in accordance with the following description: the Board believes that the dividend is defensible in light of the requirements placed by the nature, scope and risks associated with the business as regards the size of the equity of the Company and the Group, and the Company and Group's need to strengthen the balance sheet, liquidity and financial position in general.

### At the disposal of the AGM, SEK:

Share premium reserve	381,763,774
Retained earnings	-208,822,619
Profit for the year	811,733
<b>Total</b>	<b>173,752,888</b>

The Board of Directors proposes that available profit be appropriated as follows:

Dividend to the shareholders	42,857,546
Carried forward	130,895,342
<b>Total</b>	<b>173,752,888</b>

## MULTI-YEAR OVERVIEW

SEK m	2018	2017	2016	2015
<b>The consolidated income statement in brief</b>				
Net sales	1,058.1	989.0	801.6	638.6
Gross profit	253.8	247.8	189.9	162.3
Operating profit before amortisation/depreciation and write-downs (EBITDA)	125.9	109.4	77.9	77.0
Operating profit (EBIT)	105.6	92.3	63.6	65.0
Profit before tax	99.5	55.3	22.7	24.8
Profit for the year (attributable to the equity holders of the parent company)	76.8	37.7	12.1	19.3
<b>The consolidated balance sheet in brief</b>				
<b>Assets</b>				
Goodwill	401.1	372.0	371.4	371.0
Other non-current assets	248.7	146.7	101.1	92.2
Trade receivables	161.6	119.1	94.5	79.4
Contractual receivables	116.9	100.1	96.3	76.8
Other current assets	134.9	147.3	51.0	52.4
<b>Total assets</b>	<b>1,063.2</b>	<b>885.4</b>	<b>714.3</b>	<b>671.8</b>
<b>Equity and liabilities in brief</b>				
Equity	440.5	386.4	139.5	126.6
Non-current liabilities	319.1	192.5	305.4	293.2
Current liabilities	303.6	306.5	269.3	252.0
<b>Total equity and liabilities</b>	<b>1,063.2</b>	<b>885.4</b>	<b>714.3</b>	<b>671.8</b>
<b>Consolidated cash flow in brief</b>				
Cash flow from operating activities	28,0	155,4	61,3	27,2
Cash flow from investing activities	-93,6	-55,1	-24,1	36,3
Cash flow from financing activities	46,1	-15,5	-43,7	-43,7
<b>Cash flow for the year</b>	<b>-19,5</b>	<b>84,8</b>	<b>-6,4</b>	<b>19,8</b>

SEK m	2018	2017	2016	2015
<b>The parent company</b>				
Net sales	15.2	4.0	-	-
Operating profit	3.7	-13.3	-	-
Profit before tax	1.0	-26.7	-23.9	-29.5
Total assets	466.7	515.9	403.8	393.8
Equity ratio, %	64.8	62.6	35.3	42.6



## KEY RATIOS

1 January - 31 December				
SEK m (unless otherwise stated)	2018	2017	2016	2015
<b>Net sales, order intake and order backlog</b>				
Net sales	1,058.1	989.0	801.6	638.6
<i>Increase in net sales (%)</i>	7.0	23.4	25.5	12.4
Order intake	1,003.1	1,113.5	1,066.3	989.7
<i>Increase in order intake (%)</i>	-9.9	4.4	7.7	60.7
Order backlog	1,203.5	1,238.4	1,107.2	835.1
<i>Increase in order backlog (%)</i>	-2.8	11.8	32.6	82.3
<b>Profit measurements</b>				
Gross profit	253.8	247.8	189.9	162.3
<i>Gross margin (%)</i>	24.0	25.1	23.7	25.4
Operating profit before amortisation/depreciation and write-downs (EBITDA)	125.9	109.4	77.9	77.0
<i>EBITDA margin (%)</i>	11.9	11.1	9.7	12.1
Operating profit	105.6	92.3	63.6	65.0
<i>Operating margin (%)</i>	10.0	9.3	7.9	10.2
Adjusted EBITDA	140.4	133.8	96.6	78.0
<i>Adjusted EBITDA margin (%)</i>	13.3	13.5	12.1	12.2
Adjusted operating profit	120.2	116.7	82.4	66.0
<i>Adjusted operating margin (%)</i>	11.4	11.8	10.3	10.3
<b>Cash flows</b>				
Operating cash flow	49.9	182.9	73.4	63.1
<b>Operating cash conversion (%)</b>	35.6	136.7	76.0	80.9
<b>Capital structure</b>				
Capital employed, average	555.8	488.0	491.3	470.6
Capital employed excluding goodwill, average	169.2	116.3	120.1	101.9
Equity, average	413.4	262.9	133.0	117.2
Interest-bearing net debt	194.7	90.0	360.0	356.5
Interest-bearing net debt/adjusted EBITDA R12 (times)	1.4	0.7	1.0	1.7
<b>Return measurements</b>				
<i>Return on capital employed R12 (%)</i>	21.6	23.9	16.8	14.0
<i>Return on capital employed excl. goodwill R12 (%)</i>	71.0	100.4	68.6	64.7
<i>Return on equity R12 (%)</i>	19.0	15.1	9.7	16.0
<i>Equity ratio (%)</i>	41.4	43.6	19.5	18.8
<b>Other</b>				
Number of shares at year-end, thousand	21,428.8	13,704	11,287	11,287
Earnings per share before dilution	3.67	2.43	0.5	1.10
Earnings per share after dilution	3.67	2.43	0.5	1.10
Full-time employees at year-end	385	346	301	256

See pages 89-91 of the definitions of alternative key ratios.

## QUARTERLY OVERVIEW

SEK m	2018				2017				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	242.6	273.6	237.7	304.2	230.8	268.4	206.0	283.7	158.1	213.7	192.1	237.7
EBITDA	26.7	36.5	30.3	32.4	27.3	35.0	16.3	30.9	13.6	23.4	21.4	19.4
Operating profit (EBIT)	22.0	31.5	25.1	27.0	23.1	30.8	12.2	26.3	10.3	20.1	17.7	15.4
Adjusted operating profit (EBIT)	22.0	31.5	25.1	41.6	24.3	33.6	21.4	37.4	10.3	20.1	19.1	32.9

# The share and owners

*The stock market was volatile during the year and Balco was affected to certain extent by the market's general wait-and-see approach to construction companies and housing developers. Balco's share price fell by 19% during the year. In meetings with other players on the market, in order to be assessed in the correct sector we continue to emphasise Balco's unique position within the fragmented niche market for balconies solutions.*

## TRADING AND MARKET CAPITALISATION

The Balco share is traded on Nasdaq Stockholm's Small Cap list. During the year, approximately 7.1 million shares changed hands for a total value of approximately SEK 468 million. The average daily turnover during the year was SEK 1.9 million. All trading in the share took place on Nasdaq Stockholm. The market capitalisation at the end of the year was SEK 1.1 billion.

## THE SHARE'S PERFORMANCE IN 2018

The share was listed on 6 October 2017 at the introduction price of SEK 56 and with a market capitalisation of SEK 1.2 billion. During the year, the share price performed negatively and the price fell by 19%, closing the year on SEK 50.10. The highest transaction price noted during the year was on 13 June (SEK 75.50) and the lowest price was noted on 27 December (SEK 50.05).

## SHARE CAPITAL

On 31 December 2018, there were 21,428,773 shares in Balco. Balco has one class of share and each share has the same voting rights and carries the same right to dividends. The quotient value of a share is SEK 6.0002, and the share capital thus amounted to SEK 128,577,685.

## OWNERSHIP STRUCTURE

At the end of the year, Balco had 2,890 shareholders. Shareholdings in Sweden amounted to 66.0%. Shareholders in Jersey accounted for 19.% out of the total foreign shareholding of 34.0%; shareholders in the UK accounted for 6.6%, in Luxembourg for 3.5%, and owners in Norway accounted for 1.6%. Swedish ownership is dominated by private individuals and companies (24.6% of the capital), while equity funds owned 17.2% and insurance companies and pension foundations owned 16.2%. Balco's 10 largest shareholders owned 65.5% of the Company. Balco's directors owned in total 518,117 Balco shares, while the Company's management owned 912,662 shares. In total, the Board and management hold 6.7% of the number of outstanding shares.

## DIVIDEND AND DIVIDEND POLICY

Balco's dividend policy establishes that the Company shall distribute at least one-half of profit after tax, provided that doing so does not jeopardise Balco's long-term development. The Board has proposed to the Annual General Meeting a dividend for the 2018 financial year of SEK 2.00 per share, corresponding to approximately 54% of profit for the year.

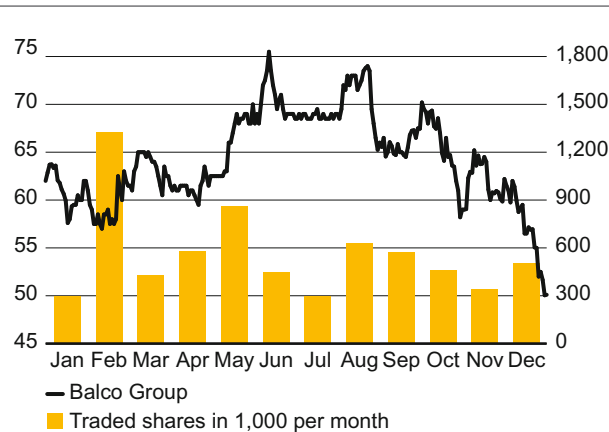
## SHARE-RELATED INCENTIVE PROGRAMME

Balco has a long-term incentive programme for the Company's senior executives and other key employees, in total 49 employees. The incentive programme covers in total not more than 1,071,440 warrants, which carry an entitlement to subscribe for not more than the same number of shares. Balco's total cost for the incentive programme during the programme term is not expected to exceed SEK 150,000. The programme entails a dilution corresponding to not more than 5% of the total number of shares in the Company. Balco's senior executives have acquired 397,964 warrants for a value totalling SEK 1,405,807.

In addition to the incentive programme, in September 2017 Balco's main owner, Segulah, issued call options on Balco shares to the Company's senior executives. Each call option under the programme entitles the holder to acquire one share in the Company from Segulah. The exercise price for each share is 110% of the introduction price. In total, the programme covers 1,100,000 shares in Balco, corresponding to approx. 5% of the number of voting capital and share capital in the Company. The Company is not expected to incur any costs in connection with the call option programme.

The incentive programme is intended to encourage broad share ownership among the Company's key employees, to recruit and retain skilled and talented employees, to increase a commonality of interest between the objectives of key employees and those of the Company, and to increase motivation.

Share price performance 1 Jan 2018–31 Dec 2018





## Shareholder structure, 31 December 2018

Spread, number of shares	Number of owners	% of total owners	Number of shares	Share of capital and votes, %
1 - 500	2,298	79.5	306,187,109	1.4
501 - 1,000	239	8.3	196,462	0.9
1,001 - 5,000	234	8.1	566,253	2.6
5,001 - 10,000	36	1.2	277,055	1.3
10,001 - 15,000	14	0.5	173,708	0.8
15,001 - 20,000	7	0.2	128,957	0.6
20,001 -	62	2.2	19,780,151	92.3
Nominee difference	-	-	-	-
<b>Total</b>	<b>2,890</b>	<b>100.0</b>	<b>21,428,773</b>	<b>100.0</b>

## Data per share

	2018
Number of shares at year-end	21,428,773
Market capitalisation at year-end (SEK millions)	1,074
Price change since IPO, %	-11
Number of shareholders	2,890
Share price at year-end, SEK	50.10
Year's highest price, SEK	75.50
Years lowest price, SEK	50.05
Paid dividend per share in 2018, SEK	1.00
Shareholdings of the 10 largest owner groupings, %	65.5

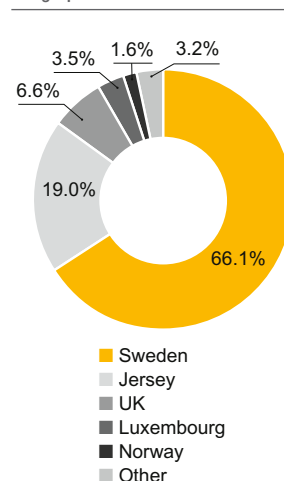
## The ten largest shareholders on 31 December 2018

Name	Number of shares	Share of capital and votes, %
Segulah IV L.P.	4,079,373	19.0
Carl-Olof och Jenz Hamrins stiftelse	2,638,524	12.3
Skandrenting AB	2,250,000	10.5
Swedbank Robur Fonder	1,339,286	6.2
Danica Pension	800,253	3.7
Länsförsäkringar Fondförvaltning AB	729,803	3.4
Riksbankens Jubileumsfond	680,000	3.2
Clearstream Banking S.A., W8IMY	626,305	2.9
BNP Paribas Sec Services London, W8IMY	529,067	2.5
HSBC Bank Plc, W8IMY	497,810	2.3
<b>Subtotal</b>	<b>14,170,421</b>	<b>65.5</b>
Other	7,258,352	34.5
<b>Total</b>	<b>21,428,773</b>	<b>100.0%</b>

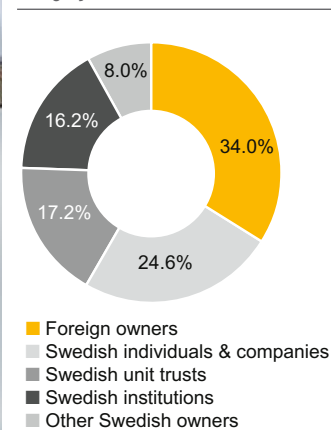
## Financial calendar

Activity	Date
Interim report January - March	21 May 2019
Annual General Meeting 2019	21 May 2019
Half-yearly report, January - June	27 August 2019
Interim report, January - September	14 November 2019

## Geographic shareholder distribution



## Distribution of owners by owner category



NO. OF  
SHAREHOLDERS  
**2,890**

TICKER  
**BALCO**

DIVIDEND 2018  
SEK **1.00**

ALL-TIME-HIGH  
**75.50**

# Risks and risk management

*Exposure to, and management of, risks is a natural aspect of business operations. Focus is placed on identifying risks, preventing the occurrence of risks and preparing plans of actions which enable mitigation of any damage such risks might cause. Risks can be divided into industry-related and market-related risks, business risks, financial risks and regulatory risks. Even if prevented, risks can have an adverse impact on the business.*

## RISKS

A risk is defined as an uncertainty that an event will occur which may impact the Company's ability to achieve established targets. Risks are a natural aspect of all business and must be managed effectively. Risk management is aimed at forestalling, preventing and limiting risks having an adverse effect on the business.

Balco makes an annual composite risk assessment in which Balco identifies and assesses risks that threaten Balco's target fulfilment. Balco defines a risk as *a future possible event which threatens the organisation's ability to achieve its targets*.

The identified risks are assessed based on the following two criteria:

1. Likelihood of the risk occurring
2. Consequences for Balco if the risk occurs

## RISK MANAGEMENT

Balco's management has identified conceivable events which might impact on the Company's business. The events have been analysed and reduced to a net list which is deemed to comprise the most relevant risks. The risks have been graded as low, medium and highly likely that the risk will occur, and subsequent consequences if the risk materialises. A number of control activities (risk mitigation activities) have been adopted to manage and counter identified risks. For each identified risk, there are activities that counter, limit, control and manage the risk.

An analysis of the efficacy of the control activities must be carried out annually. Balco has a cross-group monitoring process in which the efficacy of the controls is analysed and reported to Balco's CFO. The CFO is responsible for presenting the results of the analysis to the audit committee and the Board of Directors.

## GENERAL RISK AREAS

Through its business, the Group is exposed to different types of risks. The risks can be grouped into four different categories:

*Industry-related and market-related risks*

*Business-related risks*

*Financial risks*

*Regulatory risks*

## INDUSTRY-RELATED AND MARKET-RELATED RISKS

Industry and market-related risks relate to external factors, events and changes on the markets on which Balco operates, which may impact on the possibilities to achieve targets set by the Company.

Industry and market-related risks include, among other things, changes in demand as a result of a weaker economic climate or other macroeconomic changes, a changed price structure for raw materials that are of key importance for Balco's production, changes in competition or price pressure.

## Risks

### *Impact of economic climate and other macroeconomic factors*

Balco's business is affected by general global financial and political conditions. The Company is primarily affected by events on the Nordic markets. A weaker economic climate and political changes can create unease in the markets on which the Company operates and thereby affect demand for the Company's products.

*Risk management:* Balco operates on the market for balcony solutions, which is a niche market within the construction market. Balco operates primarily within the Renovation segment, which is controlled more by the existing need to renovate, as compared with the







New Build segment which is more sensitive to the business cycle. Balco conducts project operations. Every year, a large number of different projects of varying sizes are managed on different markets. Therefore, there is little dependence on any individual customer.

#### **Raw material prices**

Balco's profitability is affected by changes in the prices of the following raw materials: aluminium, steel, glass and concrete. Changed raw material prices can affect earnings in individual projects.

**Risk management:** Balco regularly and yearly hedges raw material costs to an extent based on anticipated need. The Company's project operations mean that each product is the subject of separate price negotiations. Long lead times and the fact that each project is unique mean that indexed price adjustments may be relevant in order to address changed raw material prices.

#### **Competition and price pressure**

Competition varies between different geographic markets and within different product segments. Balco's primary competitors comprise concrete renovation firms and other balcony suppliers. Increased competition can adversely affect the operations and earnings.

**Risk management:** Balco competes primarily with concrete renovation firms, which are not niched within the balcony renovation market. Balco's local presence and the Company's business model whereby Balco assists customers throughout the entire process mean that, to a large extent, Balco contributes to creating its own market. Balco currently has a niche portfolio of cutting-edge products in terms of innovation and technology, which creates a competitive advantage.

Risk	Risk level	
	Likelihood	Consequence
<b>Industry-related and market-related risks</b>		
<i>Impact of economic climate and other macroeconomic factors</i>		
Effect on Balco's earnings of changes in economic climate and other macroeconomic factors	● Medium	● Medium
<i>Raw material prices</i>		
Impact of changed raw material prices	● Medium	● Low
<i>Competition and price pressure</i>		
Changed competition and thereby a changed price structure on the market	● Low	● Medium

## **BUSINESS-RELATED RISKS**

Business-related risks relate to the day-to-day business and the ability to perform obligations to customers. The risks can often be managed through internal control activities such as preventive and/or monitoring controls.

Examples of business-related risks include Balco's ability to develop and sell new innovative products and solutions; the Group's ability to attract and retain qualified employees; and the fact that Balco's profitability depends on the results of individual projects, i.e. the Group's ability to predict, calculate and deliver projects within set economic calculations.

## Risks

### *Suppliers and subcontractors*

Balco is dependent on its suppliers and subcontractors to be able to produce, plan and deliver an end-product. Most of the Company's production takes place in-house and its products comprise components and raw materials from a number of different suppliers.

*Risk management:* Balco has identified its strategic suppliers and subcontractors and ensures that alternatives are available.

### *Project operations*

Balco's profitability depends on the results of the individual projects. The calculations and plans produced at the start of the project, and which are regularly updated, constitute the basis for the time for reporting sales and profit.

*Risk management:* Balco has a well-proven profit calculation model and there is a clear process and routine as to how projects are calculated and monitored.

### *New markets*

Balco is exposed to the risk that project operations in new markets will become excessively expensive and demanding in terms of resources. New markets involve changed legislative requirements, not least with respect to the working environment, building requirements and fire safety.

*Risk management:* Balco retains assistance of local expertise on new markets to ensure compliance with local rules and requirements.

### *Operational disruptions*

Balco's business comprises a large number of processes in which an operational disruption such as fire, sabotage, machinery breakdown, disruption and IT systems can have consequences for the Company's ability to perform its obligations to customers, and can thereby adversely affect profitability.

*Risk management:* Balco has identified and secured IT capacity for its existing production capacity. A review of systems critical for the operations is carried out yearly.

### *Recruitment*

As a growth company, it is of great importance for Balco to be able to attract and retain skilled employees and key personnel.

*Risk management:* The Group endeavours to be an attractive employer with a competitive offering in terms of both remuneration and benefits, and also by creating a culture in which employees wish to develop, and of which they wish to be a part. Balco is active on the market for attracting personnel and conducts an active HR policy.

### *Product development and production capacity*

Balco's earnings and competitiveness depend on the Company's ability to develop and sell new innovative products and solutions. The Company is investing significant resources in further developing its existing product portfolio. Since the Company's products are manufactured at its own production plants, Balco requires good forward planning. In order to satisfactorily ensure future growth, Balco needs to be between 6 to 12 months ahead in the planning of production capacity.

*Risk management:* Balco conducts project operations, entailing that the Company has good forward planning and visibility in terms of production and delivery needs. The Company regularly monitors all projects, outgoing deliveries and production orders. Since the lead times within the Company's projects are relatively long, this creates good forward planning. Balco also owns land which allows for continued expansion.

Risk	Risk level	
Business-related risks	Likelihood	Consequence
<i>Suppliers and subcontractors</i>		
Risk of changed circumstances at suppliers and subcontractors which affect Balco	● Low	● Medium
<i>Project operations</i>		
Balco's risk of initial projects developing unfavourably	● High	● Low
<i>New markets</i>		
Risk that unique requirements and conditions on new markets will result in higher than expected expenses	● Low	● Low
<i>Operational disruptions</i>		
Risk that the business might be affected by operational disruptions such as fire, sabotage or machinery breakdown	● Medium	● Medium
<i>Recruitment</i>		
Risk that Balco fails to attract, recruit and retain skilled employees	● Low	● Medium
<i>Product development and production capacity</i>		
Risk as regards the Company's ability to continue to develop quality products and secure future production capacity	● Low	● Medium

## FINANCIAL RISKS

Through its business, the Group is exposed to financial risks such as financing risk, liquidity risk, credit risk, interest rate risk and currency risk. The Group's finance policy forms a framework of guidelines and rules as well as risk mandates and limits. Responsibility for the Group's financial transactions and risks is managed by the CFO in consultation with the Board of Directors. The objective is to ensure cost-efficient financing and to minimise adverse effects on the Group's earnings as a consequence of market changes.

## Risks

### *Currency risks*

Balco is affected by currency risks, which can be divided into transaction exposure and translation exposure. Transaction exposure arises when a selling price or purchase price is stated in foreign currency. Balco is primarily exposed to changes in EUR, NOK, DKK, PLN and GBP relative to SEK. Translation exposure arises when the balance sheets and income statements of subsidiaries are translated from local currency to SEK.

*Risk management:* Transaction exposure is managed primarily through natural hedging, entailing that purchases take place in the same currency as cash flows from revenues. Balco has a finance policy which manages risks through currency hedging.

### *Financing and liquidity risks*

There is a risk that the Company's financing possibilities might be rendered more difficult or become more costly. Although the Company's financial position is currently strong, the Company may need access to additional financing. Balco conducts project operations within which sales, profit and liquidity are affected by the status of planning permission within the projects.

*Risk management:* The Group has sound forward planning in its projects, which generates relatively good visibility and a possibility for planning. The Company endeavours to maintain good liquidity, which is regulated through the Company's finance policy with established liquidity targets.



### Interest rate risks

Balco is exposed to interest rate fluctuations in its borrowing. The Company has relatively low indebtedness.

*Risk management:* The risk is managed through the target for future debt/equity ratio. The existing loan structure entails low exposure.

### Credit risks

Balco's credit risk is limited. Any credit risks which may arise are due to insolvency or unwillingness to pay on the part of the Company's customers.

*Risk management:* Balco's customers largely consist of tenant-owner associations and construction companies. A review of the customers' economic circumstances is carried out prior to the start of a project to ensure financial stability of the counterparty. Projects have forward-heavy payment plans, which in certain cases are supplemented with credit insurance.

Risk	Risk level	
	Likelihood	Consequence
<b>Financial risks</b>		
<i>Currency risks</i>		
The risk that exchange rate changes will adversely impact the Group's financial outcome	● Medium	● Low
<i>Financing and liquidity risks</i>		
The risk that Balco is unable to finance the Group's business	● Low	● Medium
<i>Interest rate risks</i>		
Means the risks of adverse impact on the Group's cash flow and earnings of changes in market rates	● Medium	● Low
<i>Credit risks</i>		
Anticipated losses on trade receivables	● Low	● Low

## REGULATORY RISKS

Regulatory risks are related to the business' ability to manage the effects of new legislation and regulation, as well as to manage unforeseen disputes or other legal or contractual uncertainty factors.

## Risks

### Intellectual property

Balco invest significant resources in product development and in protecting the Company's innovations through patents. In the event Balco fails to protect and maintain its intellectual property rights, there is a risk that other parties might copy the Company's products, which might have an adverse impact on the business, sales and earnings.

*Risk management:* A significant portion of Balco's products and their functions are protected through patents. As the products are developed, the Company's patents are renewed and strengthened.

### Political decisions, legislation and regulation

Political decisions can affect demand for Balco's products, both positively and negatively. Political decisions include changes in legislation, the application of existing laws and regulations, as well as future subsidies and taxation within housing and housing construction.

*Risk management:* Balco follows and regularly monitors discussions and changes regarding political decisions, changed legislation and regulation. The Company's business model is structured to take into account the laws and regulations specific to each market.

### Disputes and legal proceedings

Balco may from time to time become involved in disputes and be the subject of claims regarding contractual issues, delays, alleged defects, environmental issues, etc.

*Risk management:* Balco has written agreements with essentially all of its customers and subcontractors. As far as possible and commercially justifiable, any differences of opinion are resolved amicably through agreement during the course of the project.

### Changed accounting rules

Balco is affected by accounting rules which from time to time are changed and developed. The Group's accounting, financial reporting and internal controls may, in the future, be affected by – and need to be adapted to – changed rules. The changes may affect the way in which sales and earnings are reported

*Risk management:* Balco's employees are trained regularly, stay up to date and undergo competence development as regards rules and news within the area. Collaboration takes place with the Company's auditors.

Risk	Risk level	
	Likelihood	Consequence
<b>Regulatory risks</b>		
<i>Intellectual property</i>		
The risk that Balco will fail to protect and maintain its intellectual property rights and thereby the Company's product innovation	● Low	● Medium
<i>Political decisions, legislation and regulation</i>		
Changes to political decisions, legislation and regulation which may affect demand for Balco's products.	● Low	● Medium
<i>Disputes and legal proceedings</i>		
The risk that Balco may be affected by legal disputes and proceedings	● Low	● Low
<i>Changed accounting rules</i>		
The risk that Balco's accounting and thereby financial position and earnings may be adversely affected by changed accounting rules	● Low	● Low





# CORPORATE GOVERNANCE REPORT

*Corporate governance in Balco is aimed at creating value for the shareholders through active risk control and a sound corporate culture. The ongoing work for well-functioning governance, control and monitoring has been prioritised ever since Balco's IPO in 2017.*

## GOVERNANCE MODEL

Balco Group AB, company registration number 556821-2319, (Balco) is a Swedish public limited company listed on Nasdaq Stockholm and included in the Small Cap segment. The Company's head office is located in Vaxjö. The corporate governance report constitutes a part of the Company's administration report.

Corporate governance in Balco, which can be divided into external and internal governance instruments, complies with Swedish law, Nasdaq Stockholm's Rule Book for Issuers, the Swedish Corporate Governance Code (the "Code") as well as internal rules and regulations.

### External governance instruments

The external governance instruments constitute the framework for corporate governance in Balco. The external instruments include the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code. With respect to the 2018 financial year, Balco deviates from the Code as regards one rule:

#### *Deviation from rule 9:7 of the Code*

The Code stipulates that the vesting period for share and share-price related incentive programmes shall be not less than three

years. The two-year term for the series 1 warrants programme constitutes a deviation from the Code.

### **Explanation**

Balco's incentive programme comprises two series, of which series 1 has a term of two years and series 2 a term of three years. Series 1 accounts for a smaller part (only 25 percent) of the total programme. The Board and management have made the assessment that the smaller programme, with a two-year term, constitute an important complement to the three-year programme in order to attract and encourage a broad share ownership among senior executives, and to retain and attract employees in the future.

### Internal governance instruments

The internal governance instruments include the articles of association adopted at the general meeting, internal rules and guidelines. Examples of internal rules and guidelines include the Board's rules of procedure, instructions to committees and the instruction to the CEO. In addition, the Board has adopted a number of policies, including finance policy and sustainability policy, which serve as guidance as to how the internal work is governed and controlled. In addition, Balco's accounting handbook governs financial reporting in the Company.

## Governance model



## 1. Shareholders

Balco Group AB has been listed on Nasdaq Stockholm since 6 October 2017. At the end of 2018, the outstanding share capital comprised 21,428,773 shares. All shares carry equal voting rights and equal rights to the Company's profit and equity. The quotient value of the shares is SEK 6.002, entailing that on 31 December 2018 the registered share capital was SEK 128,577,685.

As of 31 December 2018, Balco had 2,890 shareholders. According to ownership data from Euroclear Sweden AB, Balco's 10 largest shareholders owned 65.5% of the voting rights and shares in the Company. Swedish shareholdings accounted for 66% of ownership. Balco's largest shareholder on 31 December was Segulah IV L.P.

## 2. General meeting

The general meeting is Balco's highest decision-making body. The Annual General Meeting (AGM) is held each year within six months of the expiry of the financial year. The balance sheet and income statement, as well as consolidated balance sheet and consolidated income statement, are presented at the AGM and resolutions are adopted regarding, among other things, appropriation of the Company's profit, election and fees to directors and auditors, as well as other business incumbent on the AGM according to law. All shareholders entered in the share register who have timely notified their participation in accordance with the rules set forth in the notice to attend are entitled to participate at the general meeting and exercise their voting rights. A shareholder who wishes to have a particular matter addressed at the general meeting must so request from the Board in due time prior to the general meeting, at the address listed on the Company's website. In addition to the AGM, the Board can convene extraordinary general meetings.

### Resolutions adopted at the 2018 annual general meeting included:

- dividend for the Group for the 2017 financial year of SEK 1.00 per share, corresponding to SEK 24.1 million or 57% of profit for the year
- to grant the Board of Directors and CEO discharge from liability with respect to the 2017 financial year
- re-election of Lennart Kalén (chairman), Percy Calissendorff, Ingall Berglund, Tomas Johansson, and Åsa Söderström Winberg, as well as new election of Carl-Mikael Lindholm and Johannes Nyberg
- that fees be paid to the Board totalling SEK 1,720,000 on an annual basis
- to elect Öhrlings PricewaterhouseCoopers AB as auditors, with Martin Odqvist as auditor-in-charge
- to authorise the Board to decide on new issues of shares or warrants or convertible instruments with respect to such shares, applying or disapplying shareholders' pre-emption rights, to be paid for in cash, with consideration in kind or through debt for equity swaps, entailing an increase or potential increase in the Company's share capital of not more than ten (10) percent or a maximum of 2,142,877 shares
- to authorise the Board to decide on buybacks of such numbers of shares that the number of treasury shares from time to time does not exceed one-tenth of all shares in the Company to authorise the Board to decide on transfers of treasury shares

### 2019 Annual General Meeting (AGM)

Balco's 2019 AGM will be held at 3pm on 21 May 2019 at 21 Kök 11, Honnörsgatan 15 i Växjö. Registration will commence at 2.30pm.

Shareholders who are entered in the share register maintained by Euroclear Sweden AB not later than 15 May 2019 and who have notified their intention to participate at the general meeting not later than 4pm on the same date are entitled to participate at the general meeting.

Important dates for the 2019 AGM are:

- 15 May – record date for the 2019 AGM
- 15 May – final date for notification of participation at the general meeting
- 21 May – final date for trading in the Balco share with the right to dividends
- 21 May – 2.30pm admission to the general meeting begins
- 21 May – 3pm the AGM begins
- 23 May – record date for dividends
- 28 May – payment of dividends

### Proposed resolution at the 2019 AGM

Balco's Board proposes that the AGM resolve on a dividend of SEK 2.00 per share for the Group in respect of the 2018 financial year. This corresponds to SEK 42.9 million or 54% of profit for the year.

## 3. Nomination committee

The duties of the Nomination Committee are to ensure that the members of Balco's Board together possess the knowledge and experience that are relevant to be able to contribute to Balco's best possible development over time. The Nomination Committee reviews the Board's work based on the Board assessment that takes place once per year, Code requirements, Balco's needs and comments from other owners. The Nomination Committee presents proposals to the AGM regarding the number of directors, the composition of the Board, and proposals regarding fees for the Board, including fees for committee work. The Nomination Committee also presents proposals regarding the Chairman of the Board and chairman of the AGM, as well as auditors and their fees. The Nomination Committee's proposals are presented in the notice to attend the AGM and reasons for the Nomination Committee's proposals are published on Balco's website in connection with the issuance of the notice to attend.

In accordance with Code rules, instructions for a Nomination Committee were adopted at an extraordinary general meeting held on 11 September 2017. The instructions stipulate that the Nomination Committee shall comprise four members. The members shall be appointed by the Company's four largest shareholders in terms of votes in accordance with the share register maintained by Euroclear on 31 August of the year prior to the AGM, who shall be summoned by the Board Chairman and afforded an opportunity to each select a member. The member representing the largest shareholder in terms of votes shall be elected Chairman of the Nomination Committee. The Board Chairman shall not serve as Chairman of the Nomination Committee. The members of the Nomination Committee for the 2019 AGM were presented through a press release on 27 September 2018. The members of the Nomination Committee receive no remuneration for their work in the Nomination Committee.

### Members of the Nomination Committee for the 2019 AGM:

- Gabriel Urwitz, appointed by Segulah IV L.P. (Chairman of the Nomination Committee)
- Lennart Björkman, appointed by Skandrenting AB
- Carl-Mikael Lindholm, appointed by the Carl-Olof and Jenz Hamrin Foundation
- Marianne Flink, appointed by Swedbank Robur
- Lennart Kalén, Balco's Board Chairman

## 4. Board of Directors

The Board of Directors is the second-highest decision-making body after the general meeting. The Board has overall responsibility



ity for creating long-term value for shareholders and other stakeholders. The Board is responsible, together with management, for the Company's overall strategy and endeavours to ensure that the Company has sound risk management and internal control.

### Directors

According to the articles of association, Balco's Board shall comprise at least four, and not more than eight, directors. The directors shall contribute skills and experience that benefit Balco's development. Balco's board currently comprises seven ordinary members: two women and five men. Five members were reelected and two members elected for the first time at the AGM held on 17 May 2018, for a term of office until the close of the 2019 AGM. President and CEO Kenneth Lundahl as well as Balco's CFO Fredrik Hall attend all board meetings.

Fredrik Hall serves as board secretary. Other senior executives participate as presenters on specific issues. All directors are independent in relation to the Company and its management. Two of the directors are also independent in relation to the Company's major shareholders. Balco thereby satisfies the requirements of Nasdaq Stockholm and the Code regarding the independence of directors. For a summary and presentation of the directors, see pages 64-65.

### Diversity policy

Balco's board shall, as a whole, possess requisite skills, experience and background for the conducted business and to identify and understand the risks to which the business is exposed. The objective is that the Board shall comprise members of varying ages, be represented by both men and women with varied geographic and ethnic backgrounds that complement each other in terms of experience, educational and professional background and which together contribute to the Board's independence and critical questioning approach. Balco's Board has adopted a diversity policy which the Nomination Committee takes into account when producing its proposals for the AGM. The Nomination Committee also proceeds based on rule 4.1 of the Swedish Corporate Governance Code, which addresses board diversity.

### The Board's work and assessment of the Board

The Board's responsibilities and duties are governed by the Companies Act, the articles of association, and the Board's rules of procedure, which are revised annually and adopted at the initial board meeting each year. The rules of procedure govern, among other things, board functions and the allocation of work between the directors and the CEO. The Board also adopts instructions for the Board's committees and the CEO.

The duties of the Board are to regularly monitor the strategic focus, economic development, as well as the Company's methods, processes and controls for maintaining a well-functioning business.

The Board must also contribute to good quality of the financial reporting, internal control and must assess the Company based on adopted financial targets and establish guidelines for senior executives. The Board's duties also include regularly assessing the Company's CEO and assisting in the annual audit carried out by Öhrlings PricewaterhouseCoopers AB with Martin Odqvist as auditor-in-charge. The Board Chairman, who is elected by the AGM, has particular responsibility for ensuring that the Board's work is well-organised and performed efficiently. Board meetings are planned by the Board Chairman together with the Company's CEO.

The Board meets in accordance with a meetings schedule adopted each year. In addition to these meetings, additional board meetings may be convened to address specific issues. In addition to board meetings, the Board Chairman and CEO maintain regular dialogue concerning management of the Company. In 2018, ten board meetings were held, four of which were held by telephone. The regular board meetings usually address reports from the CEO and any committee meetings, as well as an earnings review. At the meetings in May, August and November, the Board also reviewed the interim reports.

The Board Chairman is responsible for the directors making an annual assessment of their work. The assessment also includes the work of the audit and remuneration committees, covers the Board's work processes, and the Board's composition and skills. The work is presented to the Nomination Committee.

### Board remuneration

Fees and other remuneration to directors are established by the AGM. At the general meeting held on 17 May 2018 it was resolved that fees be paid to the directors as follows:

- The fee to the Board Chairman Lennart Kalén shall be SEK 400,000. The fee to the ordinary directors shall be SEK 180,000 each.
- Fees for work in the Audit Committee shall be SEK 70,000 to the chairman of the audit committee, Ingall Berglund. Other members of the audit committee, Tomas Johansson and Johannes Nyberg, shall each receive SEK 40,000.
- Fees for work in the Remuneration Committee shall be SEK 40,000 to the chairman of the remuneration committee, Lennart Kalén.
- Other members of the remuneration committee, Tomas Johansson and Carl-Mikael Lindholm, shall each receive SEK 25,000.

In total, compensation for board and committee work in 2018-2019 amounts to SEK 1,720,000.

## 5. Audit Committee

The main duties of the Audit Committee are to support the Board

## Remuneration and attendance

	Lennart Kalén	Ingall Berglund	Percy Calissendorff	Tomas Johansson	Åsa Söderström Winberg	Carl-Mikael Lindholm <sup>2)</sup>	Johannes Nyberg <sup>2)</sup>	Håkan Bergqvist <sup>1)</sup>	Marcus Planting-Berglöö <sup>1)</sup>
Board fee (year of general meeting)	400,000	180,000	180,000	180,000	180,000	180,000	180,000	-	-
Remuneration for committee work	40,000	70,000	-	65,000	-	25,000	40,000	-	-
Independent in relation to the Company and company management	yes	yes	yes	yes	yes	yes	yes	yes	yes
Independent in relation to main owners	no	yes	no	no	yes	no	no	yes	no
Attendance at board meetings, 10 in number	10	10	10	7	10	7	6	3	2
Attendance at Audit Committee meetings, 4 in number	-	4	-	4	2	-	2	-	-
Attendance at Remuneration Committee meetings, 2 in number	2	-	-	2	1	1	-	-	-

1) Relates to the period 1 Jan 2018 - 16 May 2018. 2) Relates to the period 16 May 2018 - 31 Dec 2018

in the work of fulfilling its responsibilities within financial reporting, including sustainability reporting, accounts, auditing, internal control, internal audit and risk management. The Audit Committee also maintains regular contact with Balco's auditors, reviews and monitors the management of market and credit risks, and keeps itself informed on questions concerning the audit of the Company's annual report and regular internal control. The Company is also responsible for reviewing and assessing the auditor's impartiality and independence. The Audit Committee works in accordance with instructions adopted by the Board.

#### **Members of the Audit Committee 2018-2019**

- Ingalill Berglund (Chairman)
- Tomas Johansson (member)
- Johannes Nyberg (member)

Ingalill Berglund and Johannes Nyberg possess the accounting skills required by the Companies Act. All members of the Committee are independent of the Company and two members of the Committee are independent in relation to Balco's largest shareholder. During 2018, the Audit Committee held four meetings at which minutes were taken. Martin Odqvist, the Company's elected auditor, has participated at two of those meetings. All meetings of the Committee have been reported to the Board.

## **6. Remuneration Committee**

The main duties of the Remuneration Committee are to present proposals to the Board as regards remuneration for the CEO, remuneration principles and other employment terms for senior management, and to monitor and assess ongoing variable remuneration and long-term incentive programmes.

The Remuneration Committee works in accordance with instructions adopted by the Board.

#### **Members of the Remuneration Committee 2018-2019**

- Lennart Kalén (Chairman)
- Carl-Mikael Lindholm (member)
- Tomas Johansson (member)

All members of the Committee are independent of the Company and one of the members is independent in relation to Balco's largest shareholder. During 2018, the Remuneration Committee held two meetings, which have been reported to the Board.

## **7. Auditor**

The auditor shall audit Balco's annual report and accounts and review management of the Company. After each financial year the auditor submits to the AGM an auditor's report and an auditor's report for the Group. The external audit of Balco's accounts and those of all subsidiaries required to submit accounts is conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Balco's auditor is appointed by the AGM based on a proposal from the Nomination Committee. The 2018 AGM decided to appoint Öhrlings PricewaterhouseCoopers AB as the Company's auditor, with Martin Odqvist as auditor-in-charge, for the period until the 2019 AGM. Martin Odqvist is an authorised public accountant and a member of FAR. Öhrlings PricewaterhouseCoopers AB can be responsible for the audit up to and including 2037 before a new accounting firm must be elected in accordance with applicable rules. Authorised public accountant Martin Odqvist may serve as auditor-in-charge for the audit up to and including the 2022 AGM, before he is required to rotate the engagement in accordance with regulations. In 2018, the total remuneration paid to the Group's auditors was SEK 2,508,000 (4,453,000), of which SEK 2,375,000 (4,280,000) comprise remuneration to the Company's principal auditor, PwC.

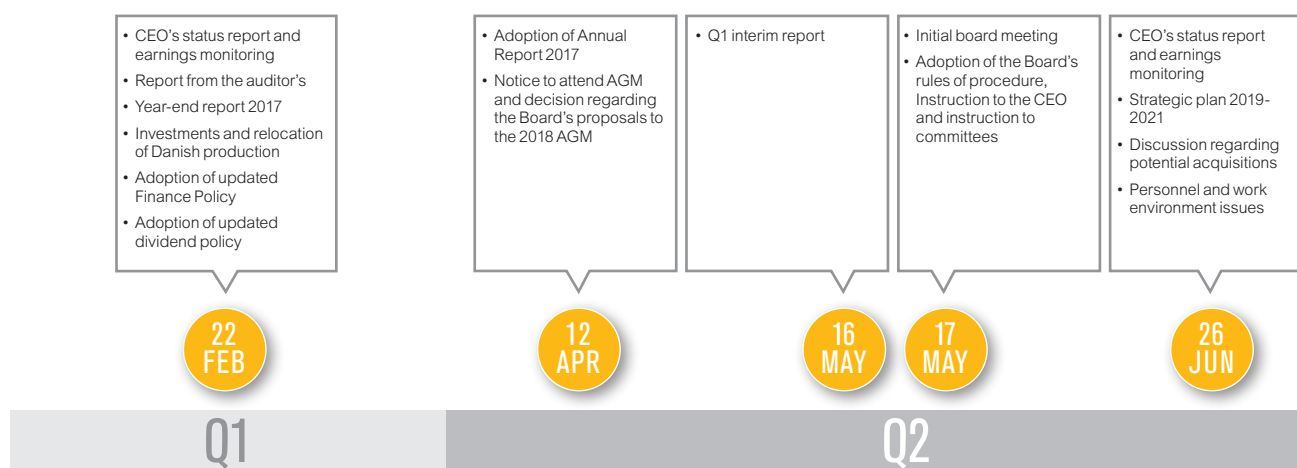
## **8. Management**

Balco's management comprises the President and CEO as well as a further eight senior managers. The management team comprises eight men and one woman.

#### **Members of senior management have the following functions:**

- Kenneth Lundahl, President and CEO
- David Andersson, Head of Marketing, responsible for New Markets
- Roger Andersson, Head of Sales, Sweden and Norway
- Johan Fälth, COO
- Fredrik Hall, CFO
- Cecilia Lannebo, Head of Communication and Head of Investor Relations
- Christian Linell, Head of Purchasing and Quality Assurance
- Jesper Magnusson, Head of Human Resources
- Henrik Nilsson, Head of Production

## **Board work in 2018**





## Salaries and remuneration to the CEO and other senior executives 2018

	Basic salary	Social security contributions/ special employer's contributions	Variable remuneration	Other benefits	Pension expenses
CEO	2,318	1,027	190	127	820
Other senior executives <sup>1)</sup> (7 individuals)	6,759	2,954	647	439	2,014
<b>Total</b>	<b>9,077</b>	<b>3,981</b>	<b>837</b>	<b>566</b>	<b>2,834</b>

## Salaries and remuneration to the CEO and other senior executives 2017

	Basic salary	Social security contributions/ special employer's contributions	Variable remuneration	Other benefits	Pension expenses
CEO	2,257	1,050	444	127	666
Other senior executives <sup>2)</sup> (7 individuals)	6,381	2,864	1,243	250	1,610
<b>Total</b>	<b>8,638</b>	<b>3,914</b>	<b>1,687</b>	<b>377</b>	<b>2,276</b>

1) Cecilia Lannebo is a consultant whose invoiced fee for 2018 is SEK 980,000.

2) Cecilia Lannebo is a consultant whose invoiced fee for 2017 is SEK 1,260,000

## Remuneration to senior management

The following guidelines for remuneration to senior management were adopted at the AGM held on 17 May 2018:

'Senior executive' means the CEO and management group, comprising nine individuals. The aim of the guidelines is to ensure that Balco is able to attract, incentivise and retain senior executives.

The objective with the remuneration is that it shall be competitive, while at the same time being in line with the shareholders' interests. Remuneration to management shall comprise fixed and variable salary, the possibility to participate in a long-term incentive programme, as well as pension benefits. These components shall together create well-balanced remuneration which reflects individual skills, responsibilities and performance, in both the short and long-term, as well as the Company's overall performance.

*Fixed and variable salary*

The executives' fixed salary shall be competitive and based on the individual executive's skills, responsibilities and performance.

The executives shall be able to receive variable remuneration in addition to fixed salary. Such variable remuneration shall not exceed 50% of fixed salary. The variable remuneration should be based on the outcome of predetermined and documented financial and individual objectives.

*Other benefits and pensions*

The Group offers senior executives other benefits in accordance with local practice. Such other benefits may, for example, include a company car and corporate healthcare. Where appropriate, the Company

may also offer housing for a limited period of time. Senior executives are entitled to pension benefits based on what is customary in the country in which they are employed. Pension obligations are secured through pension premiums paid to an insurance company.

*Deviations from the guidelines*

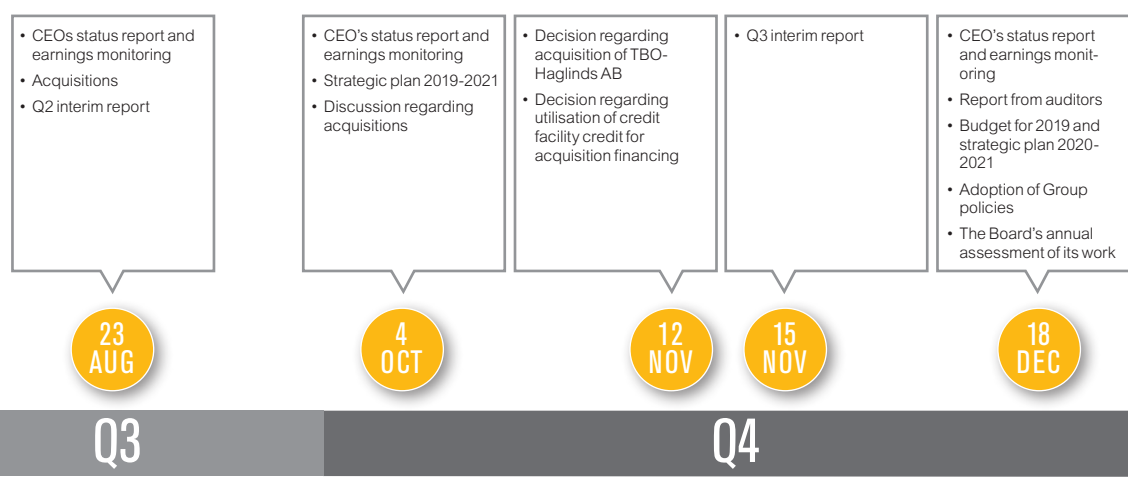
The Board may deviate from the above guidelines where special reasons so justify, for example with respect to additional variable remuneration for exceptional performance. In such case, the Board must explain the reason for the deviation at the immediately following AGM.

*Termination and severance compensation*

The CEO is entitled to terminate his employment on six months' notice and is entitled to twelve month's notice of termination by Balco. The CEO is subject to a non-compete clause which applies for a period of two years from effective termination of the employment. The employment of other senior executives is subject to termination upon the same notice period by the executive or the Company, ranging from three to twelve months.

## THE BOARD'S PROPOSAL FOR NEW GUIDELINES FOR MANAGEMENT REMUNERATION

No changes in the principles for remuneration to senior executives are proposed to the 2019 AGM.



# Internal control of financial reporting

*The objective of the internal control is to assess the risks which are of importance for Balco and which should therefore be managed through regular monitoring and control. Through a risk analysis, the work can be concentrated on the areas that are most important, in order to reduce the Company's total risk exposure.*

According to the Companies Act and the Swedish Corporate Governance Code, the Board of Directors is ultimately responsible for ensuring that the Company's organisation is structured in such a manner that financial reporting, management and operations are satisfactorily monitored and controlled. The internal control report is structured in accordance with the Annual Accounts Act and the Code. The description has been limited to addressing internal control with respect to the financial reporting in accordance with rule 7.4 of the Swedish Corporate Governance Code.

Balco's CFO is responsible for ensuring that implementation and maintenance of formal internal control routines take place in accordance with decisions taken by the Board. Balco's Finance

Department, presided over by the CFO, leads the Group's internal control work with respect to financial reporting. The work is checked regularly and monitored by the Board. For Balco, internal governance and control constitute work which is regularly integrated in the Company's operational management.

The internal control structure, which was developed ahead of Balco's IPO in 2017, is based on the framework in the established COSO (Committee of Sponsoring Organisations of the Treadway Commission) model. The model's components are used to assess and work with an organisation's internal governance and control linked to goals, reporting and compliance with laws and regulations.

The COSO model's five main components:





## CONTROL ENVIRONMENT

The control environment constitutes the basis for the internal control regarding financial reporting. It is important that the Company's decision paths, powers and responsibilities be clearly defined and communicated between different levels in the organisation. In order to create a frame-work for conduct of the work, Balco has implemented a number of governing documents in the form of internal policies and guidelines. Balco's Board has established a work process and adopted rules of procedure for its work and the work of the Board's committees. In addition, the Board has a number of basic policies and guidelines, such as the Board's rules of procedure, instructions to the CEO, finance policy, sustainability policy, insider policy and communication policy. Governance documents for accounting and financial reporting are particularly important areas for ensuring complete reporting and disclosure of information. Balco has an accounting handbook which is intended to achieve internal governance and control of the financial reporting. Alongside the accounting handbook, Balco has prepared a report package in respect of regular economic monitoring.

## RISK ASSESSMENT

Financial risk management constitutes a part of the ongoing financial reporting work. Balco endeavours to regularly analyse the risks that may lead to errors in the financial reporting. A process has been established as to how errors in the financial reporting are to be analysed and monitored on a yearly basis. Risks are addressed, assessed and reported in Balco's central group functions.

## CONTROL ACTIVITIES

Balco monitors the risks that the Board considers to be of importance for the internal control. The Group's CFO is responsible for ensuring the overall control of the financial reporting. In addition to the central control with clear decision-making processes and

decision routines as regards major investments, results analysis and reporting, a structure is in place comprising guidelines and role descriptions with mandate descriptions as to how the work is conducted and monitored in the organisation. Guidelines and instructions are aimed at discovering and preventing the risks of errors in the reporting.

## INFORMATION AND COMMUNICATION

Governing documents in the form of policies, guidelines and manuals, in the event they relate to the financial reporting, are communicated primarily in the Group's accounting handbook and via the Company's intranet. The information is expanded and updated as needed. Communication takes place primarily on a regular basis in the organisation, since the workgroup within the accounts function is essentially concentrated to one location. In addition, regular closing accounts meetings are held. Guidelines as to how communication is to take place with internal and external parties are described in Balco's communication policy. The policy is aimed at ensuring compliance with all disclosure obligations. Information to external stakeholders is provided on a regular basis on Balco's financial website. Internal communication largely takes place via the Company's intranet, at staff meetings and by email. Internal communication is important to ensure that all employees have a sense of belonging and participation and to ensure that everyone is working towards the same goals.

## MONITORING

Balco's financial department works in a common accounting and reporting system and has shared instructions and guidelines. Balco's Board and management receive monthly information concerning the Group's earnings, financial position and development of the business. Based on the internal control work, the Board may choose a specific area within which additional monitoring may be required.

# Board of Directors



LENNART KALÉN



INGALILL BERGLUND



CARL-MIKAEL LINDHOLM



PERCY CALISSENDORFF



TOMAS JOHANSSON



JOHANNES NYBERG



ÅSA SÖDERSTRÖM WINBERG



## LENNART KALÉN

### POSITION AND YEAR OF ELECTION

Born 1947. Board Chairman since 2010. Chairman of the Remuneration Committee.

### EDUCATION

Masters degree and a doctor of philosophy in economic subjects, Construction engineering degree and studies at IMI Genève.

### OTHER SIGNIFICANT APPOINTMENTS

Board Chairman, Optolexia AB, AB Segulah (vice-chairman), Segulah Venture AB. Director of Power Tender AB, Sandbäckens Invest Holding AB and Senzime (listed on First North).

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Chairman of DoCu Nordic AB, Previa AB, NEA AB, Sankt Eriks AB and director of Norfoods AB. CEO of Dahl Sverige AB, Alfa Laval Cellico AB and Sydsvenska Dagbladets Industrigrupp AB. Head of Business Area, ABB Fläkt and SKF.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

Fruholmen Invest AB 350,000 shares.  
Stymninge Property AB 5,000 shares.

## INGALILL BERGLUND

### POSITION AND YEAR OF ELECTION

Born 1964. Director since 2016. Chairman of the Audit Committee.

### EDUCATION

Higher-level specialised courses in economics at Frans Schartaus Handelsinstitut.

### OTHER SIGNIFICANT APPOINTMENTS

Director of Scandic Group AB, Veidekke AS, Axfast AB, Kungsleden AB, Bonnier Fastigheter AB, Juni Strategi & Analys AB and Stiftelsen Danviks Hospital.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

President and CEO of Atrium Ljungberg AB. CFO of Skolfastigheter i Stockholm AB. CEO of Axfast AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

25,000 shares

## CARL-MIKAEL LINDHOLM

### POSITION AND YEAR OF ELECTION

Born 1971. Director since 2018.

### EDUCATION

Degree of Dr of Medicine from Karolinska Institutet and a specialist degree in general medicine and oncology.

### OTHER SIGNIFICANT APPOINTMENTS

Asset manager and director of the Carl-Olof and Jenz Hamrin Foundation and business developer at Herenco Holding AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Board Chairman, Hamhus AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

30,000 shares

## PERCY CALISSENDORFF

### POSITION AND YEAR OF ELECTION

Born 1967. Director since 2010.

### EDUCATION

M.Sc. in Finance from City University, London and B.Sc. in Business from Buckingham University.

### OTHER SIGNIFICANT APPOINTMENTS

Partner, Segulah Advisor AB. Director: Sandbäckens Rör AB and Conapto AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Director of Investments for STAR Capital Partners, Head of Investments, Merchant Venture Investments and Head of Corporate Finance division at Hambros Bank.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

17,857 shares

## TOMAS JOHANSSON

### POSITION AND YEAR OF ELECTION

Born 1958. Director since 2013. Member of the Audit Committee and Remuneration Committee

### EDUCATION

Degree in market economy from IHM Business School.

### OTHER SIGNIFICANT APPOINTMENTS

CEO, Dahl Sverige AB. Director: Pelly Group AB

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

CEO, Bevego Byggplåt & Ventilation AB, Marketing manager at AB Gustavsberg and division manager at Stråbruken (part of NCC Group AB).

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

36,738 shares

## JOHANNES NYBERG

### POSITION AND YEAR OF ELECTION

Born 1971. Director since 2018.

### EDUCATION

MBA in International Economics from Uppsala University; Commerce programme, School of Business at Queens University as well as studies in economics at Humboldt University.

### OTHER SIGNIFICANT APPOINTMENTS

CEO, Skandrenting AB. Board Chairman, Cryonite AB and director of Raiffeisen Leasing Nordic AB and Skandrenting AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Several senior positions within banking and finance as well as construction and real estate, both nationally and internationally Director of Collector Bank AB as well as Board Chairman, Oscar Properties AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

-

## ÅSA SÖDERSTRÖM WINBERG

### POSITION AND YEAR OF ELECTION

Born 1957. Director since 2016.

### EDUCATION

MBA from Stockholm University.

### OTHER SIGNIFICANT APPOINTMENTS

Board Chairman, Scanmast AB och Delete Oy. Director of Vattenfall AB, JM AB, OEM International AB, Nordic Room Improvement AB and Fibo Group A/S.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

CEO, SWECO Theorells and Ballast Väst (part of NCC Group).

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

28,028 shares, Åsa Söderström AB 25,484 shares

# Management



KENNETH LUNDAHL



DAVID ANDERSSON



ROGER ANDERSSON



JOHAN FÄLTH



FREDRIK HALL



CECILIA LANNEBO



CHRISTIAN LINELL



JESPER MAGNUSSON



HENRIK NILSSON



## KENNETH LUNDAHL

### POSITION AND YEAR OF EMPLOYMENT

Born 1967. President and CEO since 2013.

### EDUCATION

Civil engineering degree from Chalmers Technical University.

### OTHER SIGNIFICANT APPOINTMENTS

Board Chairman, Lundahl & Hall AB, several directorships in the Lundahl & Hall Group. Board Chairman, Anderstorps Hotellfastigheter AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Co-founder of Lundahl & Hall, CEO, Isaberg Rapid AB and head of business area, Thule Group.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

302,153

### WARRANTS

107,144

### CALL OPTIONS

450,000

## DAVID ANDERSSON

### POSITION AND YEAR OF EMPLOYMENT

Born 1984. Head of Marketing and New markets. Employed since 2013.

### EDUCATION

MBA from Växjö University.

### OTHER SIGNIFICANT APPOINTMENTS

Director of SwePart AB, Merlinum AB and The Smiling Group AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Sales and marketing manager at Svetruck AB. Sales and marketing positions at Teknikmagasinet AB and The Phone House AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

107,139

### WARRANTS

30,612

### CALL OPTIONS

24,000

## ROGER ANDERSSON

### POSITION AND YEAR OF EMPLOYMENT

Born 1967. Head of Sales, Sweden and Norway. Employed since 2005.

### EDUCATION

Secondary school degree, mechanical engineering from Håssleholm Technical School.

### OTHER SIGNIFICANT APPOINTMENTS

-

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Product manager and district manager at Colly Components AB, product technician at Autoliv AB and designer at Levahn Industrier AS.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

59,134

### WARRANTS

45,920

### CALL OPTIONS

40,000

## JOHAN FÄLTH

### POSITION AND YEAR OF EMPLOYMENT

Born 1975. COO since 2014. Employed since 2010.

### EDUCATION

Masters degree in corporate finance from Linnaeus University.

### OTHER SIGNIFICANT APPOINTMENTS

-

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Head of HR at Tenneco Automotive Sverige AB, Linnaeus University and consultant at Adecco AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

79,233

### WARRANTS

45,920

### CALL OPTIONS

40,000

## FREDRIK HALL

### POSITION AND YEAR OF EMPLOYMENT

Born 1969. CFO since 2016.

### EDUCATION

MSA from Växjö College.

### OTHER SIGNIFICANT APPOINTMENTS

Director of Lundahl & Hall AB as well as directorships in the Lundahl & Hall Group as board chairman or director. Director of CFH Foundation AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Co-founder of the Lundahl & Hall Group, CEO of Snickarlaget Norden AB and AB Smålandsinredningar, CFO, Isaberg Rapid AB, VP Finance Thule Group AB, Business area controller, Finnveden AB and CFO, Tenneco Automotive Sverige AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

282,153

### WARRANTS

76,332

### CALL OPTIONS

450,000

## CECILIA LANNÉBO

### POSITION AND YEAR OF EMPLOYMENT

Born 1973. Contracted as Head of Investor Relations since 2016.

### EDUCATION

MBA from Mälardalen College and Wirtschaftsuniversität Wien.

### OTHER SIGNIFICANT APPOINTMENTS

CEO and director, i-Core Communications AB. Director, Boozt AB.

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Alternate director of FondPrinsen AB. Head of IR at Humana AB, Leovegas AB, Eniro AB, Hakon Invest AB and equities analyst at SEB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

9,000

### WARRANTS

-

### CALL OPTIONS

-

## CHRISTIAN LINELL

### POSITION AND YEAR OF EMPLOYMENT

Born 1974. Head of Purchasing and Quality Assurance. Employed since 1996.

### EDUCATION

Secondary school degree in social studies.

### OTHER SIGNIFICANT APPOINTMENTS

-

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Production operator at Scanditronix Magnet AB and Abetong AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

27,817

### WARRANTS

30,612

### CALL OPTIONS

24,000

## JESPER MAGNUSSON

### POSITION AND YEAR OF EMPLOYMENT

Born 1986. Head of Human Resources. Employed since 2014.

### EDUCATION

PhD with focus on Human Resource Management from Linnaeus University

### OTHER SIGNIFICANT APPOINTMENTS

-

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Office manager, head of consulting and recruiting at Adecco HR AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

36,033

### WARRANTS

30,612

### CALL OPTIONS

24,000

## HENRIK NILSSON

### POSITION AND YEAR OF EMPLOYMENT

Born 1978. Head of Production. Employed since 2011.

### EDUCATION

Masters degree in industrial systems finance from Växjö University.

### OTHER SIGNIFICANT APPOINTMENTS

-

### PREVIOUS POSITIONS AND PROFESSIONAL EXPERIENCE

Head of production and logistics at Alstrom Power Sweden AB and head of production at Finnveden Powertrain AB.

### TOTAL SHAREHOLDING (OWN, CLOSELY-RELATED PARTIES IN COMPANIES AND THROUGH ENDOWMENT POLICIES)

10,000

### WARRANTS

30,612

### CALL OPTIONS

24,000

# FINANCIAL STATEMENTS

## FINANCIAL STATEMENTS

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK '000	Note	2018	2017
Net sales	5	1,058,052	988,951
Production and project costs	6,7,8,13	-804,258	-741,117
<b>Gross profit</b>		<b>253,794</b>	<b>247,834</b>
Selling expenses	6,7,8	-94,095	-87,566
Administrative expenses	6,7,8	-53,917	-68,352
Participations in profit of associated company	9	10	110
Other operating income	10	737	6,847
Other operating expenses	10	-904	-6,537
<b>Operating profit</b>	5	<b>105,625</b>	<b>92,336</b>
Financial income	11	102	24
Financial expenses	11,13	-6,223	-37,071
<b>Net financial items</b>	11,13	<b>-6,121</b>	<b>-37,047</b>
<b>Profit before tax</b>		<b>99,504</b>	<b>55,289</b>
Income tax	12	-22,750	-17,638
<b>Profit for the year</b>		<b>76,754</b>	<b>37,651</b>
<b>Other comprehensive income</b>			
<b>Items which can subsequently be restored to the income statement</b>			
Exchange rate differences upon translation of foreign operations, net after tax		1,886	2,041
<b>Other comprehensive income for the year, net after tax</b>		<b>1,886</b>	<b>2,041</b>
<b>Total comprehensive income for the year</b>		<b>78,640</b>	<b>39,692</b>
Of which attributable to the equity holders of the Parent Company		78,640	39,692
Amounts in SEK	Note	2018	2017
<b>Earnings per ordinary share, calculated as earnings attributable to equity holders of the parent company during the year (expressed in SEK per share)</b>			
Earnings per share, SEK, before dilution	33	3.67	2.43
Earnings per share, SEK, after dilution	33	3.67	2.43
Average number of ordinary shares, thousands		21,429	13,704

## CONSOLIDATED BALANCE SHEET

Amounts in SEK '000	Note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Goodwill	15	401,101	372,043
Trademarks	15	43,866	9,677
Acquired order backlog	15	5,640	-
Patents	15	500	-
Licences	15	1,765	1,513
Advances, intangible assets	15	1,565	245
<b>Total intangible assets</b>		<b>454,437</b>	<b>383,478</b>
<b>Property, plant and equipment</b>			
Buildings and land	16	116,004	77,355
Machinery and other plant	16	28,200	26,693
Equipment, tools, fixtures and fittings	16	31,510	20,866
Construction in progress	16	12,577	5,429
<b>Total property, plant and equipment</b>		<b>188,291</b>	<b>130,343</b>
<b>Financial assets</b>			
Holdings in affiliated company	9	3,593	3,541
Derivative instruments	19	1,273	-
Other non-current receivables	19	560	560
Other investments held as fixed assets	19	20	20
<b>Total financial assets</b>		<b>5,446</b>	<b>4,121</b>
Deferred tax assets	17	1,665	934
<b>Total non-current assets</b>		<b>649,839</b>	<b>518,876</b>
<b>Current assets</b>			
<i>Inventories</i>			
Raw materials and commodities	18	26,384	21,052
<i>Current receivables</i>			
Trade receivables	19,20	161,635	119,139
Contractual assets	21	116,871	100,131
Current tax assets		1,645	1,622
Derivative instruments	19	954	3,628
Other receivables	22	7,404	4,340
Prepaid expenses and accrued income	23	11,441	10,090
Cash and cash equivalents	19,24	87,034	106,483
<b>Total current assets</b>		<b>413,368</b>	<b>366,485</b>
<b>TOTAL ASSETS</b>		<b>1,063,207</b>	<b>885,361</b>



**CONSOLIDATED BALANCE SHEET, cont.**

Amounts in SEK '000	Note	31 Dec 2018	31 Dec 2017
<b>EQUITY</b>			
<b>Equity attributable to:</b>			
<b>Equity holders of the parent company</b>			
Share capital	25	128,578	128,578
Other contributed capital		381,764	381,764
Provisions		4,952	3,066
Retained earnings, including comprehensive income for the year		-74,795	-127,057
<b>Total equity attributable to equity holders of the parent company</b>		<b>440,499</b>	<b>386,351</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Liabilities to credit institutions	19,26,30	271,288	187,731
Derivative instruments	19	1,801	-
Other non-current liabilities	19	18,320	-
Deferred tax liabilities	17	27,666	4,799
<b>Total non-current liabilities</b>		<b>319,075</b>	<b>192,529</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	19,26,30	10,444	8,765
Trade creditors	19	138,516	101,151
Overdraft facility	19,26	-	-
Current tax liabilities		24,878	14,252
Derivative instruments	19	1,859	4,359
Other liabilities	27	25,864	17,703
Contractual liabilities	21	45,653	106,151
Accrued expenses and deferred income	28	56,419	54,099
<b>Total current liabilities</b>		<b>303,633</b>	<b>306,481</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,063,207</b>	<b>885,361</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK '000	Share capital	Other contributed capital	Provisions	Retained earnings incl. comprehensive income for the year	Total equity
<b>Opening balance, 1 January 2017</b>	<b>67,717</b>	<b>177,346</b>	<b>1,025</b>	<b>-106,569</b>	<b>139,519</b>
Profit for the year	-	-	-	37,651	37,651
Other comprehensive income					
Translation differences, net after tax	-	-	2,041	-	2,041
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>2,041</b>	<b>37,651</b>	<b>39,692</b>
Transactions with equity holders in their capacity as owners:					
Cancellation, ordinary and preference shares	-56,434	-	-	10,496	-45,938
Bonus issues and debt/equity swap	117,295	204,807	-	-56,436	265,666
Repayment, conditional shareholders contribution	-	-3,436	-	-12,199	-15,635
Payment, warrants	-	3,047	-	-	3,047
<b>Total attributable to equity holders</b>	<b>60,860</b>	<b>204,418</b>	<b>-</b>	<b>-58,139</b>	<b>207,140</b>
<b>Closing balance, 31 December 2017</b>	<b>128,578</b>	<b>381,764</b>	<b>3,066</b>	<b>-127,057</b>	<b>386,351</b>
<b>Balance, 31 December 2017 according to adopted balance sheet</b>	<b>128,578</b>	<b>381,764</b>	<b>3,066</b>	<b>-127,057</b>	<b>386,351</b>
Changed accounting principle	-	-	-	-3,064	-3,064
<b>Adjusted equity, 1 January 2018</b>	<b>128,578</b>	<b>381,764</b>	<b>3,066</b>	<b>-130,121</b>	<b>383,287</b>
Profit for the year	-	-	-	76,755	76,755
Other comprehensive income					
Translation differences, net after tax	-	-	1,886	-	1,886
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1,886</b>	<b>76,755</b>	<b>78,641</b>
Transactions with equity holders in their capacity as owners:					
Dividend				-21,429	-21,429
<b>Total attributable to equity holders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-21,429</b>	<b>-21,429</b>
<b>Closing balance, 31 December 2018</b>	<b>128,578</b>	<b>381,764</b>	<b>4,952</b>	<b>-74,795</b>	<b>440,499</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in SEK '000	Note	2018	2017
<b>Cash flow from operating activities</b>			
Profit before financial items		105,626	92,336
Adjustments for non-cash items:			
-Amortisation/depreciation		20,248	17,089
-Other non-cash items	35	711	2,615
Interest received	11	102	24
Interest paid	11,26	-6,223	-7,247
Income taxes paid		-9,617	-6,208
<b>Cash flow from operating activities before changes in working capital</b>		<b>110,847</b>	<b>98,609</b>
<b>Cash flow from changes in working capital</b>			
Increase/decrease, inventories		1,216	-4,396
Increase/decrease, current receivables		-4,386	-32,149
Increase/decrease, current liabilities		-79,710	93,288
<b>Total change in working capital</b>		<b>-82,880</b>	<b>56,743</b>
<b>Cash flow from operating activities</b>		<b>27,967</b>	<b>155,352</b>
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment	16	-24,053	-54,803
Purchases of intangible assets	15	-1,885	-224
Sold property, plant and equipment		2,945	-
Investments in subsidiaries	29	-70,581	-480
Change, non-current financial receivables		-	417
<b>Cash flow from investing activities</b>		<b>-93,574</b>	<b>-55,090</b>
<b>Cash flow from financing activities</b>			
New borrowings	26	80,000	143,606
Loan repayments	26	-	-50,889
Changes in current financial liabilities	26	-	-41,428
Change in financial leasing	26	-12,493	-8,278
Warrants		-	3,047
Redemption, preference shares		-	-45,938
Repayment of shareholder contributions		-	-15,635
Dividend		-21,429	-
<b>Cash flow from financing activities</b>		<b>46,078</b>	<b>-15,515</b>
<b>Reduction/increase in cash and cash equivalents</b>		<b>-19,529</b>	<b>84,747</b>
Cash and cash equivalents at beginning of year	24	106,483	21,719
Exchange rate difference in cash and cash equivalents		80	17
<b>Cash and cash equivalents at year-end</b>	<b>24</b>	<b>87,034</b>	<b>106,483</b>

Change in indebtedness			Non-cash transactions				
	1 Jan 2018	Cash flow	Acquisitions	Accumulated interest	Currency effect	New leasing contracts	31 Dec 2018
Current liabilities to credit institutions	-	-	740	-	-	-	740
Non-current liabilities to credit institutions	142,205	80,000	5,418	153	298	-	228,074
Other financial liabilities	-	-	18,320	-	-	-	18,320
Financial leasing liabilities	54,291	-12,493	-	-	-	11,120	52,918
<b>Total liabilities attributable to financing activities</b>	<b>196,496</b>	<b>67,507</b>	<b>24,478</b>	<b>153</b>	<b>298</b>	<b>11,120</b>	<b>300,052</b>

## THE PARENT COMPANY'S INCOME STATEMENT

Amounts in SEK '000	Note	2018	2017
Net sales	36	15,204	3,995
Production and project costs		-	-
<b>Gross profit</b>		<b>15,204</b>	<b>3,995</b>
Administrative expenses	6,7	-11,499	-17,286
<b>Operating profit</b>		<b>3,705</b>	<b>-13,291</b>
Interest income and similar profit/loss items	11	513	215
Interest expenses and similar profit/loss items	11	-3,172	-30,657
<b>Profit after financial items</b>		<b>1,045</b>	<b>-43,733</b>
Appropriations, received group contribution		-	17,000
Profit before tax		<b>1,045</b>	<b>-26,733</b>
Tax on profit for the year	12	-234	-131
<b>Profit for the year</b>		<b>812</b>	<b>-26,864</b>

The parent company has no items which are reported as other comprehensive income and thus total comprehensive income corresponds to profit for the year.

## THE PARENT COMPANY'S BALANCE SHEET

Amounts in SEK '000	Note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Financial non-current assets</b>			
Participations in group companies	14	389,067	389,067
Other non-current receivables		739	891
<b>Total non-current assets</b>		<b>389,806</b>	<b>389,958</b>
<b>Current assets</b>			
Receivables from group companies		75,931	33,027
Other receivables		15	1,011
Tax asset		131	-
Prepaid expenses and accrued income	23	578	813
Cash and cash equivalents	24	266	91,071
<b>Total current assets</b>		<b>76,921</b>	<b>125,922</b>
<b>TOTAL ASSETS</b>		<b>466,727</b>	<b>515,880</b>
<b>EQUITY</b>			
<b>Restricted equity</b>			
Share capital	25	128,578	128,578
<b>Total restricted equity</b>		<b>128,578</b>	<b>128,578</b>
<b>Non-restricted equity</b>	38		
Share premium reserve		381,764	381,764
Retained earnings		-208,823	-160,530
Profit for the year		812	-26,864
<b>Total non-restricted equity</b>		<b>173,753</b>	<b>194,370</b>
<b>Total equity</b>		<b>302,331</b>	<b>322,948</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Liabilities to credit institutions	26	161,055	120,000
<b>Total non-current liabilities</b>		<b>161,055</b>	<b>120,000</b>
<b>Current liabilities</b>			
Trade creditors		180	1,731
Liabilities to group companies		-	65,611
Current tax liabilities		-	1,053
Other liabilities	27	1,046	262
Accrued expenses and deferred income	28	2,115	4,275
<b>Total current liabilities</b>		<b>3,341</b>	<b>72,932</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>466,727</b>	<b>515,880</b>



## THE PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

Amounts in SEK '000	Restricted equity		Non-restricted equity	
	Share capital	Share premium reserve	Retained earnings incl. profit for the year	Total equity
<b>Opening balance, 1 January 2017</b>	<b>67,717</b>	<b>177,346</b>	<b>-102,391</b>	<b>142,672</b>
<b>Comprehensive income</b>				
Comprehensive income for the year	-	-	-26,864	-26,864
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-26,864</b>	<b>-26,864</b>
Transactions with equity holders in their capacity as owners:				
Cancellation, ordinary and preference shares	-56,434	-	10,496	-45,938
Bonus issues and debt/equity swap	117,295	204,807	-56,436	265,666
Repayment, conditional shareholders contribution	-	-3,436	-12,199	-15,635
Payment, warrants	-	3,047	-	3,047
<b>Total attributable to equity holders</b>	<b>60,861</b>	<b>204,418</b>	<b>-58,139</b>	<b>207,140</b>
<b>Closing balance, 31 December 2017</b>	<b>128,578</b>	<b>381,764</b>	<b>-187,394</b>	<b>322,948</b>
<b>Opening balance, 1 January 2018</b>	<b>128,578</b>	<b>381,764</b>	<b>-187,394</b>	<b>322,948</b>
<b>Comprehensive income</b>				
Comprehensive income for the year	-	-	812	812
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>812</b>	<b>812</b>
Transactions with equity holders in their capacity as owners:				
Dividend	-	-	-21,429	-21,429
<b>Total attributable to equity holders</b>	<b>-</b>	<b>-</b>	<b>-21,429</b>	<b>-21,429</b>
<b>Closing balance, 31 December 2018</b>	<b>128,578</b>	<b>381,764</b>	<b>-208,011</b>	<b>302,331</b>

## THE PARENT COMPANY'S STATEMENT OF CASH FLOWS

Amounts in SEK '000	Note	2018	2017
<b>Operating activities</b>			
Operating profit		3,705	-13,291
Adjustments for non-cash items, etc.		0	0
		<b>3,705</b>	<b>-13,291</b>
Interest received		513	215
Interest paid		-3,172	-832
Income tax paid		-1,418	-76
<b>Cash flow from operating activities before changes in working capital</b>		<b>-372</b>	<b>-13,984</b>
<i>Changes in working capital</i>			
Changes in operating receivables		-41,673	-3,134
Changes in operating liabilities		-68,538	71,879
<b>Cash flow from operating activities</b>		<b>-110,583</b>	<b>54,761</b>
<i>Investing activities</i>			
Change in non-current receivables		152	-891
<b>Cash flow from investing activities</b>		<b>152</b>	<b>-891</b>
<i>Financing activities</i>			
Borrowings		41,055	120,000
Loan repayments		-	-24,273
Warrants		-	3,047
Redemption, preference shares		-	-45,938
Repayment, shareholder contributions		-	-15,635
Dividend		-21,429	0
<b>Cash flow from financing activities</b>		<b>19,626</b>	<b>37,201</b>
<b>Cash flow for the year</b>		<b>-90,805</b>	<b>91,071</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>91,071</b>	<b>0</b>
<b>Exchange rate difference in cash and cash equivalents</b>		<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at year-end</b>		<b>266</b>	<b>91,071</b>

### Change in indebtedness

	1 Jan 2018	Cash flow	31 Dec 2018
Non-current liabilities to credit institutions	120,000	41,055	161,055
Other non-current liabilities	-	-	-
<b>Total liabilities attributable to financing activities</b>	<b>120,000</b>	<b>41,055</b>	<b>161,055</b>

# NOTES

## NOTE 1 GENERAL INFORMATION

The Group engages in the development, production and sale of complete balcony systems, primarily for apartment buildings. Systems are mainly marketed in Sweden, Norway, Denmark, Finland, Germany, the UK and Netherlands.

The parent company is a Swedish public limited company which is listed on Nasdaq Stockholm and has its registered office in Växjö. The address of the head office is Älgvägen 4, 352 45, Växjö.

The Group comprises the parent company Balco Group AB, reg. no. 556821-2319, and the following subsidiaries: Balco Invest AB, Balco Holding AB, Nordiska Balco AB, Balco AB, Balco Balkonkonstruktionen GmbH, Balco Balcony Systems Ltd, Balco AS, Balco Balkonsystemen B.V., Balco Spolka z o.o., Balustrade AB, Balco Oy, Balco Kontech A/S, Kronhjørten & Lodjuret Holding AB, TBO-Haglinds AB, as well as the associated company MIB-Pol Spolka z o.o.

Unless otherwise stated, all amounts are reported in thousands of kronor (SEK '000).

## NOTE 2 SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

The most important accounting principles applied in the preparation of these consolidated financial statements are stated below. Unless otherwise stated, these principles have been applied consistently for all presented years.

### Basis for preparation of the statements

The consolidated financial statements for Balco Group AB have been prepared in accordance with IFRS (International Financial Reporting Standards) 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, except with respect to financial assets and liabilities (derivative instruments) valued at fair value in the income statement. The preparation of financial statements in compliance with IFRS requires the use of a number of important estimates for accounting purposes. In addition, management is required to make certain assessments when applying the Group's accounting principles; see Note 4.

### New standards, amendments and interpretations applied by the Group

Except as stated below, standards, amendments and interpretations which entered into force in the financial year commencing 1 January 2018 have been assessed as having no significant impact on the Group's financial statements.

#### IFRS 9 Financial instruments

IFRS 9 addresses the classification, valuation and reporting of financial assets and liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2014. It replaces parts of IAS 39, which addresses classification and valuation of financial instruments and introduces a new impairment model. The standard has been adopted by the EU.

IFRS 9 will begin to be applied by the Group this financial year. The Group has not recalculated comparison figures for the 2017 financial year; this is in accordance with the standard's transition rules.

During 2017, a study was carried out concerning classification and valuation of the Group's financial instruments. It has been concluded that the new rules for classification and valuation will not affect the Group's financial position on the transition date, since the rules will not entail any change as regards valuation of the financial instruments reported in the Group's balance sheet at that time.

IFRS 9 introduces a new impairment model based on anticipated credit losses and which takes into consideration forward-looking information. Historically, the Group has had very small credit losses and the customer base comprises stable customers and, also from a forward-looking perspective, the likelihood of default by our customers is considered to be low. Thus, the conclusion is that no additional impairment of trade receivables or contractual assets is required.

The changed rules concerning hedge accounting will not affect the Group since hedge accounting is not applied.

IFRS 9 will thus have no impact on the Group's financial position upon application on 1 January 2018.

The analysis of the revised disclosure requirements in IFRS 7 has not caused the Group to consider that additional information is required.

#### IFRS 15 Revenue from contracts with customers

IFRS 15 results in new requirements regarding reporting of revenues and replaces IAS 18 Revenue, IAS 11 Construction contracts and several related interpretations.

The new standard provides more detailed guidance within many areas that were previously not addressed by the current IFRS, including how to report contracts involving several performance obligations, variable pricing, the time when revenues are to be reported, etc. The standard has been adopted by the EU commencing the 2018 financial year.

In 2017, a project was carried out to identify and analyse potential differences between previous accounting principles and IFRS 15 based on the standard's 5-step model.

The significant conclusions from that analysis were that the Group's revenues will continue to be recognised over time (percentage of completion method) when it has been concluded that there is an entitlement to payment and there is no alternative use of the products, since the products are specifically adapted for the customer. Installation is also reported over time since the customer receives a regularly performed service.

The difference that has been identified compared with previous accounting principles relates to what can be identified as project expenses when applying the percentage of completion method. Some of the expenditures that the Group incurs and which, under previous rules, were addressed as project expenses under IAS 11 will, upon application of the percentage of completion method, continue to be addressed as performance expenses and capitalised and depreciated over the term of the project. These expenses may not be included as a project expense under IFRS 15 and thus may not longer be included in the basis when calculating the project's percentage of completion. This means a delay as to when the revenues can be recognised, compared with previous principles. Due to the fact that the Group has chosen to apply the modified transition method whereby only a forward-looking adjustment is made, the application of IFRS 15 affected equity as per 1 January 2018. The effect amounted to SEK 3.1 million including tax, which affects the opening balance for equity.

As a consequence of the adaptation during 2018, revenues reported were SEK 21.8 million lower and operating profit was SEK 9.4 million lower compared with previous accounting principles.

The Group's business is focused on developing, manufacturing, installing and selling balcony solutions on the northern European market. The products comprise glazed and open balconies, primarily within the Renovation segment. Customers comprise tenant-owner associations, private landlords and public housing companies and, to a limited extent, industrial purchasers. Sales take place through employed sales staff who, through a consultative sales process, assist the customer with the entire project, "one-stop-shop". Projects are performed at a fixed price, usually on a turnkey basis with respect to customised products which are specifically designed and manufactured.

### New standards and interpretations not yet applied by the Group

A number of new standards, amendments and interpretations of existing standards that are applicable to the financial year beginning after 1 January 2019 have not been applied by the Group when producing these consolidated financial statements. None of these standards, amendments and interpretations of existing standards are expected to have any material impact on the Group, except as stated below.

#### IFRS 16 Leases

IFRS 16 "Leases" was published in January 2016 by IASB. The standard has been adopted by the EU and will replace IAS 17 Leases and related interpretations IFRIC 4, SIC-15 and SIC-27. IFRS 16 requires that assets and liabilities related to all leases, with the exception of short leases or agreements regarding assets of minor value, be reported in the balance sheet. This reporting is based on the view that the lessee is entitled to use an asset during a specific period of time and, at the same time, has an obligation to pay for such entitlement. Consequently, most of the Group's current operating leases will be reported in the balance sheet as from 2019.

The Group has completed the work on adapting to the new IFRS 16 reporting standard and its effect on the Group's financial statements. A full review has been carried out of all leases, with information being collected and compiled as a basis for calculations and quantification in connection with conversion. Most of the Group's significant leases are already reported as financial leases. In connection with the transition to IFRS 16, additional leases will be included in the consolidated balance sheet as right of use assets and financial liabilities.

Note 32 presents a specification of the Group's non-terminable operating leases.

The Group will implement partially retroactive application, without recalculation of comparison figures. The Group's balance sheet total will increase by SEK 13 million as a consequence of the implementation of IFRS 16.



## Consolidated financial statements

### Subsidiaries

Subsidiaries are all companies (including structured companies) over which the Group has a controlling influence. The Group controls a company when it is exposed to, or is entitled to receive, varying return from its holdings in the company and has the possibility to affect the return through its influence over the company. Subsidiaries are included in the consolidated financial statements commencing the day on which the controlling influence passes to the Group.

They are excluded from the consolidated financial statements as from the day on which the controlling influence ceases.

The acquisition method is used for reporting the Group's business acquisitions. The purchase price for the acquisition of a subsidiary comprises fair value of sold assets, liabilities and the shares issued by the Group. The purchase price also includes the fair value of all liabilities or assets as a consequence of an agreement regarding any conditional purchase price. Acquisition-related expenses are booked as costs when incurred. Identifiable acquired assets and assumed liabilities in a business acquisition are initially valued at fair value on the acquisition date.

The amount by which a purchase price exceeds the fair value of identifiable acquired net assets is reported as goodwill. If the amount is less than the fair value for the assets of the acquired subsidiary, i.e. in the event of a bargain purchase, the difference is reported directly in the statement of comprehensive income.

Intra-group transactions and balance sheet items as well as unrealised gains and losses on transactions between group companies are eliminated. Where appropriate, the accounting principles of subsidiaries have been changed to guarantee consistent application of the Group's principles.

### Associated companies

Associated companies are all companies in which the Group has a significant, but not controlling, influence; this usually involves a holding of between 20% and 50% of the votes. Holdings in associated companies are reported in accordance with the share of equity method. When applying the share of equity method, the investment is initially valued at historical cost and the reported value is subsequently increased or decreased to take into account the Group's share of the profit or loss after the date of acquisition.

The Group's share of earnings which arises after the acquisition is reported in the income statement and its share of changes in other comprehensive income after the acquisition is reported in other comprehensive income with a corresponding change in the reported value of the holding. When the Group's share in an associated company's losses equals or exceeds its holding, including any unsecured claims, the Company reports no further losses unless the Group has undertaken legal or informal obligations, or made payments on behalf of the associated company. The Group reports its share in the earnings of an associated company in operating profit, since the holding is of a commercial nature.

The Group makes an assessment, at the close of each reporting period, as to whether there is objective evidence for impairment of the investment in an associated company. If such is the case, the Group calculates the impairment amount as the difference between the associated company's recovery value and the reported value and reports the amount in "Participations in earnings of associated companies" in the income statement.

Profits and losses from upstream and downstream transactions between the Company and its associated companies are reported in the consolidated financial statements only to the extent they correspond to unrelated companies' holdings in associated companies. Unrealised losses are eliminated unless the transaction constitutes evidence of impairment of the sold assets. Where appropriate, accounting principles applied in associated companies have been changed to guarantee a consistent application of the Group's principles.

## Translation of foreign currency

### Functional currency and reporting currency

The different entities in the Group have their local currency as the functional currency, whereupon the local currency has been defined as the currency used in the primary economic environment in which each entity primarily operates. In the consolidated financial statements, Swedish kronor (SEK) are used as the parent company's functional currency and the Group's reporting currency.

### Transactions and balance sheet items

Transactions in foreign currency are translated to the functional currency at the currency rates applicable on the transaction date. Exchange rate gains and losses arising in conjunction with payments of such transactions and upon translation of monetary assets and liabilities in foreign currency to the closing day rate, are reported in operating profit in the income statement.

### Translation of foreign group companies

The earnings and financial position of all group companies that have a different functional currency to the reporting currency are translated to the Group's reporting currency. Assets and liabilities for each of the balance sheets are translated from the functional currency of the foreign business

to the Group's reporting currency (Swedish kronor) at the currency rate prevailing on the closing day. Income and expenses for each of the income statements are translated to Swedish kronor at the average rate on the date of each transaction. Translation differences which arise in conjunction with currency translation of foreign businesses are reported in other comprehensive income.

## Intangible assets

### Goodwill

Goodwill arises in conjunction with acquisitions of subsidiaries and relates to the amount whereby the purchase price exceeds Balco's share of the fair value of identifiable assets, liabilities and contingent liabilities in the acquired company, as well as the fair value of non-controlling interests in the acquired company.

In order to test for impairment, goodwill acquired in a business acquisition is allocated to cash-generating units or groups of cash-generating units which are expected to benefit from synergies from the acquisition. Each unit or group of units to which goodwill has been allocated corresponds to the lowest level in the Group on which the goodwill item in question is monitored in the internal control. The Group's operations are divided into two different segments: Renovation and New Build. Goodwill is tested for impairment each year or more frequently if events or changes in circumstances indicate a possible diminution in value. The reported value of goodwill is compared with the recovery value, which is the higher of the value in use and the fair value minus selling expenses. Any impairment is immediately reported as an expense and is not reversed.

### Trade marks, Acquired order intake, Patents and Licences

'Other intangible assets' means externally acquired assets such as trade-marks and licences. Assets with a determinable useful life are valued at historical cost less accumulated amortisation and impairment. Any additional charges for an intangible asset are added to the reported value of the asset or reported as a separate asset, depending on what is appropriate, only if it is likely that the future economic benefits associated with the asset will benefit the Group and the historical cost of the asset can be reliably measured. Other expenses are booked as costs when they arise. The Group's trade-marks have been assessed as having an indeterminable useful life. The useful life is deemed to be indeterminable when a well-established trademark on the market is involved. The Group intends to retain and develop such trademark. The item is tested annually to identify any impairment and is reported at historical cost less any impairment; see also Impairment of non-financial non-current assets. The order backlog through the acquisition of TBO-Hagblinds AB is amortised over the useful life, which is assessed at three 3 years. Patents are amortised on a straight-line basis over the useful life, normally assessed at 10 years. Licences are amortised on a straight-line basis over the useful life, normally assessed at 4 years.

## Property, plant and equipment

Property, plant and equipment are reported at historical cost less depreciation. Historical cost includes expenses directly attributable to the acquisition of the asset.

Additional expenses are added to the reported value of the asset or reported as a separate asset, depending on what is appropriate, only if it is likely that the future economic benefits associated with the asset will benefit the Group and the historical cost of the asset can be reliably measured. The reported value of a replaced part is removed from the balance sheet. All other forms of repairs and maintenance are reported as an expense in the income statement during the period in which they arise.

Each part of property, plant and equipment with a historical cost which is significant in relation to the total historical cost of the asset is depreciated separately. Land and projects in progress are not depreciated; depreciation of other assets takes place on a straight-line basis as follows:

Buildings	10-25 years
Land improvements	25 years
Building equipment	10 years
Machinery and other plant	5-10 years
Equipment, tools, fixtures and fittings	5 years

The residual value of the assets and the useful life are tested at the end of each reporting period and adjusted as needed. The reported value of an asset is written down immediately to its recovery value if the reported value of the asset exceeds its assessed recovery value.

Profits and losses upon the sale of property, plant and equipment are established by comparing the sales revenue and the reported value and are reported in 'Other operating income' or 'Other operating expenses' in the income statement.

## Impairment of non-financial fixed assets

Assets with an indeterminable useful life, goodwill and trademarks, are not amortised but, rather, tested each year for any impairment. Assets which are amortised are assessed with respect to a decline in value when any events or changes in circumstances indicate that the reported value is perhaps not recoverable. A write-down takes place in the amount by which the reported value of the asset exceeds its recovery value. The

recovery value is the higher of the asset's fair value reduced by selling expenses and its value in use. When assessing any impairment, assets are grouped on the lowest levels on which there are separately identifiable cash flows (cash-generating units). Impairment of goodwill and trademarks has taken place per business segment.

## Financial instruments

### Classification

Commencing 1 January 2018, the Group classifies its financial assets and liabilities in the following categories:

- Financial assets and liabilities that are reported at fair value either through other comprehensive income or through the income statement; and
- Financial assets and liabilities that are reported at accrued historical cost.

The classification of investments in debt instruments depends on the Group's business model for managing financial assets and the contractual terms governing the assets' cash flows. The Group reclassifies debt instruments only in those cases where the Group's business model for instruments is changed.

### Reporting and removal from the balance sheet

Purchases and sales of financial instruments are reported on the transaction date, i.e. the date on which the Group undertakes to buy or sell the asset. Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the Group has largely transferred all assets and benefits associated with title.

### Valuation

Financial assets are initially valued at fair value plus, in those cases where the asset is not reported at fair value via the income statement, transaction expenses directly attributable to the purchase. Transaction expenses attributable to financial assets that are reported at fair value via the income statement are booked directly in the income statement. Financial assets with embedded derivatives are regarded as a single entity when determining whether cash flows from the asset only comprise the principal and interest.

### Investments in debt instruments

Subsequent assessment of investments in debt instruments depends on the Group's business model for managing the asset and the class of cash flows to which the asset gives rise. The Group classifies its investments in debt instruments in three assessment categories:

- **Accrued historical cost:** Assets which are held to collect contractual cash flows where such cash flows solely comprise principal and interest, are reported at accrued historical cost. Interest income from such financial assets is reported as financial income applying the effective rate method. Profits and losses arising upon removal from the balance sheet are reported directly in profit/loss within other profits and losses together with the exchange rate gain/loss. Impairment losses are reported on a separate line in the income statement.
- **Fair value through other comprehensive income:** Assets which are held in order to draw contractual cash flows and for sale, where the cash flows from the assets solely comprise principal and interest, are valued at fair value via other comprehensive income. Changes in reported value are reported via other comprehensive income, with the exception of reporting of interest income, exchange rate differences and impairment, which are reported in the income statement. When the financial asset is removed from the income statement, the accumulated profit or loss previously reported in other comprehensive income is reversed, from equity to the income statement. Interest income from these financial assets is reported as financial income applying the effective rate method. Exchange rate gains and losses are included in other profits and losses. Impairment costs are reported on a separate line in the income statement.
- **Fair value via the income statement:** Assets which do not satisfy requirements for being reported at accrued historical cost or fair value via other comprehensive income are valued at fair value via the income statement. A profit or loss in respect of a debt instrument which is reported at fair value via the income statement and which is not included in a hedging relationship is reported net in the income statement in the period in which the profit or loss arises.

### Impairment

As from 1 January 2018, the Group assesses future anticipated credit losses related to investments in debt instruments reported at accrued acquisition value or fair value with changes via other comprehensive income based on forward-looking information. The Group chooses reserve methods based on whether or not there has been a material increase in credit risk. According to the rules in IFRS 9, the Group applies a simplified method of testing for impairment of trade receivables. The simplification means that the reserve for anticipated credit losses is calculated based on the risk of loss over the entire term of the claim and is reported when the claim is reported for the first time.

### Reporting principles applied commencing 31 December 2017

The Group has applied IFRS 9 with retroactive effect but has chosen not to recalculate comparison figures. Accordingly, the comparison figures provided are reported in accordance with the earlier accounting principles,

Up to and including 31 December 2017, the Group has classified its financial assets in the following categories:

- financial assets valued at fair value via the income statement;
- loan receivables and trade receivables;
- realisable financial assets

The classification was based on the purpose of the acquisition of the financial asset or the occurrence of the debt.

### Financial assets and liabilities valued at fair value via the income statement

Financial assets and liabilities valued at fair value via the income statement comprise financial instruments held for trading. Derivative instruments are classified as held for trading if they are not identified as hedge instruments. The Group classifies derivative instruments (futures contracts) in this category.

### Loan receivables and trade receivables

Loan receivables and trade receivables comprise financial assets that are not derivatives, which have determined or determinable payments and which are not listed on an active market. They are included in current assets, with exception of items with a maturity date more than 12 months after the closing date, which are classified as non-current assets. The Group's "loan receivables and trade receivables" comprise other non-current receivables, trade receivables, cash and cash equivalents as well as the financial instruments that are reported among other receivables.

### Realisable financial assets

Realisable financial assets comprise assets which are not derivatives and where the assets are identified as realisable or have not been classified in any other category. They are included in non-current assets if management does not intend to divest the asset within 12 months following the end of the reporting period. Other securities held as non-current assets are classified in this category.

### Other financial liabilities

The Group's non-current and current liabilities to credit institutions, shareholder loans, trade creditors and the part of other current liabilities which relates to financial instruments are classified as other financial liabilities.

### Reporting and valuation

Purchases and sales of financial assets and liabilities are reported on the transaction date, i.e. the date when the Group undertakes to buy or sell the asset. Financial instruments are reported for the first time at fair value plus transaction costs, which applies to all financial assets and liabilities that are not reported at fair value via the income statement. Financial assets and liabilities are valued at fair value via the income statement and reported for the first time at fair value, while attributable transaction costs are reported in the income statement. Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the Group has largely transferred all risks and benefits associated with title. Financial assets are removed from the balance sheet when the obligation in the agreement has been performed or otherwise extinguished.

Financial assets and liabilities valued at fair value via the income statement are reported after the acquisition date at fair value. Loan receivables and trade receivables, as well as other financial liabilities, are reported after the acquisition date at accrued historical cost applying the effective rate method.

Profits and losses as a consequence of changes in fair value with respect to the category 'financial assets and liabilities' are valued at fair value via the income statement; the profit or loss is reported in the period in which it arises and is included in net financial items since it derives from the financing operations. The Group's realisable financial assets comprise unlisted shares whose fair value could not be determined in a reliable manner. Valuation thus takes place at historical cost.

### Set-off of financial instruments

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

### Impairment of financial instruments

(a) *Assets reported at accrued historical cost (loan receivables and trade receivables)*

At the end of each reporting period, the Group makes an assessment of whether there is objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or group of financial assets requires impairment and is written down only if there is objective evidence of impairment as a consequence of the occurrence of one or more events after the asset was reported for the first time and such event has affected

the estimated future cash flows for the financial asset or group of financial assets which may be estimated in a reliable manner.

Impairment is calculated as the difference between the reported value and present value of estimated future cash flows, discounted to the financial asset's original effective rate. The reported value of the asset is impaired and the impairment amount is reported in the Group's income statement within "production and project expenses" or within net financial items, depending on which financial asset is impaired. Where impairment diminishes in a subsequent period and the diminution can objectively be related to an event which occurred after the impairment was reported, reversal of the previously reported impairment is reported in the consolidated income statement within "production and project expenses" or within net financial items, depending on which financial item was impaired.

*(b) Realisable assets classified as financial assets*

At the end of each reporting period, the Group makes an assessment as to whether there is objective evidence of impairment of the financial asset or group of financial assets. With respect to realisable equity instruments classified as financial assets, a significant or extended decline in value of an instrument to a level below its historical cost is taken into account as evidence of impairment. Impairment of equity instruments previously reported in the income statement is not reversed in the income statement.

#### Derivative instruments

Derivative instruments are financial instruments reported in the balance sheet on the transaction date and valued at fair value, both initially and in conjunction with subsequent reassessments. The profit or loss which arises in conjunction with a reassessment is reported in the income statement when requirements for hedge accounting are not satisfied.

The fair value of a derivative instrument is classified as a non-current asset or non-current liability when the remaining term of the hedge item exceeds 12 months, and as a current asset or current liability when the outstanding term of the hedge item is less than 12 months.

#### Trade receivables

Trade receivables are financial assets comprising amounts to be paid by customers for sold goods and services in the ongoing operations. If payment is expected within one year or less, they are classified as current assets. If not, they are reported as non-current assets.

Trade receivables are initially reported at fair value and thereafter at accrued historical cost applying the effective rate method, reduced by any provision for reduction in value.

#### Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist entirely of bank balances.

#### Trade creditors

Trade creditors are financial instruments and relate to obligations to pay for goods and services acquired from suppliers in the ongoing operations. Trade creditors are reported as current liabilities if they mature within one year. If not, they are reported as non-current liabilities.

Trade creditors are reported at nominal value. The reported value of trade creditors is assumed to correspond to their fair value since this item is current in nature.

#### Borrowing

Liabilities to credit institutions comprise financial instruments and are reported initially at fair value, net after transaction costs. Borrowing is subsequently reported at accrued historical cost and any difference between amount received (net after transaction costs) and the repayment amount is reported in the income statement, allocated over the loan period, applying the effective rate method.

Borrowing is classified as a current liability unless the Group has an unconditional right to defer payment of the liability by at least 12 months after the end of the reporting period.

### Current assets

#### Inventories

Inventories are reported at the lower of historical cost and net realisable value. The historical cost is determined using the first in, first out (FIFO) method. In conjunction therewith, the risk of obsolescence is noted.

#### Contractual assets

The Group has applied IFRS 15 Revenue from contracts with customers, since 1 January 2018. In accordance with the transition rules in IFRS 15, the Group has chosen to apply the modified transition method whereby only a forward-looking adjustment is made in accordance with the new standard, meaning that the comparison year is not recalculated. The Group's operations are described generally in the section "IFRS 15 Revenue from contracts with customers"

IFRS 15 results in new requirements regarding reporting of revenues and replaces IAS 18 Revenue, IAS 11 Construction contracts, as well as several related interpretations. The new standard provides more detailed guidance within many areas that were previously not addressed by IFRS,

including how to report contracts containing several performance obligations, variable pricing, the time when revenues are to be reported, etc. The Group has analysed agreements with customers in accordance with the 5 step model prescribed by IFRS 15 and has concluded that revenues shall be reported over time (stage of completion method), when it has been concluded that the Group is entitled to payment and there is no alternative use of the products, since the products are specifically tailored for the customer. The instalment element is also reported over time since the customer receives an ongoing service.

When the outcome of a contractual asset can be calculated in a reliable manner and it is likely that the agreement will be profitable, revenues are reported over the term of the agreement based on the degree of completion.

Expenditures are reported regularly with respect to the activities included according to the agreement. When it is likely that the total expenditures will exceed the total revenue, the anticipated loss is immediately reported as an expense. When the outcome of a contract cannot be calculated in a reliable manner, revenues are only reported in an amount corresponding to incurred expenditures which are likely to be reimbursed by the customer.

Changes in the scope of the agreement are included in income to the extent such have been agreed with the customer and can be measured in a reliable manner. The Group uses the stage of completion method for determining the amount to be reported in any given period. The percentage of completion is determined as expenditures incurred for performed work until the close of the reporting period, as a percentage of total expenditures for each contract. Expenditures arising during the year, but which relate to future work, are not included in incurred project expenditures when determining the degree of completion.

Some of the indirect project expenditures which the Group incurs, such as preplanning and calculation, are addressed as completed costs and capitalised and amortised over the term of the project.

The Group's position for each contractual asset is reported net in the balance sheet, simply as an asset or a liability. A contract constitutes an asset when project expenditures or reported profits (after deduction for reported losses) exceed the invoiced amount, and a debt when the opposite circumstance pertains.

### Non-current and current liabilities

#### Provisions

Provisions are valued at present value of the amount which is expected to be required to settle the obligation.

#### Current and deferred tax

The tax expense for the period comprises current and deferred tax. The current tax expense is calculated based on the tax rules which, on the closing date, have been decided upon or in practice decided upon in the countries in which the Group operates and generates taxable revenue.

In accordance with the balance sheet method, deferred tax is reported on all temporary differences which arise between the taxable value of assets and liabilities and the reported values in the consolidated financial statements. Deferred income tax is calculated applying the tax rates decided upon or announced on the closing date and which are expected to apply when the relevant deferred tax claim is realised, or the deferred tax liability is settled.

Deferred tax claims on loss carry forwards are reported to the extent it is likely that future taxable profits will be available against which the loss carry forwards can be utilised.

Deferred tax claims and liabilities are set off when there is a legal entitlement to set off the relevant tax claims and tax liabilities, the deferred tax claims and tax liabilities relate to taxes charged by the same tax authority and relate either to the same tax subject or different tax subjects and it is intended to settle the balances through net payments.

#### Leasing

Leasing in which a significant part of the risks and benefits associated with ownership are retained by the lessor are classified as operational leasing. Payments made during the lease term (following deduction for any incentives from the lessor) are reported as expenses in the income statement on a straight-line basis over the leasing period.

The Group leases certain tangible non-current assets, such as cars, trucks, machinery and property. Lease agreements for non-current assets in which the Group has in all essential respects the economic risks and benefits associated with ownership, are classified as financial leasing. At the start of the lease term, financial leasing is reported in the balance sheet at the lease object's fair value or current value of minimum leasing fees, whichever is lower.

Each lease payment is broken down into repayment of the debt and financial expenses. Corresponding payment obligations, following deduction of financial expenses, are included in the balance sheet item 'Liabilities to credit institutions'. The interest part of financial expenses is reported in the income statement allocated over the lease term so that each reporting period carries an amount corresponding to a fixed rate of interest for the liability reported during the period. Non-current assets held pursuant to financial leasing agreements are depreciated over the useful life of the asset or the lease term, whichever is shorter.



## Employee remuneration

### Current remuneration

Current remuneration in the Group comprises salary, social security contributions, paid holiday, paid sick leave, health care and variable salary. Current remuneration is reported as an expense and a liability when there is a legal or informal obligation to pay remuneration.

### Pension obligations

The Group only has defined contribution pension plans; see Note 33. A defined contribution pension plan is a pension plan pursuant to which the Group pays fixed fees to a separate legal entity. The Group has no legal or informal obligations to pay additional fees in the event such legal entity has insufficient funds to pay all remuneration to employees associated with their employment during current or earlier periods.

In respect of defined contribution pension plans, the Group pays fees to public or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no additional payment obligations once the fees are paid. Fees are reported as personnel expenses when they are due for payment. Prepaid fees are reported as an asset insofar as cash repayment or a reduction in future payments may benefit the Group. See also Note 34.

### Benefits upon termination

Benefits upon termination are paid when an employee's employment is terminated by the Group prior to the normal retirement age or when an employee voluntarily accepts severance in exchange for such benefits.

The Group reports benefits in conjunction with termination when it is demonstrably obliged to terminate an employee in accordance with a detailed formal plan, without the possibility for revocation. In the event the Group has provided an offer to encourage voluntary severance, severance compensation is calculated based on the number of employees who have accepted the offer. Benefits which fall due more than 12 months after the end of the reporting period are discounted to present value.

## Revenue recognition

The Group's revenues relate to construction contracts; see the section entitled Contractual assets.

Revenues from activities outside the Group's primary operations are reported as 'other operating income'. Interest income is reported as income allocated over the term applying the effective rate method.

## Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. This entails that operating profit is adjusted for transactions that do not result in payments being received or made during the period and for any revenues and expenses attributable to cash flows from the investing or financing operations.

## Share capital

Ordinary shares and preference shares are classified as equity.

## Segment reporting

Businesses segments are reported in a manner which corresponds to the internal reporting provided to the highest executive decision-maker (see Note 5).

## Earnings per share

### Earnings per share before dilution

Earnings per share before dilution are calculated by dividing:

- earnings related to the equity holders of the parent company, excluding dividends related to preference shares
- by a weighted average number of outstanding ordinary shares during the period, adjusted for the bonus issue element of ordinary shares issued during the year and excluding redeemed shares held by the parent company as treasury shares.

### Earnings per share after dilution

To calculate earnings per share after dilution, amounts used for calculating earnings per share before dilution are adjusted taking into account:

- the effect, after tax, of dividends and tax expenses on potential ordinary shares; and
- the weighted average number of additional ordinary shares which would have been outstanding upon conversion of all potential ordinary shares.

## The parent company's accounting principles

The parent company complies with the Swedish Annual Accounts Act (ÅRL) and recommendation RFR 2 Accounting for legal entities, issued by the Swedish Financial Reporting Board, pursuant to which the parent company shall, in its financial statements, apply International Financial Reporting Standards (IFRS) as adopted by the EU, insofar as such is possible within the scope of the Annual Accounts Act and taking into account

the connection between accounting and taxation.

The same accounting and valuation principles are applied in the parent company as the Group, except where stated below.

No changed accounting principles have been applied in 2018 with respect to the parent company.

### Presentation

The income statement and balance sheet are presented in accordance with the presentation in the Annual Accounts Act. The statement of changes in equity also complies with the Group's presentation, but contains the columns stated in the Annual Accounts Act. In addition, this entails differences in designations compared with the consolidated financial statements, primarily with respect to financial revenues and expenses as well as equity.

### Participations in subsidiaries

Participations in subsidiaries are reported at historical cost less deduction for any impairment. The historical cost includes acquisition-related costs and any supplemental purchase prices.

When there is an indication that participations in subsidiaries have fallen in value, a calculation of the recovery value is made. If this is lower than the reported value, write-down takes place. Impairment is reported in the items "Profit/loss from participations in group companies".

### Leasing

In the parent company, any and all leasing agreements are reported in accordance with the rules regarding operational leasing. There were no leasing agreements with respect to 2017 and 2018.

### Group contributions

Received and provided group contributions are reported as an appropriation.

## NOTE 3 FINANCIAL RISK MANAGEMENT

### Financial risk factors

Through its business, the Group is exposed to a number of different financial risks: market risk (including currency risk, interest rate risk in fair value, interest rate risk in cash flow and price risk), credit risk and liquidity risk. The Group's overarching risk management policy focuses on unpredictability on the financial markets and endeavours to minimise potentially adverse effects on the Group's financial results. Hedge accounting is not applied.

Risk management is addressed by a central accounts department in accordance with a policy adopted by the Board of Directors. The accounts department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board draws up written policies with respect to overarching risk management and for specific areas, such as currency risk, interest rate risk, credit risk, use of derivative instruments and financial instruments which are not derivatives, as well as investment of surplus liquidity.

### Market risks

#### (i) Currency risk

The Group operates internationally and is exposed to currency risks arising from various currency exposures, primarily with respect to the Norwegian krona (NOK), the euro (EUR), the Polish zloty (PLN) and the Danish krona (DKK) but also to a certain extent the British pound (GBP). Currency risks arise through future commercial transactions, reported assets and liabilities and net investments in foreign operations.

The Board has introduced a policy whereby the currency risk which arises from future commercial transactions and reported assets and liabilities is managed through the use of futures contract by group companies. Currency risks arise when future commercial transactions or reported assets and liabilities are expressed in a currency which is not the unit's functional currency.

The Group's risk management policy is to hedge 100 % ( $\pm 20$  %) of anticipated cash flows (primarily construction contracts and purchases of goods and goods and services) in each major currency for the following 12 months, as well as project-specifically in the event projects have a longer term or otherwise so require

If the Swedish krona had weakened/strengthened by 5 öre (5%) compared with the Norwegian krona, with all other variables being constant, profit for the financial year would have been SEK 566,000 (2017: SEK 878,000) higher/lower, largely due to profits/losses when translating trade receivables and trade creditors in NOK, financial assets and liabilities valued at fair value via the income statement.

If the Swedish krona had weakened/strengthened by 5 öre (4%) compared with the euro, with all other variables being constant, profit for the financial year would have been SEK 346,000 (2017: SEK 312,00) lower/higher largely due to profits/losses when translating trade receivables and trade creditors in EUR, financial assets and liabilities valued at fair value via the income statement.

If the Swedish krona had weakened/strengthened by 5 öre (4%)

compared with the Danish krona, with all other variables being constant, profit for the financial year would have been SEK 234,000 (2017: SEK 137,000) higher/lower, largely due to profits/losses when translating trade receivables and trade creditors in DKK, financial assets and liabilities valued at fair value via the income statement.

*(ii) Interest rate risks regarding cash flows and fair values*

The Group's interest rate risk arises through long-term borrowing. Borrowing at variable interest rates exposes the Group to an interest rate risk with respect to cash flows, which is partially neutralised by cash funds carrying a variable rate of interest. At the end of 2018, the Group's borrowing comprised loans in Swedish kronor and Polish zloty, at a variable interest rate.

If interest rates on borrowing in Swedish kronor on 31 December 2018 had been 100 base points (1%) higher/lower, with all other variables being constant, profit for the financial year would have been SEK 340,000 (2016: SEK 623,000) lower/higher, primarily as an result of higher/lower interest expenses for borrowing at a variable rate.

**Credit risk**

Credit risk is managed by each company in accordance with the Group's credit instruction. Credit risk primarily arises through trade receivables

and claims against project customers. There is a policy for credit hedging certain customer categories. Historically, the Group's credit losses have been small.

**Liquidity risk**

Cash flow forecasts are prepared by the Group's operating companies and aggregated by the accounts department. The Group complies carefully with rolling forecasts as regards the liquidity reserve to ensure that sufficient cash funds are available to meet needs in the ongoing operations, at the same time as they regularly maintain sufficient headroom on undrawn agreed credit facilities (Note 26), so that the Group does not violate loan limits or loan terms (where appropriate) on any of the Group's loan facilities.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative instruments which comprise financial liabilities, broken down by the outstanding period on the closing date until the contractual maturity date. Derivative instruments comprising financial liabilities are included in the analysis in the event their contractual due dates are important for understanding dates for future cash flows. The amounts stated in the table are the contractual, non-discounted cash flows.

Per 31 December 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowing (excl. liabilities with respect to financial leasing)	1,037	3,170	5,038	228,146 <sup>1)</sup>	1,045
Overdraft facility	-	-	-	-	-
Liabilities with respect to financial leasing	-	9,704	13,925	21,764	7,525
Derivative instruments	-	1,859	1,801	-	-
Trade creditors and other liabilities	138,516	-	-	18,320	-
<b>Total</b>	<b>139,553</b>	<b>14,733</b>	<b>20,764</b>	<b>268,230</b>	<b>8,570</b>

Per 31 December 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowing (excl. liabilities with respect to financial leasing)	-	-	-	142,205	-
Overdraft facility	-	-	-	-	-
Liabilities with respect to financial leasing	-	8,765	12,976	20,322	12,228
Derivative instruments	-	4,359	-	-	-
Trade creditors and other liabilities	101,151	-	-	-	-
<b>Total</b>	<b>101,151</b>	<b>13,124</b>	<b>12,976</b>	<b>162,527</b>	<b>12,228</b>

1) Maturing 14 September 2021

**Management of capital**

The Group assesses capital on the basis of operating profit excluding amortisation/depreciation (EBITDA), with capital limited to external financing, Net debt in relation to EBITDA. This key ratio is calculated as EBITDA in relation to the Group's external borrowing. External borrowing is defined as current borrowing and non-current borrowing less cash and cash equivalents and excluding liabilities relating to financial leasing and subordinated liabilities to owners.

Interest-bearing net debt shall not exceed 2.5 times operating profit before amortisation/depreciation (EBITDA), other than temporarily.

	31 Dec 2018	31 Dec 2017
Total borrowing (Note 26)	300,052	196,496
Of which liabilities to credit institutions	228,814	142,205
Of which financial leasing	52,918	54,291
Less: cash and cash equivalents (Note 24)	-87,034	-106,483
Less: financial leasing	-52,918	-54,291
<b>External borrowing</b>	<b>160,100</b>	<b>35,722</b>
EBITDA	125,873	109,425
<b>External borrowing/EBITDA</b>	<b>1.28</b>	<b>0.33</b>

**Calculation of fair value**

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

- Listed prices (unadjusted) on active markets for identical assets or liabilities (level 1)
- Observable data for assets or liabilities other than listed prices included in level 1, either directly (i.e. as price listings) or indirectly (i.e. derived from price listings) (level 2)
- Data for assets and liabilities which is not based on observable market data (i.e. non-observable data) (level 3)

The following table shows the Group's assets and liabilities valued at fair value on 31 December 2018.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<b>Financial assets valued at fair value via profit/loss</b>				
Derivative instruments held for trading				
-Currency derivatives	-	2,227	-	2,227
<b>Total assets</b>	<b>-</b>	<b>2,227</b>	<b>-</b>	<b>2,227</b>
<b>Liabilities</b>				
<b>Financial liabilities valued at fair value via profit/loss</b>				
Derivative instruments held for trading				
-Currency derivatives	-	3,660	-	3,660
<b>Total liabilities</b>	<b>-</b>	<b>3,660</b>	<b>-</b>	<b>3,660</b>

The following table shows the Group's assets and liabilities valued at fair value on 31 December 2017.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<b>Financial assets valued at fair value via profit/loss</b>				
Derivative instruments held for trading				
-Currency derivatives	-	3,628	-	3,628
<b>Total assets</b>	<b>-</b>	<b>3,628</b>	<b>-</b>	<b>3,628</b>
<b>Liabilities</b>				
<b>Financial liabilities valued at fair value via profit/loss</b>				
Derivative instruments held for trading				
-Currency derivatives	-	4,359	-	4,359
<b>Total liabilities</b>	<b>-</b>	<b>4,359</b>	<b>-</b>	<b>4,359</b>

No transfers between valuation model level 1 and valuation model level 2 have taken place during any of the years.

#### Financial instruments in level 1

Fair value of financial instruments traded on an active market based on listed market prices on the closing date. A market is regarded as active if listed prices from an exchange, broker, industrial group, pricing service or supervisory authority are easily and regularly available and such prices represent actual and regularly occurring market transactions at arm's length. The Group holds no financial instruments classified in level 1.

#### Financial instruments in level 2

Fair value of financial instruments not traded on an active market (e.g. OTC derivatives) is established using valuation techniques. In this context, use is made as far as possible of market information where such is available, while company-specific information is used as little as possible. If all material input data which is required for a fair valuation of an instrument is observable, the instrument is in level 2.

In those cases one or more significant pieces of input data are not based on observable market information, the relevant instrument is classified in level 3.

- Specific valuation techniques used to value financial instruments include:
- Listed market prices or broker notations for similar instruments.
  - Fair value for interest rate swaps calculated as present value of assess future cash flows based on observable yield curves.
  - Fair value for currency futures contracts determined through use of prices for currency futures on the closing date, where the resulting value is discounted to present value.
  - Other techniques, such as calculation of discounted cash flows, are used to determine fair value for remaining financial instruments.

## NOTE 4 IMPORTANT ESTIMATES AND ASSESSMENTS

Estimates and assessments are evaluated regularly and based on historical experience and other factors, including expectations of future events which might be deemed reasonable under prevailing conditions.

#### Important estimates and assessments for accounting purposes

The Group makes estimates and assumptions regarding the future. The resulting estimates for accounting purposes will, by definition, seldom correspond to the actual result. The estimates and assumptions which entail a significant risk of material adjustments to reported values for assets and liabilities during the next financial year are essentially addressed below.

#### Test for impairment of goodwill and trademarks

The Group tests each year whether there is any need for impairment of goodwill and trademarks, in accordance with the accounting principle described in Note 2. The recovery value for cash-generating units has been determined by calculating value in use. In respect of these calculations, certain estimates must be made (Note 15).

#### Revenue recognition

The Group applies the percentage of completion method when reporting construction contracts in accordance with a proven method long applied by the Group whereby the Group must make estimates as to the percentage of the total services to be performed represented by the services performed on the closing date. Balco's revenue and profit are governed by the time when actually expended costs are incurred during performance of the project. The model is not linear but, rather, is based on costs within the project's two phases: manufacture and installation. Most of the costs are generated during project phase 1 (the manufacturing phase), which includes Balco's entire processing. The phase includes costs such as materials, product development, project management, transport, design, statics, preparation and patents. In project phase 2 (construction/installation), the second and smaller part of the costs in a project are generated. The costs include installation management and installation of the end product. Project 2 always takes place with a construction mark-up of 10%. The development of each individual project is monitored regularly on a monthly basis throughout the life of the project. Deviations compared with initial calculations are adjusted and the updated forecasts are addressed regularly. In accordance with IAS 37, the entire anticipated loss on the project is booked when the forecast entails a negative project result. If the proportion between performed services and total services to be performed had deviated by 1%, reported revenue for the year would have changed by SEK 11 million (2017: SEK 10 million).

#### Trade receivables

Significant financial difficulties of the debtor, the likelihood that the debtor will go into bankruptcy or carry out a financial restructuring and non-payment or late payments are regarded as indicators that impairment of a trade receivable may be necessary.

#### Warranty reserves

The Group continuously tests the value of allocated reserves in relation to the estimated need. Provisions are made based on historical statistics regarding defective products and performed construction. On 31 December 2018, the warranty reserve comprised 0.5% of net sales (2017:0.5%) and is reported under accrued expenses, see Note 28.



## NOTE 5 SEGMENT REPORTING

The Group's business is divided into two segments: Renovation and New Build. Renovation is the part of the business which covers both replacement and expansion of existing balconies as well as installation of new balconies on existing buildings that lack of balconies. Most of Balco's sales within Renovation comprise glazed balconies for tenant-owner associations. New Build includes installation of balconies in conjunction with the construction of new apartment buildings as well as balcony solutions for maritime applications. Balco offers its entire product range within New Build. Allocation in respect of segment reporting comprises the segment affiliation of each project.

Renovation has continued to perform well in 2018, with both increased sales and higher earnings. Continued development and strengthening of the sales and market organisation within this segment are planned, at the same time as assessment of previous endeavours is regularly evaluated

for best benefit. During the year, order intake within Renovation was strong and increased as a percentage of the total.

During the year, New Build continued to operate in accordance with the strategy decided upon for the segment the end of 2016, with a changed sales organisation and a stricter selection based on assessment of the risks in projects. The new strategy is essentially correct and underlying profit for the segment remains positive, with additional costs for the first maritime project impacting the year in the amount of SEK 13.3 million. The lower sales within New Build during the year are a result of the lower order intake for the segment and, during the year, the order intake has continued to decline compared with the preceding year, due to the new strategy.

Financial expenses, financial income and income tax are essentially addressed on a Group level and are not allocated per segment. The Group does not allocate operating non-current assets per segment.

2018	Renovation	New Build	Group, other	Eliminations	Total
Net sales- External revenue	947,685	110,367	-	-	1,058,052
Net sales- Internal revenue	-	-	16,097	-16,097	0
<b>Total net sales</b>	<b>947,685</b>	<b>110,367</b>	<b>16,097</b>	<b>-16,097</b>	<b>1,058,052</b>
<b>Operating profit (EBITA)</b>	<b>117,235</b>	<b>-10,646</b>	<b>-964</b>	<b>-</b>	<b>105,625</b>
Amortisation/depreciation are included in EBITA in the amount of	18,489	1,759	-	-	20,248
<b>Operating profit (EBITA)</b>	<b>117,235</b>	<b>-10,646</b>	<b>-964</b>	<b>-</b>	<b>105,625</b>
Financial revenue					102
Financial expenses					-6,223
<b>Profit after financial items</b>					<b>99,504</b>
Tax					-22,750
<b>Profit for the year</b>					<b>76,754</b>

2017	Renovation	New Build	Group, other	Eliminations	Total
Net sales- External revenue	847,517	141,434	-	-	988,951
Net sales- Internal revenue	-	-	8,605	-8,605	0
<b>Total net sales</b>	<b>847,517</b>	<b>141,434</b>	<b>8,605</b>	<b>-8,605</b>	<b>988,951</b>
<b>Operating profit (EBITA)</b>	<b>114,487</b>	<b>7,329</b>	<b>-29,480</b>	<b>-</b>	<b>92,336</b>
Amortisation/depreciation are included in EBITA in the amount of	14,763	2,326	-	-	17,089
<b>Operating profit (EBITA)</b>	<b>114,487</b>	<b>7,329</b>	<b>-29,480</b>	<b>-</b>	<b>92,336</b>
Financial revenue					24
Financial expenses					-37,071
<b>Profit after financial items</b>					<b>55,289</b>
Tax					-17,638
<b>Profit for the year</b>					<b>37,651</b>

### Net sales by geographic market

	2018	2017
Sweden	568,408	549,571
Germany	150,182	96,681
Norway	162,165	182,587
Denmark	146,440	131,204
UK	13,441	10,569
Netherlands	10,000	7,409
Finland	3,161	10,930
Switzerland	4,255	-
<b>Total</b>	<b>1,058,052</b>	<b>988,951</b>

No individual customer accounts for more than 10% of sales in 2017 or 2018.

### Property, plant and equipment by geographic market

Per geographic market	31 Dec 2017	31 Dec 2016
Sweden	554,467	435,061
Norway	1,012	1,097
Denmark	17,508	13,792
Finland	620	595
Germany	235	291
Netherlands	92	41
UK	-	-
Poland	68,794	62,944
<b>Total</b>	<b>642,728</b>	<b>513,821</b>

### Net sales by customer category

	2018
Tenant-owner associations	727,726
Private property owners	111,438
Public housing companies	113,992
Construction companies	104,896
<b>Total net sales</b>	<b>1,058,052</b>

## NOTE 6 REMUNERATION TO THE AUDITORS

Group	2018	2017
<b>PwC</b>		
Audit engagement	1,288	1,292
Audit work in addition to audit	-	990
Tax advice	255	683
Other services	832	1,315
<b>Total</b>	<b>2,375</b>	<b>4,280</b>
<b>Audit engagement:</b>		
<b>Alpha Revision AS</b>	50	73
<b>Herman Slater</b>	29	26
<b>Kancelaria Biegłych Rewidentów "CDP" Sp. z o.o.</b>	37	35
<b>KPMG Oy Ab</b>	17	-
<b>Total</b>	<b>133</b>	<b>173</b>
<b>Total</b>	<b>2,508</b>	<b>4,453</b>

Audit engagement' means auditing of the annual report and the accounts as well as management by the Board of Directors and the CEO, other work duties incumbent on the Company's auditor as well as advice and other assistance resulting from observations in conjunction with the audit or the performance of such other work duties. Everything else comprises other services.

In 2018, remuneration to the auditors was paid to the accounting firm Öhrlings PricewaterhouseCoopers AB in respect of services to the Group's Swedish companies, as follows: audit engagement SEK 1,171,000 (2017: SEK 1,124,000), other statutory engagements SEK 0 (2017: SEK 64,000), tax advice SEK 244,000 (2017: SEK 670,000) and other services SEK 832,000 (2017: SEK 2,284,000). Other services primarily related to advice in connection with corporate acquisitions, DD.

## NOTE 7 REMUNERATION TO EMPLOYEES, ETC.

Group	2018	2017	Parent Company	2018	2017
Salary and other remuneration	140,037	130,743	Salary and other remuneration	5,840	1,549
Social security contributions	41,667	36,009	Social security contributions	2,297	474
Pension expenses – defined contribution plans	18,721	14,147	Pension expenses – defined contribution plans	2,276	111
<b>Total</b>	<b>200,425</b>	<b>180,899</b>	<b>Total</b>	<b>10,413</b>	<b>2,134</b>

Remuneration and other benefits 2018	Base salary/ Board fee	Social security charges/ special employer's contribution	Variable remuneration	Other benefits	Pension expense	Share-related remuneration	Other remuneration	Total
Lennart Kalén, Board chairman	440	72	-	-	-	-	-	512
Tomas Johansson, director	245	77	-	-	-	-	-	322
Carl-Mikael Lindholm, director	205	64	-	-	-	-	-	269
Percy Calissendorff, director	180	57	-	-	-	-	-	237
Johannes Nyberg, director	220	69	-	-	-	-	-	289
Åsa Söderström Winberg, director	180	57	-	-	-	-	-	237
Ingalill Berglund, director	250	79	-	-	-	-	-	329
Kenneth Lundahl, CEO	2,318	1,027	190	127	820	-	-	4,482
Other senior executives (7 individuals)	6,759	2,954	647 <sup>1)</sup>	439	2,014	-	-	12,813
<b>Total</b>	<b>10,797</b>	<b>4,456</b>	<b>837</b>	<b>566</b>	<b>2,834</b>	<b>-</b>	<b>-</b>	<b>19,490</b>

Cecilia Lannebo is a consultant whose invoiced fee for 2018 was SEK 980,000

Remuneration and other benefits 2017	Base salary/ Board fee	Social security charges/ special employer's contribution	Variable remuneration	Other benefits	Pension expense	Share-related remuneration	Other remuneration	Total
Lennart Kalén, Board Chairman	360	59	-	-	-	-	-	419
Tomas Johansson, director	225	71	-	-	-	-	-	296
Håkan Bergqvist, director	160	26	-	-	-	-	-	186
Percy Calissendorff, director	160	50	-	-	-	-	-	210
Marcus Planting-Bergloo, director	160	50	-	-	-	-	-	210
Åsa Söderström Winberg, director	245	77	-	-	-	-	-	322
Ingalill Berglund, director	200	63	-	-	-	-	-	263
Kenneth Lundahl, CEO	2,257	1,050	444	127	666	-	-	4,544
Other senior executives (7 individuals)	6,381	2,864	1,243 <sup>1)</sup>	250	1,610	-	-	12,348
<b>Total</b>	<b>10,148</b>	<b>4,311</b>	<b>1,687</b>	<b>377</b>	<b>2,276</b>	<b>-</b>	<b>-</b>	<b>18,798</b>

Cecilia Lannebo is a consultant whose invoiced fee for 2017 was SEK 1,260,000.

<sup>1)</sup> One member of Balco's management group has the possibility to receive annual results-based remuneration exceeding 50% of fixed annual salary. The outcome has not, for any of the years, exceeded 50% of the member's fixed remuneration. The agreement was entered into prior to the IPO on Nasdaq Stockholm and is open-ended in time.

## Continuation Note 7

## Warrants

At an extraordinary general meeting held on 5 October 2017, it was decided to introduce a long-term incentive programme for the Company's senior executives and other key employees, in total 49 employees. The incentive programme covers in total not more than 1,071,440 warrants, which carry an entitlement to subscribe for not more than the same number of shares. Approximately 80% of the total number of warrants have been offered to senior executives and Balco employees in two series. The programmes are for a term of two years (series I) and three years (series II). The participants have acquired warrants at market value; one-quarter of series I and three-quarters of series II. Approximately 20% of the total number of warrants have been put aside to allow for sale to future employees. Balco's total cost for the incentive programme during the programme

term is not expected to exceed SEK 150,000. The programme entails a dilution corresponding to not more than 5% of the total number of shares in the Company.

In addition to the incentive programme, in September 2017 Balco's former main owner, Segulah, issued call options on Balco shares to the Company's senior executives. Each call option under the programme entitles the holder to acquire one share in the Company from Segulah. The exercise price for each share is 110% of the introduction price. In total, the programme covers 1,100,000 shares in Balco, corresponding to approximately 5% of the voting capital and share capital in the Company. The Company is not expected to incur any costs in connection with the call option programme.

Years	Number of warrants	Number of exercised warrants	Number of lapsed warrants	Total	Exercise price	Subscription period
2017	215,620	-	-	215,620	-	5 Sep 2019 - 5 Oct 2019
2017	646,860	-	-	646,860	-	5 Sep 2020 - 5 Oct 2020
	<b>862,480</b>	<b>-</b>	<b>-</b>	<b>862,480</b>		

Gender breakdown in the Group (incl. subsidiaries) as regards directors and CEO.

Group	2018		2017	
	Number on closing date	Of whom women	Number on closing date	Of whom women
Directors	18	5	15	4
CEO	1	0	1	0
<b>Total</b>	<b>19</b>	<b>5</b>	<b>16</b>	<b>4</b>

Parent Company	2018		2017	
	Number on closing date	Of whom women	Number on closing date	Of whom women
Directors	7	2	7	2
CEO	1	0	1	0
<b>Total</b>	<b>8</b>	<b>2</b>	<b>8</b>	<b>2</b>

Group	2018		2017	
	Average number of employees per country	Of whom women	Average number of employees	Of whom women
Sweden	198	34	186	31
Norway	8	0	9	0
Denmark	48	5	40	4
UK	6	0	4	0
Netherlands	3	0	1	0
Poland	101	16	88	18
Finland	2	0	1	0
Germany	19	2	17	3
<b>Total</b>	<b>385</b>	<b>57</b>	<b>346</b>	<b>56</b>

Parent Company	2018		2017	
	Average number of employees per country	Of whom women	Average number of employees	Of whom women
Sweden	2	-	1	-
<b>Total</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>-</b>

## CEO's terms and conditions

In the event the CEO's employment is terminated: 12 months notice of termination. In the event the CEO terminates his employment: 6 months notice of termination. During the termination period, the CEO is entitled to retain his fixed salary, but no other benefits.

The Group allocates 30% (2017: 30%) of gross salary, excluding bonuses, to a pension policy with an insurance company chosen by the CEO. The Group has no other outstanding pension obligations to the Board or CEO.

## NOTE 8 COSTS BROKEN DOWN BY TYPE

Group	2018	2017
Raw materials, consumables and installation services	-666,503	-628,486
Employee remuneration costs (Note 7)	-200,425	-180,899
Amortisation/depreciation and impairment (Note 15 and 16)	-20,248	-17,089
Transport costs	-26,517	-21,118
Marketing costs	-12,420	-17,893
Operational leasing costs (Note 32)	-10,702	-3,515
Other costs	-15,455	-28,035
<b>Total cost for production, projects, sales and administration</b>	<b>-952,270</b>	<b>-897,035</b>

## NOTE 9 HOLDINGS IN ASSOCIATED COMPANIES

Group	31 Dec 2018	31 Dec 2017
Opening historical cost	1,422	1,424
Purchases	-	-
Divestments	-	-2
<b>Closing accumulated historical cost</b>	<b>1,422</b>	<b>1,422</b>
Opening changes in share of equity	2,119	1,897
Changes in share of equity in associated companies	10	110
Exchange rate differences	42	112
Adjustment of tax from previous years	-	-
<b>Closing changes in share of equity</b>	<b>2,171</b>	<b>2,119</b>
<b>Closing reported value</b>	<b>3,593</b>	<b>3,541</b>

The Group's share in the earnings of associated companies and its share of the assets and liabilities are as follows:

Indirectly owned	Country of registration	Assets	Liabilities	Revenues	Profit	Ownership stake % 2018/2017
MIB-Polska Spolka Zo.o.	Poland	65,903	53,903	73,797	126	25%

The difference between the equity share value using the equity share method in the consolidated financial statements compared with the value of the participations reported in Nordiska Balco AB, applying the acquisition cost method, is SEK 2,171,000 (2017: SEK 2,119,000).



## NOTE 10 OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

Group	2018	2017
<b>Other operating income</b>		
Sales of raw material to subcontractors	737	6,847
<b>Total other operating income</b>	<b>737</b>	<b>6,847</b>
<b>Other operating expenses</b>		
Purchases of raw materials for re-invoicing	-904	-6,537
<b>Total other operating expenses</b>	<b>-904</b>	<b>-6,537</b>

## NOTE 11 FINANCIAL INCOME AND EXPENSES/INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS AS WELL AS INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

Group	2018	2017
<b>Financial revenue/Interest income and similar profit/loss items</b>		
Interest income on bank balances	102	24
Interest income on lending	-	-
<b>Financial revenue</b>	<b>102</b>	<b>24</b>
<b>Financial expenses/Interest expenses and similar profit/loss items</b>		
Interest expenses and liabilities to credit institutions	-5,428	-4,783
Interest expenses on shareholder loans	-	-29,824
Other financial expenses	-795	-2,464
<b>Financial expenses</b>	<b>-6,223</b>	<b>-37,071</b>
<b>Total net financial items</b>	<b>-6,121</b>	<b>-37,047</b>

Parent Company	2018	2017
<b>Financial revenue/Interest income and similar profit/loss items</b>		
Interest income on bank balances	513	215
<b>Financial revenue</b>	<b>513</b>	<b>215</b>
<b>Financial expenses/Interest expenses and similar profit/loss items</b>		
Interest expenses	-2,435	-653
Interest expenses on shareholder loans	-	-29,824
Other financial expenses	-737	-179
<b>Financial expenses</b>	<b>-3,172</b>	<b>-30,657</b>
<b>Total net financial items</b>	<b>-2,659</b>	<b>-30,442</b>

The Group-internal interest income reported in the parent company amounts to SEK 411,000 (2017: SEK 212,000). Corresponding interest expenses amount to SEK 125,000 (2017: SEK 0).

## NOTE 12 INCOME TAX

Group	2018	2017
<b>Current tax:</b>		
Current tax on profit for the year	-18,163	-14,267
Adjustments for previous years	-	635
<b>Total current tax</b>	<b>-18,163</b>	<b>-13,632</b>
Deferred tax (see Note 17):		
Occurrence and reversal of temporary differences	-4,587	-4,006
<b>Total deferred tax</b>	<b>-4,587</b>	<b>-4,006</b>
<b>Income tax</b>	<b>-22,750</b>	<b>-17,638</b>

Parent Company	2018	2017
<b>Current tax:</b>		
Current tax on profit for the year	-234	-131
Adjustments for previous years	-	-
<b>Total current tax</b>	<b>-234</b>	<b>-131</b>
Deferred tax (see Note 17):		
Occurrence and reversal of temporary differences	-	-
<b>Total deferred tax</b>	<b>-</b>	<b>-</b>
<b>Income tax</b>	<b>-234</b>	<b>-131</b>

Income tax on profit differs from the theoretical amount which would have been reached when using a weighted average tax rate for profit in the consolidated companies as follows:

Group	2018	2017
<b>Profit before tax</b>	99,505	55,289
Income tax calculated in accordance with the parent company's current tax rate, 22%	-21,891	-12,164
Tax effects of:		
-Foreign tax rates	83	57
-Non-taxable income	-	620
-Non-deductible interest, shareholder loans	-	-6,013
-Non-deductible expenses	-838	-773
-Effect of changed tax rates	238	-
-Adjustments for previous years	-342	635
<b>Tax expense</b>	<b>-22,750</b>	<b>-17,638</b>
Effective tax rate, %	22.9	31.9

Parent Company	2018	2017
<b>Profit before tax</b>	1,045	-26,733
Income tax calculated in accordance with the parent company's current tax rate, 22%	-230	5,881
Tax effects of:		
-Non-taxable income	-	-
-Non-deductible interest, shareholder loans	-	-6,012
-Non-deductible expenses	-4	-
-Adjustments for previous years	-	-
<b>Tax expense</b>	<b>-234</b>	<b>-131</b>
Effective tax rate, %	22.4	0.5

## NOTE 13 EXCHANGE RATE DIFFERENCES

Exchange rate differences are reported in the income statement as follows:

Group	2018	2017
Cost of goods sold	5,188	-929
Net financial items	-	-
<b>Total exchange rate differences in the income statement</b>	<b>5,188</b>	<b>-929</b>

The Group endeavours to achieve a balance in cash flows by matching sales and purchases in currency, where possible. With respect to cash flows which cannot be balanced, the Group engages in currency hedging with the aim of reducing the business' ongoing currency risks. Currency hedging is based on currency flows in the Group's ongoing projects and other operating activities where the part which is not hedged is reported as the exchange rate difference attributable to Production and project expenses.

## NOTE 14 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	31 Dec 2018	31 Dec 2017
Opening historical cost	389,067	389,067
<b>Closing historical cost</b>	<b>389,067</b>	<b>389,067</b>

The parent company and the Group hold participations in the following subsidiaries:

Name	Registration number	Registered office	Share of equity, %	Number of shares	31 Dec 2018	31 Dec 2017
					Reported value	
Balco Invest AB	556821-2301	Växjö	100	63,000,467	389,067	389,067
-Balco Holding AB	556627-4964	Växjö	100			
-Nordiska Balco AB	556325-3847	Växjö	100			
-Balustrade AB	556791-9393	Växjö	100			
-Balco AB	556299-4482	Växjö	100			
-Balco AS	979458398	Norway	100			
-Balco Ltd	5280899	UK	100			
-Balco Balkonstruktion GmbH	HRB9039	Germany	100			
-Balco Balkonsystemen B.V	57577978	Netherlands	100			
-Balco Kontech AS	59222401	Denmark	100			
-Balco Spolka. z o.o.	5961747062	Poland	100			
-Kronhjorten och Lodjuret Holding AB	559018-7489	Växjö	100			
-TBO-Haglinds AB	556363-9631	Arboga	100			
-Balco Oy	2706308-7	Finland	100			
<b>Total</b>				<b>63,000,467</b>	<b>389,067</b>	<b>389,067</b>

In 2016, a decision was taken to merge the Group's two companies in Denmark, Balco Kontech AS and Balco AS, with Balco Kontech AS the continuing company. The merger was completed in 2017. On 6 June 2017, the out-

standing 90% of the shares in Balco Oy were acquired and the company was thereupon consolidated as a wholly-owned subsidiary as from 31 December 2018. For further information regarding the acquisition, see Note 29.

## NOTE 15 INTANGIBLE ASSETS

Group	Goodwill	Trademarks	Acquired order back-log	Patents	Licences	Ongoing	Total
<b>2017 financial year</b>							
<b>Opening reported value</b>	371,352	9,414	-	-	1,805	-	382,571
Purchases	579	-	-	-	36	245	860
Reclassification	-	-	-	-	2,186	-	2,186
Exchange rate differences, historical costs	112	263	-	-	7	-	382
Amortisation/depreciation	-	-	-	-	-1,411	-	-1,411
Exchange rate differences, amortisation/depreciation	-	-	-	-	-17	-	-17
Amortisation/depreciation reclassification	-	-	-	-	-1,093	-	-1,093
<b>Closing reported value</b>	<b>372,043</b>	<b>9,677</b>	<b>-</b>	<b>-</b>	<b>1,513</b>	<b>245</b>	<b>383,478</b>
<b>Per 31 December 2017</b>							
Historical cost	372,043	9,677	-	-	5,775	245	387,740
Accumulated amortisation/depreciation	-	-	-	-	-4,262	-	-4,262
<b>Reported value</b>	<b>372,043</b>	<b>9,677</b>			<b>1,513</b>	<b>245</b>	<b>383,478</b>
<b>2018 financial year</b>							
<b>Opening reported value</b>	372,043	9,677	-	-	1,513	245	383,478
Purchases	-	-	-	500	117	1,320	1,937
Increase through business acquisitions	28,809	33,800	5,640	-	943	-	69,192
Reclassification	-	-	-	-	-52	-	-52
Exchange rate differences, historical costs	249	389	-	-	82	-	720
Amortisation/depreciation	-	-	-	-	-826	-	-826
Exchange rate differences, amortisation/depreciation	-	-	-	-	-67	-	-67
Amortisation/depreciation reclassification	-	-	-	-	55	-	55
<b>Closing reported value</b>	<b>401,101</b>	<b>43,866</b>	<b>5,640</b>	<b>500</b>	<b>1,765</b>	<b>1,565</b>	<b>454,437</b>
<b>Per 31 December 2018</b>							
Historical cost	401,101	43,866	5,640	500	6,865	1,565	459,537
Accumulated amortisation/depreciation	-	-	-	-	-5,100	-	-5,100
<b>Reported value</b>	<b>401,101</b>	<b>43,866</b>	<b>5,640</b>	<b>500</b>	<b>1,765</b>	<b>1,565</b>	<b>454,437</b>

Amortisation costs of SEK 826,000 (2017: SEK 1,411,000) are included in production and project costs.

**Test for impairment of goodwill and trademarks**

Management assesses the performance of the business based on the business. Renovation and New Build have been identified as the main businesses. Goodwill and trademarks are monitored by management on a business segment level as from 2016. Presented below is a summary of goodwill broken down by business segment as well as a presentation of trademarks broken down by each business segment.

**Goodwill**

2017	Renovation	New Build	Group
<b>Opening reported value</b>	371,100	252	371,352
Exchange rate difference, historical cost	107	5	112
Additions	579	-	579
Sales	-	-	-
Impairment	-	-	-
<b>Closing reported value</b>	<b>371,786</b>	<b>257</b>	<b>372,043</b>

2018	Renovation	New Build	Group
<b>Opening reported value</b>	371,786	257	372,043
Exchange rate difference, historical cost	237	12	249
Additions	28,809	-	28,809
Sales	-	-	-
Impairment	-	-	-
<b>Closing reported value</b>	<b>400,832</b>	<b>269</b>	<b>401,101</b>

**Trademarks**

2017	Renovation	New Build	Group
<b>Opening reported value</b>	8,943	471	9,414
Exchange rate difference, historical cost	250	13	263
Sales	-	-	-
Impairment	-	-	-
<b>Closing reported value</b>	<b>9,193</b>	<b>484</b>	<b>9,677</b>

2018	Renovation	New Build	Group
<b>Opening reported value</b>	9,193	484	9,677
Exchange rate difference, historical cost	370	19	389
Additions	33,800	-	33,800
Sales	-	-	-
Impairment	-	-	-
<b>Closing reported value</b>	<b>43,363</b>	<b>503</b>	<b>43,866</b>

Recoverable amounts for a cash-generating unit (CGU) have been determined based on calculations of value in use. These calculations are based on estimated future cash flows before tax, based on financial budgets approved by group management and cover a five-year period. Cash flows beyond the five-year period are extrapolated using an assessed rate of growth in accordance with the information below. The rate of growth does not exceed the long-term rate of growth for the balcony market on which the relevant CGU operates.

Significant assumptions used for calculation of value in use:

2017	Renovation	New Build
EBITDA-margin <sup>1)</sup>	12.4%	2.2%
Annual rate of growth <sup>2)</sup>	9.8%	0.0%
Discount rate <sup>3)</sup>	8.22% after tax (9.14% before tax)	8.22% after tax (9.14% before tax)
Long-term rate of growth <sup>4)</sup>	2%	2%

1) Forecast 2017.

2) Average rate of growth over the five-year forecast; based on historical results and the management's assessment of market growth.

3) Discount rate after tax is used in conjunction with present value calculation of estimated future cash flows.

4) Weighted average rate of growth is used for extrapolating cash flows beyond the budget period.

2018	Renovation	New Build
EBITDA-margin <sup>1)</sup>	14.5%	1.9%
Annual rate of growth <sup>2)</sup>	7.2%	7.2%
Discount rate <sup>3)</sup>	8.11% after tax (8.62% before tax)	8.11% after tax (8.62% before tax)
Long-term rate of growth <sup>4)</sup>	2%	2%

1) Budgeted EBITDA-marginal.

2) Average rate of growth over the five-year forecast; based on historical results and the management's assessment of market growth.

3) Discount rate after tax is used in conjunction with present value calculation of estimated future cash flows.

4) Weighted average rate of growth is used for extrapolating cash flows beyond the budget period.

Management has set the budgeted gross margin based on earlier results and its expectations of market growth. The weighted average rate of growth used conforms to forecasts contained in industry reports. The discount rate used is stated before tax and reflects the specific risks in the segment.

**Sensitivity analysis, Goodwill**

The recovery value exceeds the reported values for goodwill by a wide margin. This is the case also with respect to assumptions that, each independently:

- the discount rate after tax had been 2 percentage points higher
- the estimated rate of growth for extrapolating cash flows beyond the five-year period had been 0%.

The most important assumptions are sales growth and the earnings trend. A change in these two assumptions, each individually, by 2 percentage points would not result in any impairment.

No impairment has been identified with respect to goodwill and/or trademarks for any of the years.



## NOTE 16 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings and land	Machinery and other plant	Equipment, tools, fixtures and fittings	Constructions in progress	Total
<b>2017 financial year</b>					
Opening reported value	40,604	19,945	16,740	7,819	85,108
Exchange rate difference, historical cost	537	1,051	396	2,086	4,070
Purchases	584	6,514	8,859	45,182	61,139
Sales and disposals	-	-640	-5,126	-	-5,766
Reclassifications	40,100	5,017	2,638	-49,658	-1,903
Depreciation, reversal on sale	-	124	3,462	-	3,586
Exchange rate difference, depreciation	-34	-529	-91	-	-654
Depreciation, reclassifications	-	1,182	-741	-	441
Depreciation	-4,436	-5,971	-5,271	-	-15,678
<b>Closing reported value</b>	<b>77,355</b>	<b>26,693</b>	<b>20,866</b>	<b>5,429</b>	<b>130,343</b>
<b>Per 31 December 2017</b>					
Historical cost	86,822	92,197	39,617	5,429	224,065
Accumulated depreciation	-9,467	-65,504	-18,752	-	-93,722
<b>Reported value</b>	<b>77,355</b>	<b>26,693</b>	<b>20,866</b>	<b>5,429</b>	<b>130,343</b>

Group	Buildings and land	Machinery and other plant	Equipment, tools, fixtures and fittings	Constructions in progress	Total
<b>2018 financial year</b>					
Opening reported value	77,355	26,693	20,866	5,429	130,343
Exchange rate difference, historical cost	578	587	-659	-15	491
Purchases	1,131	1,150	12,905	18,636	33,822
Increase through business acquisitions	40,497	-	3,757	-	44,254
Sales and disposals	-	-1,370	-6,268	-	-7,638
Reclassifications	1,521	7,421	3,882	-11,473	1,351
Depreciation, reversal on sale	-	1,339	3,359	-	4,698
Exchange rate difference, depreciation	-	-375	1,033	-	658
Depreciation, reclassifications	-	-	-266	-	-266
Depreciation	-5,078	-7,245	-7,099	-	-19,422
<b>Closing reported value</b>	<b>116,004</b>	<b>28,200</b>	<b>31,510</b>	<b>12,577</b>	<b>188,291</b>
<b>Per 31 December 2018</b>					
Historical cost	130,549	99,985	53,235	12,577	296,346
Accumulated depreciation	-14,545	-71,785	-21,725	-	-108,056
<b>Reported value</b>	<b>116,004</b>	<b>28,200</b>	<b>31,510</b>	<b>12,577</b>	<b>188,291</b>

Production and project costs include depreciation costs of SEK 16,429,000 (2017: SEK 14,272,000); SEK 80,000 (2017: SEK 60,000) in selling expenses; and SEK 2,913,000 (2017: SEK 2,757,000) in administrative expenses.

The items above include leasing objects which the Group holds under financial leasing agreements in the following amounts:

	31 Dec 2018	31 Dec 2017
Historical cost		
– I financial leasing	97,629	92,470
Accumulated depreciation	-41,955	-39,414
<b>Reported value</b>	<b>55,673</b>	<b>53,056</b>

## NOTE 17 DEFERRED TAX

Group	31 Dec 2018	31 Dec 2017
Deferred tax expense regarding temporary differences	-6,518	-4,409
Deferred tax income regarding temporary differences	1,931	403
<b>Total deferred tax in the income statement</b>	<b>-4,587</b>	<b>-4,006</b>

Changes in deferred tax assets and liabilities during the year, as reported in the income statement without taking into account set-offs made within the same tax law jurisdiction, are presented below:

Deferred tax liabilities	Build-ings	Trade-marks/Order back-log	Untaxed reserves	Other	Total
<b>Per 1 January 2017</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-329</b>	<b>-329</b>
Reported in income statement	0	0	-4,466	57	-4,409
Reported via equity	0	0	0	-61	-61
<b>Per 31 December 2017</b>	<b>0</b>	<b>0</b>	<b>-4,466</b>	<b>-333</b>	<b>-4,799</b>
<b>Per 1 January 2018</b>	<b>0</b>	<b>0</b>	<b>-4,466</b>	<b>-333</b>	<b>-4,799</b>
Reported in income statement	0	0	-5,654	282	-5,372
Through acquisition of subsidiaries	-6,180	-8,125	-2,539	-651	-17,495
<b>Per 31 December 2018</b>	<b>6,180</b>	<b>-8,125</b>	<b>-12,659</b>	<b>-702</b>	<b>-27,666</b>

Other deferred tax liabilities relate to tax liability attributable to the acquisition in 2015 of Kontech SEK 51,000 (2017: SEK 333,000).

Deferred tax assets	Loss carry forwards	Derivative instrument	Leasing, etc.	Total
<b>Per 1 January 2017</b>	<b>300</b>	<b>0</b>	<b>231</b>	<b>531</b>
Reported in income statement	0	161	242	403
Reported via equity	0	0	0	0
<b>Per 31 December 2017</b>	<b>300</b>	<b>161</b>	<b>473</b>	<b>934</b>
<b>Per 1 January 2018</b>	<b>300</b>	<b>161</b>	<b>473</b>	<b>934</b>
Reported in income statement	1,058	146	-473	731
Reported via equity	0	0	0	0
<b>Per 31 December 2018</b>	<b>1,358</b>	<b>307</b>	<b>0</b>	<b>1,665</b>

Deferred tax assets are reported for taxable loss carry forwards to the extent it is likely that they might be utilised through future taxable profits. Loss carry forwards do not lapse on any given date.

## NOTE 18 INVENTORIES

Group	31 Dec 2018	31 Dec 2017
Raw materials and consumables	26,384	21,052
<b>Total</b>	<b>26,384</b>	<b>21,052</b>

The item 'production and project expenses' includes inventory expenses booked as costs amounting to SEK 41,371,000 (2017: SEK 39,406,000). Other income statement items include inventory expenses booked as costs at SEK 0 (2017: SEK 0). During the period, Group inventories were written down by SEK 577,000 (2017: SEK 588,000).

## NOTE 19 FINANCIAL INSTRUMENTS BY CATEGORY

Balance sheet assets	Fair value via profit/loss	Accrued historical cost	Fair value via other comprehensive income	Total
<b>31 December 2018</b>				
Other non-current receivables	-	560	-	560
Other investments held as fixed assets	-	-	20	20
Trade receivables	-	161,635	-	161,635
Derivative instruments	2,227	-	-	2,227
Cash and cash equivalents	-	87,034	-	87,034
<b>Total</b>	<b>2,227</b>	<b>249,229</b>	<b>20</b>	<b>251,475</b>

Balance sheet assets	Assets valued at fair value via the income statement	Loan receivables and trade receivables	Realisable financial assets	Total
<b>31 December 2017</b>				
Other non-current receivables	-	560	-	560
Other investments held as fixed assets	-	-	20	20
Trade receivables	-	119,139	-	119,139
Derivative instruments	3,628	-	-	3,628
Cash and cash equivalents	-	106,483	-	106,483
<b>Total</b>	<b>3,628</b>	<b>226,182</b>	<b>20</b>	<b>229,830</b>

Balance sheet liabilities	Fair value via profit/loss	Accrued historical cost	Total
<b>31 December 2018</b>			
Liabilities to credit institutions	-	281,732	281,732
Supplemental purchase price	-	18,320	18,320
Trade creditors	-	138,516	138,516
Derivative instruments	3,660	-	3,660
<b>Total</b>	<b>3,660</b>	<b>438,568</b>	<b>442,228</b>

Balance sheet liabilities	Liabilities valued at fair value via the income statement	Other financial liabilities	Total
<b>31 December 2017</b>			
Liabilities to credit institutions	-	196,496	196,496
Trade creditors	-	101,151	101,151
Derivative instruments	4,359	-	4,359
<b>Total</b>	<b>4,359</b>	<b>297,647</b>	<b>302,006</b>

Derivative instruments are classified as non-current assets or non-current liabilities when the term to maturity of the instrument exceeds 12 months. Where the maturity date is less than 12 months, they are classified as current assets or current liabilities.

## Futures contracts

On 31 December 2018, the nominal amount of outstanding futures contracts was SEK 192,514,000 (2017: SEK 189,782,000). Currency futures which are not matched by the ongoing currency exposure from projects and other operations are reported as exchange rate gains or losses attributable to Production and project expenses.

Hedge accounting is not applied; see also Note 3.

## NOTE 20 TRADE RECEIVABLES

Group	31 Dec 2018	31 Dec 2017
Trade receivables	162,421	119,139
Less: provision for bad debts	-786	-
<b>Trade creditors, net</b>	<b>161,635</b>	<b>119,139</b>

On 31 December 2018, satisfactory trade receivables amounted to SEK 161,635,000 (2017: SEK 119,139,000).

On 31 December 2018, trade receivables amounting to SEK 45,089,000 (2017: SEK 37,932,000) had fallen due, but without there being deemed any need for impairment.

The age analysis of the above trade receivables is as follows:

	31 Dec 2018	31 Dec 2017
1-30 days	28 238	26 925
31-60 days	6 025	2 626
> 61 days	10 826	8 381
<b>Total due trade receivables</b>	<b>45 089</b>	<b>37 932</b>

Due trade receivables include both trade receivables related to projects in progress as well as completed projects. Delayed payments may relate to the project's final inspection, and thus trade receivables may vary over time. The Group also employs credit insurance and other forms of security from customers in order to reduce the risk in trade receivables.

Changes in provisions for bad debts are as follows:

	31 Dec 2018	31 Dec 2017
<b>Per 1 January</b>	<b>0</b>	<b>-3,749</b>
Provision for bad debts	-786	-
Receivables written off during the year as non-collectable	-	1,560
Reversed non-utilised amount	-	2,189
<b>Per 31 December</b>	<b>-786</b>	<b>0</b>

Provisions and reversal of bad debt provisions are included in the item 'production and project costs' in the income statement.

## NOTE 21 CONTRACTUAL ASSETS AND CONTRACTUAL LIABILITIES

Group	Accumulated engagement expenses	Less invoiced amounts	Completion costs	Net amount in balance sheet for ongoing engagements
<b>Per 1 January 2017</b>	824,326	-766,171	-	58,155
Agreements added during the year	722,572	-687,274	-	35,298
Agreement ended during the year	-589,874	490,401	-	-99,473
<b>Per 31 December 2017</b>	<b>957,024</b>	<b>-963,044</b>	<b>-</b>	<b>-6,020</b>
<b>Per 1 January 2018</b>	957,024	-963,044	-	-6,020
Agreements added during the year	853,825	-819,354	34,376	68,847
Agreement ended during the year	-555,340	577,105	-13,374	8,391
<b>Per 31 December 2018</b>	<b>1,255,509</b>	<b>-1,205,293</b>	<b>21,002</b>	<b>71,218</b>

Outgoing order backlog on 31 December 2018 was SEK 1,203.5 million excl. anticipated order backlog in TBO-Haglinds AB of SEK 224.5 million. Acquired order backlog is added to total order backlog on 1 January 2019.

An average project time is 3-12 months from the customer having been granted planning permission. The time it takes for the customer to be granted planning permission varies from project to project.

Contractual assets amount to SEK 116,871,000 (2017: SEK 100,131,000) and contractual liabilities amount to SEK 45,653,000 (2017: SEK 106,151,000), yielding a net amount of SEK 71,218,00 (2017: SEK -6,020,000).

Amounts withheld by customers amounted to SEK 0 (2017: SEK 11,000).

## NOTE 22 OTHER RECEIVABLES

Group	31 Dec 2018	31 Dec 2017
VAT receivable	2,846	2,296
VAT deposit	1,180	-
Tax account	2,482	-
Other	896	2,044
<b>Total</b>	<b>7,404</b>	<b>4,340</b>

## NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME

Group	31 Dec 2018	31 Dec 2017
VAT deposit	-	445
Prepaid invoices	6,537	5,012
Deposit for premises	579	806
Other	4,325	3,827
<b>Total</b>	<b>11,441</b>	<b>10,090</b>

Parent Company	31 Dec 2018	31 Dec 2017
Prepaid invoices	578	813
<b>Total</b>	<b>578</b>	<b>813</b>



## NOTE 24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist entirely of bank balances.

The Group applies a cash pool solution in order to primarily manage variations in payment flows within the group. The parent company is the sole contracting party with the bank.

## NOTE 25 SHARE CAPITAL

Share capital comprises 21,428,773 shares, broken down as follows:  
Class A ordinary shares 21,428,773

Shares carry 1 vote per share. The quotient value is SEK 6.0002. All shares issued by Balco Group AB are paid up in full.

## NOTE 26 BORROWING

Group	31 Dec 2018	31 Dec 2017
<b>Non-current</b>		
Liabilities credit institutions	228,074	142,205
Liabilities regarding supplemental purchase price	18,320	-
Liabilities regarding financial leasing	43,214	45,526
<b>Total non-current borrowing</b>	<b>289,608</b>	<b>187,731</b>
<b>Current</b>		
Overdraft facility	-	-
Liabilities to credit institutions	740	-
Liabilities regarding financial leasing	9,704	8,765
<b>Total current borrowing</b>	<b>10,444</b>	<b>8,765</b>
<b>Total borrowing</b>	<b>300,052</b>	<b>196,496</b>

Parent Company	31 Dec 2018	31 Dec 2017
<b>Non-current</b>		
Liabilities to credit institutions	161,055	120,000
<b>Total non-current borrowing</b>	<b>161,055</b>	<b>120,000</b>

Liabilities to credit institutions mature within 2-9 years.

### Liabilities to credit institutions

The Group's borrowings are in SEK and PLN and consist of loans from Danske Bank, Sparbanken Västra Mälardalen and AGCO Finance. The maturity dates of the loans are stated in Note 3. Interest on the loans is set based on an applied margin on changes in STIBOR 90 and WIBOR 90 for fixed terms of three months, in accordance with applicable bank agreements.

Borrowing from credit institutions	Reported value 31 Dec 2018	Maturity date
Danske bank	222,657	14 Sep 2021
Sparbanken Västra Mälardalen	1,869	31 May 2025
Sparbanken Västra Mälardalen	990	30 Mar 2027
Sparbanken Västra Mälardalen	1,202	30 Jan 2029
Sparbanken Västra Mälardalen	1,340	28 Feb 2030
AGCO Finance	756	30 Jun 2027
<b>Total borrowing from credit institutions</b>	<b>228,814</b>	

The fair value of borrowings corresponds to their reported value since the discounting effect is insignificant.

### Credit facility

An overdraft facility is available in Swedish kronor.

Undrawn overdraft facilities amounted to SEK 65,000,000 (2017: SEK 65,000,000).

The Group also has at its disposal a separate credit facility for acquisitions amounting to SEK 20,000,000 (2017: SEK 100,000,000).

### Liabilities regarding financial leasing

Leasing liabilities are effectively secured since the right to the leased asset reverts to the lessor in the event of non-payment. For further information regarding the Group's financial leasing agreements, see Note 32 Leasing agreements

### Covenants

In 2017, the Group met all of its obligations under applicable covenants to the bank. There are two covenants, which are measured and reported quarterly:

- Interest coverage ratio (Adjusted EBITDA in relation to paid interest)
- Net debt in relation to adjusted EBITDA

## NOTE 27 OTHER LIABILITIES

Group	31 Dec 2018	31 Dec 2017
Personnel taxes	3,187	3,053
VAT liability	18,129	10,749
Commission liability, non-personnel	176	526
Other	4,372	3,375
<b>Total</b>	<b>25,864</b>	<b>17,703</b>

Parent Company	31 Dec 2018	31 Dec 2017
Personnel taxes	178	167
VAT liability	868	95
	<b>1,046</b>	<b>262</b>

## NOTE 28 ACCRUED EXPENSES AND DEFERRED

Group	31 Dec 2018	31 Dec 2017
Personnel liabilities	40,004	35,666
Project-related provisions	2,457	5,724
Warranty provision	5,169	5,117
Other	8,789	7,592
<b>Total</b>	<b>56,419</b>	<b>54,099</b>

Parent Company	31 Dec 2018	31 Dec 2017
Personnel liabilities	1 603	1 201
Accrued interest	512	574
Other	-	2 500
	<b>2 115</b>	<b>4 275</b>

## NOTE 29 ACQUISITION OF TBO-HAGLINDS AB

On 15 November 2018, Balco entered into an agreement to acquire 100% of the shares in TBO-Haglinds AB, a company in Arboga operating within balcony renovations in Sweden and focused on the renovation segment. The acquisition is expected to contribute positively by approximately SEK 0.50 in earnings per share, starting 2019.

At the end of 2018 TBO-Haglinds AB had 45 employees and sales of SEK 130 million, with an underlying operating profit of approximately SEK 15 million. Balco paid SEK 100 million in cash for the shares upon completion. An additional SEK 20 million may be paid as a supplemental purchase price, based on TBO-Haglinds' accumulated operating profit during the period 2019 and 2020, to be paid in 2021. The acquisition has been financed through an existing credit facility and in cash.

Identified synergies are mainly within purchasing and markets, where among other things cost savings may be achieved through coordination of purchasing, and continued growth will be further strengthened through access to Balco Group's operating capacity. In addition, there are synergies on the marketing side thanks to the broader product range which can be offered to customers as a result of the acquisition.

More information is available in the press releases dated 15 November and 13 December 2018.

The transaction costs amounted to SEK 1,237,000 in respect of financial and legal advice, which are reported as an item affecting comparability. The acquisition was completed on 5 December and TBO-Haglinds will be consolidated as from 31 December 2018. The consolidation has not affected order intake, sales or earnings for the financial year, but rather has only affected balance sheet items.

The prepared acquisition calculation is preliminary and will be completed during 2019.

The purchase price comprises the following components	SEK m
Cash payment	100.0
Conditional purchase price	18.3
Acquired net assets	-89.5
<b>Goodwill</b>	<b>28.8</b>

The following assets and liabilities are included in the acquisition	SEK m
Cash and cash equivalents	29.4
Property, plant and equipment	44.3
Financial assets	-
Intangible assets	34.7
Inventories	6.5
Receivables	26.0
Liabilities	-33.6
Deferred tax liabilities	-17.8
<b>Acquired net assets</b>	<b>89.5</b>

## NOTE 30 PLEDGED ASSETS

Group	31 Dec 2018	31 Dec 2017
<i>For own liabilities and provisions, and those of Group companies</i>		
Property mortgages	9,085	-
Floating charges	15,700	-
Assets with retention of title rights	756	-
<b>Total</b>	<b>25,541</b>	<b>-</b>

Parent Company	31 Dec 2018	31 Dec 2017
<i>For liabilities and provisions of Group companies</i>		
Participations in subsidiaries	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

## NOTE 31 CONTINGENT LIABILITIES

Guarantee commitments in the Group have been provided regarding the leasing obligations of Balco Sp.Zo.o. In connection with construction projects, security is often provided in the form of guarantees from banks, insurance institutions or parent company. As regards Balco Holding AB, SEK 177 million (2017: SEK 267 million) relates to various guarantees in respect of construction obligations entered into by subsidiaries. As regards the Group, Balco Holding AB's guarantees constitute no expanded liability compared with the construction obligations. In Balco Holding AB there was, for 2017, also a guarantee commitment for the performance of currency futures contracts, for the benefit of Swedbank, corresponding to SEK 8 million. This undertaking has been concluded.

## NOTE 32 LEASING AGREEMENTS

### Financial leasing

The Group's financial leasing agreements relate to cars, trucks and machinery. There is no other leasing. In addition to the foregoing, tenancy agreements entered into regarding the properties Våxjö Lodjuret 4 and Våxjö Kronhjorten 4 are also regarded as financial leasing agreements.

Group	31 Dec 2018	31 Dec 2017
<b>Future total minimum leasing fees</b>		
Within 1 year	9,912	8,765
Between 1 and 5 years	36,389	34,161
More than 5 years	7,675	12,228
	<b>53,976</b>	<b>55,154</b>
Future financial costs for financial leasing	-1,058	-863
<b>Present value of financial leasing liabilities</b>	<b>52,918</b>	<b>54,291</b>

### Operational leasing

The Group has tenancy agreements regarding premises in the operations of subsidiaries. In addition, there are also leasing agreements for vehicles and machinery in foreign subsidiaries.

The adjustment to IFRS 16 has resulted in an increase in amounts compared with 2017. As a consequence of the inventory and categorisation carried out in order to harmonise with the new standard, the number of agreements classified as operational leasing has increased.

Future minimum leasing fees in accordance with non-terminable operational leasing agreements, in force at the end of the reporting period, fall due as follows:

Group	31 Dec 2018	31 Dec 2017
Within 1 year	7,200	4,192
Later than one year but within five years	5,436	-
Later than five years	220	-
<b>Total</b>	<b>12,856</b>	<b>4,192</b>

Operational leasing costs in the Group during the financial year amounted to SEK 10,702,000 (2017: SEK 3,515,000).

## NOTE 33 EARNINGS PER SHARE

Earnings per share are calculated by dividing the earnings attributable to the equity holders of the parent company by a weighted average number of outstanding ordinary shares during the period. The Group has had no dilution effects in 2018 and 2017.

	2018	2017
Earnings for the period attributable to equity holders of the parent company	78,640	39,692
Less income paid on preference shares	-	-6,429
<b>Earnings for the period after income paid on preference shares</b>	<b>78,640</b>	<b>33,263</b>
Weighted average number of outstanding ordinary shares (thousands)	21,429	13,704
Earnings per ordinary share, SEK, before dilution	3.67	2.43
Earnings per ordinary share, SEK, after dilution	3.67	2.43

## NOTE 34 EMPLOYEE BENEFITS AFTER CONCLUSION OF EMPLOYMENT

For white-collar employees in Sweden, the ITP 2 plan's defined-benefit pension commitments for retirement and survivor pension are secured through a policy with Alecta. According to an opinion issued by the Swedish Financial Reporting Board, UFR 10, Reporting of the ITP 2 pension plans financed through insurance with Alecta, this is a defined-benefit plan which covers many employers. For the 2017 and 2018 financial years, the Company has not had access to information to allow it to report its proportionate share of the plan's obligations, management assets and costs, and accordingly it is not possible to report the plan as a defined-benefit plan. The ITP 2 pension plan which is secured through a policy with Alecta is therefore reported as a defined-contribution plan. The premium for the defined-benefit retirement and survivor pension policies are calculated individually and depend, among other things, on salary, previously earned pension and anticipated outstanding period of employment. Anticipated fees for the next reporting period in respect of ITP 2 policies purchased with Alecta amounted to SEK 14,626,000 (2017: SEK 10,666,000).

The collective funding level comprises the market value of Alecta's assets as a percentage of insurance commitments, calculated in accordance with Alecta's insurance-technical methods and assumptions, which do not conform to IAS 19. The collective funding level shall normally vary between 125 and 155 percent. In the event Alecta's consolidated funding level is less than 125 percent or exceeds 155 percent, measures are taken with the aim of creating conditions to restore the funding level to the normal range. In the case of low funding, one measure may be to increase the agreed price for new policies and expansion of existing benefits. In the event of high funding, one measure may be to introduce premium reductions. At the end of 2018, Alecta's surplus in the form of the collective funding level amounted to 142 percent (2017: 154 percent).

Other than the above-mentioned pension plans, the Group only has defined-contribution pension plans.

The amounts reported in the income statement are as follows:

Group	2018	2017
Reporting in the income statement regarding:		
Costs for defined-contribution pension plans	15,477	11,286
<b>Income statement</b>	<b>15,477</b>	<b>11,286</b>

## NOTE 35 OTHER ITEMS NOT AFFECTING LIQUIDITY

Group	2018	2017
Capital gains upon divestments	-	72
Share in results of associated company	-	-109
Change, provisions	-	4,066
Other	711	-1,414
<b>Total</b>	<b>711</b>	<b>2,615</b>

## NOTE 36 RELATED-PARTY TRANSACTIONS

Related parties comprise all subsidiaries within the Group, associated companies as well as senior executives of the Group and related parties.

The following related-party transactions have taken place:

Sales of goods and services	2018	2017
Sales of goods		
- Associated company MIB-Polska Spolka Zo.o.	612	6,822
Sales of services:	-	-
<b>Total</b>	<b>612</b>	<b>6,822</b>

Purchases of goods and services	2018	2017
Purchases of goods:		
Purchases of services:		
- MIB-Polska Spolka Zo.o.	6,916	12,299
- Other related parties (goods and services)	2,103	2,934
<b>Total</b>	<b>9,019</b>	<b>15,233</b>

Parent Company	2018	2017
Intra-Group of sales and purchases		
The year's intra-Group purchases and sales are stated below:		
Purchases (SEK '000)	-	-
Sales (SEK '000)	15,204	3,995

Goods and services are bought and sold from/to related parties on normal commercial terms. Within the Group, goods and services are priced in accordance with an adopted transfer pricing policy which is based on the arm's length principle.

### Remuneration to senior executives

See Note 7.

### Loans from related parties

See Note 26, Borrowing. Final repayment of shareholder loans took place in October 2017.

## NOTE 37 EVENTS AFTER THE CLOSING DATE

No significant events have occurred since the closing date.



## NOTE 38 APPROPRIATION OF PROFIT AND SIGNATURES

The Board of Directors proposes that the Group's income statement and balance sheet be presented for adoption to the annual general meeting to be held on 21 May 2019.

The Board proposes to the Annual General Meeting that a dividend of SEK 2.00 per share be issued in respect of the 2018 financial year.

The Board believes that the proposal is compatible with the prudence rule in Chapter 17, section 3 of the Companies Act, as follows: The Board considers the dividend to be defensible in light of the requirements which the nature, scope and risks associated with the business impose regarding the size of the equity of the Company and the Group, as well as the Company and the Group's need to strengthen the balance sheet, liquidity and financial position in general.

### At the disposal of the Annual General Meeting (SEK):

Share premium reserve	381,763,774
Retained earnings	-208,822,619
Profit for the year	811,733
<b>Total</b>	<b>173,752,888</b>

The Board proposes that profits be appropriated as follows:

Dividend to the shareholders	42,857,546
Carried forward	130,895,342
<b>Total</b>	<b>173,752,888</b>

The Board and the CEO provide an assurance that the consolidated financial statements and annual report have been prepared in accordance with International accounting standards IFRS as adopted by the EU, and in accordance with generally accepted accounting principles, and provide a true and fair impression of the financial position and earnings of the Group and the parent company, and that the administration report provides a true and fair overview of the business, financial position and earnings of the Group and parent company, and describes significant risks and uncertainty factors facing the parent company and companies included in the Group.

Växjö, 10 April 2019

Lennart Kalén  
*Chairman*

Ingalill Berglund  
*Director*

Carl-Mikael Lindholm  
*Director*

Percy Calissendorff  
*Director*

Tomas Johansson  
*Director*

Johannes Nyberg  
*Director*

Kenneth Lundahl  
*CEO*

Åsa Söderström Winberg  
*Director*

Our auditor's report was presented on 11 April 2019  
**Öhrlings PricewaterhouseCoopers AB**

Martin Odqvist  
*Authorised Public Accountant*

# Auditor's report *Unofficial translation*

To the general meeting of the shareholders of Balco Group AB, corporate identity number 556821-2319

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Balco Group AB for the year 2018 except for the corporate governance statement on pages 57-67. The annual accounts and consolidated accounts of the company are included on pages 42-96 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 57-67. 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

#### *The focus and scope of the audit*

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.

Balco Group AB has 14 subsidiaries located in eight countries in Europe. Most of the Group's business is conducted in Sweden and Denmark, while business in entities in other countries is less extensive. We have focused our audit work on the countries with the largest operations, while operations in other countries have, for the purposes of the group audit, been reviewed to a lesser extent than a full audit.

#### *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	How our audit addressed the Key audit matter
<p><b>Net sales and percentage of completion</b></p> <p>On page 80 of the annual accounts and under the heading "Contractual assets", Balco Group describes the revenue recognition accounting principles which the Group applies. Under the principle, anticipated results from projects are reported regularly based on a current calculation and work-up level (percentage of completion). Most of the Group's Net sales in 2018 (totalling SEK 1,058 million) were reported in accordance with the percentage of completion method.</p> <p>Balco Group describes this in Note 2 and the section 'Contractual assets' on page 80.</p> <p>The principle entails that reported revenue and profit margin are partially based on estimates and assessments of future results, which involve an inherent uncertainty.</p>	<p>We have tested a selection of Balco's controls in the income recognition process in order to assess the design of the controls and, in certain cases, their efficiency.</p> <p>We have tested that the company applied its accounting principles consistently with previous years and that the principles are consistent with IFRS.</p> <p>We have tested expenses reported in a sample of projects to ensure that correct expenses are included in project expenses in accordance with the Company's principles.</p> <p>Based on the calculations prepared for each project and which are subsequently regularly updated based on actual results, we have assessed, for a selection of ongoing projects, whether the Company has used its best assessment regarding final profit margin as a basis for income recognition.</p> <p>For a selection of ongoing projects, we have compared forecast total expenses with contracted income to identify whether there was any loss project for which, in such case, provision should have been made. In conjunction with this review, we have also verified the outcome during the year of completed projects to assess the reliability of the Company's own processes.</p> <p>Finally, we have verified that the disclosure in the annual accounts agrees with the opinion we have formed during the audit.</p>
<p><b>Acquisition analysis regarding TBO-Haglinds</b></p> <p>On 13 December 2018, Balco Group announced that it had completed the acquisition of TBO-Haglinds. The acquisition is described in detail in Note 29. As stated in the aforementioned note, the total purchase price is SEK 120 million.</p> <p>The reported equity in the company on the date of acquisition was SEK 34.4 million, entailing that group management and the board of directors would allocate a surplus value of SEK 83.9 million. This allocation is to take place at fair value of TBO-Haglinds' assets and liabilities on the date of the acquisition.</p> <p>Preparing such an allocation, an acquisition analysis, entails a number of estimates and assessments, each of which may have a material impact on the reported assets and liabilities.</p> <p>Both the size and complexity of the estimations required in the acquisition analysis has implied that we deem this matter to be of major significance in the audit.</p>	<p>To begin with, we verified that TBO-Haglinds' opening balance was prepared in accordance with Balco Group's accounting principles.</p> <p>Thereafter, together with our valuation specialists, we verified that the acquisition analysis is prepared in accordance with accepted principles and models.</p> <p>Upon reviewing the analysis, we found that Balco Group had identified the assets and liabilities we had anticipated based on our experience from previous acquisitions and our knowledge of the industry.</p> <p>We verified that the factors used to quantify the fair value of the assets, such as future cash flows, discount rate and assumed useful life, are also in line with accepted practice and what we had anticipated. We were also able to conclude that the assumptions were consistent with assessments made in previous years regarding other acquisitions.</p> <p>Finally, we have also audited the disclosures made by Balco Group in Note 29.</p> <p>Based on our audit of the acquisition analysis, we have made no observations which were were significant to the audit in its entirety.</p>

## 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 1-56 and 100-102. 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](http://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 Directors and the Managing Director of Balco 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 Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration

according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://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 57-67 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, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Balco Group AB by the general meeting of the shareholders on the 17 May 2018 and has been the company's auditor since the 25 October 2010.

Jönköping, 11 April 2019

Öhrlings PricewaterhouseCoopers AB

Martin Odqvist  
Authorised Public Accountant

# Alternative key ratios

*In these annual accounts, there are references to a number of measurements of earnings. Some of these measurements are defined in IFRS, while others are alternative measurements that are not reported in accordance with applicable frameworks for financial reporting or other legislation. The measurements are used by Balco to assist both investors and management in analysing the business. Presented below are descriptions of measurements presented in these annual accounts, together with definitions and the reasons they are used.*

ALTERNATIVE KEY RATIO	DEFINITION	PURPOSE
<b>Return on equity</b>	Profit for the period divided by average equity attributable to equity holders of the parent company. The average is calculated as the average of the opening balance and closing balance for the period.	The measurement shows the return generated on shareholders' capital invested in the company.
<b>Return on capital employed</b>	Adjusted operating profit (EBIT) divided by average capital employed. The average is calculated as the average of the opening balance and closing balance for the period; see p. 91.	The measurement shows the return generated on capital employed and is used by Balco to monitor the profitability of the business since the measurement relates to capital efficiency.
<b>Return on capital employed excl. goodwill</b>	Adjusted operating profit (EBIT) divided by average capital employed excluding goodwill. The average is calculated as the average of the opening balance and closing balance for the period.	Balco believes that return on capital employed excluding goodwill, together with return on capital employed, shows a comprehensive view of Balco's capital efficiency.
<b>Gross profit</b>	Net sales less production project costs.	Shows the efficiency of Balco's business and, together with EBIT, provides a comprehensive view of ongoing profit generation and cost structure.
<b>Gross margin</b>	Gross profit as a percentage of net sales.	A key ratio used to analyse efficiency and value creation.
<b>EBITDA</b>	Profit before interest, taxes, depreciation and amortisation.	Balco believes EBITDA to be a useful measurement to show profit generated in the ongoing business and a good measurement of cash flow from ongoing business.
<b>External interest-bearing net debt</b>	Interest-bearing net debt excluding shareholder loans. For a reconciliation of net debt, see p. 91.	Balco believes external net debt to be a useful measure to show the Company's total external loan financing.
<b>External interest-bearing net debt relative to adjusted EBITDA</b>	Interest-bearing net debt as a percentage of EBITDA.	Balco believes that this measurement is helpful for showing financial risk and that it is a useful measurement for monitoring the Company's indebtedness.
<b>Adjusted EBITDA</b>	EBITDA adjusted for non-recurring items. For a Balco believes that EBITDA is a useful measurement reconciliation of Adjusted EBITDA against profit for the period, see p. 89.	Balco believes that EBITDA is a useful measurement for showing the profit generated in the ongoing business adjusted for non-recurring items and mainly uses adjusted EBITDA when calculating the Company's operating cash flow and cash generation.
<b>Adjusted EBITDA margin</b>	Adjusted EBITDA as a percentage of net sales.	Balco believes that adjusted EBITDA margin is a useful measurement for showing the profit generated in the ongoing business.
<b>Adjusted operating margin (EBIT)</b>	Adjusted operating profit (EBIT) as a percentage of net sales.	Balco believes that adjusted operating margin (EBIT) is a useful measurement for showing profit generated in the ongoing business after adjustment for non-recurring items.
<b>Adjusted operating profit (EBIT)</b>	Operating profit (EBIT) adjusted for non-recurring items. For a reconciliation of Adjusted operating profit (EBIT) against profit for the period, see p. 91.	Balco thus believes that adjusted operating profit (EBIT) is a useful measurement for showing the profit generated in the ongoing business and primarily uses the measurement to calculate return on capital employed (see above).
<b>Operating cash flow</b>	Adjusted EBITDA increased/decreased by changes in working capital and reduced by investments, excluding expansion investments; see p. 91.	Balco uses operating cash flow to monitor the development of the business.
<b>Interest-bearing net debt</b>	Total shareholder loans, non-current and current interest-bearing, liabilities. For a reconciliation of net debt, see p. 91.	Balco believes that net debt is a useful measurement for showing the Group's total loan financing.

<b>Return on equity</b>	Profit for the period divided by average equity attributable to equity holders of the parent company. The average is calculated as the average of the opening balance and closing balance for the period.	The measurement shows the return generated on shareholders' capital invested in the company.
<b>Working capital</b>	Current assets, excluding cash and equivalents and current tax assets, reduced by interest-free current liabilities, excluding current tax liabilities.	This measurement shows how much working capital is tied up in the business and can be compared with sales to understand how efficiently working capital is used.
<b>Operating margin (EBIT)</b>	Operating profit (EBIT) as a percentage of net sales.	Balco believes that the operating margin together with sales growth and adjusted working capital is a useful measurement for monitoring the creation of value in the business.
<b>Operating profit (EBIT)</b>	Profit before interest and tax.	Balco believes that operating profit (EBIT) is a useful measurement for showing the profit generated in the ongoing business.
<b>Equity ratio</b>	Equity divided by total assets, see p. 91.	Balco believes that equity ratio is a useful measure for the Company's survival as a going concern.
<b>Capital employed</b>	Equity increased by interest-bearing net debt (external interest-bearing net debt plus shareholder loans.)	Capital employed is used by Balco as a measurement of the Group's overarching capital efficiency.
<b>Capital employed excl. goodwill</b>	Capital employed minus goodwill.	Capital employed excluding goodwill is used by Balco, together with capital employed, as a measurement of the Company's capital efficiency



# Reconciliation against financial statements in accordance with IFRS

*The financial statements that Balco issues contain alternative key ratios, which complement the measurements defined or specified in applicable financial reporting standards. Alternative key ratios are stated when, in their context, they provide clearer or more indepth information than the measurements defined in accordance with applicable financial reporting standards. The alternative key ratios are derived from the Company's consolidated financial statements and do not constitute measurements in accordance with IFRS.*

Amounts in SEK m	2018	2017
<b>Adjusted operating profit</b>		
Operating profit	105.6	92.3
IPO expenses	-	24.4
Acceleration costs, Maritime	13.3	
Other non-recurring items	1.2	-
<b>Adjusted operating profit</b>	<b>120.2</b>	<b>116.7</b>
<b>Adjusted EBITDA</b>		
Adjusted operating profit	120.2	116.7
Amortisation/depreciation	20.2	17.1
<b>Adjusted EBITDA</b>	<b>140.4</b>	<b>133.8</b>
<b>Operating cash flow</b>		
Adjusted EBITDA	140.4	133.8
Change in working capital	-82.7	53.7
Investments, excluding expansion investments	-8.3	-4.6
<b>Operating cash flow</b>	<b>49.4</b>	<b>182.9</b>
<b>External interest-bearing net debt</b>		
External non-current interest-bearing liabilities	271.3	187.7
Current interest-bearing liabilities	10.4	8.8
Cash and cash equivalents	-87.0	-106.5
<b>Interest-bearing net debt</b>	<b>194.7</b>	<b>90.0</b>
<b>Adjusted EBITDA, (R12)</b>	<b>140.4</b>	<b>133.8</b>
<b>Interest-bearing net debt/EBITDA 12 months, times</b>	<b>1.4x</b>	<b>0.7x</b>
<b>Return on capital employed, %</b>		
Equity	440.5	386.4
External interest-bearing net debt	194.7	90.0
Shareholder loans	-	0
<b>Average capital employed</b>	<b>555.8</b>	<b>488.0</b>
Adjusted operating profit (EBIT)	120.2	116.7
<b>Return on capital employed, % (R12)</b>	<b>21.6</b>	<b>23.9</b>
<b>Equity ratio</b>		
Equity attributable to equity holders of the parent company	440.5	386.4
Balance sheet total	1,063.2	885.4
<b>Equity ratio, %</b>	<b>41.4</b>	<b>43.6</b>

NOTES

Handwriting practice lines consisting of 20 horizontal dotted lines.











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