

ANNUAL REPORT 2019

BALCO GROUP AB



BALCONIES
FOR
GREATER
LIVING

Business description

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BALCO IN BRIEF

Balco's history started 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, in accordance with the Balco method. The method involves removal of existing balconies and installation of new, larger glazed balconies. The Group is nowadays market leader in the Nordic region and enjoys a strong challenger position on other northern European markets.

Balco also has a unique sales procedure which involves assumption of full responsibility and guiding 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 customized, high-quality balcony solutions, irrespective of order size and complexity, with short delivery times.

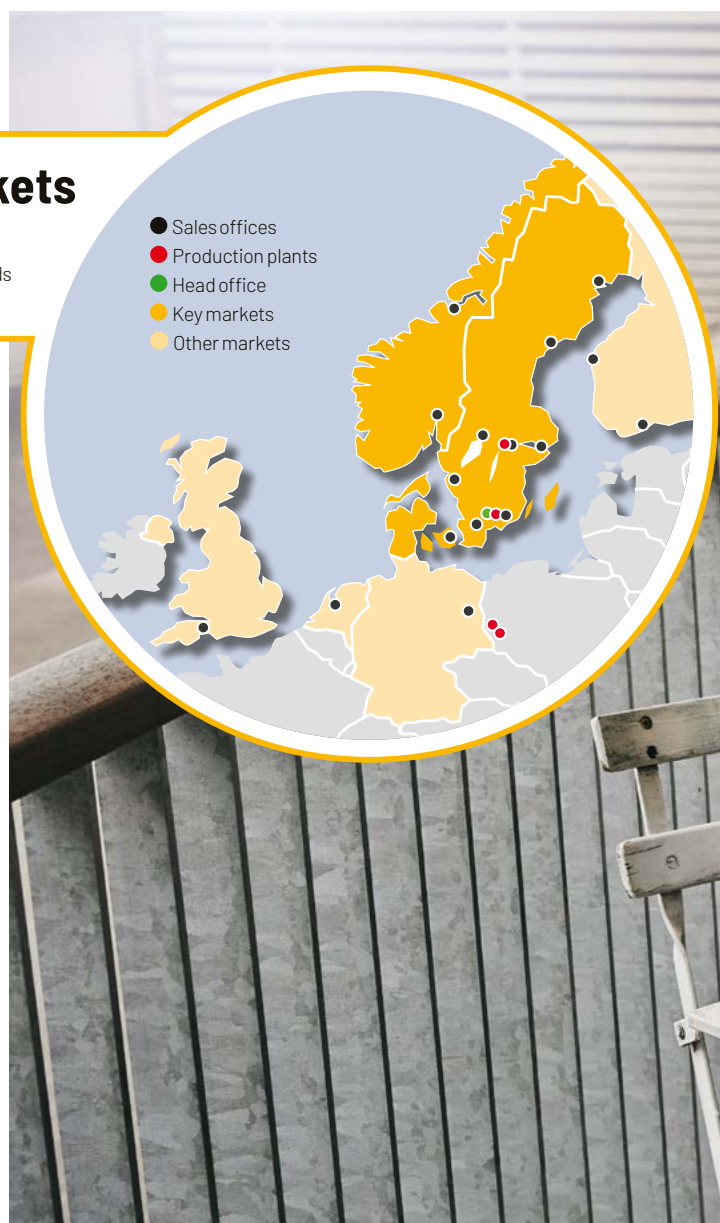
With a lifespan in excess of 90 years, Balco's glazed balconies are not merely the best solution from a financial perspective, but also the most environmentally friendly. Thanks to an energy saving of between 15 and 30%, each Balco balcony generates the same positive climate impact as ten growing trees, while traditional concrete renovation of a balcony has a carbon footprint corresponding to seven felled trees.

Balco's operations are divided into two business segments: Renovation and New Build. In 2019, Renovation accounted for approximately 86 % of the Group's sale.

Since its inception, Balco has expanded its operations in Europe and has sales offices in seven countries as well as two production plants in Sweden and two in Poland. The Company has been listed on the stock exchange since 2017 and since then has continued to grow.

Seven markets

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



Key ratios	2019	2018
Netsales	1,220.6	1,058.1
Order intake	1,349.1	1,003.1
Order backlog	1,522.4	1,203.5
Operating profit (EBIT)	140.4	105.6
Operating margin (EBIT), %	11.5	10.0
Adjusted operating profit	140.4	120.2
Adjusted operating margin, %	11.5	11.4
Profit for the year	102.8	76.8
Operating cash flow	133.9	49.9

15,308
BALCONIES IN 2019
169,379
BALCONIES BUILT SINCE 1987

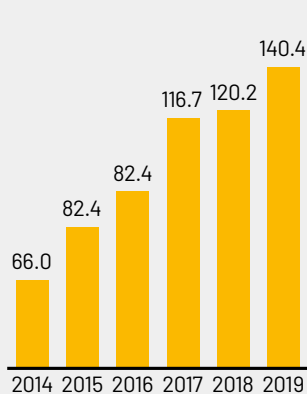
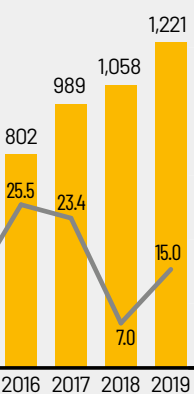
NET SALES (MSEUR)



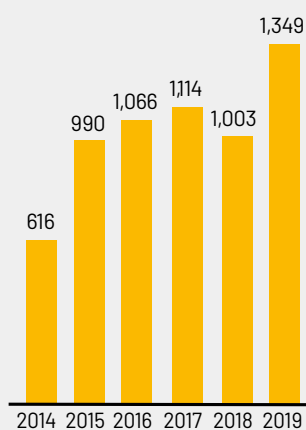


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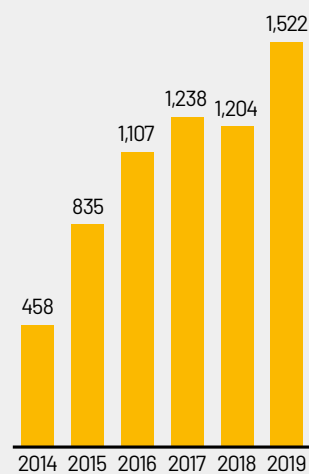
ADJUSTED OPERATING PROFIT (MSEK)



ORDER INTAKE (MSEK)



ORDER BACKLOG (MSEK)



RENOVATION

GROWTH
10%

OPERATING MARGIN
12.9%

SHARE OF SALES
86%

SHARE OF ORDER INTAKE
85%

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 Group'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 Group is not particularly affected by the construction business cycle.



NEW BUILD

GROWTH
60%

OPERATING MARGIN
6.5%

SHARE SALES
14%

SHARE OF ORDER INTAKE
15%

Balco installs balconies and offers its entire product range in conjunction with the construction of new apartment properties, as well as balcony solutions within maritime applications. 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 2019, sales within New Build increased by 60%, primarily due to an increase within Maritime, which has developed into a profitable and well-functioning product area with potential for continued growth.



IMPORTANT EVENTS IN 2019

Q1

- New reporting rules in the form of IFRS 16 are to be applied by Balco. IFRS 16 requires that assets and liabilities attributable to all leasing agreements, with exception of short-term leases or leases involving low value assets, be reported in the balance sheet. The Group's balance sheet total has increased by 13 MSEK as a consequence of the implementation of IFRS 16.
- The Nomination Committee proposes Tomas Johansson as new Board Chairman to succeed Lennart, who has declined re-election, and that Mikael Andersson be elected as a new director in place of Percy Calissendorff, who declined re-election.
- The Board proposes that the annual general meeting adopt a dividend of 2.00 SEK per share.

Q2

- In order to strengthen future business development and growth possibilities, former CFO Fredrik Hall has been appointed as Head of Business Development and Michael Grindborn has been recruited as the new CFO.
- Balco's Annual General Meeting decides, for the financing of acquisitions or other growth in the Company, to authorize the Board to decide on new issues of shares, warrants, or convertible instruments with respect to such shares, entailing an increase or potential increase in the Company's share capital by not more than (10) percent or not more than 2,142,877 shares.
- Balco's Annual General Meeting decides to authorize the Board to decide on buybacks of shares representing up to 1/10 of all shares in the Company and to authorize the Board to decide on transfers of treasury shares.

Q3

- Collaboration with a Nordic bank which in Sweden offers tenant-owner associations loans with a repayment period of 70 years in conjunction with the installation of Balco's glazed balconies (compared with a previous period of 50 years).
- Balco extends its current bank agreement on unchanged terms and conditions and with a new maturity date in September 2022. The acquisition credit is reinstated at 100 MSEK.

Q4

- Strengthening and change to group management takes place as from 1 October, when Camilla Ekdahl takes up the position as Managing Director of Balco AB and Group COO.

ESTABLISHED ON THE STOCK EXCHANGE AND STRONGER THAN EVER

The platform for continued growth, which Balco established during its first year as a listed company, yielded desired and expected dividends in 2019. We are stronger than ever, with an order backlog in excess of 1.5 billion SEK. The year has also seen a strengthened organization and a life-cycle analysis which demonstrates how environmentally friendly our products really are. In addition, we have negotiated an agreement with a Nordic bank whereby Swedish tenant-owner associations are offered loans with a repayment period of 70 years in conjunction with installation of Balco's glazed balconies

Our sales during the year increased to 1,221 MSEK, corresponding to growth of 15%. Operating profit for the year was 140 MSEK, an increase of 33%. The operating margin strengthened to 11.5%, up from 10.0% in the previous year. Increased sales and an improved gross margin, as well as a lower operating expenses as a percentage of sales, are the reasons for the improvement in operating profit.

The Renovation segment is Balco's core business. In 2019 it accounted for 86% of sales. The New Build segment accounted for the remaining 14% of the Company's sales.

A strong organization

An expansive group such as Balco requires a strong organization and, during 2019, a streamlined group management was created. Michael Grindborn is the new CFO, while Camilla Ekdahl is the new Managing Director of Balco AB and Group COO. A structure is now in place which will facilitate achievement of the ambition for Balco to grow both organically and through acquisitions.

As a consequence of the acquisition of TBO-Hagblinds, which was completed at the end of 2018, we have significantly strengthened our position on our Swedish main market. The result has exceeded expectations and led to a change in the focus of product development.

As early as the second half of 2018, we witnessed a positive change in Denmark, after the branch had endured problems caused by long building permission processes. City balconies dominate on the Danish market and the relocation of production to our Polish production unit, combined with a new organization in Denmark, has given us new strength.

New financing of renovations

Balco's core business is the renovation market, which is not affected by changes in the business cycle. Furthermore, there is a strong

need for renovation on all of Balco's markets. From the very beginning, we have created our own growth by instructing potential customers about the Balco method, which involves cutting existing open balconies and replacing them with our glazed balcony solutions.

We have now also seen a need to educate the banks about the financing aspect. Excessively rapid depreciation results in an incorrect monthly cost for the customer. During the spring, we established a collaboration with a Nordic bank whereby we can now offer Swedish tenant-owner associations loans in conjunction with installation of Balco's glazed balconies with a repayment period of 70 years, compared with a previous period of 50 years. This means that many of the customers who, for financial reasons, have been forced to put off renovation, can now carry it out. The result will impact on Balco for a long time going forward.

We are now continuing the work on locating similar bank collaborations in the other Nordic countries. On our markets in Holland and Germany, initiatives have been taken on a state level to resolve their enormous needs for balcony renovations.

Our project-based operations lead to fluctuations in order intake, which can be reflected in the Group's interim reports. Since our larger glazed balconies require building permission, the implementation of projects depends on the length of the building permission processing period. However, at Balco we are confident that our tried and tested business model generates results over time.

A green company

During 2019, Balco conducted a life-cycle analysis (LCA), which provides further proof that our glazed balconies and our operations are environmentally friendly. We now have confirmation in black and white that glazing using the Balco method has a lifespan of at least 90 years. This is to be compared with traditional

“The Balco method is not merely the best solution from an economic perspective and for the personal life quality of the residents, but is also climate-smart.”



concrete renovations, which dominate the market, which have a lifespan of 15 years.

Furthermore, glazing protects windows, doors and facades, which also saves maintenance of them.

We also know that almost all material in our glazed balconies can be recycled after 90 years. Depending on product and geographic location, our balconies make a positive climate contribution within 30-50 years. To date, Balco's glazed balcony systems have resulted in energy savings corresponding to CO₂ capture by 840,000 growing trees. The same number of balconies constructed with traditional concrete renovation would have resulted in a carbon footprint corresponding to 300,000 felled trees.

At the same time, we have learnt that one half of our climate impact is derived from the aluminum that we use in our balconies. As a consequence, we will now work on establishing new environmental targets and sourcing aluminum with less impact on climate.

Stable and strong future

During 2019, we have grown into our role as a listed company and strengthened our organization for future expansion. We have never been stronger and we know that our climate-smart balcony solutions are more relevant and attractive than ever.

The financing solution for the Swedish market that was developed during the year will be followed by similar solutions in the rest of the Nordic region. As a consequence, projects that customers were previously unable to finance can materialize into new transactions for Balco.

The result of our life-cycle analysis has been produced and shows that our balcony solutions have an even longer lifespan than we had dared to believe. It has also shown the way towards environmental targets of the future, and we are prepared to begin that journey.

When facing 2020, we are equipped for expansion and the development of new products. A new decade awaits and Balco could not be more prepared!

Kenneth Lundahl
President and CEO

INNOVATION AND DEVELOPMENT – THE BASIS FOR BALCO'S SUCCESS

When Balco was founded by an entrepreneur from Småland in 1987, the basic concept was to offer an innovative and attractive product within a clear market niche. That work is continuing unabated with new innovative products and own patents. The objective of becoming a leading player within the balcony industry has already been achieved.

Since its beginnings as a local supplier 32 years ago, the Company has developed into what is today a clear niche player within the balcony renovation segment, with a strong market position in northern Europe. The Group is one of a few balcony suppliers that possesses the skill to provide customized, 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. 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 m² and the capacity utilization rate is approximately 70%. It is believed that, in the case of full capacity utilization, the current production plants will be able to meet annual sales of approximately 1.7 billion SEK. In 2019, Balco produced in total 15,308 balconies.

Balco specializes 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 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 customized, from sketch to installation. The Company's employees assist customers throughout the process and contribute with their expertise regarding structural engineering calculations and construction drawings, provide advice, assist with information and cost calculations for tenant-owner asso-

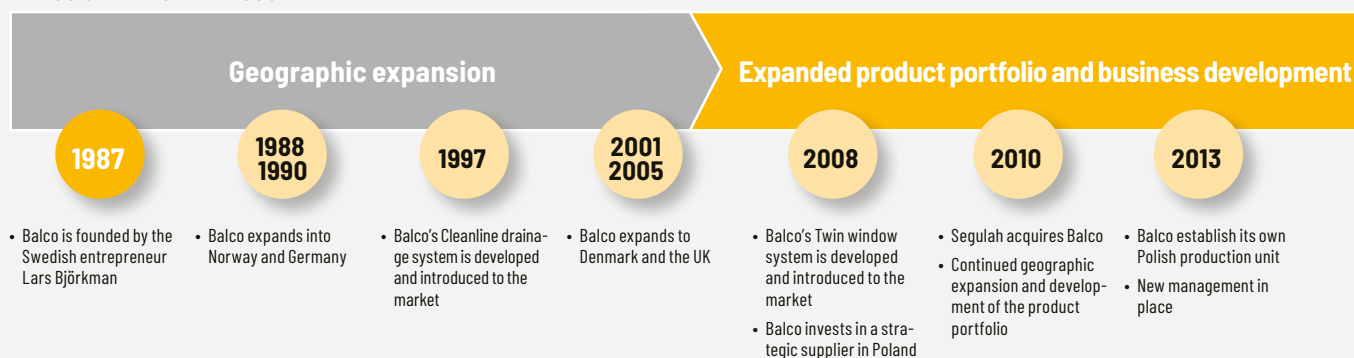
ciation meetings, assist with building permission applications, and handle the installation in-house. Each balcony project is governed by the customer order and is unique for the property in question. Balco works proactively to be at the cutting-edge of technology so as to differentiate the Company's products from those of its competitors. Balco develops and produces all products internally, under its own brand, and has 57 (44) patents within the balcony area. In 2019, glazed balconies accounted for 71 (75)% of total sales, open balconies for 26(20)%, and other products for 3(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 2019 revealed that this objective is achieved, since no fewer than 91(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 organization. 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 organization has increased from 38 to more than 60 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.

BALCO'S DEVELOPMENT JOURNEY





Growth phase with significant investments in sales staff and increased presence at mini trade 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 m²
- Achieves sales of approximately 1 billion SEK
- 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.

2019

- Delivery of Balco's first maritime project.
- Strengthened group management for future expansion.

MARKETS AND TRENDS

The total balcony market in the countries in which Balco operates is worth approximately 30 billion SEK¹⁾ 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 30 billion SEK.

Balco's main markets are Sweden, Norway and Denmark. The value of the balcony market in these countries was approximately 5 billion SEK in 2017, of which 3 billion SEK within Renovation, which is Balco's focus segment. The Renovation segment in these countries is expected to grow on average by 10% per year up to 2022, when a market value for the segment of approximately 4.5 billion SEK is expected to be achieved, and the total market will grow to approximately 7 billion SEK.¹⁾

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 26 billion in 2017, of which approximately SEK 19 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 billion in 2022. On these markets, too, 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 86% of Balco's sales in 2019.

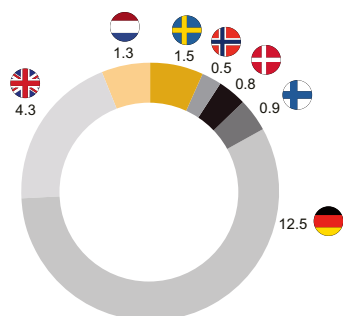
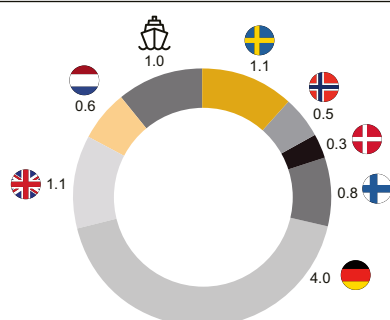
Market position and competitors

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. Balco's total market share in Sweden in 2019 was 27%, corresponding to 38% 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 with its subsidiary TBO-Haglinds, Lumon, Windoor (part of Wingroup) and Solarlux. The smaller local companies include Teknova, Alnova, Balcona, Svalson, Altan.dk, MinAltan, RK Teknik, Balkongentreprenøren and Weland Aluminium.



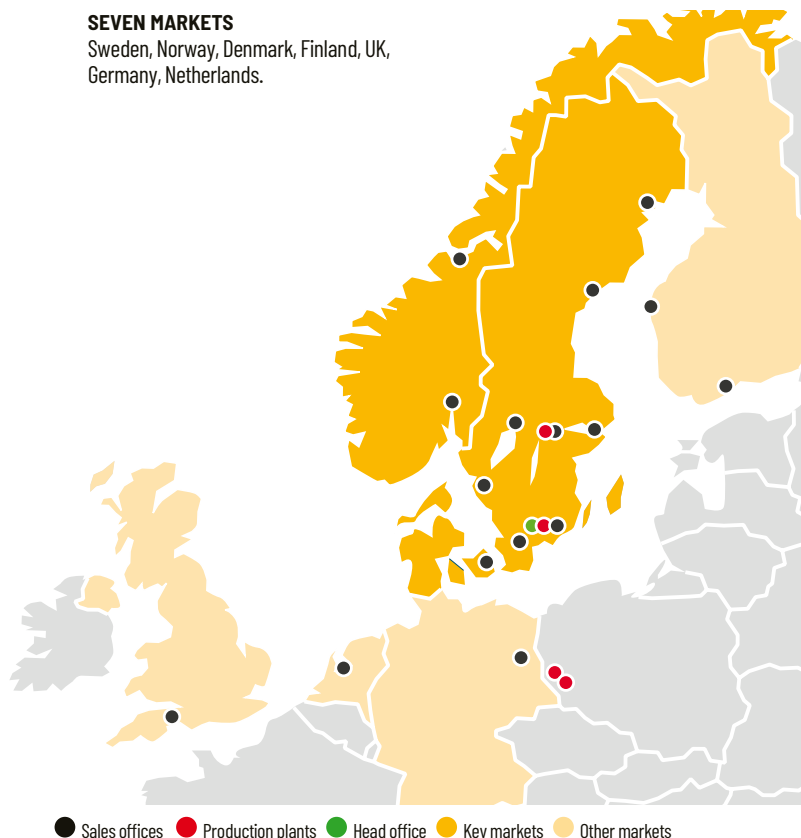
¹⁾ Arthur D. Little Market study on behalf of Balco, September, 2018

**TOTAL MARKET SIZE, THE RENOVATION MARKET,
21.8 BILLION SEK¹⁾ (2017)**

**TOTAL SIZE, THE NEW BUILD MARKET, 9.6
BILLION SEK¹⁾ EXCL. MARITIME (2017)**


¹⁾ Arthur D. Little, Study, September, 2018

SEVEN MARKETS

Sweden, Norway, Denmark, Finland, UK,
Germany, Netherlands.


TRENDS ON THE BALCONY MARKET

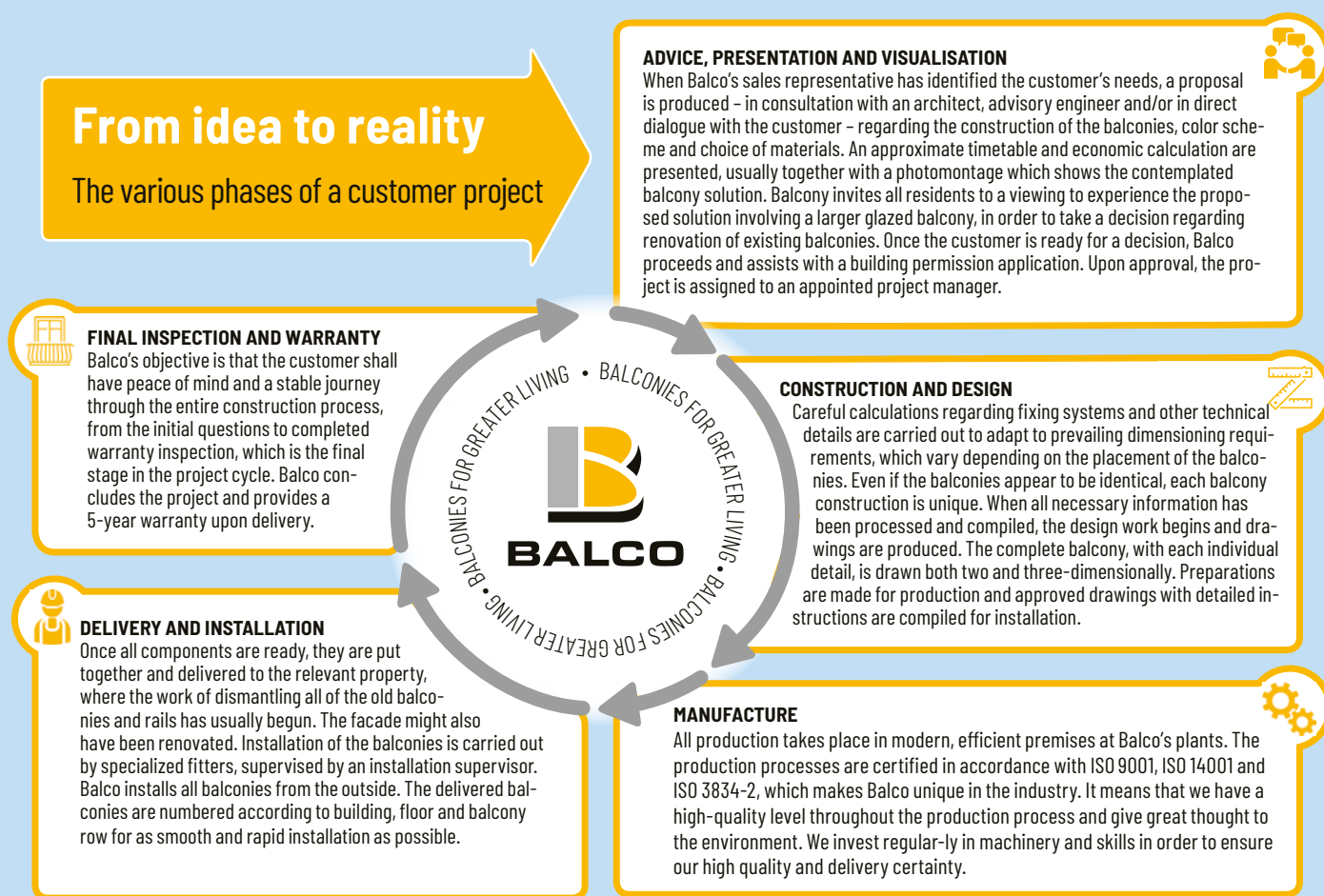
There are many factors that affect the balcony market. These include price changes on the housing market, disposable income, interest rate changes, economic growth and the construction industry business cycle. In addition, the industry is affected by a number of trends.

TRANSFER OF OWNERSHIP TO TENANT-OWNER ASSOCIATIONS	COMFORT AND DESIGN	ENVIRONMENTAL LEGISLATION AND ENERGY SAVINGS	DEGREE OF PENETRATION BY GLAZED BALCONIES
<p>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.</p> <p>EFFECT ON BALCO</p> <p>Tenant-owner associations are currently Balco's most important customer group, accounting for 70% of the Group's sales, and are 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.</p>	<p>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 approx. 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.</p> <p>EFFECT ON BALCO</p> <p>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.</p>	<p>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 environmental 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.</p> <p>EFFECT ON BALCO</p> <p>Glazed balcony systems have a longer lifespan, 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.</p>	<p>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.</p> <p>EFFECT ON BALCO</p> <p>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.</p>



OUR PROJECT CYCLE – FROM IDEA TO REALITY

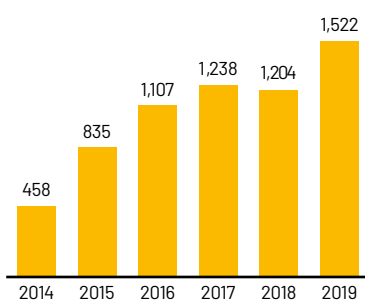
Balco's customer projects extend over a long period and undergo a number of different phases. The process below describes the chain of events from the sales representative meeting the customer for the first time to completion of the project and Balco's delivery of a completed balcony solution to the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



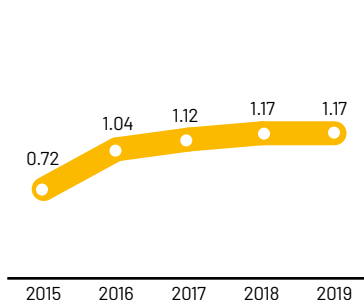
Order intake and seasonal patterns

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.

ORDER BACKLOG, MSEK



TURNOVER RATE, ORDER BACKLOG



Sales

Balco's sales growth is affected by when in time the Company's customers are granted building permission for the balcony project. The process of securing building 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.

INNOVATIVE AND SUSTAINABLE PRODUCTS

GLAZED BALCONIES

Balco's largest product category is glazed balconies, which are primarily sold within the Renovation segment. In 2019 they accounted for 70% of total net sales.



70%

Of total net sales relate to glazed balconies.

Thanks to energy savings of 15–30%, a glazed balcony from Balco generates the same positive climate impact as 10 growing trees

9%

growth for glazed balconies.



Glazed balcony can be used during most of the year

Glazed balconies

Glazing the balcony and at the same time getting a larger balcony is a cost-effective, attractive and climate-smart alternative to traditional concrete renovation.

A glazed balcony creates an extra space that can be used any way, all year round. It is an investment that helps to strengthen the character of the house while making the living environment safer and more attractive.

A balcony glazing system provides economic benefits through reduced energy and maintenance costs. It also contributes to noise reduction and reduces corrosion and frostbite.

The glazed balcony solutions are 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 reduced corrosion of the reinforcement, which in turn reduces the risk of frost weathering.

The glazed balconies are tailored 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, loft glazed balconies and etage balconies.

Clima walls

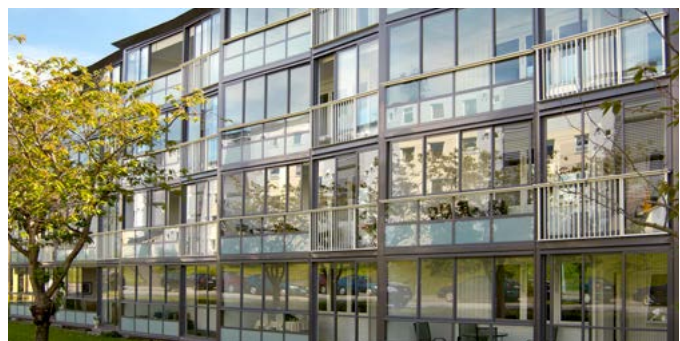
Clima walls involve the entire facade being covered with glazed balconies. The solution functions as a climate-proofing shell for the property, resulting in significant energy savings. Clima walls also reduce the need for renovation of concrete floors as well as facades, windows and doors prior to glazing.

Access balconies

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.

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.



Clima walls protect the facade and provide major energy savings



Balco's glazing system Access adapted for attics includes fire alarms



Balco's solution Etage is used for glazing on terraced houses

INNOVATIVE AND SUSTAINABLE PRODUCTS

OPEN BALCONIES

Balco sells several different types of open balconies to both the Renovation and New Build segments. The product category, which accounted for 27% of net sales in 2019, comprises steel and aluminum balconies, City balconies, maritime balconies and prefabricated balconies.



27%

Of total net sales relate to open balconies.

Balco Maritime has developed a profitable and well-functioning product area with the potential for continued growth. The customer is satisfied and we have received new orders

55%

growth for open balconies.



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

OPEN BALCONIES

An open balcony can easily be varied in shape and design to suit customers' needs and desires.

Customers have the opportunity to choose different designs on the floor, cladding, balcony railings and supervisors.

Balco also produces open balconies adapted to inner-city environments where there are other requirements for execution.

Balco has specially developed one balcony solution in aluminum and glass for the maritime industry.

The product area includes different types of open balconies which are varied simply in terms of form and design to meet the customer's wishes and needs. Among other things, the customers have the possibility to choose between different designs for covering, balcony rail and handrails. Balco also provides parts such as balcony rails, floor, roof and fixing systems which can be installed on existing balconies or bought by construction companies in the case of new construction.

City balconies

In terms of design, city balconies are adapted for inner-city environments, where other requirements prevail as regards execution. City balconies are generally smaller than the Balco'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.



City balconies

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.



Open the balcony solution AluOne

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 a behalf of the customer.

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.



Maritime balconies for cruise ships

INNOVATIVE AND SUSTAINABLE PRODUCTS

OTHER PRODUCTS

Balco sells a large number of different accessories for the Group's balcony solutions. In 2019, 'other products' accounted for 3% of net sales.

3%

of the total net sales
relate to other products.

Balcony accessories
make each balcony project
unique. Balco's most common
balcony accessory is sun
screening in the form of roller
blinds, pleated blinds or
vertical awnings.

34 MSEK

Net sales for other
products



Vertical Blinds



Blinds and awnings

OTHER PRODUCTS

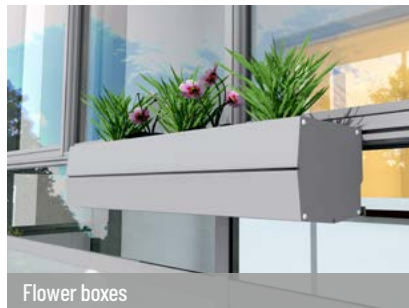
Balco offers its customers a wide range of products which not only make the interior pleasant but also make the balcony user-friendly and safe.

Balco installs all accessories, which are directly adapted for the balcony solutions.

Balco sells a large number of different accessories to its own balcony solutions. The accessories include screens glass corners, balcony doors, powered awnings, vertical awnings, roller blinds, sunscreen, window boxes, flag holders, solar cells and locks.



Screens



Flower boxes



Balcony doors



Balcony balustrades with solar cells



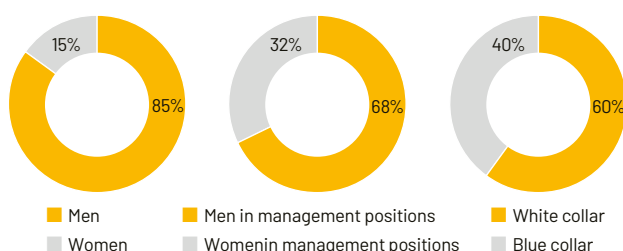
Glass corners

COMMITTED EMPLOYEES ARE THE KEY

Balco is driven by the conviction that value is created through the skills, commitment, responsibility and endeavors of its employees to constantly advance. Since Balco is a growth company, the need to attract, retain and develop skilled personnel plays a key role, and thus there is a constant focus on our employees. Our corporate culture is both open and entrepreneurial, and thus employees feel that really are able to influence their work and make a difference in the business

The Balco Group has grown significantly in recent years and skilled employees are fundamental for being able to continue to do so in the future. At the end of the financial year, we had in total 419 (385) employees in the Group, in the eight countries in which we conduct operations. Following the acquisition of TBO-Haglinds, 55% (51) of employees are in Sweden, 23% (26) in Poland, 14% (12) in Denmark, 4% (5) in Germany, 1% (2) in Norway, 1% (2) in the UK, 1% (1) in Finland and 1% (1) percent in the Netherlands.

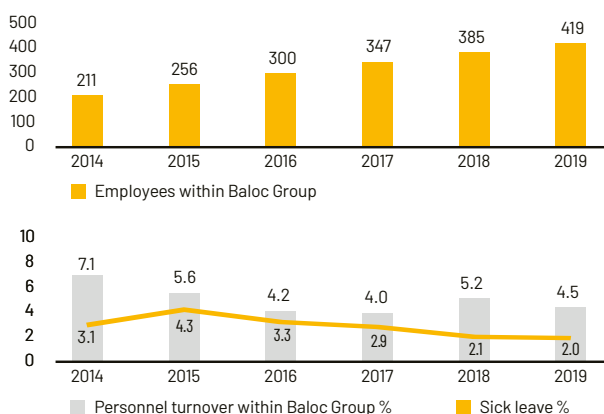
BREAKDOWN, EMPLOYEES



Balco – an attractive employer

In recent years, Balco has considerably enhanced its attractiveness as an employer, both in Växjö where the head office is located, and also in the other geographic locations where we operate. We have seen this in the strong figures reported in employee and health surveys, low absenteeism and personnel turnover rate, and also when we need to recruit new personnel.

EMPLOYEES WITHIN THE BALCO GROUP



We are constantly investing in our brand as an employer in order to offer an attractive workplace with good possibilities in terms of satisfaction and a sense of togetherness, as well as within the areas of skills development and internal career paths. When reviewing our existing managers and key employees, we are able to note that we have made many successful internal recruitments over the years and that our employees have really been given the opportunity to make a career within the Company.

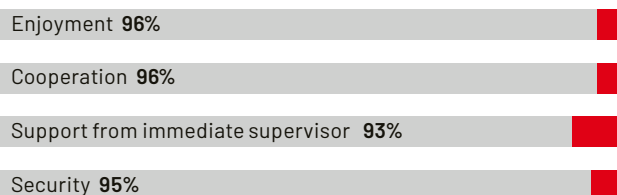
In 2019, we have focused on the balance between work and recreation and, among other things, have developed a new, more flexible model for working hours. This model will make it easier for our employees to balance their commitments, which in the long term will create more satisfied and loyal employees. During 2020, we will review our office work environment and create new workstations to enable us to take the next stage in our expansion.

Leadership and skills development

Good leadership is the key to success and is something on which we Balco are constantly focusing. During 2019, in addition to our usual management training schemes we have also invested in our future managers – i.e. people in whom we perceive potential but who do not yet hold a senior position. In so doing, we are creating a natural, relevant success chain, at the same time as avoiding the risks of prolonged vacancies in the event any key staff member was to leave.

In addition to management training, our Sales Academy is a prioritised area. This provides solid training and is undertaken by all sales staff. Since we are constantly investing in new resources within sales, this academy will be reviewed and developed in 2020.

EMPLOYEE AND HEALTH SURVEY



Employee and health survey

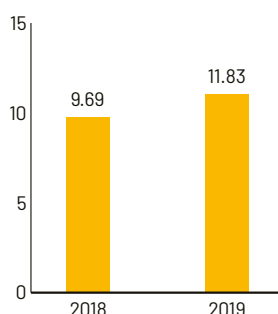
In 2019, we conducted an employee and health survey focused on life situation, health as well as physical and psychosocial working environment.

For many years we have had healthy figures in terms of personnel turnover and absenteeism, and this survey confirms those figures. In 2022, we will engage in focused work to maintain and develop these figures through a number of new focus areas.

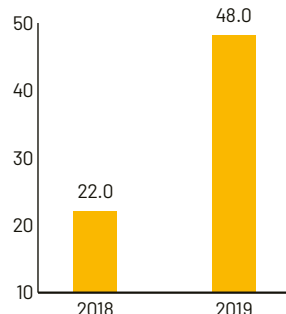
Health and work environment

Balco's most important goal is to ensure that all Group employees return home from work healthy and uninjured. We are constantly working on developing and improving the work environment in order to achieve our vision of zero workplace accidents. Since we implemented a new reporting system for incidents and workplace accidents, preventive reporting (observations) has increased, which was one of the aims of a new simplified, digitalized system. With several observations, we can more easily prevent potential risks of actual workplace accidents. The number of workplace accidents resulting in absence from work is at the low level of 4 (3), which is testimony to a safe and healthy work environment.

WORKPLACE ACCIDENTS – FREQUENCY (FR)



PREVENTIVE REPORTING (OBSERVATIONS)

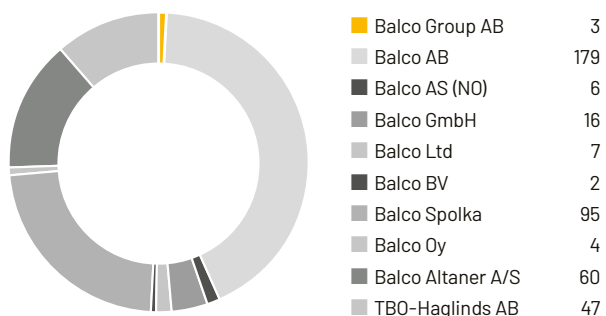


Equality of opportunity and diversity

Balco cares about a sound working life with sustainability and equality of opportunity, in which each employee is given an opportunity to develop to her/his full potential irrespective of gender, religion, ethnic background, age, race or sexual orientation. In this year's employee and health survey, 95% of respondents stated that they felt secure at Balco, at the same time as 100% answered that they had not suffered any bullying or unacceptable behavior.

16% of the total employees in the Group are women, and 84% are men. This means an increase of one percentage point in the number of women compared to 2018. During 2019, we have changed the structure of recruitment advertisements in order to attract more female applications, and this has had an effect. Balco is constantly working to increase diversity and to obtain a more equal gender breakdown in the Group and, in 2020, will take a number of new initiatives to accelerate a more even gender breakdown. One positive factor, which is worth mentioning, is that 32% of the supervisors at Balco are women, which is twice the number of women in the Group.

BREAKDOWN, EMPLOYEES PER COMPANY 2019



Social responsibility

For Balco, conscious sustainability work and a strong social commitment go hand-in-hand with long-term profitability. We prioritize initiatives and institutions whose activities correspond to our core values and principles at the geographic locations where we operate.

Some examples of Balco's social commitment:

- GoTech* – an organization aimed at increasing interest in a professional career within a technology company.
- Teknikcollege* – works to increase interest in technological education among young people.
- Föreningsliv* – we support local sports clubs in the localities where we operate.
- Öster i sambället* – a football project to promote integration and camaraderie and to counter social exclusion. Among other things, the project includes “night football” in which youngsters from all over the world meet and play football on Friday evenings, while being given an opportunity to make closer contact with Swedish society. *Öster i sambället* also focuses on Para-football – football and camaraderie for the functionally impaired.
- Training places and company visits – Balco accepts a number of trainees as well as company visits each year.



MEET ADAMA — ONE OF BALCO'S EMPLOYEES IN SWEDEN

Adama began work as a CNC operator at Balco in February 2005 and he enjoys his work just as much today, after 15 years with the Company. In addition to the work of producing the balconies' aluminum profiles, he is happy to show visitors around his division and explain what gives Balco's balconies such a high quality.

How long have you been working at Balco?

I've been at Balco since February 2005, so this year it's 15 years. Before that I worked at another company in Växjö, but they moved their production to Poland. Since I had some friends who already worked at Balco, I contacted the company and was offered this job.

You work as a CNC operator. What does that involve?

CNC is an abbreviation for Computer Numerical Control and, as an operator, I operate machines that process the aluminum profiles used in Balco's balconies. Exactly what the profiles must look like is described in the drawings and work cards we receive from a preparer.

When the aluminum arrives from the supplier, it must stay indoors for a day in order to achieve the right temperature before we begin the processing. Since the material is already painted, it's also extremely important that the machines are kept clean so as to avoid any scratches. It must be in the same condition when it's been through the machine as beforehand.

Once the profiles are ready, they are clearly marked so as to be easy to identify, with the name of the customer and date.

Has the work changed since you started?

It's changed a great deal. We're now on the third generation of machines since I started. With the old CNC machines you could make one profile at a time. The machines we use nowadays can be loaded with 10-12 profiles. But the Company and our market have also grown, and so we wouldn't have managed to do what we do today if we'd still had the old machines.

What are the greatest challenges in your job?

Maintaining the high quality for which Balco is known. It's thanks to this that we are the biggest company.

When we replace machines, there are also new functions and systems to learn, but we then receive training from the manufacturer.

Which characteristics do you believe are important for your work?

You have to be precise, technical and efficient. It's a combination of knowledge and experience.

What part of your work do you enjoy most?

Cooperating with everyone who works at Balco. We work together in order to maintain the highest quality. The customers like what we do and I like to show visitors around and explain the production process. I really feel at home at Balco. That's the reason I've stayed here so long.



OUR BUSINESS MODEL – THIS IS HOW WE CREATE

Balco's business model works as a value chain in which each part of the process contributes to producing the end 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.

RESOURCES

Employees:
419 employees

Specialization
8 product developers

Production capacity
4 production units

Local presence
7 geographic markets
16 sales offices

Patents
57 in number

VALUE CREATION

A COMPREHENSIVE SOLUTION

Balco's skilled employees help the customer throughout the process, from idea to realization. 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 32 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 57 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.



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

Balco is an innovative and entrepreneurial company which endeavors 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 customized 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.

1) The customers' 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 characterized by an entrepreneurial corporate culture which encourages employees to dare to find new and innovative solutions. A high level of skills and specialization 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 endeavors 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 construction 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.

CASE: Ospa Borettslag, Oslo, Norway.



ABOUT THE PROJECT

DELIVERY:

174 glazed balconies for 166 apartments, Ospa Borettslag, Oslo, Norway.

OBJECTIVE:

To remove reinforcement corrosion, increase usability, enhance enjoyment, reduce relocations.



BEFORE RENOVATION



AFTER RENOVATION

Glazed total renovation enhances the living environment in Alna

When Ospa Borettslag tenant-owners' association in Oslo was faced with renovating its balconies, Balco's effective comprehensive solution was chosen. Less than a year after the start of construction, the old concrete balconies had been demolished and 166 apartments had obtained new balconies.

The concrete had begun to flake and bits that had become loose had fallen down and lay along the walls. An inspection revealed reinforcement corrosion not merely in the gable end walls and the balcony parapet, but also in the load-bearing constructions. Quite simply, things did not look good for the balconies of Ospa Borettslag in Oslo.

The characteristic yellow and red buildings in the heart of Lindeberg in the Alna neighborhood of Oslo were completed in 1977. For 40 years, the residents had been able to enjoy the sun on the open balconies. They were now faced with the decision of renovating the prefabricated concrete slabs from the building boom of the 1970s, which would extend the useful life by not more than 10 years. The alternative was to demolish the old and build new. The latter was chosen, with Balco to carry it out.

"There was no one who could compete with Balco's tender. In less than 12 months they were able to demolish the old concrete structures and build new glazed balconies using steel, glass and aluminum. Those apartments that were previously without balcony, such as those on the ground floor, also received a glazed solution," says Ole-Martin Gulliksen, who was the chairman of the tenant-owners' association when the renovation decision was taken.

The method of demolishing the old concrete and building an entirely new structure in which glazing is included as part of the concept has made Balco a pioneer on the balcony market.

"In the case of Ospa Borettslag, several thousand tons of concrete had to be demolished. It was an enormous task, but still both cheaper and more efficient than renovating and retaining the existing balconies. In addition, Balco's design is lighter than the previous balconies, and consequently the existing fastenings on the building were quite sufficient," says Christian Carlsen, Balco's district manager in Oslo.

The Balco method

The concept, which has come to be called the Balco method, doesn't merely result in a more enjoyable outdoor environment with new balcony floors, new railings and new facades. The glazed extra rooms (which is how the residents often regard the new balconies) can also be used throughout the year. They also provide insulation which reduces noise and energy consumption in the rest of the apartment.

"Ospa Borettslag is not alone in facing these decisions. A number of the residential areas built in the 1960s and 70s used prefabricated concrete slabs for the balconies. After 40 to 50 years of exposure to the elements, it's quite natural that they need to be renovated," says Tommy Örnstad, project manager for the Ospa project.

Thus, there are many associations that need to take decisions involving relatively large sums of money on questions which they really know little about. Therefore, Balco has also focused on developing a close and clear communication with the customer, i.e. directly with the associations' boards.

"From day one, it was clear that Balco is a solid and serious company with very high quality, user-friendly technology. We had daily contact and throughout enjoyed positive and receptive communication – towards both the board members and other residents," says Ole-Martin Gulliksen.

In addition, the quality of the housing has been enhanced appreciably thanks to the new balconies.

"The new balconies are used much more than the old ones. They can be used from early spring to late autumn. Today, there's no one in the association regrets the decision to use Balco," he says.

SUSTAINABILITY REPORT

*A glazed balcony from Balco doesn't last 50 years as we previously reported. According to a new report, *a glazed standard balcony constructed in accordance with the Balco method has a remarkable 90 years' lifespan. This makes the investment advantageous from a sustainability perspective, as shown by the life-cycle analysis** that was completed in 2019.*

ABOUT THE SUSTAINABILITY REPORT

Balco's sustainability report relates to the 2019 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 group accounts 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 those cases, where information is not available for all companies in the Group, or relates solely to Balco AB, this is stated in a remark.

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

* Lifespan analysis for material used in Balco's glazed standard balconies, carried out by Element Materials Technology on behalf of Balco AB, 2019.9.

** Life-cycle analysis carried out by Tyréns on behalf of Balco AB, 2018–2019. The analysis will also undergo a third party review.

THE NEXT STAGE ON OUR GREEN JOURNEY

Balco's glazed systems are climate-smart. According to a life-cycle analysis, a glazed standard balcony from Balco amply repays its carbon footprint over its lifespan. The length of time involved depends on the energy saving achieved in the individual balcony project, but the energy gain is between 15 and 30% per year.

Sustainable investment

In addition to environmental benefits in the form of energy savings and reduced carbon dioxide emissions, the lifespan of Balco's glazed systems represents a long-term sustainable investment. Not least, this is due to the advantageous financing made possible thanks to the result. Through collaboration with a Nordic bank, Balco's customers in Sweden are offered the possibility to finance their balcony projects with a loan repayment period of up to 70 years. This gives more customers the possibility to take the step. Discussions concerning financing are handled by the bank directly with the customer. The bank issues a loan commitment based on an inspection of the property and the association's financial status.

New perspective

The life-cycle analysis carried out by Tyréns on behalf of Balco identifies the total environmental impact over the lifetime of the product, from acquisition of raw materials to production, use and residue handling. The result states the quantitative environmental impact of the product based on a number of environmental impact categories, in which aluminum accounts for the largest individual potential climate impact, followed by steel. Extraction and pro-

cessing of steel and aluminum together account for almost 65% of the total potential climate impact of a glazed standard balcony.

Armed with this knowledge, Balco is placing greater focus on raw materials as its most important sustainability aspects. The business will review the choice of materials and work even more closely with its materials suppliers. Balco's purchasing organization is conducting an active dialogue with suppliers with respect to environmental goods declarations in order to better identify the environmental impact of the production of the raw material.

High level of recyclability

A life-cycle analysis shows that almost all material in Balco's balcony systems can be recycled in conjunction with residue handling. Thanks to the high level of recyclability, the climate saving corresponds to one half of the climate impact resulting from new production of a glazed standard balcony. This means a considerable environmental gain. At present, however, recycled material is used only to a small extent in balcony production. For example, the reinforcement in Balco's concrete slabs comprises 100% recycled steel. The ambition going forward is to increase the share of recycled aluminum and steel in the product.



Built-in sustainability

For Balco, sustainability is intimately connected with its business concept and is something that is integrated in the product. Balco's core expertise lies in delivering glazed balconies and balcony solutions, primarily on the renovation market. Through the Balco method, by which existing balconies are replaced with new glazed balconies, the customer achieves several sustainable advantages. Apart from the fact that the balcony increases the value and use of the apartment, 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 value and must be repeated approximately every fifteenth year, the Balco method represents a sustainable investment economically, environmentally and socially.

The social benefits are clear. Enjoyment among residents increases and relocations in the property are reduced. An increased sense of security in the residential area has also been seen, with an increased "presence" leading to reduced vandalism and rowdiness. 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. Increased demand often leads to an increase in value. In addition, glazing is an energy-smart investment which results in reduced heating costs. This is due to the fact that the outdoor air is preheated in the glazed area before entering the apartment. The energy saving, together with a reduced need for maintenance of facades and windows, contributes to making the investment economically advantageous and positive for society and the environment.

Responsible processes

Sustainability is not only built into the product. It also permeates Balco's work method. As a turnkey supplier of balcony systems and glazing, Balco assumes responsibility for the entire project, from project planning to final inspection and aftermarket service. This involves an assumption of long-term responsibility and a presence on the local market, which is reassuring for the customer.

Balco's production process involves a modularized work method whereby Balco plans the installation work at the construction site as early as the manufacture and packaging of the balcony systems. By delivering batches of the products in modules, with an optimized load on the trucks, not only are transports from the factory to the destination minimized, but logistics are also minimized locally at the construction site. The building process becomes more efficient and secure since the material arrives "just in time".

Production of balcony systems takes place in modern, efficient premises, primarily at the Swedish headquarters in Växjö, in Łowyn in Poland as well as at subcontractors. Balco AB's operations in Sweden are certified in accordance with ISO 9001 and ISO 14001. This means a high quality level throughout the entire production process and great consideration being given to the environment. Production in Poland takes place in accordance with the same principles as in the Swedish operations, but is not ISO certified. Since 2017, Balco has had an H&S Specialist (responsible for the environment and safety), who is responsible for pursuing the issues locally at the Polish plant. Among other things, during the year a heat recycling system was activated and, when purchasing water, plastic bottles have been replaced by glass bottles.

Balco is regularly investing in machinery and skilled employees in order to ensure high quality and certainty of delivery. Through an online learning platform, the Group is able to systematically disseminate to knowledge and ensure the quality of knowledge possessed by all employees.

The environment takes center stage

The environmental aspects are ever present in Balco's production and product development. The choice of materials with long life spans and robust designs contributes to the long-term sustainability of the products. In principle, all material and production waste is recyclable in some form and most of the material used in the glazing systems is maintenance-free. The life-cycle analysis demonstrates that Balco's products are climate-smart over time, but points out that the extraction and processing of steel and aluminum account for the largest environmental impact of the product. Based on this conclusion, Balco will focus on identifying new solutions that mitigate this environmental impact.

Using the environmental management system, Balco is identifying, taking steps and monitoring areas in which the operations have the greatest environmental footprint.

An aware company

The sustainability perspective is found in Balco's endeavor to produce safe and reliable products, to offer a healthy working environment and to act ethically, both internally and externally. In 2019, Balco AB has placed great focus on enhanced safety. This has taken place through training and new safety rules. The reporting system for work environment deviations (TIA) has facilitated the reporting of risk observations, incidents and accidents, and has led to increased reporting of incidents and risk observations. This is positive for the work on preventing accidents.

The sustainability work is based on the Group's sustainability policy and also includes Balco's code of conduct, which sets out the Company's social, ethical and environmental rules and approach. The code of conduct contains rules concerning human rights, non-discrimination and the working environment. Through dialogue, each Balco employee has been made aware of the code of conduct.



HERE'S HOW BALCO CREATES VALUE FOR CUSTOMERS AND STAKEHOLDERS

RESOURCES

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

NATURAL RESOURCES

- Concrete 2,174 m³
- Steel 3,147 tons*
- Glass 657 tons
- Aluminium 1,132 tons*
- Timber 7 tons, 492 m³, 8,160 m
- Fuel (passenger transports) 34,106 liters
- petrol, 158,280 liters diesel
- Electricity consumption 3,194 MWh
- Water consumption 2,206 m³

PERSONNEL

- 419 employees
- Personnel turnover 5.9%

ECONOMIC RESOURCES

- Debt/equity ratio 1.15 times
- Capital employed 676 MSEK

PRODUCTION

- 4 wholly-owned production plants in 2 countries
- Strong supplier network

INTELLECTUAL CAPITAL

- Patents, trademarks, skills,
- Custom offering – from concept to finished product

SOCIAL RELATIONS

- Safety and health
- Relations with customers locally, customer satisfaction
- Collaboration with partners, suppliers, requirement-led

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

CREATES

- **SERVICES**
- **PRODUCTS**
- **WASTE**

SERVICES

- 3D visualization
- 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 (71%), open balconies, city balconies and maritime balconies (26%) and other products (3%).

WASTE**

- Steel 418.45 tons
- Aluminium 190.6 tons
- Concrete 27.7 tons
- Timber 83.0 tons
- Paper 15.5 tons
- Glass 14.3 tons
- Plastic 4.2 tons
- Combustible waste 38.0 tons
- Hazardous waste 82.9 tons
- Hazardous waste – recyclable 30.1 tons
- Hazardous waste – energy recycling 0.1 tons
- Other (unsorted, mixed scrap) 46.9 tons
- Other (municipal waste) 235.4 m³

* The steel and aluminum raw materials account for almost 65 percent of the total climate impact from a glazed standard balcony.

** Manufacturing production plants

EFFECTS

"Probably one of the best decisions the association has taken was when It decided, a few years ago, to install lovely, large balconies on all apartments."

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

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 usability: Balco's glazing system makes it possible to achieve larger, lighter balconies. Usability increases and the home achieves an extra dimension.
- Increased enjoyment: glazed balconies are used more and contribute to increased enjoyment and a reduction in relocations.

OTHER SOCIAL EFFECTS

- Enhanced 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 enhanced 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 since 1 March 2019, the Gårdsten neighborhood is no longer regarded by the police in Gothenburg as a particularly deprived area."

Michael Pirosanto

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 more than 90 years compared with an unprotected concrete floor. Glazed balconies don't only protect the facade; they also reduce the need for maintenance of doors and windows.
- **Less noise:** Glazing effectively dampens noise disturbance from traffic on 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 modularization and freight optimization.
- 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.

The balconies of Brf Stängeln in Ljusdal were in need of refurbishment, mainly due to the location of the building by a heavily trafficked road, where the old open balconies were heavily exposed to exhaust fumes and soot. In addition, they were small, cramped and unchanged since construction of the building in 1959-1960.

"Before we obtained the glazing from Balco, you could hang out a white sheet in the morning and it would be black by the evening. We are now more protected from the road and the difference is enormous. It's become like an extra room in which the residents sit long into the night. It's so nice to see all of the balconies with their lights on"

Kurt Ljung

Chair, Brf Stängeln, Ljusdal

ECONOMIC

FOR THE USER

- **Lower energy costs:** Glazed balconies reduce the property's heating costs by between 15 to 30%.
- **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 1,221 MSEK
- Operating profit 140 MSEK
- Cash flow SEK 97 MSEK

"On the old balcony, only one person at a time could sit down due to the limited space, while the other person had to go and serve coffee", recounts Eva. Nowadays, the balcony has extra space where they even celebrate Christmas.

"The balcony project has also led to increased demand for apartments in the association, with increased prices as a result."

Eva Bengtsson

Chair, Brf Falkenbergshus 3, Falkenberg

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 Group'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 material 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 Group. 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 group management 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 group management, the presidents 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 group management 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 group management and the Company's Board of Directors. The policy covers operations in the Parent Company and the Group's subsidiaries. Date of adoption: 26 June 2017, updated 19 June 2019.

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.

Since Balco applies a zero tolerance policy as regards non-compliance within areas such as statutorily regulated business ethics, human rights and issues of bribery, corruption and competition law issues, in 2019 a whistleblower function was established to which suspected violations of these guidelines can be reported.

The fundamental starting point for Balco's sustainability work is to minimize the potentially adverse effects of the business and to utilize the opportunities provided by sustainable enterprise. Balco's ambition is that all employees shall have a sense of 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 Group is able to make a positive contribution to most of the 17 goals. Here are several areas where Balco makes a difference.





5 GENDER EQUALITY

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.

8 DECENT WORK AND ECONOMIC GROWTH

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.

10 REDUCED INEQUALITIES

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 been involved in the 'Öster i samhället' (Öster in the com-

munity) project, which among other things provides functionally impaired youngsters with the possibility to play football and the possibility for all youngsters to play football on Friday evenings during the autumn, winter and spring. The project supports diversity and, since its inception in 2015, some 200 children and youngsters speaking 30 different languages have participated.

11 SUSTAINABLE CITIES AND COMMUNITIES

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".

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Balco's balcony solutions are an investment which contributes to enhancing the character of the building,

while at the same time making the residential environment feel safer and more attractive. Glazed balconies also reduce energy costs by up to 30% and extend the life of the balcony by more than 90 years.

13 CLIMATE ACTION

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, optimizing our transports of material and energy efficiency improvements in our production. Indirectly, our glazed products also contribute to a reduced impact on the environment through reduced energy consumption by the user.

SIGNIFICANT SUSTAINABILITY ASPECTS

In 2017 Balco, together with the consulting firm PwC, identified 23 significant sustainability aspects which Balco prioritizes in its sustainability work. The sustainability aspects have been weighted based on the degree of impact on the organization's business and its stakeholders. Taken together, the sustainability aspects govern the focus of Balco's sustainability work and each individual sustainability aspect is 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.

As a consequence of the life-cycle analysis carried out in 2019, Balco will review its environmental focus areas, since it transpires that the steel and aluminum raw materials account for a greater share of the total carbon footprint of the product than was previously known.

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 minimize the environmental impact of transportation is reported under Sustainability-related Risks, page 35, and under Prioritized Sustainability Goals, page 36.

HEALTH AND SAFETY (SOCIAL).

- Balco shall be a serious employer which endeavors 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 35, and under Prioritized Sustainability Goals, pages 36-37.

THE PRODUCT 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 next stage on our green journey" on page 28.

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, analyzed and followed up as part of Balco's regular operational goals. Read more about the customer satisfaction work under Prioritized Sustainability Goals on page 37.



SIGNIFICANT SUSTAINABILITY-RELATED RISKS AND RISK MANAGEMENT

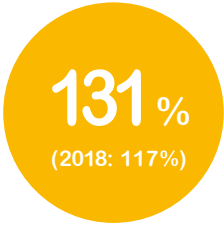
Balco presents here the significant sustainability-related risks which it has identified linked to the business, and describes the way in which each sustainability risk is addressed by the Company

Significant risks	Description of risk management
Environment	
FIRE Within the business, machines and chemicals are used which may cause fire. Insufficient fire protection can cause great damage for Balco, Balco's neighbors or for the environment.	Balco work systematically on 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 annually. At least one evacuation exercise is planned, carried out and assessed each year. In 2019, fire safety training was carried out within Balco AB.
TRANSPORTATION Balco's production has increased and, with it, the number of transports has also increased. CO ₂ emissions in connection with transports of materials and individuals are one of Balco's significant environmental aspects.	Project managers and logistics cooperate to optimize deliveries in a project, so that the number of deliveries is minimized. Balco also measures the load rate on the trucks which travel from the production site to the construction site, and checks off against Balco sustainability goals, to minimize the environmental aspect. In order to reduce emissions from passenger cars, Balco has a target to use company cars which, according to the manufacturer, have a maximum emission of 150 g CO ₂ /km. In 2019, Balco added 3 electric cars to its fleet.
Social conditions including personnel issues	
WORKPLACE ACCIDENTS In parts of the business, at Balco's production units and especially at construction sites in connection with installation of balconies, there is a heightened risk of workplace accidents. A serious accident can have dire consequences for the individual in the form of injury, permanent pain, trauma and reduced work capability. It can also mean serious consequences for the Group 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 plans and at Balco's construction sites in order to prevent accidents. The reporting of accidents and incidents constitutes an important basis for Balco's risk and injury management. The system implemented in Balco AB in 2018 has contributed to an increase in preventive reporting. In 2019, a training course entitled "The company's working environment" was held for managers with responsibility for personnel.
DISCRIMINATION AND LACK OF GENDER EQUALITY 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 endeavor to achieve a gender equal workplace, 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 should 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.
Respect for human rights	
Balco perceives no obvious risks of violations of human rights as a consequence of the Group'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.
Corruption and bribery	
Balco has zero tolerance as regards bribery and corruption. This is clearly stated in Balco's code of conduct. The risk of corrupt behavior 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.	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.
Other risks	
At present, Balco has identified no other significant sustainability risks. As a consequence of the life-cycle analysis that was completed in 2019, Balco will reassess certain sustainability-related risks and risk management. As regards other risks, see pages 54-57 of the Annual Report as well as Note 3 on pages 82-84.	

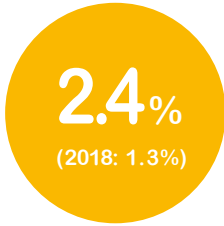
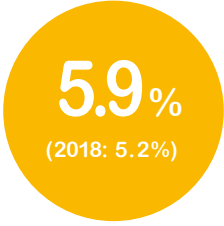
GOALS, OUTCOMES AND ASSESSMENT

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 group management and the Company's Board of Directors. Here, Balco sets out the results of a number of prioritized sustainability goals.


Transports (Only Balco AB)

GOAL:	UTCOME:	COMMENT ON THE OUTCOME:
Freight optimization* on 100% of all transports	FREIGHT OPTIMISATION 	ACTIVITIES FOR ACHIEVING THE GOAL: <ul style="list-style-type: none"> • Increased standardization of design solutions • Increased resources for optimization of packaging of products • In-depth control and monitoring of the project flow • Increased resources for enhanced site logistics at the building sites <p>Measurement interval: Monthly.</p> <p>Measurement method: The theoretical optimal value is divided by the number of actual freights. Measured on projects concluded during the month.</p> <p>Goal for 2020: Maintained 100% freight optimization.</p> <p>Remark: Balco has improved the utilization rate by 50% since 2016. Bearing in mind the beneficial outcome in recent years, we will evaluate whether we should maintain the goal for the coming year.</p> <p><small>* Theoretical optimal value defined by Balco based on the modularized work method in production, compared with actual number of freights.</small></p>

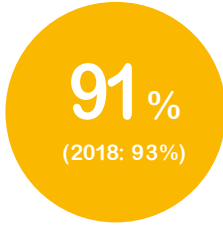
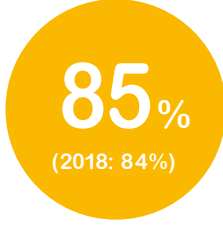
Social responsibility

GOAL:	UTCOME:	COMMENT ON THE OUTCOME:
Max 1% short time absence (days 1-14)	SHORT TERM ABSENCE IN 2019 	ACTIVITIES FOR ACHIEVING THE GOAL OF MAX 1% SHORT TERM ABSENCE (DAYS 1-14): <ul style="list-style-type: none"> • Monthly follow-up meetings • Regular health checks • Active work with AFS (2015:4) • Activities to promote well-being, satisfaction and health <p>Measurement interval: Monthly.</p> <p>Measurement method: The percentage who are home due to sickness (days 1-14) divided by total scheduled time. Statistics are produced by the relevant HR system.</p> <p>Goal for 2020: Achieve and maintain 1% short term absence.</p>
Max 6% personnel turnover during a financial year	PERSONNEL TURNOVER IN 2019 	ACTIVITIES FOR ACHIEVING THE GOAL OF MAX 6% PERSONNEL TURNOVER: <ul style="list-style-type: none"> • Improve the communication flow • Improve the working environment • Active work on personnel benefits and employer brand • Expanded personnel training and development opportunities • Clear career paths • Culture and enjoyment-promoting activities <p>Measurement interval: Monthly and annually.</p> <p>Measurement method: Number of employees leaving through number of employees per month/year.</p> <p>Goal for 2020: To be within the range 4-5% personnel turnover.</p>

Social responsibility

GOAL:	UTCOME:	COMMENT ON THE OUTCOME:
Zero workplace accidents leading to absence during a financial year	ACCIDENT FREQUENCY* FOR COMPANIES WITH MANUFACTURING UNIT 	<p>Thanks increased focus on reporting, more accidents, incidents and risk observations have been reported during the past year, and this may have contributed to the increased frequency of accidents.</p> <p>ACTIVITIES FOR ACHIEVING THE GOAL OF ZERO WORKPLACE ACCIDENTS DURING THE FINANCIAL YEAR:</p> <ul style="list-style-type: none"> • Internal audit focused on working environment • Work for increasing reporting incidents and risk observations • Regular monitoring and investigation of accidents, incidents 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 <p>Measurement interval: Quarterly in connection with safety committee meetings.</p> <p>Measurement method: Calculate number of reported accidents, near accidents and observations in reporting system.</p> <p>Goal for 2020: Zero workplace accidents leading to absence.</p> <p><small>* 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.</small></p>

Customer satisfaction (Only Balco AB)

GOAL 1:	UTCOME:	COMMENT ON THE OUTCOME:
85% of customers willing to recommend Balco	CUSTOMERS WHO RECOMMEND BALCO 	<p>ACTIVITIES FOR ACHIEVING THE GOAL:</p> <ul style="list-style-type: none"> • Correct from the factory - fewer complaints • Quicker installation • Attractive, market-leading product • Regular measurement and monitoring of customer satisfaction <p>Measurement interval: Ongoing.</p> <p>Measurement method: Measured via questionnaires sent to customers.</p> <p>Goal for 2020: 90% of customers are prepared to recommend Balco to relatives/friends/colleagues/the general public.</p>
GOAL 2:	UTCOME:	COMMENT ON THE OUTCOME:
80% of customers shall regard the residential area as having change for the better since the balcony project.	CUSTOMERS WHO THINK THAT THE RESIDENTIAL AREA HAS CHANGED FOR THE BETTER 	<p>ACTIVITIES FOR ACHIEVING THE GOAL:</p> <ul style="list-style-type: none"> • Correct from the factory - fewer complaints • Quicker installation • Attractive, market-leading product • Regular measurement and monitoring of customer satisfaction <p>Measurement method: Measured via questionnaires sent to customers.</p> <p>Goal for 2020: 85% of customers shall regard the residential area as having change for the better since the balcony project.</p>

OUR AMBITION FOR 2021:

Reduce by 20% the CO₂-footprint
from balcony production

CLIMATE POSITIVE TODAY AFTER 30-50 YEARS:

Our ambition for 2021 is to reduce
the time by 5-10 years

A CLEAR DIRECTION 2020

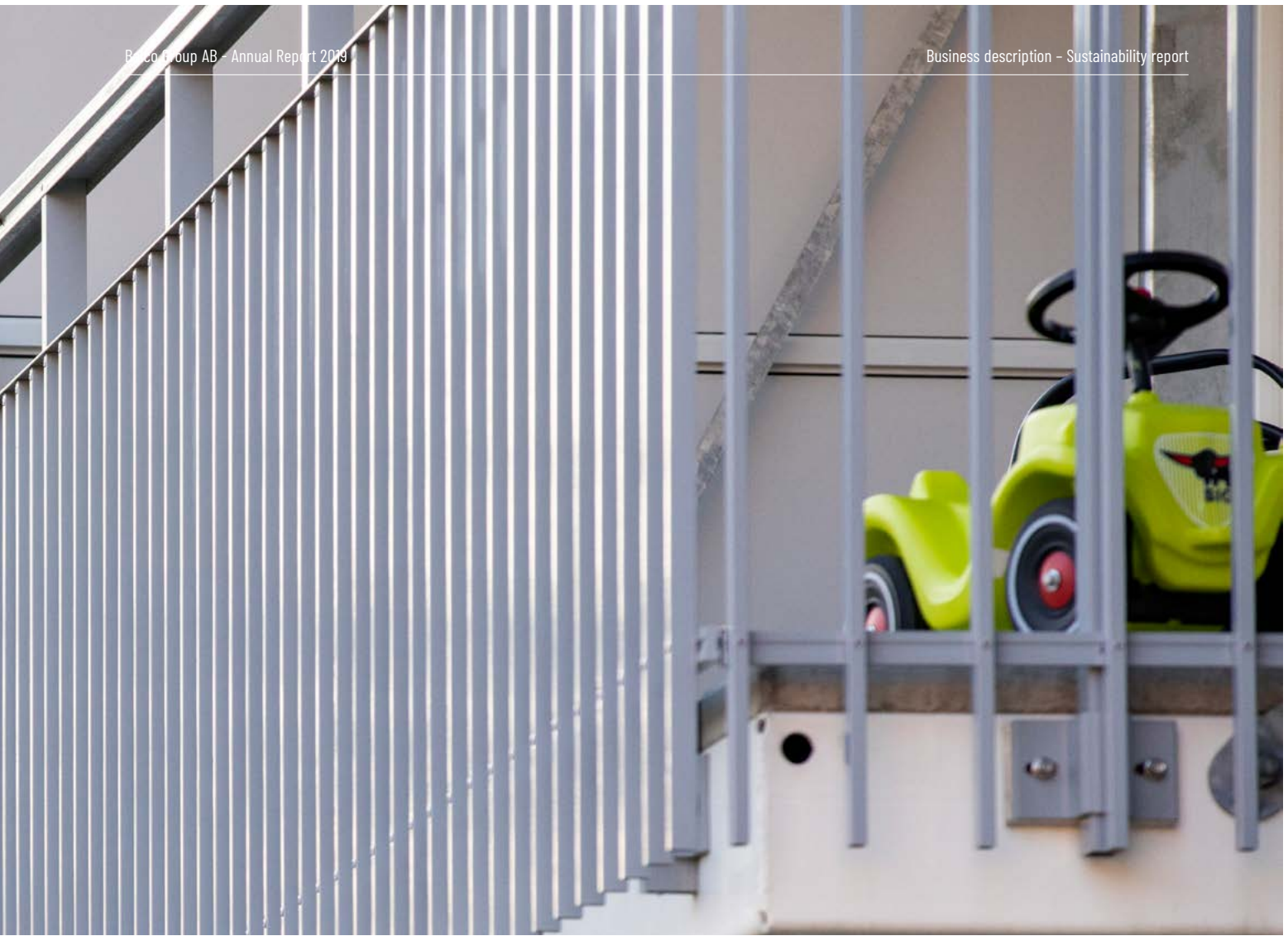
Balco's glazed systems represent a climate-smart investment. The life-cycle analysis (LCA) which was completed in 2019 has reviewed the product's total environmental footprint, from acquisition of raw materials to production, use and residue handling. The LCA has proved to be an effective tool for developing sustainability aspects of both the product and the business in general. Based on the analysis, Balco has set new goals for achieving an improved carbon footprint for the Group's products. Today, a glazed standard balcony generates a CO₂ footprint of approximately 5,000 kg CO₂ equivalent. Balco's aim is to reduce this by 20% by 2021. At the same time, a glazed system executed in accordance with the Balco method has a climate-positive effect after 30-50 years. Balco's ambition is to reduce this time by 5-10 years, by 2021. Balco intends to apply the LCA as an analysis tool for assessing more systems going forward.

Many residential areas on Balco's selected markets in Europe are in need of major, costly renovations. Here, Balco will continue to provide a clear alternative to traditional concrete renovation. With the Balco method, whereby existing balconies are replaced by new glazed balcony systems, Balco offers a solution that is cost-efficient and sustainable in the long-term. Thanks to the long lifespan of Balco's systems, it is also possible to offer advantageous financing alternatives. During 2020, work continued on developing collaboration for financing which is adapted to the various markets.

The result of the energy survey in 2018 has been applied during the year for planning and preparations as well as the start-up of various energy efficiency enhancement investments with the help of an energy consultant. This work will take shape during 2020 and be fully implemented in the operations. During 2020, Balco has also budgeted for the implementation of a new chemicals handling system. Implementation work has begun within Balco AB.

During 2020, Balco's production unit in Poland will introduce a new energy-saving policy and assess solar panels as a source of green energy at the existing plant. The unit will also implement an ergonomics program to prevent back problems among employees.

Balco is constantly working to improve its operations in tune with the 17 goals established by the UN for achieving global sustainable development by 2030. In 2020, the main sustainability aspects as regards Balco will be reviewed and further improved. Balco will continue to develop sustainable, attractive and innovative balcony solutions that contribute to reduced energy use and an improved life quality for the residents, as well as a safer and more appealing near environment for the surroundings in general.



THE AUDITOR'S STATEMENT CONCERNING THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of Balco Group AB, reg. no. 556821-2319

Engagement and allocation responsibility

The Board of Directors is responsible for the sustainability report for 2019 on pages 27-38 and for ensuring that it is prepared in accordance with the Annual Accounts Act.

Focus and scope of the review

Our review has taken place in accordance with FAR's recommendation RevR 12 Auditor's statement concerning the statutory sustainability report. This means that our review of the

sustainability report has a different focus, and is considerably less extensive, than the focus and extent of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We consider that this review provides us with a sufficient basis for our opinion.

Opinion

A sustainability report has been prepared.

Jönköping, 7 April 2020
Öhrlings PricewaterhouseCoopers AB

Martin Odqvist
Authorized Public Accountant

Ulf Carlström
Authorized Public Accountant

CASE: HSB Brf Jägaren, Karlstad, Sweden



ABOUT THE PROJECT

DELIVERY:

Glazed balconies for 42 balconies, HSB Brf Jägaren, Karlstad, Sweden.

OBJECTIVE:

Safe balconies, less dust, improved sound insulation, improved natural light, enhanced residential quality before renovation.



Quiet and dust-free with new glazing

HSB Brf Jägaren is located on one of Karlstad's busiest roads. The 42 apartments have recently been refurbished with new, glazed balconies that considerably reduce the noise. The residents are now able to sit out and enjoy peace and quiet throughout the year.

"In addition, the glass is now more tightly fitted, which means less dust. We are all extremely satisfied and now the facade also looks good and inviting," says Olle Pettersson, a member of the board of HSB Brf Jägaren.

The Brf Jägaren tenant-owners' association is located in Karlstad, on one of the city's busiest roads, opposite the railway station. The building was completed in 1962 and glazing was carried out in 1992, and was now in poor condition. Since there was a risk that the glass would fall out, for the past couple of years there had been a general prohibition on opening the balcony windows.

Brf Jägaren got to hear that Balco undertook the renovation and refurbishment of old balconies. After having made contact, it proved to be the case that the existing concrete slabs were in good enough condition that it was enough to replace the glazing. The fact is that Balco's unique glazing system also protects the concrete, with the consequence that the base can live on for many years. The most important factor for Brf Jägaren was to maintain the appearance of the structure as far as possible, while at the same time obtaining new, improved functions.

"Balco has succeeded in retaining the appearance as we desired. They have been incredibly attentive to our wishes. Among other things, we wanted to retain a glass window in the apron, which they were able to arrange. We are pleased that we now have tighter fitting glass. As a result, there is less dust from the road outside, much better sound insulation, and also a better view since the new apron is only 80 cm, compared with 110 cm previously," says Olle Pettersson.

Glazed and ready

Olle Pettersson is extremely pleased with the end result, and the residents are very positive and happy that they are finally able to use the balconies, which are now safe. In addition, the construction process proceeded incredibly quickly, which impresses Olle. The work took a mere six weeks, from start to finish.

"It really is a comprehensive solution in which we received help with all of our needs in an incredibly fast construction process. The new glazing is an amazing boost for the entire property. The frame and glass are of high quality, and there are ingenious designs for child safety. Everything has been carefully thought out and it's clear that Balco is experienced in building balconies," says Olle Pettersson.

The project differs in some respects from what Balco normally does, when existing slabs are replaced and entirely new ones are supplied with a related glazing system. Robert Leben, Balco's district manager, is also very pleased with the outcome.

"We're glad that the residents are now able to enjoy their refurbished balconies throughout the year, with less noise and less dust. It's been very enjoyable to undertake this project on behalf of Brf Jägaren and we're pleased with our speedy execution of the project," concludes Robert Leben.

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 customized 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 customized 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 30 billion SEK¹⁾ 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.

Balco - a growth company

Since 1996, Balco has grown from being a local company with approximately 25 employees and sales of approximately 30 million SEK to 419 employees and sales of 1,221 MSEK at the end of 2019. 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 favorable position on the market is largely a result of the successful Balco method combined with the Group'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

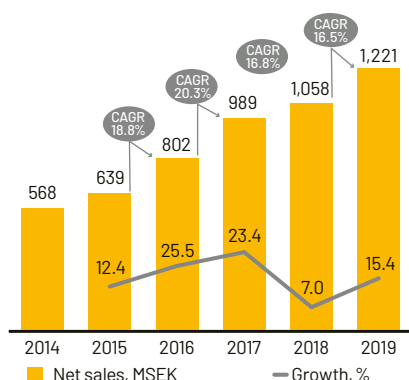
Balco has an attractive financial profile with strong growth in order Intake and sales, high profitability and a strong cash flow. Historically, Balco has demonstrated a high order intake which increases sales over time as projects are completed. At the same time, profitability has improved through price increases, increased efficiency and economies of scale as a consequence of the increased sales. Working capital needs are low since the balcony solutions are customized 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 75% 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 90 years and provide a documented energy-saving effect of 15 to 30%. The ongoing life-cycle analysis has demonstrated that the product's lifespan is more than 90 years, with minor servicing being required only twice during this period, and that it is entirely recyclable at the end of the product's lifespan. Compared with traditional concrete renovation, which must be carried out every 15th year, 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 CO₂ effect corresponding to one hectare (10,000 m²) 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.

ANNUAL AVERAGE GROWTH IN SALES 17%



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 turn-key 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 the Group's 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 endeavor 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 utilize 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 markets beyond Denmark.

Growth through additional capacity and efficiency improvements

Balco is constantly endeavoring 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.

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 analyzed 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 product and customer offering mean that Balco becomes a complete balcony supplier.

GROWTH ACTIVITIES IN FOCUS, 2020:

- Organic growth by recruiting new sales staff and increasing the number of fairs.
- Expanding the customer offering, which became accessible through the acquisition of TBO-Haglinds AB, outside Sweden.
- 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 CO₂, will show that the Balco method is the most sustainable renovation method for both the environment and economically, irrespective of time horizon.
- 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 optimize shorter lead times and thereby increase the order backlog conversion rate.
- Analyze acquisition opportunities.

FINANCIAL TARGETS

10%

GROWTH:

Balco shall grow by 10% per year.

13%

PROFITABILITY:

Balco shall achieve a profitability margin(EBIT) of at least 13%

2.5

CAPITAL STRUCTURE:

Net interest-bearing net debt shall not exceed 2.5 times operating profit before depreciation and amortization (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.

CASE: Raseborgs hyresbostäder AB, Karja, Finland



ABOUT THE PROJECT

DELIVERY:

Glazed balconies to 27 and 48 balconies respectively in Raseborg, Finland.

OBJECTIVE:

Eliminate cracks and concrete damage, increase the residential quality.



BEFORE RENOVATION



AFTER RENOVATION

Longer outdoor season with the glazed balconies

Many residential buildings in Raseborg have old, worn balconies. In recent years, the municipality has retained Balco to replace the balconies in several properties and the tenants are now able to enjoy them throughout the year, without freezing.

“The residents are extremely pleased and I am much more upbeat when showing the property than was the case previously,” says Peter Sjöström, CEO of Raseborgs hyresbostäder (Raseborg’s municipal housing company). Despite the fact that Balco is Europe’s leading supplier of balconies, the company is relatively new on the Finnish market. In 2017, the company received a request to examine all 27 balconies in the Teerikuja property in the Karis neighborhood of Raseborg in southern Finland. The property is owned by Raseborg municipality and the tenants had been complaining for a long time about the worn out balconies. The concrete slabs which comprised the floor of the balconies had not been replaced since the building was constructed at the end of the 1970s and were so disintegrated that bits had fallen down to the floors below. Since the balconies were in such a poor state, it was decided that complete renovation was necessary. The old balconies needed to be removed and replaced by new ones. Balco won the contract and, just less than half a year later, the tenants were able to enjoy their new, glazed balconies.

“At first, we hadn’t intended to glaze in the balconies, but Balco made us an extremely good offer. The residents are now extremely happy with the fact that the balconies are glazed in. The balconies are now protected from bad weather and the tenants can be out on the balconies earlier in the spring and much later in the autumn than before, without freezing”, says Peter Sjöström.

Gives a feeling of quality

At the beginning of 2019, two years after the conversion at

Teerikuja, Balco was retained again by Raseborg municipality after having won a second contract. This time it was the turn of Mäntynummenkatu, two properties on the other side of the city center, which were also built in the 1970s.

Peter Sjöström remembered how satisfied the tenants in Teerikuja were with the glazed balconies, and made sure that this alternative was included in the invitations to tender. Balco installed the 48 new balconies within a mere three months of the start of the demolition work. The tenants were extremely pleased with the balconies and Peter Sjöström has received enquiries from curious neighbors who also would like to have new balconies.

As far as Balco was concerned, it was a case of finding a solution which met the wishes of the landlord and the tenants.

“Raseborgs hyresbostäder wanted to retain the architectural soul of the building, while at the same time modernizing the balconies. Balco captured a number of the features and colors of the building in order to meet the customer’s requirements. What were dilapidated balconies are now prominent features and both the customer and Balco are extremely pleased with their collaboration in the project,” says Jonas Lundgren, business manager/Project manager, Balco.

“I’m no expert at balconies, but when I stand on the ones installed by Balco, there’s feeling of quality. They feel strong, at the same time as being very smart. The balconies have a steel framework, which makes them lighter and more long-lasting than balcony slabs made solely of concrete. We now won’t need to replace the balconies for many years to come,” concludes Peter Sjöström.

ADMINISTRATION REPORT

The Board of Directors and CEO of Balco Group AB, company registration number 556821-2319, with its registered office in Växjö, hereby present the annual report and consolidated financial statements for the 2019 financial year.

The business

Balco offers customized 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. Unique products, good delivery capacity and skilled employees lie at the heart of Balco's business. The Group 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 brands 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 structure patent.

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

IMPORTANT EVENTS IN 2019

JAN-MAR
Q1

- The Nomination Committee proposes Tomas Johansson as the new Board Chairman to succeed Lennart Kalén, who declined re-election, and that Mikael Andersson be elected as a director instead of Percy Calissendorff, who declined re-election.
- The Board of Directors proposes that the AGM resolve on a dividend of 2.00 SEK per share.

APR-JUN
Q2

- In order to strengthen future business development and growth possibilities, former CFO Fredrik Hall is appointed Head of Business Development and Michael Grindborn is recruited as the new CFO.

JUL-SEP
Q3

- Balco extends current bank agreement on unchanged terms, with a new maturity date of September 2022. Acquisition credit is restored to SEK 100 million.
- Cooperation with a Nordic bank which in Sweden offers tenant-owners associations loans with repayment periods of 70 years in conjunction with installation of Balco's glazed balconies, compared with a previous repayment period of 50 years.

OCT-DEC
Q4

- Strengthening and change in group management as from 1 October, when Camilla Ekdahl takes up the position as managing director of Balco AB and Group COO.



Sales and operating profit

The Group

Sales in 2019 increased by 15% to 1,221 MSEK (1,058). Acquired growth accounted for 22%, while organic growth was -6%. The time when sales are generated depends on the phase a project is in during the project cycle.

Gross profit increased during the year and amounted to 300 MSEK (254), representing a gross margin of 25% (24). The increase in gross profit is primarily due to increased sales, productivity and pricing. Selling expenses were unchanged during the year at 94 MSEK (94). Total operating expenses amounted to 160 MSEK (148), corresponding to 13% (14) of sales. The increase in expenses is attributable to a strengthened organization and the acquisition of TBO-Haglinds.

Operating profit for the year increased by 33% compared with the preceding year and amounted to 140 MSEK (106), representing an operating margin of 11.5% (10.0). The increase in earnings is due to increased sales and an improved gross margin, as well as the new strategy within the New Build segment. The earnings trend constitutes a step towards the Group'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 sales within the area comprise glazed balconies for tenant-owners associations.

Sales within the Renovation segment increased during the year by 10%, to 1,044 MSEK (948). The segment accounted for 86% of Balco's total sales.

The operating profit for the Renovation segment increased and amounted to 135 MSEK (117), corresponding to an operating margin of 12.9% (12.4). The higher margin is attributable to stable margins in projects, increased sales and an improved gross margin.

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 segment increased by 66 MSEK to 176 MSEK (110). The increase is mainly due to our second maritime project, which is proceeding in accordance with the project plan with planned profitability. The segment accounted for 14% of Balco's total sales.

The operating profit for the New Build segment improved

during the year, primarily thanks to the maritime section, and was 12 MSEK (-11), corresponding to an operating margin of 6.5% (-9.6).

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, thanks to the acquisition, during the year Balco strengthened its product and customer offering to cover the entire market's needs within the Renovation segment. The acquisition was completed on 5 December 2018.

Research and development

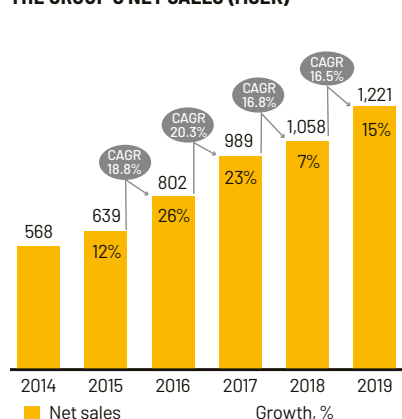
Balco has a tradition of developing products in-house and regularly invests in product development, which is one of Balco's most important strategic advantages. The Company has a proven track record of developing new, innovative and technical solutions. The product development department is constantly working on improving existing products and producing new products. The department also participates in the production of customized 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 9 MSEK (10). As of 31 December 2019, the Group had 57 (44) product patents.

BOOKED AND CAPITALISED PRODUCT DEVELOPMENT EXPENSES

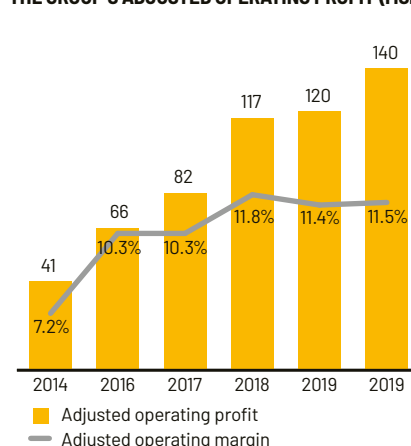
MSEK	2019	2018
Capitalized product development expenses	0	1
Product developments booked as costs	9	10
Total	9	11

Amortization/depreciation and EBITDA

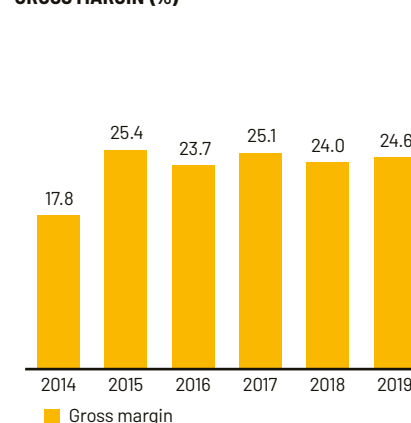
THE GROUP'S NET SALES (MSEK)



THE GROUP'S ADJUSTED OPERATING PROFIT (MSEK)



GROSS MARGIN (%)



Amortization/depreciation in 2019 increased and amounted to 37 MSEK (20). The increase is primarily attributable to IFRS 16. Profit before amortization/depreciation and write-downs, EBITDA, was 177 MSEK (126), corresponding to an EBITDA margin of 14.5% (11.9).

Financial expenses

The Group's financial expenses during the year increased to 10 MSEK (6), entailing that net financial items were 3 MSEK lower. The increase in financial expenses is attributable to the acquisition of TBO Haglinds at the end of 2018, as well as IFRS 16.

Profit, tax for the year and earnings per share

The tax expense was 29 MSEK (23), corresponding to an effective tax rate of 21.9% (22.9). Profit for the year after tax was 103 MSEK (77), corresponding to 4.91 SEK per share before dilution and 4.87 SEK per share after dilution (3.67).

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 impact 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 otherwise 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 quarter is normally the second quarter.

Balance sheet and financial position

Balco's balance sheet total increased by 4% in 2019 compared with 2018, to 1,106 MSEK (1,063). The increase is primarily due to the Company's growth and expansion, which have resulted in more projects and thus an increase in contractual receivables.

In connection with Balco's IPO on Nasdaq Stockholm on 6

October 2017, refinancing was carried out and a new bank agreement was entered into. The agreement, which following extension runs until 14 September 2022, covers bank loans of approximately 225 MSEK, an overdraft facility of 65 MSEK, and 100 MSEK in credit headroom intended for future acquisitions.

Non-current assets

The Group's non-current assets, comprising intangible assets, property, plant and equipment and financial assets, were unchanged during the year and amounted to 647 MSEK (650). The largest non-current item, 62%, comprises goodwill, 401 MSEK (401).

INVESTMENTS IN NON-CURRENT ASSETS

MSEK	2019	2018
Investments in intangible non-current assets	2.1	1.9
Investments in property, plant and equipment	8.2	21.1
Investments in financial assets	0.6	70.6
Total	10.9	93.6

Current assets

Trade receivables and contractual receivables comprise the largest individual items among current assets. Trade receivables during the year fell by 16% to 136 MSEK (162), while contractual receivables increased by 28% to 149 MSEK (117). The increase is due to the Company's growth. Cash and cash equivalents during the year increased to 119 MSEK (87).

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 2019 amounted to 11 MSEK (94).

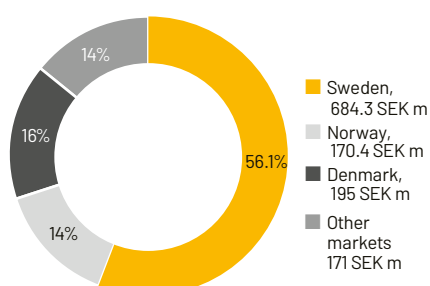
Equity and liabilities

As of 31 December 2019, equity amounted to 515 MSEK (440). Balco's interest-bearing net debt at the end of the year was 162 MSEK (195). Net debt relative to adjusted EBITDA was 0.9 (1.4), which is within the parameters for the Group's objective that net debt shall not exceed 2.5 times operating profit before amortization/depreciation (EBITDA), other than temporarily.

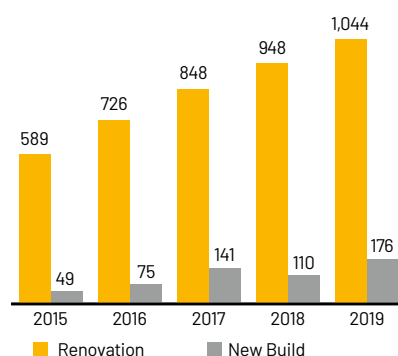
Number of shares

The share capital comprises 21,428,773 shares and each share has a quotient value of 6.0002 SEK. Balco has one class of share and each share carries the same voting rights and the same entitlement

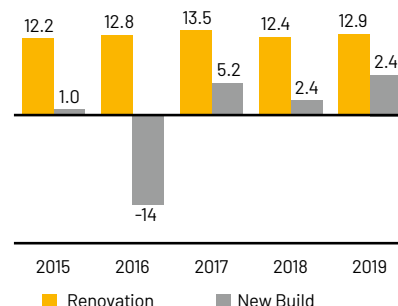
SALES PER MARKET 2019 (%)



NET SALES PER SEGMENT (MSEK)



ADJUSTED OPERATING MARGIN PER SEGMENT (%)



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 21 May 2019 authorized the Board of Directors to decide on new issues of shares, 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 authorized the Board to decide on buy-backs 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 authorize the Board to decide on transfers of treasury shares. The Board has not exercised the power to buy back shares and the Company holds no shares in treasury. For further information, see pages 50-51 as well as 58-59.

Trading and market capitalization

The Balco share is traded on Nasdaq Stockholm's Small Cap list. In 2019, just over 10.8 million shares were traded for value of approximately 741 MSEK. The average daily turnover in 2019 was 3.0 MSEK. All trading in the share took place on Nasdaq Stockholm. The market capitalization at the end of the year was 2.0 billion SEK.

The share's performance in 2019

In 2019, the share price increased by 87% and ended the year at 93.80 SEK. The highest transaction price for the year (94.60 SEK) was recorded on 30 December, while the lowest price (50.20 SEK) was recorded on 15 February.

Cash flow

The Group's cash flow from operating activities increased by 69 MSEK to 97 MSEK (28), with the improvement being derived from improved operating profit, increased amortization/depreciation and improved working capital trend.

Changes in working capital

Working capital increased during the year by 38 MSEK (83), primarily due to more capital being tied up in ongoing projects. At the end of the year, a net amount of 106 MSEK (71) was tied up in ongoing projects.

Cash flow from investing activities

Cash flow from investing activities amounted to -11 MSEK (-94), with -6 MSEK (-8) representing replacement investments and -5 MSEK (-15) representing expansion investments.

FINANCIAL POSITION

MSEK	31 Dec 2019	31 Dec 2018
Non-current interest-bearing liabilities	260.7	271.3
Current interest-bearing liabilities	20.7	10.4
Cash and cash equivalents	-119.4	-87.0
Interest-bearing net debt	161.9	194.7
Equity ratio	46.5	41.4
Interest-bearing net debt/adjusted EBITDA 12 months, times	0.9	1.4

Cash flow from financing activities

Cash flow from financing activities amounted to -54 MSEK (46). Cash flow for the year strengthened by 33 MSEK (-20) compared with the preceding year, as a consequence of reduced investments.

Employees

On 31 December 2019, Balco had 419 (385) full-time employees, representing an increase of 9% compared with the preceding year. The increase in personnel is primarily due to the acquisition of TBO-Haglinds. 55% (51) of the employees work in Sweden. 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 2019, the balance was 16% (15) women and 84% (85) men. Sick leave increased to 2.4% (2.1) in 2019. Balco's objective is to achieve a low rate of personnel turnover. In 2019, personnel turnover was 5.9% (5.2).

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 52, to pages 58-63 of the Corporate Governance Report and to Note 7 on pages 86-88. New guidelines for remuneration to senior executives, which do not result in any significant changes, are proposed to the 2020 AGM; see Note 7 on pages 86-88.

Long-term incentive program

At an extraordinary general meeting held on 5 October 2017, it was decided to introduce a long-term incentive program for the Company's senior executives and other key employees, in total 39 employees. The incentive program originally covered a total of not more than 1,071,440 warrants, carrying an entitlement to subscribe for not more than the same number of shares. The programs were 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. Balco's total cost for the incentive program during the program term is expected not to exceed 150,000 SEK. Series 1 matured in September/October 2019, with subscriptions for 194,538 new shares. There are now 792,099 outstanding series II warrants. These mature in September/October 2020. The outstanding part of the program entails a maximum dilution of 3.7 % in the total number of shares in the Company.

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 shareholders, the Hamrin Family, which is represented on the Board by Carl-Mikael Lindholm and Skandrenting, which is represented on the Board by Johannes Nyberg. Related-party transactions take place on market terms. For further information, see Note 36 on page 98.

The Environment, sustainability and social responsibility

Balco conducts no operations requiring a license 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 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 minimize the Company's environmental footprint 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 that not merely reduce energy consumption but are also manufactured using environmentally friendly materials. In addition, Balco produces all balconies in modules in order to minimize unnecessary transportation. Balco is environmentally certified in accordance with ISO 14000 and quality 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 is also training and informing its employees about the environment, health and safety and involves them in the continuous improvement process. Balco's purchasing organization endeavors to ensure that suppliers comply with the Company's code of conduct and shoulder 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 endeavoring 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 in the introduction which each employee undergoes. Since the Balco Group applies a zero tolerance policy as

regards non-compliance within the areas of statutorily regulated business ethics, human rights, and questions relating to bribery, corruption and competition law, a whistleblower function was established in 2019 to which suspected violations of these guidelines can be reported. For further information, see Balco's sustainability report on pages 26-36.

The Parent Company

The Parent Company is headquartered in Växjö 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, CFO and Head of Business Development are employed by the Parent Company. The profit for the year was 3 MSEK (1). The Parent Company's equity ratio was 53% (62).

Events since the closing day

Covid-19:

All production units are currently in full operation and projects are proceeding according to plan. Sales work has been structured so that it can be carried out safely for both customers and our employees.

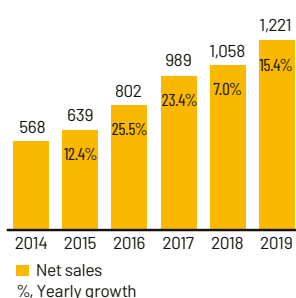
Balco's management is monitoring day by day developments in the countries in which we operate and is doing its utmost to ensure the performance of our undertakings to our customers, as well as the safety of our employees and our business.

Outlook for the coming financial year

Balco issues no financial forecasts regarding its future growth. The

BALCO'S FINANCIAL TARGETS

GROWTH



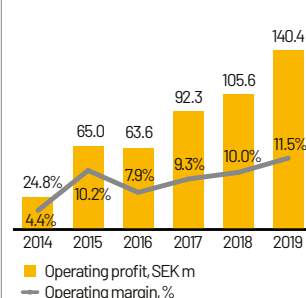
TARGET

Balco shall grow by 10% per year.

TARGET FULFILMENT

Net sales during the year increased by 15%, to 1,221 MSEK (1,058), thereby exceeding Balco's target.

PROFITABILITY



TARGET

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

TARGET FULFILMENT

The operating margin strengthened during the year to 11.5% (10.0). This represents a further step towards a target of a medium-long-term operating margin of 13%.

CAPITAL STRUCTURE

2.5

TARGET

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

TARGET FULFILMENT

The interest-bearing net debt relative to EBITDA was 0.9 (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 2020 AGM is for a dividend of 2.50 SEK per share, corresponding to a distribution of approximately 53% of profit for the year.

Group's financial targets are set forth to the bottom left below.

Balco enjoys a strong position on a fragmented, attractive and growing European balcony market. According to a study by Arthur D Little¹⁾, the total northern European balcony market was estimated to be worth approximately 30 billion SEK in 2017. Balco is one of the few complete balcony suppliers on the market with the ability to provide customized balcony solutions.

at least 50% of profit after tax shall be distributed to the shareholders. For the 2019 financial year, the Board proposes a dividend of 2.50 SEK (2.00) per share, corresponding to approximately 53% of the Group's profit after tax. Based on 21,623,311 shares, the dividend amounts to 54.1 MSEK (42.9). Calculated based on the final transaction price on 30 December 2019 (SEK 93.80), the proposed dividend entails a return of 2.7% (4.0).

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

Dividend

The Board of Directors has established a dividend policy whereby

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 17 June 2020. The Board proposes to the AGM that a dividend of 2.50 SEK per share be paid in respect of the 2019 financial year.

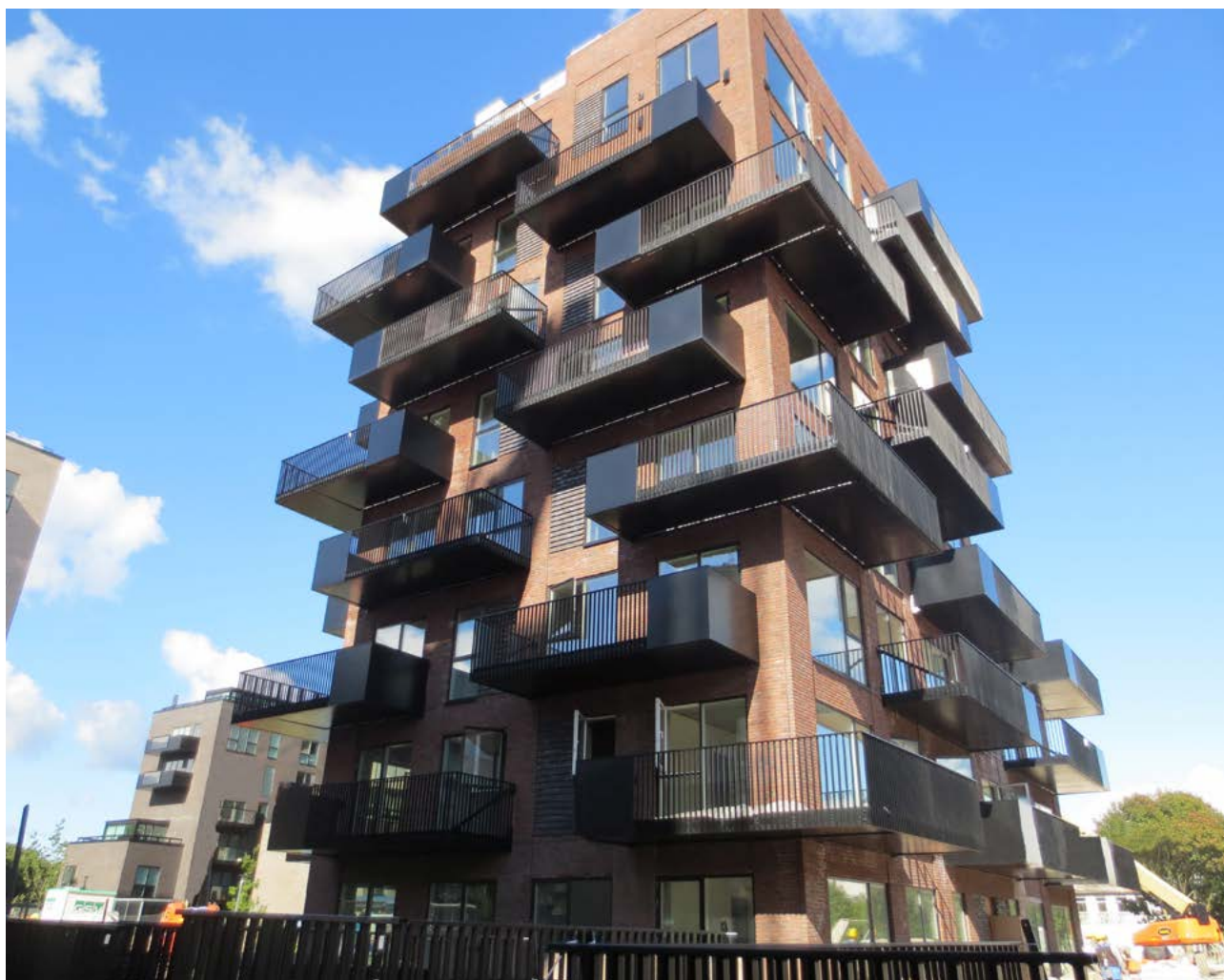
The Board believes that the proposal is compatible with the prudence principle set forth in Chapter 17, section 3 of the Companies Act, in accordance with the following description: the Board believes that the dividend is defensible in light of the requirements placed by the nature, scope and risks associated 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	393,464,486
Retained earnings	-250,868,432
Profit for the year	3,396,428
Total	145,992,482

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

Dividend to the shareholders	54,058,278
Carried forward	91,934,204
Total	145,992,482



MULTI-YEAR OVERVIEW

MSEK	2019	2018	2017	2016
Consolidated income statement in brief				
Netsales	1,220.6	1,058.1	989.0	801.6
Gross profit	300.0	253.8	247.8	189.9
Operating profit before amortization/depreciation and write-downs (EBITDA)	176.9	125.9	109.4	77.9
Operating profit (EBIT)	140.4	105.6	92.3	63.6
Profit before tax	131.7	99.5	55.3	22.7
Profit for the year (attributable to the equity holders of the parent company)	102.8	76.8	37.7	12.1
Consolidated balance sheet in brief				
Assets				
Goodwill	401.2	401.1	372.0	371.4
Other non-current assets	245.9	248.7	146.7	101.1
Trade receivables	135.5	161.6	119.1	94.5
Contractual receivables	149.2	116.9	100.1	96.3
Other current assets	174.1	134.9	147.3	51.0
Total assets	1,105.9	1,063.2	885.4	714.3
Equity and liabilities in brief				
Equity	514.5	440.5	386.4	139.5
Non-current liabilities	313.7	319.1	192.5	305.4
Current liabilities	277.6	303.6	306.5	269.3
Total equity and liabilities	1,105.9	1,063.2	885.4	714.3
Consolidated cash flow in brief				
Cash flow from operating activities	97.2	28.0	155.4	61.3
Cash flow from investing activities	-10.9	-93.6	-55.1	-24.1
Cash flow from financing activities	-53.8	46.1	-15.5	-43.7
Cash flow for the year	32.5	-19.5	84.8	-6.4

Recalculation of previous years with respect to IFRS 16 has not taken place.

MSEK	2019	2018	2017	2016
Moderbolaget				
Netsales	14.8	15.2	4.0	-
Operating profit	-2.7	3.7	-13.3	-
Profit before tax	4.3	1.0	-26.7	-23.9
Total assets	522.2	466.7	515.9	403.8
Equity ratio, %	52.8	64.8	62.6	35.3

Nyckeltal

1 Januari - 31 December

MSEK (unless otherwise stated)	2019	2018	2017	2016
Net sales, order intake and order backlog				
Nets sales	1,220.6	1,058.1	989.0	801.6
Increase in net sales (%)	15.4	7.0	23.4	25.5
Order intake	1,349.1	1,003.1	1,113.5	1,066.3
Increase in order intake (%)	34.5	-9.9	4.4	7.7
Order backlog	1,522.4	1,203.5	1,238.4	1,107.2
Increase in order backlog (%)	26.5	-2.8	11.8	32.6
Profit measurements				
Gross profit	300.0	253.8	247.8	189.9
Gross margin (%)	24.6	24.0	25.1	23.7
Operating profit before amortization/depreciation and write-downs (EBITDA)	176.9	125.9	109.4	77.9
EBITDA margin (%)	14.5	11.9	11.1	9.7
Operating profit	140.4	105.6	92.3	63.6
Operating margin (%)	11.5	10.0	9.3	7.9
Adjusted EBITDA	176.9	140.4	133.8	96.6
Adjusted EBITDA margin (%)	14.5	13.3	13.5	12.1
Adjusted operating profit	140.4	120.2	116.7	82.4
Adjusted operating margin (%)	11.5	11.4	11.8	10.3
Cash flows				
Operating cash flow	133.9	49.9	182.9	73.4
Operating cash conversion (%)	75.7	35.6	136.7	76.0
Capital structure				
Capital employed, average	655.8	555.8	488.0	491.3
Capital employed excluding goodwill, average	254.7	169.2	116.3	120.1
Equity, average	477.5	413.4	262.9	133.0
Interest-bearing net debt	161.9	194.7	90.0	360.0
Interest-bearing net debt/adjusted EBITDA R12 (times)	0.9	1.4	0.7	1.0
Return measurements				
Return on capital employed R12 (%)	21.4	21.6	23.9	16.8
Return on capital employed excl. goodwill R12 (%)	55.1	71.0	100.4	68.6
Return on equity R12 (%)	21.5	19.0	15.1	9.7
Equity ratio (%)	46.5	41.4	43.6	19.5
Other				
Number of shares at year-end, thousand	21,461.2	21,428.8	13,704	11,287
Earnings per share before dilution	4.81	3.67	2.43	0.5
Earnings per share after dilution	4.76	3.67	2.43	0.5
Full-time employees at year-end	419	385	346	301

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

Recalculation of previous years with respect to IFRS 16 has not taken place.

QUARTERLY OVERVIEW

MSEK	2019				2018				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Nets sales	269.9	325.0	292.4	333.3	242.6	273.6	237.7	304.2	230.8	268.4	206.0	283.7
EBITDA	35.5	52.7	40.1	48.5	26.7	36.5	30.3	32.4	27.3	35.0	16.3	30.9
Operating profit (EBIT)	27.0	44.3	31.3	37.7	22.0	31.5	25.1	27.0	23.1	30.8	12.2	26.3
Adjusted operating profit (EBIT)	27.0	44.3	31.3	37.7	22.0	31.5	25.1	41.6	24.3	33.6	21.4	37.4

THE SHARE AND OWNERS

Stock market performance was positive during the year and the Stockholm Stock Exchange rose by 25.8%. Balco's share price exceeded the index and rose by 87% during the year. In meetings with other players on the market, we are continuing to emphasize Balco's unique position within the fragmented niche market for balcony solutions and the positive sustainability effects generated by our products.

Trading and market capitalization

The Balco share is traded on Nasdaq Stockholm's Small Cap list. During the year, just over 10.8 million shares changed hands for a total value of just over 741 MSEK. The average daily turnover during the year was 3.0 MSEK. All trading in the share took place on Nasdaq Stockholm. The market capitalisation at the end of the year was 2.0 billion SEK

The share's performance in 2019

During the year, the share price performed positively and rose by 87% to close the year at 93.80 SEK. The highest transaction price (94.60 SEK) was recorded on 30 December, while the lowest price (50.20 SEK) was recorded on 15 February.

Share capital

On 31 December 2019, the share capital amounted to 129,744,958.52 SEK, divided into 21,623,311 outstanding shares, each with a quotient value of 6.0002 SEK. All shares carry equal voting rights and the same rights to the Company's profit and equity.

Ownership structure

At the end of the year, Balco had 4,504 shareholders. 82.3% of the shares were held in Sweden. Shareholders in Jersey accounted for 6.2% of the total foreign shareholding of 17.7%; shareholders in the UK accounted for 5.5%; in Luxembourg for 4.0%; and in France for 0.8%. Swedish ownership is dominated by financial institutions (34.3% of equity), while Swedish companies owned 19.6% and Swedish interest groups owned 14.6%. Balco's 10 largest shareholders owned 58.4% of the Company. Balco's directors owned in total 145,250 shares in Balco, while Balco's senior management owned 411,949 shares. In total, holdings by the Board and senior management accounted for 2.6% of the total 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 jeopardize Balco's long-term development. The Board has proposed to the AGM a dividend for the 2019 financial year of 2.50 SEK per share, corresponding to approximately 53% of profit for the year.

Share-related incentive program

Balco has a long-term incentive program for the Company's senior executives and other key employees, in total 39 employees. The incentive program covers in total not more than 803,580 warrants, which carry an entitlement to subscribe for not more than the same number of shares. Balco's total cost for the incentive program is not expected to exceed 150,000 SEK. The program entails a dilution of not more than 4% of the total number of shares in the Company. Balco's senior executives have acquired 241,077 warrants for a total value of 1,064,529 SEK.

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

SHAREHOLDER STRUCTURE, 31 DECEMBER 2019

Spread, number of shares	Number of owners	% Of total owners	Number of shares	Share of capital and votes, %
1-500	3,812	84.6	430,850	2.0
501-1,000	312	6.9	255,011	1.2
1,001-5,000	264	5.9	616,466	2.9
5,001-10,000	37	0.8	281,610	1.3
10,001-15,000	10	0.2	122,174	0.6
15,001-20,000	8	0.2	153,637	0.7
20,001-	61	1.4	19,763,563	91.4
Nominee difference	-	-	-	-
Total	4,504	100.0	21,623,311	100.0

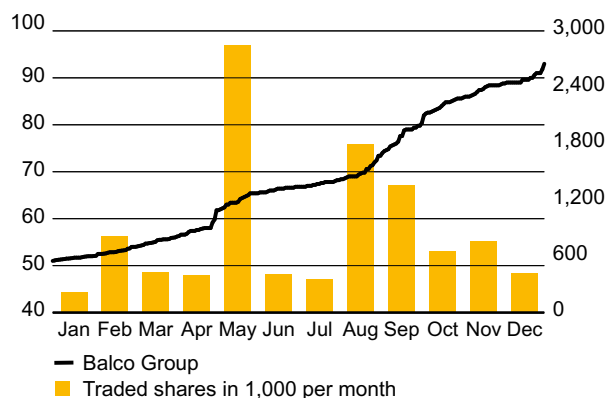
THE 10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2019

Name	Number of shares	Capital and votes, %
Hamrin Family	3,971,714	18.4
Skandrenting AB	2,250,000	10.4
Lannebo Fonder	2,140,357	9.9
Swedbank Robur Fonder	1,630,437	7.5
Segulah IV L.P.	1,329,373	6.2
Länsförsäkringar Fondförvaltning AB	1,301,632	6.0
Danica Pension	917,080	4.2
Clearstream Banking S.A., W8IMY	575,752	2.7
Unionen	561,386	2.6
Avanza Pension Försäkringsaktiebolag	506,261	2.3
Total	15,183,992	58.4
Other	6,439,319	41.6
Total	21,623,311	100.0

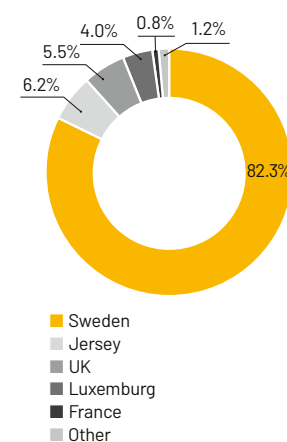
FINANCIAL CALENDAR

Activity	Date
Interim report, January-March	14 May 2020
Annual general meeting 2019	17 June 2020
Half-yearly report, January-June	27 August 2020
Interim report, January-September	12 November 2020
Year-end accounts 2020	18 February 2021

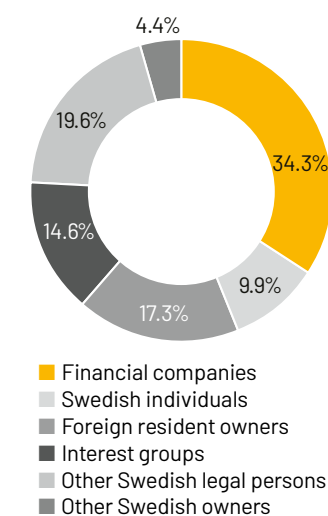
SHARE PRICE PERFORMANCE 1 JAN 2019-31 DEC 2019



GEOGRAPHIC SHAREHOLDER DISTRIBUTION



DISTRIBUTION OF OWNERS BY OWNER CATEGORY



NUMBER OF
SHARHOLDERS
4,504

TICKER NAME
BALCO

DIVIDEND 2019
2.50 SEK

ALL-TIME-HIGH
94.60

DATA PER SHARE

	2019
Number of shares at year-end	21,623,311
Market capitalization at year-end (MSEK)	2,028
Change in share price since listing, %	87
Number shareholders	4,504
Share price at year-end, SEK	93.80
Year's highest price, SEK	94.60
Year's lowest price, SEK	50.20
Paid dividend per share 2018, SEK	2.00
Shareholding of the 10 largest owner groups, %	58.4

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 organization's ability to achieve its targets*.

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

- *Likelihood of the risk occurring*
- *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 analyzed 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 materializes. 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 analyzed 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

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: aluminum, 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
Industry-related and market-related risks	Likelihood
Impact of economic climate and other macroeconomic factors	
Effect on Balco's earnings of changes in economic climate and other macroeconomic factors	● High ● Medium
Raw material prices	
Impact of changed raw material prices	● Medium ● Low
Competition and price pressure	
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 the ability of its suppliers and subcontractors 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 endeavors 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	
	Likelihood	Consequence
Business-related risks		
Suppliers and subcontractors		
Risk of changed circumstances at suppliers and subcontractors which affect Balco	● Low	● Medium
Project operations		
Balco's risk of initial projects developing unfavorably	● High	● Low
New markets		
Risk that unique requirements and conditions on new markets will result in higher than expected expenses	● Low	● Low
Operational disruptions		
Risk that the business might be affected by operational disruptions such as fire, sabotage or machinery breakdown	● Medium	● Medium
Recruitment		
Risk that Balco fails to attract, recruit and retain skilled employees	● Low	● Medium
Product development and production capacity		
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 minimize 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 costlier. 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 building 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 endeavors 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 the 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
Financial risks		
Currency risks		
The risk that exchange rate changes will adversely impact the Group's financial outcome	● Medium	● Low
Financing and liquidity risks		
The risk that Balco is unable to finance the Group's business	● Low	● Medium
Interest rate risks		
Means the risks of adverse impact on the Group's cash flow and earnings of changes in market rates	● Medium	● Low
Credit risks		
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.

Risk	Risk level	
	Likelihood	Consequence
Regulatory risks		
Intellectual property		
The risk that Balco will fail to protect and maintain its intellectual property rights and thereby the Company's product innovation	Low	Medium
Political decisions, legislation and regulation		
Changes to political decisions, legislation and regulation which may affect demand for Balco's products.	Low	High
Disputes and legal proceedings		
The risk that Balco may be affected by legal disputes and proceedings	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 prioritized ever since Balco's IPO in 2017.

Governance model

Balco Group AB, company registration number 556821-2319 (Balco), is a Swedish limited company listed on Nasdaq Stockholm in the Small Cap segment. The Company's head office is located in Växjö. 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 2019 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 programs shall be not less than three years. The two-year term for the series 1 warrants program constitutes a deviation from the Code. This series expired in September/October 2019.

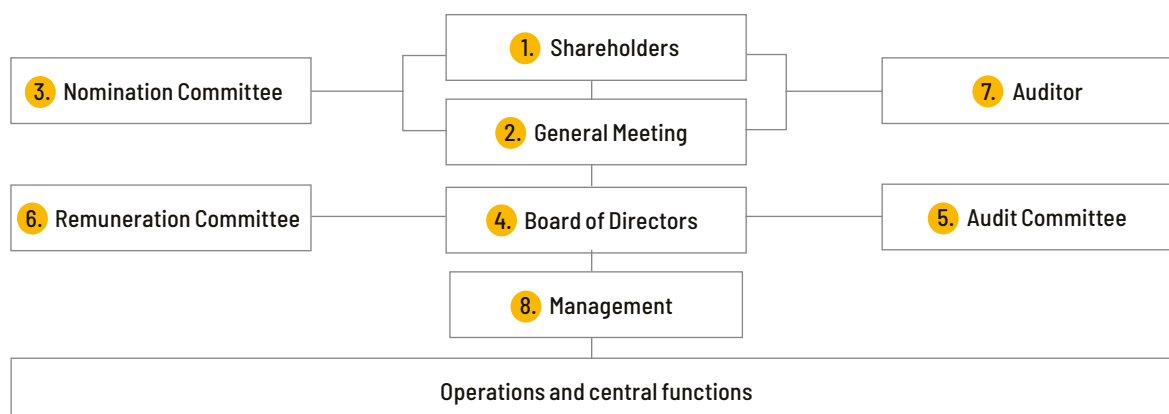
Explanation

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

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 hand-book governs financial reporting in the Group.

GOVERNANCE MODEL



Resolutions adopted at the 2019 AGM included:

- dividend for the Group of 2.00 SEK per share in respect of the 2018 financial year, corresponding to 42.9 MSEK or 54% of profit for the year
- to grant the directors and CEO discharge from liability for the 2018 financial year
- re-election of directors Tomas Johansson (new Chairman), Carl-Mikael Lindholm, Ingalill Berglund, Johannes Nyberg, and Åsa Söderström Winberg as well as new election of Mikael Andersson
- that the fee paid to the Board of Directors shall total 1,690,000 SEK on an annual basis
- to elect Öhrlings PricewaterhouseCoopers AB as auditor with Martin Odqvist as auditor-in-charge
- authorization for the Board to decide on new issues of shares, 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
- authorization for 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
- authorization for the Board to decide on transfers of treasury shares

1. Shareholders

Balco Group AB has been listed on Nasdaq Stockholm since 6 October 2017. On 31 December 2019, the share capital amounted to 129,744,958.52 SEK, divided into 21,623,311 outstanding shares, each with a quotient value of 6.0002 SEK. All shares carry equal voting rights and equal rights to the Company's profit and equity.

On 31 December 2019, Balco had 4,504 shareholders. According to ownership data from Euroclear Sweden AB, Balco's 10 largest shareholders owned 58.4% of the voting rights and shares in the Company. Swedish shareholders accounted for 82.2% of the ownership. Balco's largest shareholders on 31 December were the Hamrin Family and Skandrenting AB.

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 of directors and auditors and their fees, as well as other business incumbent on the AGM according to law. All shareholders entered in the share register who have given timely notice of their intention to participate 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. Balco has one class of shares and all shares carry equal 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. Directors are appointed and removed, and any alterations of the articles of association take place, at the general meeting. In addition to the annual general meeting, the Board can convene extraordinary general meetings.

2020 Annual General Meeting (AGM)

Balco's 2020 AGM will be held at 3pm on 17 June 2020 at Kök 11, Honnörsgatan 15 in Växjö. Registration will commence at 2.30pm.

Shareholders who are entered in the share register maintained by Euroclear Sweden AB not later than 11 June 2020 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 2020 AGM are:

- 11 June – record date for participation at the 2020 AGM
- 11 June – final date for notification of participation at the AGM
- 17 June – final date for trading in the Balco share with the right to dividends
- 17 June – 2.30pm admission to the general meeting begins
- 17 June – 3pm the AGM begins
- 22 June – record date for dividends
- 25 June – payment of dividends

Proposed resolution at the 2020 AGM

Balco's Board proposes that the AGM resolve on a dividend of 2.50 SEK per share for the Group in respect of the 2019 financial year. This corresponds to 54.1 MSEK or 53% 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 relevant knowledge and experience 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 2020 AGM were presented through a press release on 14 October 2019. The members of the Nomination Committee receive no remuneration for their work in the Nomination Committee.

In deviation from the Swedish Code of Corporate Governance, to date the arrangement has been such that the largest shareholder in terms of number of votes has also chaired the Nomination Committee. Balco's strategic focus and corporate governance model are also based on strong commitment by the Company's principal owner. The Nomination Committee makes the assessment that the majority of its members are independent in relation to the Company and company management, and that three of its members are also independent in relation to the Company's largest shareholder.

Members of the Nomination Committee for the 2020 AGM:

- Carl-Mikael Lindholm, appointed by the Hamrin Family. (Chairman of the Nomination Committee)
- Lennart Björkman, appointed by Skandrenting AB
- Claes Murander, appointed by Lannebo Fonder
- Gabriel Urwitz, appointed by Segulah
- Tomas Johansson, 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 for creating long-term value for shareholders and other stakeholders. The Board is responsible, together with management, for the Company's overall strategy and endeavors 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 three, and not more than ten, directors. A board of directors is elected each year at the AGM. The articles of association contain no other provisions regarding the appointment or removal of directors. The directors shall contribute skills and experience that benefit Balco's development. Balco's board currently comprises six ordinary members: two women and four men. Five members were re-elected and one member was elected for the first time at the AGM held on 21 May 2019, for a term of office until the close of the 2020 AGM. President and CEO Kenneth Lundahl, as well as Balco's CFO Michael Grindborn, attend all board meetings.

Michael Grindborn 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. Four of the directors are also independent in relation to the Company's major shareholders. Balco thereby satisfies the requirements of the Code regarding the independence of directors. For a summary and presentation of the directors, see pages 66-67.

Diversity policy in the Board of Directors

Balco's Board shall, as a whole, possess requisite skills, experience and background for the conducted business and for identifying and understanding 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 who 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 Boards work and assessment of the Board

The Board's responsibilities and duties are governed by the Companies Act, Balco's 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 Company's strategic focus and economic development, as well as 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 established 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 presiding over the Board's work and ensuring that it is well-organized 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 2019, ten board meetings were held, three of which were 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 February, May, August and November, the Board also reviews the interim reports.

The Board Chairman is responsible for the directors making an annual assessment of their work. The assessment also includes the

REMUNERATION AND ATTENDANCE

	Tomas Johansson	Ingall Berglund	Carl-Mikael Lindholm	Johannes Nyberg	Åsa Söderström Winberg	Mikael Andersson ²⁾	Percy Calissendorff ¹⁾	Lennart Kalén ¹⁾
Board fee (year of general meeting)	500,000	190,000	190,000	190,000	190,000	190,000	-	-
Remuneration for committee work	40,000	70,000	25,000	40,000	25,000	40,000	-	-
Independent in relation to the Company and company management	yes	yes	yes	yes	yes	yes	yes	yes
Independent in relation to main owners	yes	yes	no	no	yes	yes	no	no
Attendance at board meetings, 10 in number	10	10	10	8	8	7	3	3
Attendance at Audit Committee meetings, 5 in number	3	5	-	5	-	3	-	-
Attendance at Remuneration Committee meetings, 4 in number	4	-	4	-	2	-	-	2

1) Relates to the period 1 Jan 2019 - 21 May 2019. 2) Relates to the period 21 May 2019 - 31 Dec 2019

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 21 May 2019 it was resolved that fees be paid to the directors as follows:

The fee to the Board Chairman Tomas Johansson shall be 500,000 SEK. The five ordinary directors shall each receive a fee of 190,000 SEK.

Fees for work in the Audit Committee shall be 70,000 SEK to the chairman of the audit committee, Ingalill Berglund. Other members of the audit committee (Johannes Nyberg and Mikael Andersson) shall each receive 40,000 SEK.

Fees for work in the Remuneration Committee shall be 40,000 SEK to the chairman of the Remuneration Committee, Tomas Johansson. Other members of the Remuneration Committee (Carl-Mikael Lindholm and Åsa Söderström Winberg) shall each receive 25,000 SEK.

In total, compensation for board and committee work in 2019-2020 amounts to 1,690,000 SEK.

5. Audit Committee

The main duties of the Audit Committee are to support the Board 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 Committee 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 2019-2020

- Ingalill Berglund (Chairman)
- Mikael Andersson (member)
- Johannes Nyberg (member)

Ingalill Berglund and Johannes Nyberg possess the accounting skills required by the Companies Act. All members of the Com-

mittee are independent of the Company and its management and two members of the Committee are independent in relation to Balco's largest shareholder. During 2019, the Audit Committee held five meetings at which minutes were taken. Martin Odqvist, the Company's auditor-in-charge, participated at two of these 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 programs.

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

Members of the Remuneration Committee 2019-2020

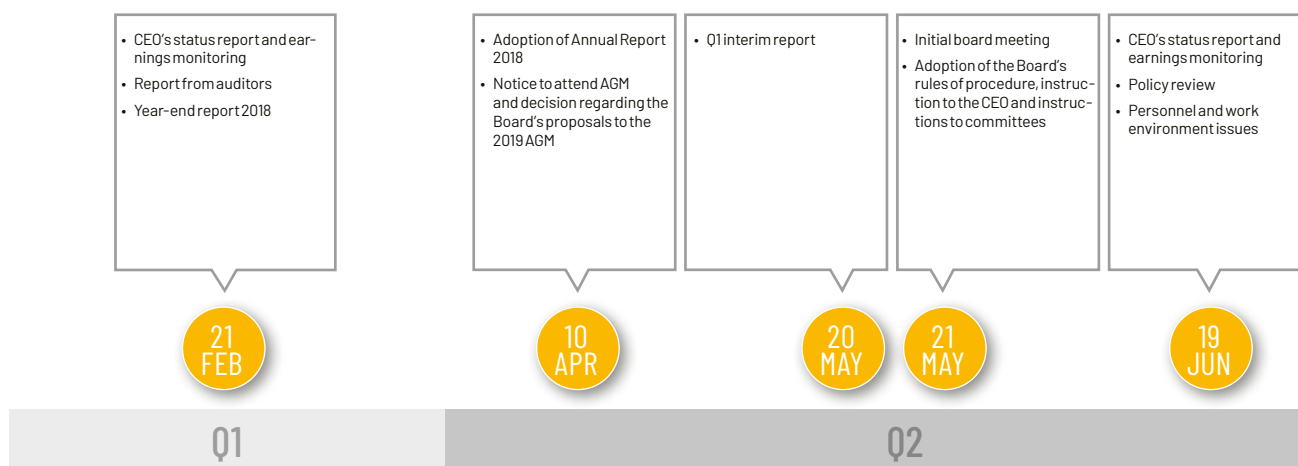
- Tomas Johansson (Chairman)
- Carl-Mikael Lindholm (member)
- Åsa Söderström Winberg (member)

All members of the Committee are independent of the Company and its management. During 2019, the Remuneration Committee held four 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 2019 AGM decided to appoint Öhrlings PricewaterhouseCoopers AB as the Company's auditor, with Martin Odqvist as auditor-in-charge, for the period until the 2020 AGM. Martin Odqvist is an authorized 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. Authorized public accountant Martin Odqvist may serve as auditor-in-charge for the audit up to

THE BOARD'S WORK IN 2019



SALARIES AND REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2019

	Basic salary	Social security contributions/ special employer's contributions	Variable remuneration	Other benefits	Pension expense
CEO	2,708	1,255	444	150	895
Other senior executives (7 individuals)	6,468	2,991	1,038	473	1,997
Total	9,177	4,246	1,482	623	2,892

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 expense
CEO	2,318	1,027	190	127	820
Other senior executives (7 individuals)	6,759	2,954	647	439	2,014
Total	9,077	3,981	837	566	2,834

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

and including the 2022 AGM, before he is required to rotate the engagement in accordance with regulations. In 2019, the total remuneration paid to the Group's auditors was 1,653,000 SEK (2,508,000), of which 1,382,000 SEK (2,375,000) comprised remuneration to the Company's principal auditor, PwC.

8. Management

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

The members of group management have the following functions:

- Kenneth Lundahl, President and CEO
- Roger Andersson, Head of Sales, Sweden and Norway
- Camilla Ekdhall, COO and Managing Director, Balco AB
- Johan Fälth, Head of Marketing and Export
- Michael Grindborn, CFO, Head of IR & IT
- Jesper Magnusson, Head of Personnel

Remuneration to senior management

The following guidelines for remuneration to senior management were adopted at the AGM held on 21 May 2019:

'Senior executive' means the CEO and the group management, which comprises six individuals. The aim of the guidelines is to ensure that Balco is able to attract, incentivize 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 program, 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.

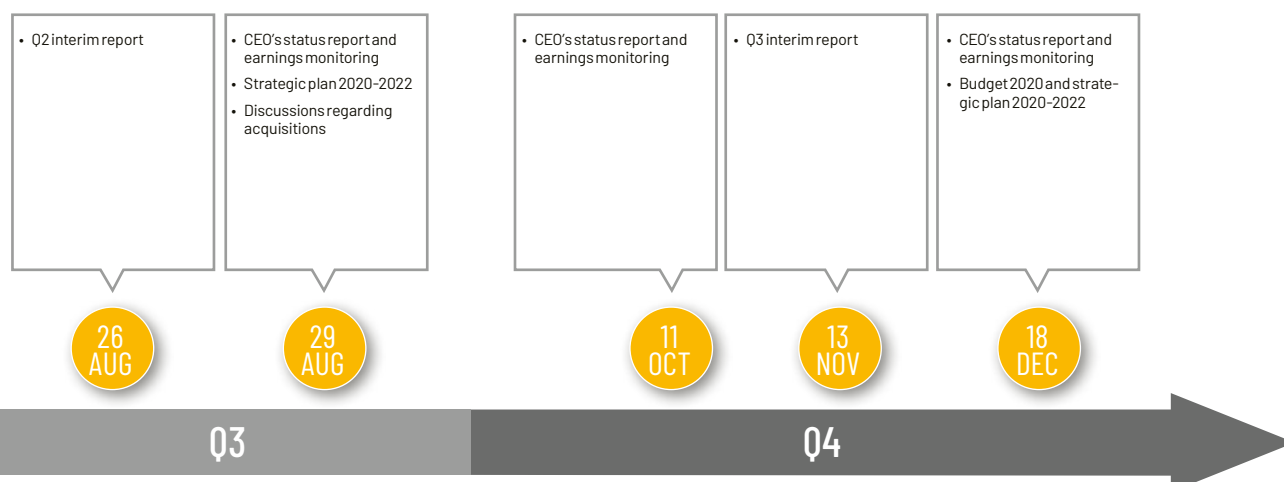
Fixed and variable salary

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 shall be based on the outcome of predetermined and documented financial and individual objectives.

The Board's proposals for new guidelines for remuneration to senior executives

No significant changes in principles for remuneration to senior executives are proposed to the 2020 AGM. On the other hand, the proposed guidelines are more detailed in response to the new Shareholders' Rights Directive and amendments to the Companies Act and the Code. For further information, see Note 7 on pages 87-88.



INTERNAL CONTROL OF FINANCIAL REPORTING

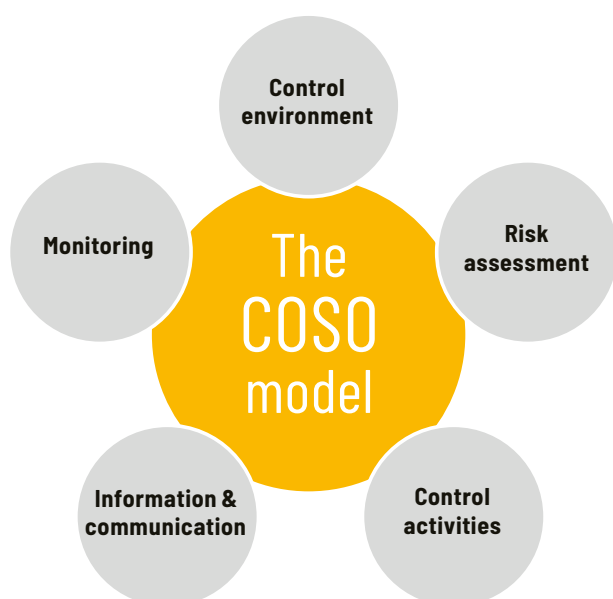
The objective of the internal control is to assess the risks which are of importance for Balco and which should therefore be managed through regular monitoring and control. Through a risk analysis, the work can be concentrated on the areas that are most important, in order to reduce the Company's total 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 organization 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 Organizations of the Treadway Commission) model. The model's components are used to assess and work with an organization'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 organization. In order to create a framework for conduct of the work, Balco has implemented a number of governance 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.

Since Balco applies a zero tolerance policy with respect to shortcomings within areas such as business ethics and statutory compliance, the exercise of human rights and questions relating to bribery, corruption and competition law, in 2019 a whistleblower function was established to which suspected violations of these guidelines can be reported. Reported violations are addressed first by the Audit Committee. No violations were reported in 2019.

Risk assessment

Financial risk management constitutes a part of the ongoing financial reporting work. Balco endeavors to regularly analyze 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 analyzed 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 organization. Guidelines and instructions are aimed at discovering and preventing the risks of errors in the reporting. Balco had no internal audit in 2019 but will introduce one in 2020.

Information and communication

Governance documents in the form of policies, guidelines and manuals, inasmuch as 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 an ongoing basis in the organization, 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 with internal and external parties is to take place 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 via 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 uses in a joint 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

Position and year of election

Born 1958. Board chairman since 2019. Chairman of the Remuneration Committee. Director since 2013.

Education

Degree in market economy from IHM Business School.

Other significant appointments

Industrial Advisor, Segulah; Board Chairman, Franks Kylindustri AB; and director, Pelly Group AB.

Previous positions and professional experience

CEO, Dahl Sverige AB; CEO, Bevego Byggplåt & Ventilation AB; Marketing Manager, AB Gustavberg; as well as Division Manager, Strålburken (part of NCC Group AB).

Own and closely associated shareholdings

36,738 shares.

Tomas Johansson



Position and year of election

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

Education

Higher-level specialised course 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, Danvik Hospital Foundation as well as Fastighets AB Stenvalvet.

Previous positions and professional experience

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

Own and closely associated shareholdings

25,000 shares.

Ingalill Berglund



Position and year of election

Position and year of election
Born 1971. Director since 2018. Member of the Remuneration Committee.

Education

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

Other significant appointments

Asset manager and director of the Carl-Olof and Jenz Hamrin's Foundation.; Director, Hamhus AB; Director, Herenco Holding AB.

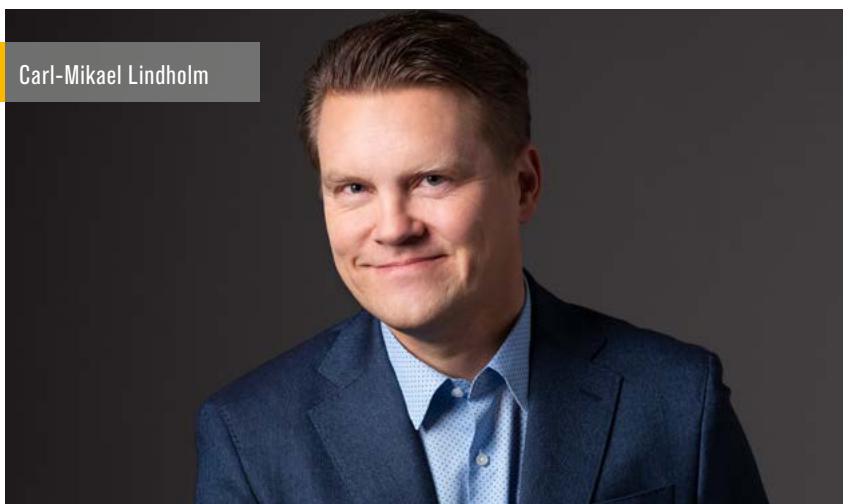
Previous positions and professional experience

Operations Manager, Bankeryd Healthcentre; Specialist physician at Radiumhemmet in Stockholm, Oncology Dept in Linköping and Oncology Dept in Jönköping.

Own and closely associated shareholdings

10,000 shares.

Carl-Mikael Lindholm



Position and year of election

Born 1955. Director since 2019. Member of the Audit Committee.

Education

MSc Chemical Engineering, LTH.

Other significant appointments

-

Previous positions and professional experience

President and CEO, PMC Group; President, BU Trelleborg Waterproofing (Trelleborg AB); Division Manager, Saint-Gobain Ecophon.

Own and closely associated shareholdings

-

Mikael Andersson

**Position and year of election**

Born 1971. Director since 2018. Member of the Audit Committee.

Education

MBA in International Economics, Uppsala University; Commerce program School of Business, Queens University and 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, Collector Bank AB and Board Chairman, Oscar Properties AB.

Own and closely associated shareholdings

-

Johannes Nyberg

**Position and year of election**

Born 1957. Director since 2016. Member of the Remuneration Committee.

Education

MBA from Stockholm University.

Other significant appointments

Board Chairman, Scanmast AB; Director of Vattenfall AB, OEM International AB, Delete OY and Fibo Group A/S.

Previous positions and professional experience

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

Own and closely associated shareholdings

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

Åsa Söderström Winberg



MANAGEMENT

Position and year of employment

Born 1967. CEO and President since 2013.

Education

Civil engineering degree from Chalmers Technical University.

Other significant appointments

Board Chairman, Lundahl & Hall AB; 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 AB.

Own and closely associated shareholdings

330,010.

Warrants

80,358.

Kenneth Lundahl


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.

Own and closely associated shareholdings

31,939.

Warrants

34,440.

Roger Andersson


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, Växjö.

Other significant appointments

Previous positions and professional experience
Office manager, head of consulting and recruiting at Adecco HR AB.

Own and closely associated shareholdings

20,000.

Warrants

22,959.

Jesper Magnusson



Position and year of employment

Born 1975. Head of Marketing and Export.
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.

Own and closely associated shareholdings

30,000.

Warrants

34,440.

Johan Fälth

**Position and year of employment**

Born 1967. VD Balco AB och COO.
Employed since 2019.

Education

Civil engineering degree from Chalmers Technical University.

Other significant appointments

-

Previous positions and professional experience

COO, Pelly Group AB; Operations Manager/Managing Director, Isaberg Rapid AB; Site Manager, Rapid Granulator AB; Logistics Manager, Thule Sweden AB.

Own and closely associated shareholdings

-

Warrants

34,440.

Camilla Ekdahl

**Position and year of employment**

Born 1968. CFO, Head of IR and IT.
Employed since 2019.

Education

MBA from Linnaeus University, M.B.A from S.D.A Bocconi School of Management.

Other significant appointments

-

Previous positions and professional experience

CFO, Lammhults Design Group AB; Finance Director, Gislaved Gummi AB/Hexpol Engineered Products; CFO Norden & Baltikum Recticel AB; CFO Animex AB; CEO, Forshedaverken; CFO Dolomite AB; CFO, IST Group.

Own and closely associated shareholdings

-

Warrants

34,440.

Michael Grindborn



Financial statements

FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK '000r	Note	2019	2018
Netsales	5	1,220,605	1,058,052
Production and project costs	6,7,8,13	-920,602	-804,258
Gross profit		300,003	253,794
Selling expenses	6,7,8	-94,186	-94,095
Administrative expenses	6,7,8	-66,091	-53,917
Participations in profit of associated companies	9	-	10
Other operating income	10	1,565	737
Other operating expenses	10	-933	-904
Operating profit	5	140,358	105,625
Financial income	11	828	102
Financial expenses	11	-9,511	-6,223
Net financial items	11	-8,683	-6,121
Profit before tax	5	131,675	99,504
Income tax	12	-28,849	-22,750
Profit for the year	5	102,826	76,754
Other comprehensive income			
Items which can subsequently be restored to the income statement			
Exchange rate differences upon translation of foreign operations, net after tax		170	1,886
Other comprehensive income for the year, net after tax		170	1,886
Total comprehensive income for the year		102,996	78,640
Of which attributable to the equity holders of the Parent Company		102,996	78,640
Amounts in SEK	Note	2019	2018
Earnings per ordinary share, calculated as earnings attributable to equity holders of the Parent Company during the year (expressed in SEK per share)			
Earnings per share, SEK, before dilution	34	4.81	3.67
Earnings per share, SEK, after dilution	34	4.76	3.67
Average number of ordinary shares, thousands		21,461	21,429

The consolidated statement of comprehensive income for 2018 has not been recalculated in accordance with IFRS 16.

CONSOLIDATED BALANCE SHEET

Amounts in SEK '000	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	15	401,217	401,101
Trademarks	15	44,018	43,866
Acquired order backlog	15	3,756	5,640
Patents	15	450	500
Licenses	15	1,352	1,765
Advances, intangible assets	15	3,285	1,565
Total intangible assets		454,078	454,437
Property, plant and equipment			
Rights of use	16	54,083	-
Buildings and land	17	91,146	116,004
Machinery and other plant	17	29,639	28,200
Equipment, tools, fixtures and fittings	17	11,833	31,510
Construction in progress	17	1,466	12,577
Total property, plant and equipment		188,167	188,291
Financial assets			
Holdings in affiliated companies	9	2,818	3,593
Derivative instruments	20	219	1,273
Other non-current receivables	20	-	560
Other investments held as fixed assets	20	20	20
Total financial assets		3,057	5,446
Deferred tax assets	18	1,805	1,665
Total non-current assets		647,107	649,839
Current assets			
<i>Inventories</i>			
Raw materials and commodities	19	25,997	26,384
<i>Current receivables</i>			
Trade receivables	20,21	135,536	161,635
Contractual assets	22	149,235	116,871
Current tax assets		3,833	1,645
Derivative instruments	20	3,203	954
Other receivables	23	10,002	7,404
Prepaid expenses and accrued income	24	11,541	11,441
Cash and cash equivalents	20,25	119,426	87,034
Total current assets		458,774	413,368
TOTAL ASSETS		1,105,880	1,063,207

CONSOLIDATED BALANCE SHEET, cont.

Amounts in SEK '000	Note	31 Dec 2019	31 Dec 2018
EQUITY			
Equity attributable to:			
Equity holders of the Parent Company			
Share capital		129,745	128,578
Other contributed capital		393,465	381,764
Provisions		5,122	4,952
Retained earnings, including comprehensive income for the year		-13,784	-74,795
Total equity attributable to equity holders of the Parent Company		514,548	440,499
LIABILITIES			
Non-current liabilities			
Liabilities to credit institutions	20,27,31	215,216	228,074
Financial leasing	27,31,33	35,077	43,214
Derivative instruments	20	640	1,801
Other non-current liabilities	20	18,800	18,320
Deferred tax liabilities	18	33,606	27,666
Total non-current liabilities		303,339	319,075
Current liabilities			
Liabilities to credit institutions	20,27,31	10,380	740
Financial leasing	27,31,33	20,673	9,704
Trade creditors	20	122,625	138,516
Overdraft facility	20,27	-	-
Current tax liabilities		15,529	24,878
Derivative instruments	20	2,382	1,859
Other liabilities	28	20,685	25,864
Contractual liabilities	22	41,410	45,653
Accrued expenses and deferred income	29	54,309	56,419
Total current liabilities		287,993	303,633
TOTAL EQUITY AND LIABILITIES		1,105,880	1,063,207

Commencing 2019, assets related to leases are reported as Rights of use. The leases that were previously reported as assets are reported on the line Property, plant and equipment.
The consolidated balance sheet for 2018 has not been recalculated in accordance with IFRS 16.

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
Opening balance, 1 January 2018	128,578	381,764	3,066	-127,057	386,351
Changed accounting principle. IFRS15	-	-	-	-3,064	-3,064
Adjusted equity, 1 January 2018	128,578	381,764	3,066	-130,121	383,287
Profit for the year	-	-	-	76,755	76,755
Other comprehensive income					
Translation differences, net after tax	-	-	1,886	-	1,886
Total comprehensive income	-	-	1,886	76,755	78,641
Transactions with equity holders in their capacity as owners:					
Dividend				-21,429	-21,429
Total attributable to equity holders	-	-	-	-21,429	-21,429
Closing balance, 31 December 2018	128,578	381,764	4,952	-74,795	440,499
Opening balance, 1 January 2019	128,578	381,764	4,952	-74,795	440,499
Changed accounting principles, IFRS16, Note 2	-	-	-	1,043	1,043
Adjusted equity, 1 January 2019	128,578	381,764	4,952	-73,752	441,542
Profit for the year	-	-	-	102,826	102,826
Other comprehensive income					
Translation differences, net after tax	-	-	170	-	170
Total comprehensive income	-	-	170	102,826	102,996
Transactions with equity holders in their capacity as owners:					
Dividend	-	-	-	-42,858	-42,858
Warrants	1,167	-	-	-	1,167
Payment, warrants	-	11,701	-	-	11,701
Total attributable to equity holders	1,167	11,701	-	-42,858	-29,990
Closing balance, 31 December 2019	129,745	393,465	5,122	-13,784	514,548

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in SEK '000	Note	2019	2018
Cash flow from operating activities			
Profit before financial items		140,358	105,626
Adjustments for non-cash items:			
-Amortization/depreciation		34,666	20,248
-Other non-cash items		2,251	711
Interest received	11	828	102
Interest paid	11,27	-8,587	-6,223
Income taxes paid		-34,461	-9,617
Cash flow from operating activities before changes in working capital		135,055	110,847
Cash flow from changes in working capital			
Increase/decrease, inventories		423	1,216
Increase/decrease, current receivables		-9,029	-4,386
Increase/decrease, current liabilities		-29,353	-79,710
Total change in working capital		-37,959	-82,880
Cash flow from operating activities		97,096	27,967
Cash flow from investing activities			
Purchases of property, plant and equipment	17	-8,716	-24,053
Purchases of intangible assets	15	-2,093	-1,885
Sold property, plant and equipment		542	2,945
Change, non-current financial receivables	30	-591	-70,581
Cash flow from investing activities		-10,858	-93,574
Cash flow from financing activities			
New borrowings	27	-	80,000
Loan repayments	27	-873	-
Changes in other non-current financial liabilities	27	640	-
Change in financial leasing liabilities	27	-23,133	-12,493
Warrants		11,363	-
New issue		1,167	-
Paid dividend		-42,858	-21,429
Cash flow from financing activities		-53,694	46,078
Reduction/increase in cash and cash equivalents		32,544	-19,529
Cash and cash equivalents at beginning of year	25	87,034	106,483
Exchange rate difference in cash and cash equivalents		-152	80
Cash and cash equivalents at year-end	25	119,426	87,034

The Group's financing analysis for 2018 has not been recalculated in accordance with IFRS 16

Change in indebtedness			Non-cash transactions				
	1 Jan 2019	Cash flow	Acquisitions	Accumulated interest	Currency effect	New leasing contracts	31 Dec 2019
Current liabilities to credit institutions	740	9,260	-	-	-	-	10,000
Non-current liabilities to credit institutions	228,074	-10,133	-	-	-2,345	-	215,596
Other financial liabilities	18,320	840	-	-	-	-	18,800
Financial leasing liabilities	52,918	-23,133	-	-	-	25,964	55,749
Total liabilities attributable to financing activities	300,052	-23,166	0	0	-2,345	25,964	300,145
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
Total liabilities attributable to financing activities	196,496	67,507	24,478	153	298	11,120	300,052

THE PARENT COMPANY'S BALANCE SHEET

Amounts in SEK '000	Note	2019	2018
Net sales	36	14,812	15,204
Production and project costs		-	-
Gross profit		14,812	15,204
Administrative expenses	6,7	-17,467	-11,499
Operating profit		-2,655	3,705
Interest income and similar profit/loss items	11	1,325	513
Interest expenses and similar profit/loss items	11	-3,345	-3,172
Profit after financial items		-4,675	1,045
Appropriations, received group contribution		9,000	-
Profit before tax		4,325	1,045
Tax on profit for the year	12	-928	-234
Profit for the year		3,397	812

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 2019	31 Dec 2018
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	14	389,067	389,067
Other non-current receivables		624	739
Total non-current assets		389,691	389,806
Current assets			
Receivables from group companies		13,821	75,931
Other receivables		353	15
Tax asset		32	131
Prepaid expenses and accrued income	24	652	578
Cash and cash equivalents	25	117,678	266
Total current assets		132,536	76,921
TOTAL ASSETS		522,227	466,727
EQUITY			
Restricted equity			
Share capital	26	129,745	128,578
Total restricted equity		129,745	128,578
Non-restricted equity	38		
Share premium reserve		393,465	381,764
Retained earnings		-250,869	-208,823
Profit for the year		3,397	812
Total non-restricted equity		145,993	173,753
Total equity		275,738	302,331
LIABILITIES			
Non-current liabilities			
Liabilities to credit institutions	27	110,000	161,055
Total non-current liabilities		110,000	161,055
Current liabilities			
Liabilities to credit institutions	27	10,000	-
Trade creditors		322	180
Liabilities to group companies		121,611	-
Other liabilities	28	845	1,046
Accrued expenses and deferred income	29	3,711	2,115
Total current liabilities		136,489	3,341
TOTAL EQUITY AND LIABILITIES		522,227	466,727

THE PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

Amounts in SEK '000	Restricted equity	Non-restricted equity		Total equity
	Share capital	Share premium reserve	Retained earnings incl. profit for the year	
Opening balance, 1 January 2018	128,578	381,764	-187,394	322,948
Comprehensive income				
Comprehensive income for the year	-	-	812	812
Total comprehensive income	-	-	812	812
Transactions with equity holders in their capacity as owners:				
Dividend	-	-	-21,429	-21,429
Total attributable to equity holders	-	-	-21,429	-21,429
Closing balance, 31 December 2018	128,578	381,764	-208,011	302,331
Opening balance, 1 January 2019	128,578	381,764	-208,011	302,331
Comprehensive income				
Comprehensive income for the year	-	-	3,397	3,397
Total comprehensive income	-	-	3,397	3,397
Transactions with equity holders in their capacity as owners:				
Dividend	-	-	-42,858	-42,858
Warrants	1,167	-	-	1,167
Payment, warrants	-	11,701	-	11,701
Total attributable to equity holders	1,167	11,701	-42,858	-29,990
Closing balance, 31 December 2019	129,745	393,465	-247,472	275,738

THE PARENT COMPANY'S STATEMENT OF CASH FLOWS

Amounts in SEK '000	Note	2019	2018
Operating activities			
Operating profit		-2,655	3,705
Adjustments for non-cash items, etc.		0	0
		-2,655	3,705
Interest received		1,325	513
Interest paid		-3,345	-3,172
Income tax paid		-829	-1,418
Cash flow from operating activities before changes in working capital		-5,504	-372
<i>Changes in working capital</i>			
Changes in operating receivables		70,699	-41,673
Changes in operating liabilities		123,148	-68,538
Cash flow from operating activities		188,343	-110,583
<i>Investing activities</i>			
Change in non-current receivables		115	152
Cash flow from investing activities		115	152
<i>Financing activities</i>			
Borrowings		-	41,055
Loan repayments		-41,055	-
Warrants		11,700	-
New issue		1,167	-
Dividend		-42,858	-21,429
Cash flow from financing activities		-71,046	19,626
Cash flow for the year		117,412	-90,805
Cash and cash equivalents at beginning of year		266	91,071
Exchange rate difference in cash and cash equivalents		0	0
Cash and cash equivalents at year-end		117,678	266

Change in indebtedness

	1 Jan 2019	Cash flow	31 Dec 2019
Non-current liabilities to credit institutions	161,055	-41,055	120,000
Total liabilities attributable to financing activities	161,055	-41,055	120,000

Change in indebtedness

	1 Jan 2018	Cash flow	31 Dec 2019
Non-current liabilities to credit institutions	120,000	41,055	161,055
Total liabilities attributable to financing activities	120,000	41,055	161,055

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 Altaner A/S, Kronhjorten & Lodjuret Holding AB, TBO-Hagblinds 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 2019 have been assessed as having no significant impact on the Group's financial statements.

IFRS 16 Leases

IFRS 16 "Leases" was published in January 2016 by IASB. The standard has been adopted by the EU and replaces 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.

Most of the Group's significant leases are already reported as financial leases. In connection with the transition to IFRS 16, additional leases have been included in the consolidated balance sheet as right of use assets and financial liabilities. The leased asset is depreciated on a straight-line basis over the useful life of the asset and the lease term. The Group has chosen the standard's alternative C5b with partially retroactive application, without recalculation of comparison figures upon implementation. The Group's balance sheet total has increased by 13 MSEK upon implementation of IFRS 16. In accordance with the standard, Balco does not report as a leased asset or lease liability leases where the underlying asset has a term of less than one year or is of minor value.

The effects of the transition to IFRS 16 are shown below:

Adjustment, 1 January 2019	MSEK
Leases	13.0
Financial lease liability	-11.8
Effect on net assets before tax	1.2
Deferred tax claim	-0.2
Effect on equity	1.0

Adjustment to IFRS 16 has had marginal impact on the income statement. Operating income has improved marginally, while profit before tax has declined marginally.

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 transferred 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 unrealized 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. Unrealized 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

Note 1 cont.

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.

Trademarks, Acquired order intake, Patents and Licenses

Assets with a determinable useful life are valued at historical cost less accumulated amortization 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 trademarks 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 trademarks. 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-Haglinds AB is amortized over the useful life, which is assessed at three 3 years.

Patents are amortized on a straight-line basis over the useful life, normally assessed at 10 years. Licenses are amortized 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 amortized but, rather, tested each year for any impairment. Assets which are amortized 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 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.

Financial liabilities are removed from the statement of financial position when the obligations have been settled, cancelled or otherwise ceased. The difference between the reported value of a financial liability which is extinguished or transferred to a third party, and the compensation received therefor, including transferred assets that do not comprise cash or assumed obligations, is reported in the statement of comprehensive income.

When the terms for a financial liability are renegotiated and are not removed from the statement of financial position, a profit or loss is reported in the statement of comprehensive income. The profit or loss is calculated as the difference between the original contractual cash flows and the modified cash flows, discounted to the original effective rate of interest.

Valuation

Financial assets are initially valued at fair value plus transaction expenses directly attributable to the purchase, in those cases where the asset is not reported at fair value via the income statement.

Investments in debt instruments (trade receivables and other non-current receivables)

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 the valuation category, accrued historical cost.

- 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.

Derivative instruments

- 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

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 applies the simplified method for calculation of anticipated credit losses. The method entails that throughout the term of the claim, the reserve for anticipated losses is used as the starting point for trade receivables and contractual assets.

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 realize the asset and the settle the liability.

Trade receivables

Trade receivables generally fall due for payment within 30 days and all trade receivables are therefore classified as current assets. Trade receivables are initially reported at the transaction price. The Group holds the trade receivables with the aim of receiving contractual cash flows and it therefore values them on subsequent reporting dates at the accrued historical cost, applying the effective rate of interest method.

Derivative instruments

Derivative instruments are held solely for financial hedging of risks and not for speculative purposes. The Group does not apply hedge accounting. Derivative instruments are classified as held for trading and are valued at fair value via the income statement.

Derivative instruments are reported in the balance sheet on the transaction date at fair value, both initially and in conjunction with subsequent reassessments. 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.

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 operating activities. 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 are reported initially at fair value, net after transaction costs. Borrowing is subsequently reported at accrued historical cost and any difference between amount the 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 realizable 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's revenues relate to contracting agreements for the construction of balconies in connection with new construction or renovation.

Revenue recognition takes place over time when there is no alternative use for the products, since the products are specifically adapted for the customer, and the Group is entitled to payment. The installation element is also reported over time, after which the customer obtains control over the performed service. Customer agreements involved in all essential respects fixed-price agreements.

When applying gradual recognition of revenue and profit, the result emerges in pace with the completion of the project. A basic condition for application of the percentage of completion method is that it must be possible to calculate the total project revenue and costs in a reliable manner.

When revenue and costs can be calculated in a reliable manner and it is likely that the contract will be profitable, revenue is reported over the term of the agreement based on the degree of completion. The degree of completion is determined as incurred expenditures for performed work calculated to the end of the reporting period as a percentage of estimated total expenses for each contract.

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.

Some of the indirect project expenditures which the Group incurs, such as preplanning and calculation, are addressed as completed costs and capitalized and amortized 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.

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 realized, 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 utilized.

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.

Leases - principle applied for 2019

The Group's leases relate in all essential respects to premises, machinery and technical plant as well as vehicles and other equipment.

Leases are reported as right of use assets with a corresponding liability commencing the day on which the leased asset is available for use by the Group. Each lease payment is divided into debt repayment and financial expense. The financial expense is allocated over the lease term, so that each reporting period carries an amount corresponding to a fixed rate of interest for the debt reported in the respective period.

Right of use assets are depreciated on a straight-line basis over the useful life of the asset or the length of the lease agreement, whichever is shorter. Leases are normally taken for a fixed period with an extension option.

Assets and liabilities arising from a lease are initially reported at present value. Lease liabilities include the present value of the following lease payments:

- Fixed charges
- Variable lease charges which depend on an index.
- An amount which expected to be paid with respect to residual value guarantees
- The exercise price for an option to purchase if the Group is reasonably certain that it will exercise such a possibility.

The lease payments are discounted by the leases implicit rate of interest or the marginal loan rate if the implicit rate is not known. The marginal loan rate is the rate which the individual lessee would be required to pay for a loan to purchase an asset of similar value as the right of use in a similar financial environment with similar terms and security.

The right of use assets is valued at historical cost, which includes:

- The initial assessment of the lease debt; and
- Payments made on or before the date when the leased asset is made available to the lessee.

Lease charges related to short-term leases and leases where the underlying asset has a low value are reported as a cost on a straight-line basis over the lease term. Short-term leases are leases for a term of 12 months or less and relate primarily to the lease of scaffolding in conjunction with assembly at construction sites. Leases where the underlying asset has a low value relate in all essential respects to IT equipment and office machinery.

Options for extension and termination of contracts

Some leases include options to extend or terminate the contract prematurely. The terms are used to maximize flexibility in the management of leases. Options to extend or terminate the lease are included in the asset and the liability when it is reasonably certain that they will be exercised.

Leasing - principle applied for 2018

Leases 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. Leases 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

Note 1 cont.

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

Current remuneration in the Group comprises salary, social security contributions, paid holiday, paid sick leave, healthcare 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 35. 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 35.

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 accepts voluntary severance in exchange for such benefits.

The Group reports benefits upon termination when it is demonstrably obliged to terminate the employee in accordance with a detailed formal plan without the possibility for withdrawal. In cases where the Group has made 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 or 2019 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".

Operational leasing

In the Parent Company, all leases are reported in accordance with the rules regarding operational leasing; see Note 33. There were no leases with respect to 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 endeavors to minimize potentially adverse effects on the Group's financial results. Hedge accounting was not applied in 2018 or 2019.

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% (± 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 535,000 SEK (2018: 556,000) 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 1,752,000 SEK (2018: 346,00) lower/ higher largely due to profits/losses when translating trade receiv-

ables 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 221,000 SEK (2018: 234,000) 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 neutralized by cash funds carrying a variable rate of interest. At the end of 2019, 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 2019 had been 100 base points (1%) higher/lower, with all other variables being constant, profit for the financial year would have been (unchanged) 0 SEK (2018: 340,000) lower/higher, primarily as a result of higher/lower interest expenses for borrowing at a variable rate.

Credit risk

The Group has adopted guidelines for ensuring that sales take place to customers with a suitable credit background. Prior to each project, a credit risk assessment is carried out with

respect to the customer. The customer's financial position, historic finances and other factors are taken into account. Credit risk arises primarily through trade receivables and contractual assets. Historically, the Group's credit losses have been small. Payments take place in accordance with a predetermined payment plan. The credit period is generally up to 30 days. There is a policy in place for credit insurance with respect to certain customer categories.

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, while regularly maintaining sufficient headroom on undrawn agreed credit facilities (Note 27), 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 2019	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)	2,500	7,880	20,000	195,216 ¹⁾	-
Overdraft facility	-	-	-	-	-
Liabilities with respect to financial leasing	-	20,673	13,098	18,522	3,457
Derivative instruments	-	2,382	640	-	-
Trade creditors and other liabilities	122,625	-	18,800	-	-
Total	125,125	30,935	52,538	213,738	3,457

1) Maturing 14 September 2022

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 ¹⁾	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	-
Total	139,553	14,733	20,764	268,230	8,570

1) Maturing 14 September 2021

Management of capital

The Group assesses capital on the basis of operating profit excluding amortization/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 amortization/depreciation (EBITDA), other than temporarily.

	31 Dec 2019	31 Dec 2018
Total borrowing (Note 27)	281,345	300,052
Of which liabilities to credit institutions	225,596	228,814
Of which financial leasing	55,750	52,918
Less: cash and cash equivalents (Note 25)	-119,426	-87,034
Less: leasing liabilities	-55,750	-52,918
External borrowing	106,170	160,100
EBITDA	176,879	125,873
External borrowing/EBITDA	0.60	1.28

Note 3 cont.

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)
- Other 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 2019.

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets valued at fair value via profit/loss				
Derivative instruments held for trading				
-Currency derivatives	-	3,422	-	3,422
Total assets	-	3,422	-	3,422
Liabilities				
Financial liabilities valued at fair value via profit/loss				
Derivative instruments held for trading				
-Currency derivatives	-	3,022	-	3,022
Total liabilities	-	3,022	-	3,022

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

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 which is lower than in phase 1. 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 12 MSEK (2018: 11 MSEK).

Trade receivables and contractual assets

The loss reserve in respect of financial assets is based on assumptions of risk of default (e.g. due to financial difficulties of customers such as bankruptcy or financial reorganization) and anticipated loss levels. The Group makes its own assessments as regards assumptions and the choice of input data for the calculation of the impairment. These are based on historic, known market conditions and forward-looking calculations at the end of each reporting period.

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 2019, the warranty reserve comprised 0.5% of net sales (2018: 0.5%) and is reported under accrued expenses, see Note 29.

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 2019, with both increased sales and higher earnings. Continued development and strengthening of the sales and market organization within this segment are planned, at the same time as assessment of previous endeavors is regularly evaluated for best benefit. During the year, order intake within Renovation was

strong and accounted for 85% of the Group's total order intake.

During the year, the New Build segment has continued to work in accordance with the strategy for the segment adopted at the end of 2016, with a changed sales organization and a stricter selection based on the assessment of the risks in the projects. This strategy has yielded the desired result and the segment's earnings have positively during the year. Sales and the order intake increased during the year, mainly due to a positive trend within our maritime projects, where our second order is proceeding according to profitability target and project plan. In addition, new orders have also been obtained.

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.

2019	Renovation	New Build	Group, other	Eliminations	Total
Net sales- External revenue	1,044,418	176,187			1,220,605
Net sales- Internal revenue	-	-	16,090	-16,090	0
Total net sales	1,044,418	176,187	16,090	-16,090	1,220,605
Operating profit (EBITA)	134,558	11,535	-5,735	-	140,358
Amortization/depreciation are included in EBITA in the amount of	32,055	4,466	-	-	36,521
Operating profit (EBITA)	134,558	11,535	-5,735	-	140,358
Financial revenue					828
Financial expenses					-9,511
Profit after financial items					131,675
Tax					-28,849
Profit for the year					102,826

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
Total net sales	947,685	110,367	16,097	-16,097	1,058,052
Operating profit (EBITA)	117,235	-10,646	-964	-	105,625
Amortization/depreciation are included in EBITA in the amount of	18,489	1,759	-	-	20,248
Operating profit (EBITA)	117,235	-10,646	-964	-	105,625
Financial revenue					102
Financial expenses					-6,223
Profit after financial items					99,504
Tax					-22,750
Profit for the year					76,754

Net sales by geographic market

	2019	2018
Sweden	671,434	568,408
Germany	118,352	150,182
Norway	172,177	162,165
Denmark	198,469	146,440
UK	29,417	13,441
Netherlands	3,279	10,000
Finland	21,455	3,161
Switzerland	6,022	4,255
Total	1,220,605	1,058,052

In 2018 and 2019, no individual customer accounted for more than 10% of sales.

Property, plant and equipment by geographic market

Per geographic market	31 Dec 2019	31 Dec 2018
Sweden	549,837	554,467
Norway	2,908	1,012
Denmark	16,617	17,508
Finland	1,243	620
Germany	1,194	235
Netherlands	1,571	92
UK	1,983	-
Poland	66,892	68,794
Total	642,245	642,728

Net sales by customer category

	2019	2018
Tenant-owner associations	851,645	727,726
Private property owners	168,170	111,438
Public housing companies	59,520	113,992
Construction companies	141,270	104,896
Total net sales	1,220,605	1,058,052

NOTE 6 REMUNERATION TO THE AUDITORS

Group	2019	2018
PwC		
Audit engagement	1,339	1,288
Audit work in addition to audit	-	-
Tax advice	43	255
Other services	-	832
Subtotal	1,382	2,375
Audit engagement:		
Alpha Revision AS	46	50
Herman Slater	31	29
BDO Statsautoriseret Revision A/S	142	-
Kancelaria Biegłych Rewidentów "CDP" Sp. z o.o.	38	37
KPMGOy Ab	14	17
Subtotal	271	133
Total	1,653	2,508

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 2019, remuneration paid to the accounting firm Öhrlings PricewaterhouseCoopers AB in respect of services to the Group's Swedish companies was as follows: audit engagement 1,339,000 SEK (2018: 1,171,000), other statutory engagements 0 SEK (2018: 0,000), tax advice 43,000 SEK (2018: 244,000) and other services 0 SEK (2018: 832,000). Other services primarily related to advice in connection with corporate acquisitions, DD.

NOTE 7 REMUNERATION TO EMPLOYEES, ETC.

Group	2019	2018	Parent Company	2019	2018
Salary and other remuneration	151,906	140,037	Salary and other remuneration	8,106	5,840
Social security contributions	48,983	41,667	Social security contributions	3,187	2,297
Pension expenses – defined contribution plans	16,250	18,721	Pension expenses – defined contribution plans	2,036	2,276
Total	217,139	200,425	Total	13,329	10,413

Remuneration and other benefits 2019	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 until 21 May 2019	220	33	-	-	-	-	-	253
Tomas Johansson, Board Chairman as from 22 May 2019	373	107	-	-	-	-	-	480
Carl-Mikael Lindholm, director	210	58	-	-	-	-	-	268
Percy Calissendorff, director until 21 May 2019	90	28	-	-	-	-	-	118
Johannes Nyberg, director	225	58	-	-	-	-	-	283
Åsa Söderström Winberg, director	210	58	-	-	-	-	-	268
Ingalill Berglund, director	255	58	-	-	-	-	-	313
Mikael Andersson from as from 22 May 2019	115	36	-	-	-	-	-	151
Kenneth Lundahl, CEO	2,708	1,255	444	150	895	-	-	5,452
Other senior executives (7 individuals)	6,468	2,991	1,038	473	1997	-	-	12,967
Total	10,874	4,682	1,482	623	2,892	-	-	20,553

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	439	2,014	-	-	12,813
Total	10,797	4,456	837	566	2,834	-	-	19,490

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

Warrants

At an extraordinary general meeting held on 5 October 2017, it was decided to introduce a long-term incentive program for the Company's senior executives and other key employees, in total 39 employees. The incentive program originally covered in total not more than 1,071,440 warrants, which carry an entitlement to subscribe for not more than the same number of shares. The program 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. Balco's total cost for the incentive program during the program term is not expected to exceed 150,000 SEK. Series I expired in September/October 2019 and subscriptions took place for 194,538 new shares. There are 792,099 outstanding series II warrants. The outstanding share of the program entails a maximum dilution corresponding to not more than 3.7% of the total number of shares in the Company.

Year	Number of warrants	Number of exercised warrants	Number of lapsed warrants	Total	Exercise price	Subscription period
2017	-	194,538	21,082	215,620	62,20	5 Sep 2019-5 Oct 2019
2017	679,083	-	-	679,083	-	5 Sep 2020-5 Oct 2020
	679,083	194,538	21,082	894,703		

Gender breakdown in the Group (incl. subsidiaries) as regards directors and CEO.

Group	2019		2018	
	Number on closing date	Of whom women	Number on closing date	Of whom women
Directors	15	4	18	5
CEO	3	1	1	0
Total	18	5	19	5

Parent Company	2019		2018	
	Number on closing date	Of whom women	Number on closing date	Of whom women
Directors	6	2	7	2
CEO	1	0	1	0
Total	8	2	8	2

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% of gross salary as well as 25% of variable remuneration (2018:30% of gross salary and 25% of variable remuneration) 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.

Group	2019		2018	
Average number of employees per country	Average number of employees	Of whom women	Average number of employees	Of whom women
Sweden	229	36	198	34
Norway	6	0	8	0
Denmark	60	7	48	5
UK	7	0	6	0
Netherlands	2	0	3	0
Poland	95	17	101	16
Finland	4	0	2	0
Germany	16	2	19	2
Total	419	62	385	57

Parent Company	2019		2018	
Average number of employees per country	Average number of employees	Of whom women	Average number of employees	Of whom women
Sverige	3	-	2	-
Total	3	-	2	-

The Board proposes to the AGM the adoption of the following guidelines for remuneration to the Company's senior executives.

'Senior executive' means the CEO and Group management. These guidelines shall apply to contractual remuneration and changes made to already agreed remuneration after adoption of the guidelines by the 2020 AGM. Remuneration decided upon by the shareholders at general meetings falls outside the scope of these guidelines. Thus, share-related incentive programs for senior executives or remuneration to the directors for board work are not covered by these guidelines.

Note 7 cont.

The guidelines contribute to the Group's business strategy, long-term interests and sustainability

The Company's business strategy is aimed, in brief, at strengthening the Company's leading position on the market as a supplier of high-quality balcony solutions that are tailored to the customer's specific needs and demands. For more information about the Company's business strategy, see the Company's website, www.balcogroup.se. Successful implementation of the Company's business strategy and realization of its long-term interests, including its sustainability, are conditional on the Company being able to attract, incentivize and retain senior executives. The objective with the remuneration offered by the Company is to be competitive, while at the same time being in line with the shareholders' interests. The types of remuneration provided by the Company shall, together, create well-balanced remuneration which reflects individual skills, responsibility and performance, in both the short-term and long-term, as well as the Company's overall performance.

Decision-making process

The Board has established a Remuneration Committee, whose duties include preparing remuneration-related issues and proposals for the Board with respect to senior executives, as well as any decisions regarding deviations from the guidelines. The Board shall prepare a proposal for new guidelines when the need for significant change arises, however at least every fourth year, and shall present the proposal for adoption by the AGM. The guidelines shall apply until such time as new guidelines have been adopted by the AGM. The Remuneration Committee shall also monitor and assess current and concluded programs for variable remuneration to senior executives, the application of the guidelines for remuneration to senior executives, as well as applicable remuneration structures and remuneration levels in Balco. Senior executives do not participate in the Board's discussions and decisions regarding remuneration-related issues insofar as such relate to the senior executive.

Types of remuneration

Remuneration to senior executives may comprise fixed and variable salary as well as pension and other benefits. In addition, notwithstanding these guidelines the general meeting may, among other things, decide on share-related remuneration.

Fixed and variable salary

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

In addition to fixed annual salary, the executive shall be able to receive variable remuneration. Such variable remuneration shall be based on predetermined and measurable criteria which may be financial and non-financial. The variable salary may be linked directly or indirectly to the achievement of the financial targets set by Balco's Board of Directors, which among other things relate to the Group's operating profit. The non-financial criteria may be linked to sustainability. The variable salary is normally paid out based on performance during 12 months (the calendar year) and is based on the Company's most recently published financial information. The variable cash remuneration is thus linked to the Company's business strategy, long-term interests and sustainability.

The criteria shall be adopted, monitored and assessed annually by the Board of Directors. The variable remuneration for each senior executive may not exceed 50% of fixed annual salary.

Other benefits and pension

The Group offers senior executives other benefits in accordance with local practice. Such 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 shall be entitled to pension benefits based on what is customary in the country in which they are employed. Pension obligations shall be pre-mium-defined and secured through payment of premiums to an insurance company, except where the individual in question is covered by a defined benefit pension in accordance with the provisions of an applicable collective agreement. Variable remuneration shall only constitute the basis for pension benefits if it is in accordance with the provisions of an applicable collective agreement. For each senior executive, pension may not exceed 30% of fixed annual salary, unless higher provisions are stipulated in an applicable pension plan pursuant to a collective agreement.

With respect to employment conditions that are subject to rules other than Swedish rules, pension benefits and other benefits may be adapted to comply with such mandatory rules or local practice, whereupon the overall objectives of these guidelines shall be met.

Salary and employment terms for employees

When preparing the Board's proposal for guidelines for remuneration, salary and employment terms for the Company's employees have been taken into consideration inasmuch as information regarding the total remuneration paid to employees, the components of the remuneration and the increase and rate of increase of the remuneration over time have constituted an element in the information on which the decisions of the Remuneration Committee and the Board of Directors are taken when assessing the reasonableness of the guidelines and the limitations which follow from them.

Termination and severance compensation

Employment agreements entered into between the Company and senior executives are generally open-ended. If the Company terminates the employment of a senior executive, the termination period may not exceed 12 months. Severance compensation is payable only upon termination by the Company and shall not exceed an amount corresponding to the fixed annual salary during the termination period. In the event of termination by the senior executive, the termination period may not exceed six months and severance compensation shall not be paid in the event of termination by the senior executive.

Deviations from the guidelines

The Board is entitled to deviate from these guidelines, wholly or in part, where special reasons so justify and a deviation is necessary to meet the Company's long-term interests, including sustainability, or to ensure the Company's financial viability. As stated above, the duties of the Remuneration Committee in preparing decisions for the Board on the issue of remuneration includes the taking of decisions regarding deviations from the guidelines.

NOTE 8 COSTS BROKEN DOWN BY TYPE

Group	2019	2018
Raw materials, consumables and installation services	-780,000	-666,503
Employee remuneration costs (Note 7)	-217,139	-200,425
Amortization/depreciation and impairment (Notes 15 and 16)	-36,521	-20,248
Transport costs	-20,888	-26,517
Marketing costs	-13,341	-12,420
Operational leasing costs (Note 32)	-	-10,702
Other costs	-12,990	-15,455
Total cost for production, projects, sales and administration	-1,080,879	-952,270

NOTE 9 OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

Group	2019	2018
Other operating income		
Sale of raw material to subcontractors	1,565	737
Total other operating income	1,565	737
Other operating expenses		
Purchase of raw material for onward invoicing	-933	-904
Total other operating expenses	-933	-904

NOTE 10 FINANCIAL INCOME AND EXPENSES/INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS AS WELL AS INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

Group	2019	2018
Financial revenue/Interest income and similar profit/loss items		
Interest income on bank balances	828	102
Interest income on lending	-	-
Financial revenue	828	102
Financial expenses/Interest expenses and similar profit/loss items		
Interest expenses and liabilities to credit institutions	-6,653	-5,428
Result from holdings in associated companies	-1,452	-

Other financial expenses	-1,406	-795
Financial expenses	-9,511	-6,223
Total net financial items	-8,683	-6,121

Parent Company	2019	2018
Financial income/Interest income and similar profit/loss items		
Interest income on bank balances	1,325	513
Financial income	1,325	513
Financial expenses/Interest expenses and similar profit/loss items		
Interest expenses	-1,939	-2,435
Other financial expenses	-1,406	-737
Financial expenses	-3,345	-3,172
Total net financial items	-2,020	-2,659

Intra-group interest income reported in the Parent Company amounts to 1,166,000 SEK (2018: 411,000). Corresponding interest expenses amount to 186,000 SEK (2018: 125,000).

NOTE 11 HOLDINGS IN ASSOCIATED COMPANIES

Group	31 Dec 2019	31 Dec 2018
Opening historical cost	1,422	1,422
Purchases	591	-
Divestments	-	-
Closing accumulated historical cost	2,013	1,422
Opening changes in share of equity	2,171	2,119
Impairment of share of equity in associated companies	-1,452	10
Exchange rate differences	86	42
Closing changes in share of equity	805	2,171
Closing reported value	2,818	3,593

The Group's share in the results of associated companies and its share of the assets and liabilities are as follows:

Indirectly owned	Country of registration	Assets	Liabilities	Revenues	Profit	Owner-ship stake% 2019/2018
MIB-Polska Spolka Zo.o.	Polen	66,013	56,453	87,220	-5,719	25%

The difference between the equity share value using the equity share method in the consolidated financial statements compared with the value of the holdings reported in Nordiska Balco AB, applying the acquisition cost method, is 805,000 SEK (2018: 2,171,000).

NOTE 12 INCOME TAX

Group	2019	2018
Current tax:		
Current tax on profit for the year	-23,070	-17,821
Adjustments for previous years	442	-342
Total current tax	-22,628	-18,163
Deferred tax (see Note 18):		
Occurrence and reversal of temporary differences	-6,221	-4,587
Total deferred tax	-6,221	-4,587
Income tax	-28,849	-22,750

Parent Company	2019	2018
Current tax:		
Current tax on profit for the year	-928	-234
Adjustments for previous years	-	-
Total current tax	-928	-234
Deferred tax (see Note 18):		
Occurrence and reversal of temporary differences	-	-
Total deferred tax	-	-
Income tax	-928	-234

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	2019	2018
Profit before tax	131,675	99,505
Income tax calculated in accordance with the Parent Company's current tax rate, 21.4% (2018: 22%)	-28,178	-21,891
Tax effects of:		
- Foreign tax rates	36	83
- Non-taxable income	311	-
- Non-deductible expenses	-1,334	-838
- Effect of changed tax rates	-126	238
- Adjustments for previous years	442	-342
Tax expense	-28,849	-22,750
Effective tax rate, %	21.9	22.9

Parent Company	2019	2018
Profit before tax	4,325	1,045
Income tax calculated in accordance with the parent company's current tax rate, 21.4% (2018: 22%)	-925	-230
Tax effects of:		
- Non-deductible expenses	-3	-4
Tax expense	-928	-234
Effective tax rate, %	21.4	22.4

NOTE 13 EXCHANGE RATE DIFFERENCES

Exchange rate differences are reported in the income statement as follows:

Group	2019	2018
Production and project costs	-9,872	5,188
Total exchange rate differences in the income statement	-9,872	5,188

The Group endeavors 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 costs.

NOTE 14 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	31 Dec 2019	31 Dec 2018
Opening historical cost	389,067	389,067
Closing historical cost	389,067	389,067

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 2019	31 Dec 2018
					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 Balkonkonstruktionen GmbH	HRB9039	Germany	100			
-Balco Balkonsystemen B.V	57577978	Netherlands	100			
-Balco Altaner 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			
Total				63,000,467	389,067	389,067

On 5 Dec 2018, 100% of the shares in TBO-Haglinds AB were acquired and the company was consolidated as a wholly-owned subsidiary as from 31 Dec 2018. For the information regarding the acquisition, see Note 29 in the 2018 Annual Report.

NOTE 15 INTANGIBLE ASSETS

Group	Goodwill	Trademarks	Acquired order backlog	Patents	Licences	Ongoing	Total
2018 financial year							
Opening reported value	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
Amortization/depreciation	-	-	-	-	-826	-	-826
Exchange rate differences, amortization/depreciation	-	-	-	-	-67	-	-67
Amortization/depreciation reclassification	-	-	-	-	55	-	55
Closing reported value	401,101	43,866	5,640	500	1,765	1,565	454,437
Per 31 December 2018							
Historical cost	401,101	43,866	5,640	500	6,865	1,565	459,537
Accumulated amortization/depreciation	-	-	-	-	-5,100	-	-5,100
Reported value	401,101	43,866	5,640	500	1,765	1,565	454,437
2019 financial year							
Opening reported value	401,101	43,866	5,640	500	1,765	1,565	454,437
Purchases	-	-	-	-	21	2,072	2,093
Reclassification	-	-	-	-	349	-349	0
Exchange rate differences, historical costs	116	152	-	-	33	-3	298
Amortization/depreciation	-	-	-1,884	-50	-784	-	-2,718
Exchange rate differences, amortization/depreciation	-	-	-	-	-32	-	-32
Closing reported value	401,217	44,018	3,756	450	1,352	3,285	454,078
Per 31 December 2019							
Historical cost	401,217	44,018	5,640	500	7,269	3,285	461,929
Accumulated amortization/depreciation	-	-	-1,884	-50	-5,917	-	-7,851
Reported value	401,217	44,018	3,756	450	1,352	3,285	454,078

Amortization costs of 2,718,000 SEK (2018: 826,000) are included in production and project costs.

Test for impairment of goodwill and trademarks

Management assesses the performance of the business based on the operations. Renovation and New Build have been identified as the main businesses. Goodwill and trademarks have been 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

2018	Renovation	New Build	Group
Opening reported value	371,786	257	372,043
Exchange rate difference, historical cost	237	12	249
Acquisitions	28,809	-	28,809
Sales	-	-	-
Impairment	-	-	-
Closing reported value	400,832	269	401,101

2019	Renovation	New Build	Group
Opening reported value	400,832	269	401,101
Exchange rate difference, historical cost	111	5	116
Acquisitions	-	-	-
Sales	-	-	-
Impairment	-	-	-
Closing reported value	400,943	274	401,217

Trademarks

2018	Renovation	New Build	Group
Opening reported value	9,193	484	9,677
Exchange rate difference, historical cost	370	19	389
Acquisitions	33,800	-	33,800
Sales	-	-	-
Impairment	-	-	-
Closing reported value	43,363	503	43,866

Note 15 cont.

2019	Renovation	New Build	Group
Opening reported value	43,363	503	43,866
Exchange rate difference, historical cost	145	7	152
Acquisitions	-	-	-
Sales	-	-	-
Impairment	-	-	-
Closing reported value	43,508	510	44,018

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:

2018	Renovation	New Build
EBITDA-margin ¹⁾	14.5 %	1.9 %
Annual rate of growth ²⁾	7.2 %	7.2 %
Discount rate ³⁾	8.11% after tax (8.62% before tax)	8.11% after tax (8.62% before tax)
Long-term rate of growth ⁴⁾	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.

2019	Renovation	New Build
EBITDA-margin ¹⁾	16.3%	6.9%
Annual rate of growth ²⁾	7.8%	7.8%
Discount rate ³⁾	8.06% after tax (8.57% before tax)	8.06% after tax (8.57% before tax)
Long-term rate of growth ⁴⁾	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 trade marks for any of the years.

NOTE 16 RIGHTS OF USE

Group	Premises	Plant and machinery	Vehicles and other equipment	Total
2019 financial year				
Effect of change in accounting principles	39,156	7,350	16,883	63,389
New contracts	5,793	-	6,165	11,958
Exchange rate difference, historical cost	-109	-	-125	-234
Amortization	-10,012	-2,604	-8,501	-21,117
Exchange rate difference, amortization	41	-	46	87
	34,869	4,746	14,468	54,083

Amortization expenses on 14,393,000 SEK (2018: 0) are included in production and project costs; 6,042,000 SEK (2018: 0) in selling expenses; and 682,000 SEK (2018: 0) in administrative expenses.

In previous years, leases were included as property, plant and equipment in Note 17 and as leasing liabilities in Note 33. For further information regarding the effects of the transition, see Note 2.

Leasing liabilities	31 Dec 2019	31 Dec 2018
Current	20,673	-
Non-current	35,077	-
Total	55,750	-

	2019	2018
Interest expenses with respect to leasing are included in financial expenses in the amount of	-2,006	-
Expenditures attributable to short-term leases	-16,508	-
Expenditures attributable to leases which are not short-term leases, where the underlying asset is of minor value	-858	-

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings and land	Machinery and other plant	Equipment, tools, fixtures and fittings	Constructions in progress	Total
2018 financial year					
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
Closing reported value	116,004	28,200	31,510	12,577	188,291
Per 31 December 2018					
Historical cost	130,549	99,985	53,235	12,577	296,346
Accumulated depreciation	-14,545	-71,785	-21,725	-	-108,056
Reported value	116,004	28,200	31,510	12,577	188,291
2019 financial year					
Opening reported value	116,004	28,200	31,510	12,577	188,291
Adjustment, changed accounting principles	-27,198	-5,194	-17,737	-	-50,130
Adjustment, opening reported value	88,806	23,006	13,773	12,577	138,161
Exchange rate difference, historical cost	1,130	643	252	13	2,038
Purchases	3,843	530	1,509	2,834	8,716
Sales and disposals	-	-6,107	-664	-	-6,771
Reclassifications	-	12,780	978	-13,958	-200
Depreciation, reversal upon sale	-	5,187	41	-	5,228
Exchange rate difference, depreciation	-28	-296	-79	-	-403
Depreciation	-2,605	-6,104	-3,977	-	-12,686
Closing reported value	91,146	29,639	11,833	1,466	134,084
Per 31 December 2019					
Historical cost	95,449	77,910	30,000	1,466	204,825
Accumulated depreciation	-4,303	-48,271	-18,167	-	-70,741
Reported value	91,146	29,639	11,833	1,466	134,084

Depreciation costs of 10,015,000 SEK (2018: 16,429,000) are included in production and project costs; 123,000 SEK (2018: 80,000) in selling expenses; and 2,548,000 SEK (2018: 2,913,000) in administrative expenses.

The items above include lease objects which the Group holds under financial leases in the following amounts:

	31 Dec 2019	31 Dec 2018
Historical cost – capitalized financial leasing	-	97,629
Accumulated depreciation	-	-41,955
Reported value	-	55,673

Commencing 2019 and the transition to IFRS 16, leases are reported under a separate note; see Note 16 Rights of use.

NOTE 18 DEFERRED TAX

Group	31 Dec 2019	31 Dec 2018
Deferred tax expense regarding temporary differences	-5,715	-6,518
Deferred tax income regarding temporary differences	-506	1,931
Total deferred tax in the income statement	-6,221	-4,587

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	Buildings	Trademarks/ Order backlog	Untaxed reserves	Other	Total
Per 1 January 2018	0	0	-4,466	-333	-4,799
Reported in income statement	0	0	-5,654	282	-5,372
Through acquisition of subsidiaries	-6,180	-8,125	-2,539	-651	-17,495
Per 31 December 2018	-6,180	-8,125	-12,659	-702	-27,666
Per 1 January 2019	-6,180	-8,125	-12,659	-702	-27,666
Reported in income statement	497	405	-6,499	-118	-5,715
Through acquisition of subsidiaries	0	0	0	-225	-225
Per 31 December 2019	-5,683	-7,720	-19,158	-1,045	-33,606

Other deferred tax liabilities relate to tax liability attributable to the acquisition in 2015 of Kontech, 0 SEK (2018: 51,000).

Deferred tax assets	Loss carry forwards	Derivative instrument	Leasing, etc.	Total
Per 1 January 2018	300	161	473	934
Reported in income statement	1,058	146	-473	731
Reported via equity	0	0	0	0
Per 31 December 2018	1,358	307	0	1,665
Per 1 January 2019	1,358	307	0	1,665
Reported in income statement	-285	-307	86	-506
Reported via equity	325	0	321	646
Per 31 December 2019	1,398	0	407	1,805

Deferred tax assets are reported for taxable loss carry forwards to the extent it is likely that they might be utilized through future taxable profits. Loss carry forwards do not lapse on any given date.

NOTE 19 INVENTORIES

Group	31 Dec 2019	31 Dec 2018
Raw materials and consumables	25,997	26,384
Total	25,997	26,384

The item 'production and project expenses' includes inventory expenses booked as costs amounting to 37,054,000 SEK (2018: 41,371,000). Other income statement items include inventory expenses booked as costs at 0 SEK (2018: 0). During the period, Group inventories were written down by 573,000 SEK (2018: 557,000).

NOTE 20 FINANCIAL INSTRUMENTS BY CATEGORY

Balance sheet assets	Fair value via profit/loss	Accrued historical cost	Fair value via other comprehensive income	Total
31 December 2019				
Other non-current receivables	-	-	-	-
Other investments held as fixed assets	-	-	20	20
Trade receivables	-	135,536	-	135,536
Derivative instruments	3,422	-	-	3,422
Cash and cash equivalents	-	119,426	-	119,426
Total	3,422	254,962	20	258,404

Balance sheet assets	Fair value via profit/loss	Accrued historical cost	Fair value via other comprehensive income	Total
31 December 2018				
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
Total	2,227	249,229	20	251,475

Balance sheet liabilities	Fair value via profit/loss	Accrued historical cost	Total
31 December 2019			
Liabilities to credit institutions	-	281,346	281,346
Supplemental purchase price	18,800	-	18,800
Trade creditors	-	122,625	122,625
Derivative instruments	3,022	-	3,022
Total	21,822	403,971	425,793

Balance sheet liabilities	Fair value via profit/loss	Accrued historical cost	Total
31 December 2018			
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
Total	21,980	420,248	442,228

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 2019, the nominal amount of outstanding futures contracts was 281,672,000 SEK (2018: 192,514,000). 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 costs.

Hedge accounting is not applied; see also Note 3.

NOTE 21 TRADE RECEIVABLES

Group	31 Dec 2019	31 Dec 2018
Trade receivables	136,398	162,421
Less: provision for bad debts	-862	-786
Trade creditors, net	135,536	161,635

On 31 December 2019, satisfactory trade receivables amounted to 135 536,000 SEK (2018: 161 635,000).

On 31 December 2019, trade receivables amounting to 29,019,000 SEK (2018: 45,089,000) 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 2019	31 Dec 2018
1-30 days	19,509	28,238
31-60 days	1,811	6,025
>61 days	7,699	10,826
Total due trade receivables	29,019	45,089

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 2019	31 Dec 2018
Per 1 January	-786	0
Provision for bad debts	-280	-786
Receivables written off during the year as non-collectable	-	-
Reversed non-utilized amount	204	-
Per 31 December	-862	-786

Provisions and reversal of bad debt provisions are included in the item 'production and project costs' in the income statement.

NOTE 22 CONTRACTUAL ASSETS AND CONTRACTUAL LIABILITIES

Group	Accumulated engagement expenses	Less invoiced amounts	Completion costs	Net amount in balance sheet for ongoing engagements
Per 1 January 2017	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
Per 31 December 2018	1,255,509	-1,205,293	21,002	71,218
Per 1 January 2019	1,255,509	-1,205,293	21,002	71,218
Agreements added during the year	609,897	-562,063	27,239	75,073
Agreement ended during the year	-401,175	389,237	-26,528	-38,466
Per 31 December 2019	1,464,231	-1,378,119	21,713	107,825

Outstanding order backlog on 31 December 2019 was 1,522.4 MSEK.

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 149,235,000 SEK (2018: 116,871,000) and contractual liabilities amount to 41,410,000 SEK (2018: 45,653,000), yielding a net amount of 107,825,000 SEK (2018: 71,218,000).

Amounts withheld by customers amounted to 0 SEK (2018: 0).

NOTE 23 OTHER RECEIVABLES

Group	31 Dec 2019	31 Dec 2018
VAT claims	5,143	2,846
VAT deposit	2,214	1,180
Tax account	1,294	2,482
Other	1,351	896
Total	10,002	7,404

NOTE 24 PREPAID EXPENSES AND ACCRUED INCOME

Group	31 Dec 2019	31 Dec 2018
Prepaid invoices	8,564	6,537
Deposit for premises	853	579
Other	2,124	4,325
Total	11,541	11,441
Parent company	31 Dec 2019	31 Dec 2018
Prepaid invoices	652	578
Total	652	578

NOTE 25 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 26 SHARE CAPITAL

Share capital comprises 21,623,311 shares.

Shares carry 1 vote per share. The quotient value is 6.0002 SEK. All shares issued by Balco Group AB are paid up in full.

NOTE 27 BORROWING

Group	31 Dec 2019	31 Dec 2018
Non-current		
Liabilities to credit institutions	215,216	228,074
Liabilities regarding financial leasing	35,077	43,214
Total non-current borrowing	250,293	271,288
Current		
Liabilities to credit institutions	10,380	740
Liabilities regarding financial leasing	20,673	9,704
Total current borrowing	31,053	10,444
Total borrowing	281,346	281,732

Parent Company	31 Dec 2019	31 Dec 2018
Non-current		
Liabilities to credit institutions	110,000	161,055
Total non-current borrowing	110,000	161,055
Current		
Liabilities to credit institutions	10,000	-
Total current borrowing	10,000	-
Total borrowing	120,000	161,055

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. 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 2019	Maturity date
Danske bank	225,216	14 Sep 2022
AGCO Finance	380	30 Jun 2027
Total borrowing from credit institutions	225 596	

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 amount to 65,000,000 SEK (2018: 65,000,000).

The Group also has at its disposal a separate credit facility for acquisitions amounting to 100,000,000 SEK (2018: 20,000,000).

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 leases, see Note 33 Leases.

Covenants

In 2019, the Group met all of its obligations to the bank under applicable covenants. 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 28 OTHER LIABILITIES

Group	31 Dec 2019	31 Dec 2018
Personnel taxes	3,555	3,187
VAT liability	14,550	18,129
Commission liability, non-personnel	0	176
Other	2,580	4,372
Total	20,685	25,864

Parent Company	31 Dec 2019	31 Dec 2018
Personnel taxes	208	178
VAT liability	637	868
Total	845	1,046

NOTE 29 ACCRUED EXPENSES AND DEFERRED INCOME

Group	31 Dec 2019	31 Dec 2018
Personnel liabilities	41,260	40,004
Project-related provisions	2,298	2,457
Warranty provision	5,301	5,169
Other	5,450	8,789
Total	54,309	56,419

Parent Company	31 Dec 2019	31 Dec 2018
Personnel liabilities	2,975	1,603
Accrued interest	570	512
Other	166	-
Total	3,711	2,115

NOTE 30 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.

More information is available in the press releases dated 15 November and 13 December 2018. The prepared acquisition calculation has not changed during 2019 and the information provided in the Annual Report 2018, Note 29, is affirmed.

NOTE 31 PLEDGED ASSETS

Group	31 Dec 2019	31 Dec 2018
<i>For own liabilities and provisions, and those of Group companies</i>		
Property mortgages	9,085	9,085
Floating charges	15,700	15,700
Assets with retention of title rights	380	756
Total	25,165	25,541

Parent Company	31 Dec 2019	31 Dec 2018
<i>For liabilities and provisions of Group companies</i>		
Participations in subsidiaries	-	-
Total	-	-

NOTE 32 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, 201 MSEK (2018: 177 MSEK) 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.

NOTE 33 LEASES

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 2019	31 Dec 2018
Future total minimum leasing fees		
Within 1 year	-	9,912
Between 1 and 5 years	-	36,389
More than 5 years	-	7,675
	-	53,976
Future financial costs for	-	-1,058
financial leasing	-	52,918
Present value of financial leasing-liabilities		

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.

Future minimum leasing fees under non-terminable operational leasing agreements, in force at the end of the reporting period, fall due as follow:

Group	31 Dec 2019	31 Dec 2018
Within 1 year	-	7,200
Later than one year but within five years	-	5,436
Later than five years	-	220
Total	-	12,856

Operational leasing costs in the Group during the financial year amounted to 0 SEK (2018: 10,702,000).

Parent Company	31 Dec 2019	31 Dec 2018
Within 1 year	398	-
Later than one year but within five years	330	-
Later than five years	-	-
Total	728	-

Operational leasing expenses in the Parent Company during the financial year amounted to 128,000 SEK (2018: 0).

For information concerning the Group's leasing agreements, see Note 16.

NOTE 34 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.

	2019	2018
Earnings for the period attributable to	102,996	78,640
equity holders of the Parent Company	102,996	78,640
Earnings for the period after income paid on preference shares	21,461	21,429
Weighted average number of outstanding ordinary shares (thousands)	4.81	3.67
Earnings per ordinary share, SEK, before dilution	4.76	3.67
Earnings per ordinary share, SEK, after dilution		

NOTE 35 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 2018 and 2019 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 12,008,000 SEK (2018: 14,626,000).

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 2019 Alecta's surplus in the form of the collective funding level amounted to 148 percent (2018: 142 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	2019	2018
Reporting in the income statement regarding:		
Costs for defined-contribution pension plans	12,707	15,477
Income statement	12,707	15,477

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	2019	2018
Sales of goods		
- Associated company MIB-Polska Spolka Zo.o.	868	612
Sales of services:	-	-
Total	868	612

Purchases of goods and services	2019	2018
Purchases of goods:		
Purchases of services:		
- MIB-Polska Spolka Zo.o.	2,321	6,916
- Other related parties (goods and services)	11	2,103
Total	2,852	9,019

Parent Company	2019	2018
Intra-Group of sales and purchases		
The year's intra-Group purchases and sales are stated below:		
Purchases (SEK '000)	-	-
Sales (SEK '000)	14,812	15,204

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

The Group had no loans to related parties during 2019 or 2018.

NOTE 37 EVENTS SINCE THE CLOSING DATE

Covid-19:

At present all production units are in full operation and projects are proceeding as planned. Sales work has been scheduled so as to be carried out safely for both our customers and our employees.

Balco's management is monitoring each day developments in the countries in which we operate and is doing everything possible to perform our obligations to our customers and to ensure the health of both our employees and our business.

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 17 June 2020.

The Board proposes to the Annual General Meeting that a dividend of 2.50 SEK per share be issued in respect of the 2019 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	393,464,486
Retained earnings	-250,868,432
Profit for the year	3,396,428
Total	145,992,482

The Board proposes that the profit be appropriated as follows:

Dividend to the shareholders	54,058,278
Carried forward	91,934,204
Total	145,992,482

The Board and the CEO provide an assurance that the consolidated financial statements and annual report have been prepared in accordance with International Financial Reporting 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, 7 April 2020

Tomas Johansson
Chairman

Ingall Berglund
Director

Carl-Mikael Lindholm
Director

Mikael Andersson
Director

Åsa Söderström Winberg
Director

Johannes Nyberg
Director

Kenneth Lundahl
CEO

Our auditor's report was presented on 3 April 2020, Jönköping
Öhrlings PricewaterhouseCoopers AB

Martin Odqvist
Authorized Public Accountant

Ulf Carlström
Authorized Public Accountant

AUDITOR'S REPORT

To the general meeting of Balco Group AB, reg. no. 556821-2319

REPORT ON THE ANNUAL REPORT AND THE CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Balco Group AB for 2019, with the exception of the corporate governance report on pages 59-69. The Company's annual accounts and consolidated accounts are included on pages 44-99 of 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 the Parent Company as of 31 December 2019 and its financial performance and cash flow for the year in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2019 and its financial performance and cash flow for the year in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not extend to the corporate governance report on pages 58-69. The administration report is consistent with 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 consolidated statement of comprehensive Income for the Group.

Our opinions in this report regarding the annual accounts and the consolidated accounts are consistent with the contents of the additional report that has been submitted to the audit committee of the Parent Company in accordance with the Statutory Audit Regulation No 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, to the best of our knowledge and belief, no prohibited services referred to in the Statutory 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 work

Focus and scope of the audit

We have structured our audit by determining materiality and assessing the risk of material misstatements in the consolidated accounts. In particular, we considered areas in which the CEO and the Board of Directors have made subjective judgments, for example significant accounting estimates that involved making assumptions and forecasts of future events, which are inherently uncertain. As with all audits, we have also addressed the risk of the Board of Directors and the CEO overriding internal controls including, among other matters, consideration of whether there was evidence of bias that represented a material risk of misstatement due to fraud.

We have tailored our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated accounts as a whole, taking into account the Group's structure, accounting procedures 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 a group audit, been reviewed to a lesser extent than a full audit.

Materiality

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

Based on our professional assessment, we have determined quantitative thresholds for materiality in the audit of the financial statements as a whole. These, together with qualitative considerations, helped us determine the scope of the audit and the nature, timing and extent of our audit procedures. Quantitative thresholds of materiality are also used to evaluate the effect of any misstatement, both individually and in aggregate, on the financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of greater significance in our audit of the annual accounts and consolidated accounts for the relevant period. These matters were addressed in the context of our audit of, and informing 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 matters

Net sales and percentage of completion

On page 81 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 workup level (percentage of completion). Most of the Group's net sales in 2019 (totaling 1,221 MSEK) were reported in accordance with the percentage of completion method.

Balco Group describes this in Note 4 and the section 'Revenue recognition' on page 84. The principle entails that reported revenue and profit margin are partially based on estimates and assessments of future results, which involve an inherent uncertainty

How our audit addressed key audit matters

We have tested a selection of the controls in the Balco Group's income recognition process in order to assess the design of the controls and, in certain cases, their efficacy.

We have tested that the Group applied its accounting principles consistently with previous years and that the principles are consistent with IFRS.

We have tested expenses reported in a selection of projects to ensure that correct expenses are included in project expenses in accordance with the Balco Group's principles.

Based on the calculations prepared for each project, 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.

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.

Finally, we have verified that the disclosure in these annual accounts agrees with the opinion we have formed during the audit.

Information other than the annual accounts and consolidated financial statements

This document also contains information other than the annual accounts and consolidated accounts, set forth on pages 1-57 and 103-105. The Board of Directors and the CEO are responsible for the 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, based on the work we have performed, we 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.

Responsibility of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the annual accounts and the consolidated accounts in accordance with the Annual Accounts Act and, with respect to the consolidated accounts, in accordance with IFRS as adopted by the EU, and the Annual Accounts Act. The Board of Directors and the CEO are also responsible for such internal controls as they deem necessary to enable 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 CEO are responsible for assessment of the Company and the Group's ability to continue as a going concern. They disclose, where appropriate, matters related to going concerns and apply the going concern basis of accounting. The going concern basis of accounting is not, however, applied if the Board of Directors and the CEO intend to liquidate the Company, to cease operations or have no realistic alternative to doing so.

The audit committee shall, without prejudice to the responsibilities and tasks in general of the Board of Directors, among other things monitor the Company's financial reporting.

The auditor's responsibility

Our objectives are to achieve reasonable assurance as to whether the annual accounts and the consolidated accounts as a whole are free of any material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance constitutes a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise due to 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 the website of the Swedish Inspectorate of Auditors: www.revisionsinspektion.se/revisornsansvar. This description constitutes a 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 Balco Group AB for 2019 by the Board of Directors and the CEO, as well as proposed appropriations of the Company's profit or loss.

We recommend to the general meeting that the profit be appropriated in accordance with the proposal in the administration report and that the directors and the CEO be granted discharge from liability for the financial year.

Basis for opinions

We have 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 generally accepted auditing standards in Sweden and have otherwise fulfilled our professional ethics responsibilities in accordance with those 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 CEO

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. A proposed dividend includes, among other things, an assessment of whether the dividend is justified considering the requirements which the nature, scope and risks associated with the business of the Company and the Group impose with respect to the size of the Parent Company and the Group's equity, need to strengthen the balance sheet, liquidity, and financial position in general.

The Board of Directors is responsible for the Company's organization and administration of the Company's affairs. This includes, among other things, continuous assessment of the financial circumstances of the company and the Group, and ensuring that the Company's organization is structured so that the accounting, funds administration and the Company's financial affairs are otherwise controlled in a reassuring manner. The CEO shall attend to the ongoing administration in accordance with guidelines and instructions issued by the Board of Directors and otherwise take such measures as are necessary to ensure that the Company's accounts are maintained in accordance with law and that funds administration is managed in a reassuring manner.

Auditor's responsibility

Our objective with the audit of the administration, and thereby our opinion regarding discharge from liability, is to obtain audit evidence in order, with a reasonable degree of assurance, to assess whether any director or the CEO has, in any material respect:

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

Our objective with the audit of the proposal regarding appropriations of the Company's profit or loss, and thereby our opinion thereon, is to assess with a reasonable degree of assurance whether the proposal is compatible with the Companies Act.

Reasonable assurance constitutes 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 a proposed appropriations of the Company's profit or loss are not compatible with the Companies Act.

A further description of our responsibility for the audit of the administration is available on the website of the Swedish Inspectorate of Auditors: www.revisionsinspektion.se/revisornsansvar. This description constitutes a part of the auditor's report.

The auditor's review of the corporate governance report

The Board of Directors is responsible for the corporate governance report on pages 58-69 and that it is prepared in accordance with the Annual Accounts Act.

Our review has taken place in accordance with FAR's opinion RevU 16 The Auditor's review of the corporate governance report. Accordingly, our review of the corporate governance report has a different focus, and is significantly less extensive, than the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides us with a sufficient basis for our opinion.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, section 6, second paragraph, subsections 2-6 of the Annual Accounts Act and Chapter 7, section 31, second paragraph of the same Act are consistent with the other parts of the annual accounts and the consolidated accounts.

Öhrlings PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed Balco Group AB's auditor by the general meeting held on 21 May 2019 and has been the Company's auditor since 25 October 2010.

Jönköping, 7 April 2020
Öhrlings PricewaterhouseCoopers AB

Martin Odqvist
Authorized Public Accountant

Ulf Carlström
Authorized 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 analyzing 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
Return on equity	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.
Return on capital employed	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 respective 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.
Return on capital employed excl. goodwill	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 respective 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.
Gross profit	Net sales less production a project costs.	Shows the efficiency of Balco's business and, together with EBIT, provides a comprehensive view of ongoing profit generation and cost structure.
Gross margin	Gross profit as a percentage of net sales.	A key ratio used to analyzes efficiency and value creation.
EBITDA	Profit before interest, taxes, depreciation and amortization.	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 activities.
External interest-bearing net debt	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.
External interest-bearing net debt relative to adjusted EBITDA	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.
Adjusted EBITDA	EBITDA adjusted for non-recurring items. For 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.
Adjusted EBITDA margin	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.
Adjusted operating margin (EBIT)	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.
Adjusted operating profit (EBIT)	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 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).

Operating cash flow	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.
Interest-bearing net debt	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.
Working capital	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.
Operating margin (EBIT)	Operating profit (EBIT) as a percentage of net sales.	Balco believes that operating margin together with sales growth and adjusted working capital is a useful measurement for monitoring the creation of value in the business.
Operating profit (EBIT)	Profit before interest and tax.	Balco believes that operating profit (EBIT) is a useful measurement for showing the profit generated in the ongoing business.
Equity ratio	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.
Capital employed	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.
Capital employed excl. goodwill	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 MSEK	2019	2018
Adjusted operating profit		
Operating profit	140.4	105.6
Acceleration costs, Maritime	-	13.3
Other non-recurring items	-	1.2
Adjusted operating profit	140.4	120.2
Adjusted EBITDA		
Adjusted operating profit	140.4	120.2
Amortization/depreciation	36.5	20.2
Adjusted EBITDA	176.9	140.4
Operating cash flow		
Adjusted EBITDA	176.9	140.4
Change in working capital	-37.7	-82.7
Investments, excluding expansion investments	-5.3	-8.3
Operating cash flow	133.9	49.4
External interest-bearing net debt		
External non-current interest-bearing liabilities	250.7	271.3
Current interest-bearing liabilities	30.7	10.4
Cash and cash equivalents	-119.4	-87.0
Interest-bearing net debt	161.9	194.7
Adjusted EBITDA, (R12)	176.9	140.4
Interest-bearing net debt/EBITDA 12 months, times	0.9x	1.4x
Return on capital employed, %		
Equity	514.5	440.5
External interest-bearing net debt	161.9	194.7
Average capital employed	655.8	555.8
Adjusted operating profit (EBIT)	140.4	120.2
Return on capital employed, % (R12)	21.4	21.6
Equity ratio		
Equity attributable to equity holders of the Parent Company	514.5	440.5
Balance sheet total	1,105.9	1,063.2
Equity ratio, %	46.5	21.4

Key ratios for 2018 have not been recalculated in accordance with IFRS 16.



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