

**PEOPLE FIRST,
THEN
TECHNOLOGY.**

**ANNUAL REPORT
2018**

Contents

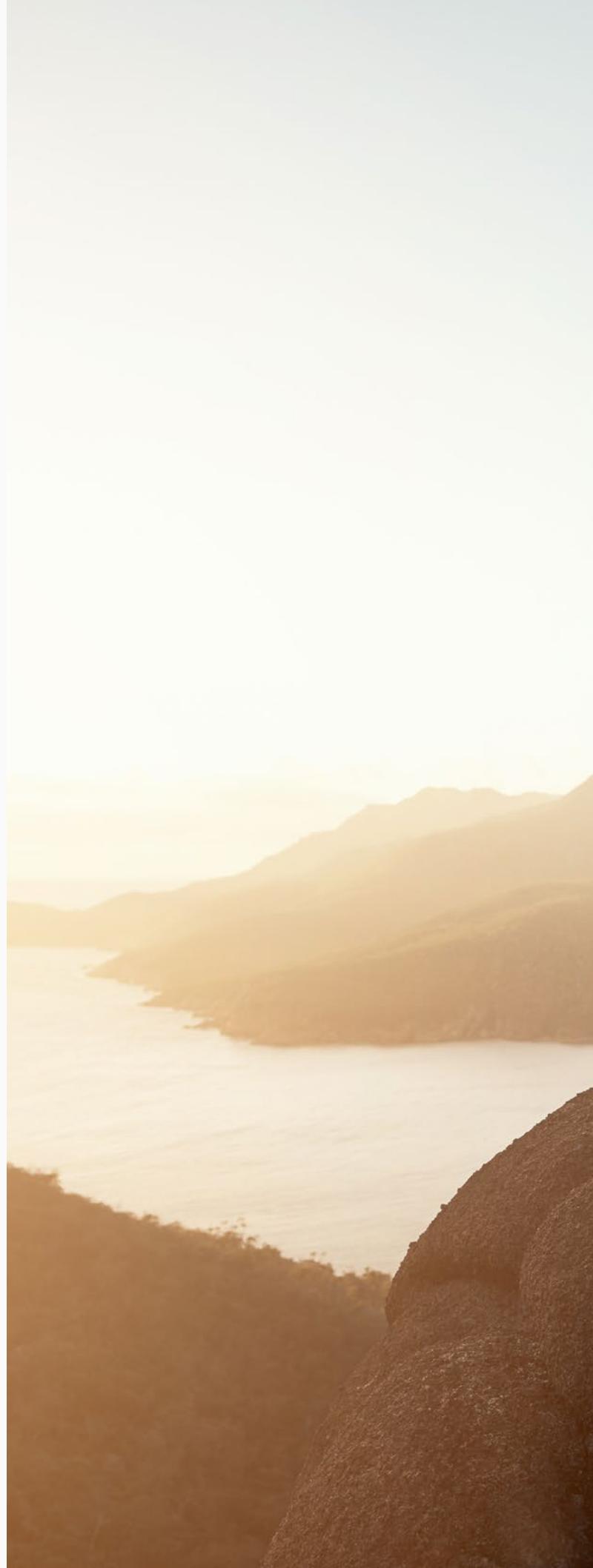
- 6 Semcon's 2018
- 8 CEO's comments
- 10 Strategy
- 12 Employees
- 15 History
- 16 Semcon's shares
- 18 Business models
- 22 What we do
- 24 Macro trends
- 26 Focus industries
- 28 Market
- 32 Sustainability report
- 37 Research, development and innovation
- 38 Financial statements
- 78 Auditor's report
- 82 Definitions
- 83 Glossary
- 84 Corporate Governance Report
- 90 Board of Directors
- 92 Group management
- 94 Five-year summary

Information about Semcon's business, financial reporting, previous Annual Reports, share information, corporate governance, activities and press releases, etc. can be found on Semcon's website at www.semcon.com, where you can also subscribe to and order financial information via e-mail.

For sustainability reasons, Semcon has chosen to only distribute the Annual Report to shareholders who have specifically requested a copy. Before the Annual Report is published each year, new shareholders are sent an order form giving them the opportunity of subscribing for the coming printed versions of the Annual Reports. You can also order a copy of the Annual Report from Semcon's website, semcon.com.

Contacts:

Björn Strömberg, CFO,
bjorn.stromberg@semcon.com
Sofia Lindqvist, Investor Relations Manager,
sofia.lindqvist@semcon.com



PRODUCT DEVELOPMENT BASED ON HUMAN BEHAVIOUR.



PEOPLE FIRST, THEN TECHNOLOGY.

For us, a deep understanding of people and their behaviours is central to everything we do. This knowledge makes it possible to develop better products. Better for the end user, but also better for our customers, as a product of higher perceived quality provides a greater competitive advantage – and usually increased sales too.

User experience is the real proof of quality and is crucial for all companies and organisations. We are convinced of this. And if it is crucial for our customers' future then there is nothing more important for us at Semcon.



SEMCON'S 2018.

This is Semcon

Semcon is an international technology company that develops products for our customers based on human needs and behaviours. We strengthen our customers' competitiveness by always starting from the end user, because the person who knows most about the user's needs creates the best products and the clearest benefits. Semcon's customers are primarily in industry, life science, automotive, energy and telecom & IT sectors. With more than 2,100 dedicated employees, Semcon has the ability to take care of the entire product development cycle – from strategy and technology development to design and product information. Semcon was founded in Sweden in 1980 and has offices in over 30 locations in eight different countries.

In April, Semcon acquired the German product information company Haas-Publikationen.

London's taxi drivers need easily accessible information about the car's functions. Moreover, service technicians need to efficiently service the cars. As exclusive partner to the London Electric Vehicle Company, Semcon has delivered product information that enhances the experience and maximises the use of the world's most advanced electrified taxis.



OPERATING PROFIT
120
SEK MILLION

Income and operating margin



2018	Q1	Q2	Q3	Q4
Operating income	SEK 468 million [475]	SEK 479 million [447]	SEK 405 million [367]	SEK 490 million [473]
Operating profit	SEK 40 million [40]	SEK 21 million [10]	SEK 18 million [9]	SEK 41 million [37]
Operating margin	8.5% [8.5]	4.3% [2.1]	4.4% [2.4]	8.4% [7.7]
Number of employees at the end of the period	2,042 [2,077]	2,126 [2,077]	2,122 [2,082]	2,119 [2,076]

INCOME
1.8
SEK BILLION

The year in brief

A sharp improvement in operating profit for the year with a strong finish in the fourth quarter. Operating profit for 2018 rose 26 per cent and earnings per share 31 per cent. Structural efficiency enhancements conducted during the year have produced excellent results. In Business Area Engineering Services, a high level of productivity and the development of the digital offering contributed to the positive performance. Business Area Product Information, which noted a weak start to the year, improved its operating profit during the second half of the year. Digitization was also a contributing factor here, with a strong offering to customers' aftermarket business. Cash flow from current activities rose to SEK 110 million [37]. In light of this and the positive earnings trend, the Board of Directors is proposing an increase in the regular dividend to SEK 3.00 per share [2.50].

Key figures

	2018	2017
Operating income [mSEK]	1,842	1,762
Operating profit [mSEK]	120	95
Operating margin [%]	6.5	5.4
Equity/assets ratio [%]	60.6	61.2
Return on capital employed [%]	21.4	14.1
Dividend per share, regular [SEK]	3,00*	2.50
Earnings per share after dilution [SEK]	5.25	4.00
Share price at year-end	47.30	47.70
Number of employees at year-end	2,119	2,076

*Board's proposal

NUMBER OF EMPLOYEES
2,119

Important events during the year are presented in the Director's Report on page 39.



Markus Granlund, President and CEO

“

Thanks to our digital cutting-edge expertise, strong financial position and diversification in industries and business models, we enter the new year with outstanding opportunities.

SUCCESSFUL 2018.

would like to start by thanking our customers, partners, shareholders and colleagues for your strong commitment and collaboration during the past year. Our shared drive laid the foundation for a successful 2018 when we succeeded in strengthen our position as strategic partner in prioritised industries. The rapid technology shifts make it more relevant than ever to focus on human needs and behaviours – not technology for its own sake. Accordingly, our focus is always on creating the greatest benefits for the end user.

By exceeding user expectations on the experience of the technology, we help in parallel to make our customers more competitive. This is possible thanks to our dedicated and inspired employees, and also by steady and determined measures to improve efficiency and strengthen our margins. Our enhanced results for 2018 demonstrate that this is a successful strategy.

Strong improvement in operating profit

It is gratifying that our operating profit rose 26 per cent and earnings per share 31 per cent compared with last year. Semcon's financial position is robust, with net cash of SEK 44 million at the end of 2018. This provides us with the conditions to continue to expand in product development, production optimisation and aftermarket. Not least by supporting our customers in the shift from hardware to software and from product to service.

This digital journey has been a contributing factor to Business Area Engineering Services's improvement in operating profit by 50 per cent compared with last year. Our other business area, Product Information, made a strong recovery in the second half of the year following a challenging start. In light of Semcon's results and favourable financial position, the Board of Directors is proposing an increase in the regular dividend to SEK 3.00 per share.

Successful collaborations and greater industrial mix

In 2018, we worked very hard to enhance the efficiency of our organisation to increase synergies and collaboration, where we can create a stronger interaction between markets and

divisions, to enable our customers to benefit from our combined international expertise and delivery capacity. This has improved the potential to create business models for long-term customer cooperation and concept offerings.

Through our concept offering, we can support everything from strategic design and innovation to digital aftermarket solutions. For example, in 2018 we used our expertise in connected vehicles to develop autonomous snowploughs, which received widespread attention around the world. For the second consecutive year, our design department has won two Red Dot Awards, an achievement we are very proud of.

Opportunities to exchange expertise between industries also makes us more flexible and adaptable, not least in the event of a market slowdown. Even if we continue to occupy a strong position in the automotive industry, we have steadily increased our presence in other industries in recent years, such as the manufacturing industry, energy and life science. One example is the extension of our collaboration in medtech for Astra Zeneca. Another is the acquisition of Haas-Publikationen in Germany, which increased our sales to the railway industry.

At year-end, 57 per cent of our sales were to industries outside the automotive industry, compared with 33 per cent three years ago. We have noted strong demand from our customers in all industries towards digitization of products and services, which is an excellent fit with our broad expertise in such fields as industry 4.0, e-health and connected products. Our cutting-edge expertise in artificial intelligence [AI] and participation in a number of research projects means we can provide our customers with the latest technology to create the most user-friendly solutions. Examples include smart manufacturing of fuel cells through a new collaboration with Powercell, or better visualisation of product information with augmented reality, thanks to a collaboration with XM Reality, which began last autumn.

The significant value of our contribution is also confirmed in customer satisfaction surveys and employee surveys. Our success is based on inspired employees with close relationships to our customers and partners.

People first — from different perspectives

The creation of the best user experiences of technology requires broad expertise, and a corresponding breadth of backgrounds and experiences in order to understand different types of end users. This is why diversity is crucial for us. As part of the Add Perspectives project, a team of women demonstrated what we can achieve with new perspectives through an autonomous trailer connection concept.

In 2018, we invested a lot of energy into enhancing and deepening our culture. This is crucial for what we deliver to our customers, and also to create an inspiring environment for current and future employees. At Semcon, we always put people first. It is also the basis of our branding, which has generated substantial attention in the media, involvement in social media and a record level of traffic to our website. And, not least, immense pride among our employees and increased interest from our customers and potential customers.

Priorities for 2019

In 2019, we will focus on becoming a more attractive employer and establish the best conditions to efficiently create the best deliveries to our customers with a high level of productivity and customer satisfaction. We will continue to develop our digital offering to a wide range of industries.

Measures to strengthen our margins, which have produced excellent results to date, will continue in 2019. The same applies to efforts to optimise a structure that provides the best synergies, collaborations and deliveries.

Thanks to our digital cutting-edge expertise, strong financial position and diversification in industries and business models, we enter the new year with outstanding opportunities. The journey will continue in 2019 with inspired employees, committed customers and enthusiastic shareholders. And, above all, we will have fun along the way.

Göteborg, 18 March 2019

Markus Granlund
President and CEO

SEMCON'S STRATEGY FOR INCREASED GROWTH AND PROFITABILITY.

We will turn technology and innovation into excellent user experiences. With satisfied end users, our customers will become more competitive – as will we. Because growth and profitability are a result of successful product development. It is therefore also crucial for us to attract and develop the right employees for our continuing success.

Mission

＊ To turn technology into excellent user experiences.

Positioning

＊ Product development based on human behaviour.

Brand promise

＊ People first, then technology.

Values

＊ We are people who put people first.

Philosophy

＊ At Semcon, we always put people first. We believe technology has no intrinsic value, rather it is the value it creates in the lives of people that is crucial. Both now and in the future. This is why we develop products based on human needs and behaviours. Because we believe that a positive user experience is the true measure of quality. This is how we make a difference.

Long-term strategic priorities

To further enhance profitability, we have a particular focus on the following areas:

Employees – attract, inspire and develop the best talents in our industry through a strong brand and a successful culture.

Offering – prioritise areas with substantial potential for profitable growth with increased focus on digitization.

Market – increase our presence in markets and in industries where we can make a difference through user-focused technology and innovations.

Operations – increase the proportion of solution-based deliveries, where we can utilise Semcon's global potential, at the same time as we develop our efficient direct services.

Short-term objectives 2019–2020

- ＊ To further strengthen our margin by becoming an even more attractive employer, by enhancing productivity and cost-efficiency.
- ＊ To increase the proportion of digital offerings in product development, production optimisation and aftermarket, particularly in smart and connected technology.
- ＊ To continue our strategic shift by increasing sales of concept offerings and through a greater industrial mix.

Financial objectives

- ＊ An operating margin of at least 8 per cent.
- ＊ An equity/assets ratio of over 30 per cent.
- ＊ A share dividend from a long-term perspective of at least one-third of profit after tax.

Result of work with strategic priorities in 2018

* Higher productivity and cost efficiency

Outcome: During the year, we worked consistently to increase productivity. Both business areas reflect better capacity utilisation, which was one of the main reasons for the earnings improvement for the Group. A number of measures were taken to optimise the organisation structurally in order to enhance collaboration and efficiency between units. This has increased knowledge transfer, improved productivity and reduced costs, leading to both greater customer satisfaction and employee commitment. The conditions for closer and more efficient working methods between industries make it easier to develop offerings and business models to improve profitability, increase the industrial mix and strengthen customer relationships. The structural measures and measures to improve margins have contributed to the continuing strong financial position that offers scope for future strategic acquisitions that can benefit further profitable growth.

* Become a more attractive employer

Outcome: HR has been restructured as a means to better attract new employees and to inspire and develop existing colleagues. Several major development initiatives took place to provide more support to managers, such as in recruitment and in the business advantages offered by greater diversity and inclusion. During the year, a major venture was undertaken to enhance and clarify our culture and our values, what we stand for and what we must prioritise. At the same time as we stepped up work with our business targets and branding across the Group, Semcon's ambitions and direction moving forward are now clearer than ever. The increased visibility for our brand has also contributed to greater interest in Semcon as an employer and resulted in a sense of pride within the company. Traffic to our website has never been higher and when we advertise vacant jobs we often

receive a large number of applications. One focus has been to highlight the importance of diversity as a means of generating new perspectives to create more user-friendly technology that is adapted to different needs and behaviour as well as making colleagues feel that they are appreciated for who they are.

* Increased sales of digital concept offerings

Outcome: Semcon's digital offering has expanded and developed during the year in all industries where we are active. This ranges from connected products and factories to e-health and autonomy, also linked to artificial intelligence. The proportion of employees in digital products and services has risen during the year and new insights and knowledge can be implemented through close collaboration with universities and research institutions. The digital teams also demonstrated high productivity and a large share of project deliveries with solutions customised for our customers' specific situations and circumstances. Due to the large share of concept offerings, we have also utilised our delivery capacity and exchange of knowledge between our various units and markets. This increased opportunities to transfer expertise from one industry to another. The combination of our broad digital offering and a user perspective has generated interest from both existing and new customers and the share of deliveries in the area has increased during the year.

Result of financial objectives in 2018

- * Operating margin of 6.5 per cent
- * Equity/assets ratio of 61 per cent
- * Share dividend of 57 per cent of profit after tax [Board's proposal].

PEOPLE WHO PUT PEOPLE FIRST.

End users' needs and behaviour are key in everything we do. The more we understand the user, the better products we develop. This contributes towards an inspiring workplace, more satisfied customers and higher profitability.

We who work at Semcon share a willingness to create an experience of technology that makes a difference – a positive impact for end users and for society. To us, technology has no intrinsic value, the most important thing is the benefit it creates. We therefore always put people first, from end users to customers and particularly our employees.

As a supplier of expertise and commitment, it is natural that we put the needs of our employees first. We are therefore pleased that our employees to a large extent continue to say that they recommend Semcon as a workplace. This is the result of supportive leadership by many dedicated managers, in combination with interesting projects in a development-intensive business.

Semcon's values

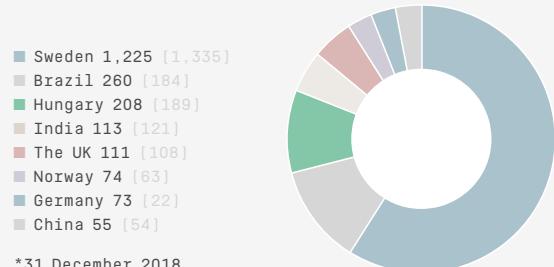
If we are to be an attractive workplace – where all colleagues feel comfortable, stimulated and inspired – we believe it is important to be clear about why we exist and what we stand for as a company. Many employees testify to the healthy corporate culture at Semcon. During the year, we defined

how the culture should be when it is at its best. We summarise this in six descriptive value principles, see page 14. All teams in the Group have since met in a manner best suited to their specific context. The teams have studied how they as individuals relate to the company's values through constructive discussions. These discussions also addressed our own active contribution to the whole. We believe this is a very important step in creating meaningfulness and inspiration.

Different perspectives

At Semcon, we are convinced that diversity in combination with an inclusive culture is a key to success. People with different backgrounds

Number of employees by country*





and experiences look upon challenges, problems and opportunities in different ways. Every new perspective broadens our understanding of human behaviour. In turn, this is decisive in creating competitive solutions for our customers. Always with a focus on end users. One example of this is our Add Perspectives project, where we developed a concept solution that works better for everyone. Read more about this on page 30. A tolerant work culture is where every employee's experiences and perspectives are valued. Having the courage to try something out – and fail – is OK. This is how we get better. And have more fun.

In 2018, we have therefore expanded the Group's policy for diversity and inclusion to embrace diversity in a more nuanced perspective. Our goal to be a gender-balanced company [40/60] by the end of 2022 stands firm as one of the most important staff-related key figures, which we regularly follow up. Following a series of seminars for senior executives during the summer, we launched during the autumn a tool kit for managers and working groups to further increase curiosity, insight and knowledge about the importance and opportunities offered by building and leading working groups based on heterogeneity. The tool kit is naturally open to all employees at the company.

Employee experiences

Our Group-wide HR strategy is focused on the employee's journey through and together with Semcon. It also reflects how we organise employees within the HR function. From the very first contact with us, we aim to ensure a positive experience for our job applicants. Our recruitment process therefore has a longer approach than many others and when new colleagues begin at the company, the focus remains on experiences. When the candidate experience transitions to an employee experience, our goal is to provide a very attractive workplace.

Our surveys show that more than 80 per cent of employees who choose to leave the company could still consider rejoining the company in the future.

Developing at Semcon

We are an international employer with dedicated employees. It is important that we create the conditions so everyone can do a really good job, feel content and develop. Our main strength is in the opportunities we can offer through the breadth of our services and our organisation and the proximity to our customers. As an organisation we command more than 100 competences – everything from UX and quality validation to integrated systems and cloud solutions. The expertise, commitment and curiosity of our employees is perhaps our greatest competitive advantage.

14 EMPLOYEES

In 2018, the HR function, together with a group of managers in the organisation, drafted a new model for continuous dialogue with the aim of inspiring, developing and supporting employees in their journey at Semcon. We are looking forward to using these guidelines more actively in the organisation in future years. We would also like to open up internal paths and make it easier to progress within Semcon. Our operations provide major opportunities for professional development, for example through mobility and project-based learning internally at the company.

Fun to go to work

At Semcon, we have a tolerant culture, and the work environment is characterised by job satisfaction and well-being. This satisfaction nourishes creativity and vice versa. Our employee surveys give very high marks for work environment and companionship: 4.9 on a scale of 6. Colleagues highlight important qualities such as equal opportunities and respect, opportunities to influence your own situation and work-life balance. Employees often take part in activities together at all of our offices. These could be physical sports challenges or more intellectual endeavours.

Our employee surveys show that our main strengths as an employer are, from year to year, a good working environment and strong leadership. In 2018, we have further emphasised our belief and commitment by adopting a new global policy for health and well-being. *

Semcon's value principles

Inspiration is at the very heart of everything we do. Inspired people are destined to constantly broaden their perspectives and drive innovation.

We believe in the power of collaboration. Teamwork built on trust and engagement is key to success. Because we are always stronger when working together.

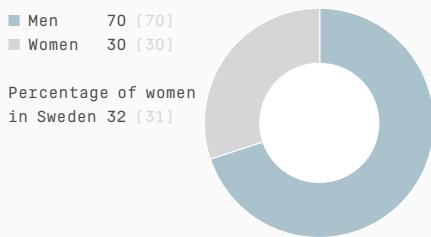
It is our conviction that we make the world a better place - a little bit every day. We create sustainable solutions that improve lives all over the world.

We embrace diversity. People with different backgrounds and experiences make us see things from various perspectives. With every new perspective, we broaden our understanding of human behaviour.

We believe that work needs to be fun. Because fun is the basis of creativity and it makes people want to go to work. We always strive to have a healthy work environment in which people enjoy themselves.

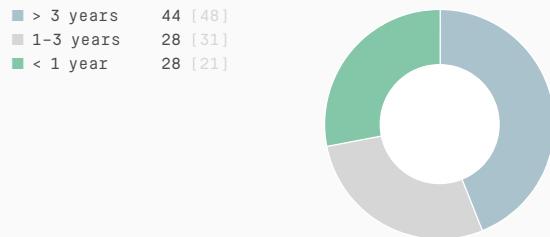
Good relationships mean good business. Which is why we constantly aim to challenge and exceed customer expectations in everything we do. Always people first.

Gender division, women and men* [%]



*31 December 2018

Average employment duration* [%]



Key figures

	2018	2017	2016	2015	2014
Number of employees at year-end	2,119	2,076	2,044	1,979	2,990
Average number of employees	2,042	1,982	1,956	1,855	2,887
Average age	38	37	37	38	38
Employee turnover ¹ [%]	25	21	22	22	21

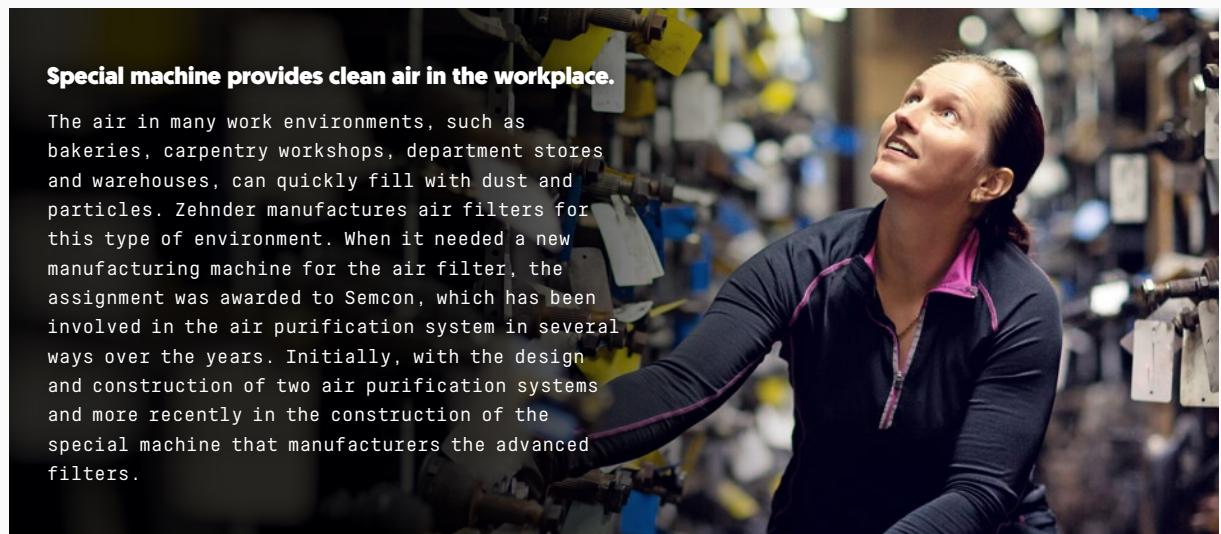
2014 including discontinuing operations.

¹Average for the Group due to where major variations occur between countries.

ALMOST 40 YEARS OF PRODUCT DEVELOPMENT.

Semcon has a long tradition of being close to customers' business and needs. This is how we have grown into an international Group with cross-border partnerships in 2018.

- 1980** Semcon was founded in Västerås. The name is an abbreviation of Scandinavian Engineering and Marketing Consultants.
- 1983** Expansion to more locations and fields of competence begins.
- 1985** Head office moves to Göteborg.
- 1994** International expansion starts with operations in the UK.
- 1997** Semcon listed on the stock exchange.
- 2006** JCE Group becomes main owner.
- 2007** Acquisition of IVM Automotive with operations in Germany, Brazil and Spain as well as Caran with operations in Sweden and India.
- 2010** 30th anniversary.
- 2012** Acquisition of Germany-based product information company Comet.
- 2013** Extensive organisational changes towards a market-oriented structure within engineering services.
- 2015** Increased shareholding in Norway-based Kongsberg Devotek, active in engineering and development services.
- 2016** Launch of new communication strategy and positioning.
- 2017** Divestment of the German operations in Engineering Services in February.
- 2018** Acquisition of the German product information company Haas-Publikationen.



Special machine provides clean air in the workplace.

The air in many work environments, such as bakeries, carpentry workshops, department stores and warehouses, can quickly fill with dust and particles. Zehnder manufactures air filters for this type of environment. When it needed a new manufacturing machine for the air filter, the assignment was awarded to Semcon, which has been involved in the air purification system in several ways over the years. Initially, with the design and construction of two air purification systems and more recently in the construction of the special machine that manufacturers the advanced filters.

SEMCON'S SHARES.

Semcon's shares have been quoted on the Nasdaq Stockholm Small Cap in the industrial sector, under the SEMC ticker since May 1997.

Price trend and sales

The company's share price declined 0.8 per cent in 2018, from SEK 47.70 to SEK 47.30. On 31 December, this corresponded to a market capitalisation of SEK 857 million. The highest price paid was SEK 61.10 on 14 June and the lowest price paid was SEK 44.35 on 6 February. Semcon's shares are quoted on Nasdaq Stockholm and trading on this exchange represented 100 per cent of overall turnover of shares in 2018. A total of 8.5 million Semcon shares were traded, valued at SEK 450 million. The turnover rate, calculated as the number of shares traded in relation to the overall number of shares in the company, was 47 per cent.

Share capital and number of shares

Semcon's share capital on the closing date was SEK 18.1 million, divided between 18,112,534 ordinary shares all with a quotient value of SEK 1 each. Each ordinary share entitles the shareholder to one voting right and an equal right to a share of the company's capital and profits. Changes to the share capital and number of shares over time are presented in Note 21 on page 75.

Buy-back of own shares

The Board resolved on 6 December 2017 to buy back 200,000 ordinary shares pursuant to the authorisation of the 2017 AGM. The Board resolved on 25 April and 6 December 2018 on another buy back of not more than 400,000 ordinary shares pursuant to the authorisation of the 2018 AGM. The Board's decision aims to improve the company's capital structure. Up until 31 December, 457,716 shares had been repurchased within the three authorisations

Holding of own shares

Semcon's holding of its own shares on 31 December amounted to 682,669 [281,719].

Ongoing incentive schemes

The AGM, held on 25 April 2018, decided to establish a long-term performance-based share savings scheme for about 20 senior executives and key personnel in the Semcon Group. This scheme runs for four years starting in July 2018 and covering a maximum of 180,000 shares. Semcon's current hold-

ing of own ordinary shares is considered to fulfil obligations under the performance-based share savings Schemes 2015, 2017 and 2018.

Shareholder structure

On 31 December, Semcon had 5,239 shareholders [4,440]. The registered amount of foreign ownership at year-end was 32.6 per cent [33.1], of which 10.0 per cent [14.2] is made up of owners in Finland, 9.4 per cent [8.1] in the US and 4.8 per cent [4.0] in Luxembourg. The JCE Group owned 25.8 per cent [25.8] of Semcon's shares, Nordea Investment Funds 9.8 per cent [7.9], Avanza Pension 5.0 per cent [3.3], BNY Mellon 4.4 per cent [-] and Öhman Fonder 3.2 per cent [3.6]. The ten largest shareholders controlled 57.2 per cent [59.9] of the share capital and voting rights, of which the three largest shareholders controlled 40.6 per cent [38.8].

Share dividends

According to Semcon's financial objectives, a share dividend shall be paid to shareholders and, from a long-term perspective, is to be at least one-third of profit after tax. The Board of Directors proposes a regular share dividend of SEK 3.00 per share [2.50], which represents 57 per cent [62] of earnings per share after dilution. Last year, an extra dividend of SEK 1.00 per share was also paid. The dividend corresponds to SEK 54.3 million [61.9].

Analysts

In 2018, Semcon was monitored by Fredrik Lithell, fredrik.lithell@danskebank.se, at Danske Bank and Victor Höglund, victor.hoglund@seb.se, at SEB Enskilda Securities.

Contacts with the market

The company regularly publishes information in order to facilitate an accurate valuation of Semcon's shares. In 2018, presentations and meetings were held with representatives from financial institutions, mainly in Göteborg and Stockholm.

Stock market contacts are mainly carried out through interim and year-end financial reports, press releases, financial information at www.semcon.com and company presentations for investors and analysts. The financial information contacts are mainly Semcon's CEO and CFO as well as the Investor Relations Manager. *

Shareholder structure*

Shareholding	No. of shareholders	No. of shares	Votes, %	Market value, TSEK
1-500	3,852	555,109	3.1	26,257
501-1,000	642	530,129	2.9	25,075
1,001-10,000	643	1,844,799	10.2	87,259
10,001-100,000	80	2,497,500	13.8	118,132
100,001-	21	12,002,328	66.2	567,710
Own shares	1	682,669	3.8	32,290
Total	5,239	18,112,534	100.0	856,723

Source: Euroclear Sweden AB shareholders' register.

Semcon's shares

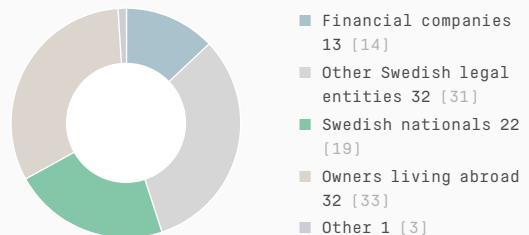


10 largest shareholders*

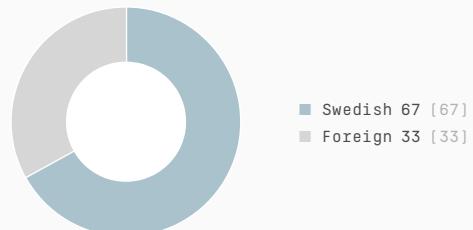
Name	Shareholding, No. of shares	%
JCE Group	4,682,991	25.8
Nordea Investment Funds	1,774,251	9.8
Avanza Pension	914,640	5.0
BNY Mellon	793,617	4.4
Öhman Fonder	580,698	3.2
Northern Trust Company	509,655	2.8
RBC Investor Services Bank	368,169	2.0
Nordnet Pensionsförsäkringar	281,769	1.6
CBNY Norges Bank	236,619	1.3
CBNY DFA	229,222	1.3
Total	10,371,631	57.2
Own shares	682,669	3.8
Other	7,058,234	39.0
Total	18,112,534	100.0

Source: Euroclear Sweden AB shareholders' register.

Ownership structure* [%]



Swedish and foreign shareholding* [%]



*31 December 2018. For information on key figures for the share, refer to page 95.

BUSINESS MODELS AND VALUE CREATION.

At a time when technology development is progressing at an almost exponential rate and information flow is constantly rising, it is increasingly difficult to maintain exclusivity in the market over a long period of time with regard to technology and innovation. It is therefore important that companies continuously develop their technical solutions and use substantiated business models to commercialise their products in the right manner, given that the same technology taken to market by two different business model can produce two widely disparate financial results.

Through its distinct focus on end users and its profound knowledge of human behaviour, Semcon can often add new dimensions to our customers' services and products, and also to the business models established to generate economic value from the products. Our strength is in our ability to combine the human end user perspective with all phases of product development, from business and concept development to technical development, production development and product information.

In this way, we create value for our customers

We have the ability to utilise the entire breadth of our overall competence to meet the needs of our customers.

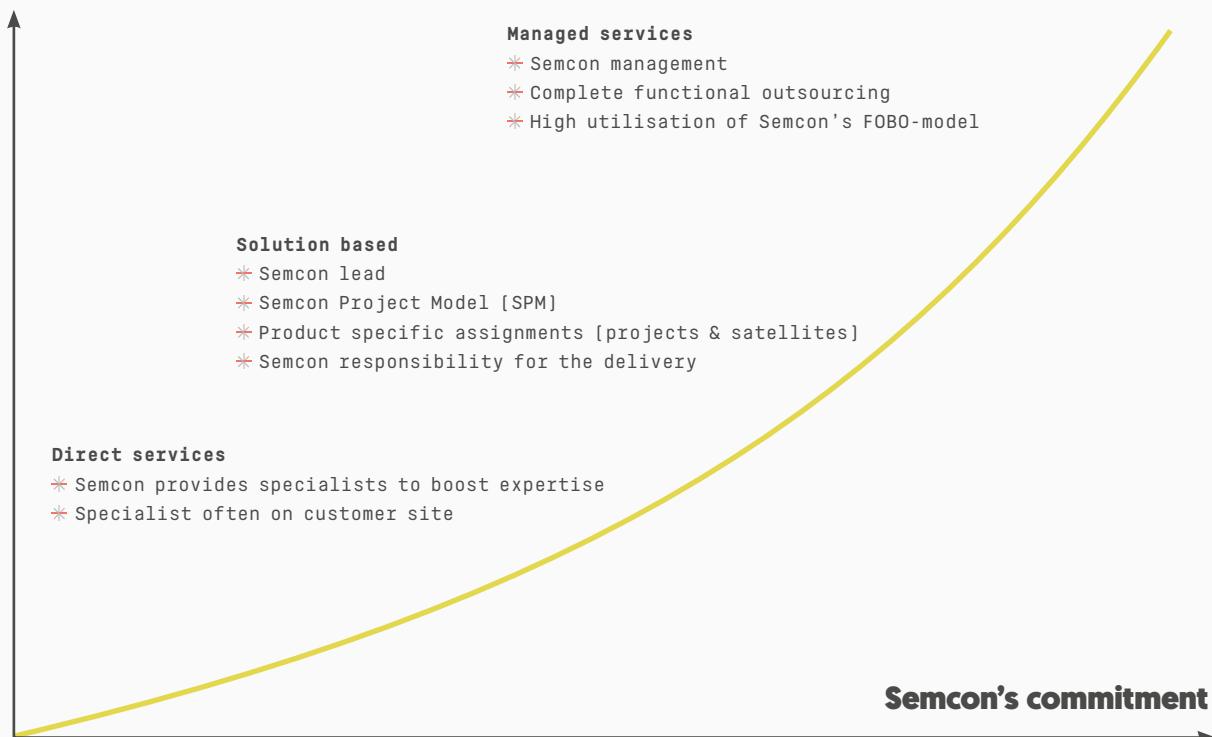
by making them successful through the products and services they offer end users. In recent years, we have seen that more of our customers want to work with fewer suppliers and that the selected suppliers are expected to have an international presence. Companies are now looking for partners that can handle major projects and increasingly, entire functions within companies. Semcon has the required size and breadth in our offerings, and also the flexibility to drive small projects using local specialists. We meet our customers locally through our 2,100 employees at more than 30 office worldwide, while we have the ability to utilise the entire breadth of our overall competence to meet the needs of our customers.

We create greater value through our business model – not only for our shareholders but also for our customers. Particularly in our solution-based deliveries and managed services, when we arrive early in the product development or business and concept development process, we can enhance value for our customers.

Semcon's main business model is based on three flexible delivery solutions with the ability to tie together our expertise around the world and give our customers the solution that best suits their situation.

Our solutions are based on innovation, expertise and the courage to dare to challenge, when necessary.

Semcon's delivery solutions



＊ Direct services

Semcon provides specialists in a number of areas. We work integrated in our customers' organisations, providing knowledge that strengthens their capacity and expertise.

customer. In cases in which Semcon assumes overall responsibility, the company is responsible for the entire project process, from planning to delivery.

＊ Solution based

Semcon is comprehensively responsible for all or part of a project, with delivery consisting of a specified result. In projects in which Semcon assumes responsibility for part of the process, it is a question of improving or developing elements of a product, plant or service for the

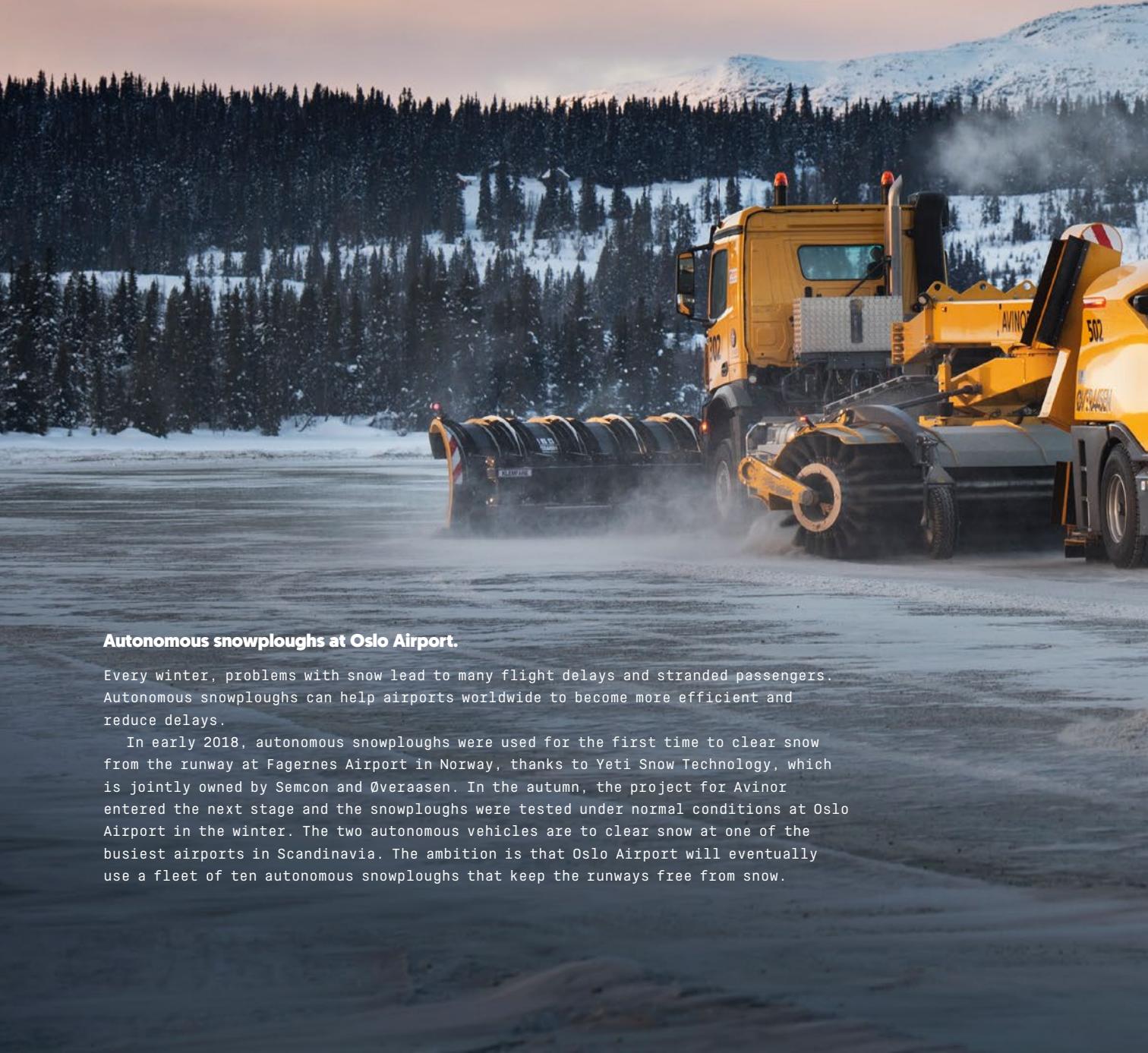
＊ Managed services

Semcon assumes overall responsibility for a defined function designed to provide products and services, such as product information. Semcon takes over customer processes in this area and manages the work from our own offices supported by proprietary systems. Customers receive the latest expertise in the field at the same time as their flexibility and cost-control are improved. *

“

*This is a good example
of how autonomous vehicles
can increase profitability
and add value for people.*

Markus Granlund, President and CEO



Autonomous snowploughs at Oslo Airport.

Every winter, problems with snow lead to many flight delays and stranded passengers. Autonomous snowploughs can help airports worldwide to become more efficient and reduce delays.

In early 2018, autonomous snowploughs were used for the first time to clear snow from the runway at Fagernes Airport in Norway, thanks to Yeti Snow Technology, which is jointly owned by Semcon and Øveraasen. In the autumn, the project for Avinor entered the next stage and the snowploughs were tested under normal conditions at Oslo Airport in the winter. The two autonomous vehicles are to clear snow at one of the busiest airports in Scandinavia. The ambition is that Oslo Airport will eventually use a fleet of ten autonomous snowploughs that keep the runways free from snow.





PRODUCT DEVELOPMENT WITH A FOCUS ON END USERS.

Semcon is a partner for all phases of product development: from target group analysis, innovation and concept to production systems and user support. Our deliveries are often complex and can rarely be compared with each other, but generally we can divide what we do into four overarching areas which are all deeply rooted in product and service development.

Business Development

How can you optimise your income and become more competitive? Create greater value for end users? Increasingly, we find ourselves engaged in a dialogue with our customers about these issues. Not least as technology, users, the world around us and organisations influence each other today. And things are moving rapidly. We provide a solid analysis and solutions that work in the real world

— from innovation, strategies and concept development right through to business models for after-market or the sustainable recycling of the product. Semcon's offering includes business modelling, strategy services with a focus on product and product portfolio strategies, as well as services related to quality management and quality assurance.

Concept development and design

Successful concept development begins with collecting requirements. Especially from the people who are going to use the final product. We work in close proximity to our customers, often in workshops, to distinguish what is important and what creates the most value and innovation. By rapid prototyping, we can try different routes and even challenge traditional methods to make the

final product even easier, smarter, safer – and more profitable. Semcon offers a range of design services targeting most industries, for example energy, automotive and life science. User experience (UX) is an important puzzle piece in the product development process. Products are becoming increasingly complex and often have both a physical form and built-in software. They can also be connected and it is often possible to control them through cloud solutions and apps. Semcon's offering encompasses the entire design process and covers all aspects of the product.

Technical development

Semcon has a strong tradition in technical development. More than 100 competencies within Semcon collaborate to make the product optimal – in terms of production, the aftermarket and most importantly

Semcon has a strong tradition in technical development. More than 100 competencies collaborate to make the product optimal: in terms of production, the aftermarket and most importantly the user.

the user. Our offering includes production development in the form of automation and production technology, autonomy, artificial intelligence, calculation and simulation, embedded systems, sound and vibration solutions and mechanics. To meet the requirements and keep focused, we use our own project methodology, XLPM, with clear processes and specific tollgates. Many disciplines work effi-

ciently together and we continuously employ virtual verification methods within various fields such as sound, vibration, structural strength and safety. We also work in modules so that different parts can be easily changed or adapted, without restarting the entire product development. Intelligent systems will soon be present in every new product in the home, the car, the office and industry. The ability to control a product using a smartphone or connect them with other products is something we increasingly take for granted. By bringing in specialist expertise in strategic areas such as software, hardware, architecture, testing and verification, dynamic control systems and cabling, we help our customers to develop competitive products.

Product Information

The importance of product information for complex and advanced technology products, systems and plants is increasing. Modern product information has to satisfy the needs of different users, whether it comes to marketing or selling a product, or providing a quick start to understanding and using a product or a system. And also to facilitate troubleshooting, service and repairs and to order the right spare parts or to train service technicians to ensure the product is fully utilised. Semcon's product information services include the entire development cycle from strategy development and design via production to distribution and evaluation. The current trend is increasing digitization, where product information is integrated into the product – such as in infotainment systems, or an operator panel – or is distributed digitally to be presented via mobile applications or online. This means information is more accessible and can be personalised to better meet user needs, and that new technologies can be used to increase value, such as through the use of animation or augmented reality solutions. Semcon's offering also includes a cloud-based distribution service for digital information – Lodges. This service helps our customers cut their distribution costs, boost business benefits and improve user experience of products. The solution means, for example, that user/service information can be simply made available in various digital platforms such as web-based, tablet or mobile phones and integrated into our customers' products. This also safeguards that the users of customers' information always have access to updated information that is customised according to their specific requirements. *

MACRO TRENDS.

Semcon has identified a number of macro and industry trends that influence the company's operations to varying degrees. These are often complex events that entail both challenges and opportunities depending on how they are

managed. With new perspectives, the courage to think differently and proactive business acumen, new offerings are developed and the brand is strengthened.

Digitization

At a time when our business environment is increasingly digitised, we feel we are in a better position than ever in our conviction that the human user focus will create extra value for our customers. The speed at which digital technology is changing products and services not only impacts industries such as IT and telecom but also traditional heavy industry.

Business opportunities and challenges for Semcon:

With our roots in product development focusing on end users, we can guide our customers in their digitization.

Development 2018: Semcon has noted a continued rise in demand for this type of service and expertise in all of our industries. Recruitment efforts in several markets have focused on system development expertise.

Fewer and larger suppliers

A growing number of customers choose fewer, larger suppliers with an international presence in order to increase cost efficiency and resource utilisation in their projects.

Business opportunities and challenges for Semcon:

Semcon is well-positioned with a global delivery capacity where cost-efficient solutions are provided through our flexible delivery models, such as overall responsibility for a defined function.

Development 2018: During the year, Semcon secured new strategic contracts, where our ability to provide cost-efficient delivery from several different offices around the world was a crucial factor.

Artificial intelligence (AI)

Hardly anyone can have missed the fact that AI is having an increasing impact on our lives. AI is not only a trend linking IT and the software industry, rather it is impacting companies and users in the most diverse industries and areas. The development of AI is expected to have a substantial impact on our future competitiveness.

Business opportunities and challenges for Semcon: With extensive experience of AI projects in various industries, machine learning (ML) and deep learning (DL) in Engineering Services and Product Information, we can act as a partner to both companies that have already made a great deal of progress in their work with AI and to companies that have recently begun their journey.

Development 2018: Semcon continues to invest to lie at the forefront of research and innovation linked to AI. In early 2019, Semcon co-founded AI Innovation of Sweden — a national initiative to accelerate research and innovation in AI.

Faster development processes

There is a growing number of products and models as well as faster development process due to consumer demand for innovation and increasing international competition.

Business opportunities and challenges for Semcon: In this context, Semcon acts as a development partner for most of our customers, as our deliveries contribute to shorter development processes.

Development 2018: Semcon has noted healthy demand for deliveries in these areas.

Talent shortage

In the near future, there will be a shortage of engineers and already there is tough competition for talented workers. This is mainly because too few engineers and systems scientists are trained and because of the large number of engineers who will shortly retire.

Business opportunities and challenges for Semcon: The search for talent is tough, and it requires a clear positioning strategy to highlight Semcon's employer offering. Semcon has broad business operations, an award-winning brand and a strong culture that makes the company highly attractive.

Development 2018: During the year, Semcon strengthened its brand through various global campaigns at the same time as clarifying our internal values to make us a more attractive employer.

Consolidation

In recent years, the industry has undergone a structural change. Competitors have either become bigger and broader or smaller with more niched solutions.

Business opportunities and challenges for Semcon: It is becoming more important to position oneself with a clear brand strategy and to regularly review an attractive offering mix.

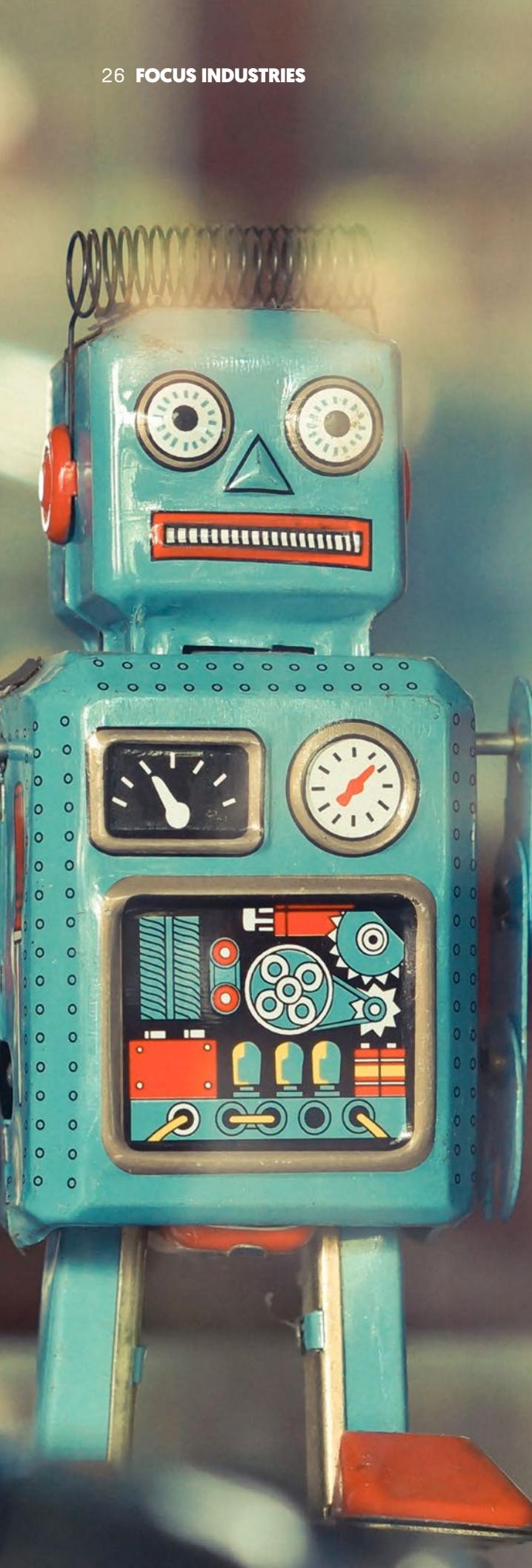
Development 2018: Semcon has continued to deliver successful projects in our prioritised offering, such as Applied Autonomy, where our work in Yeti Snow Technology has gained considerable attention. The acquisition of Haas-Publikationen has increased our presence in product information in the German market and contributes specialist know-how from, among other segments, the railway industry.

Sustainable development

The focus on climate change increased in 2018 and is, perhaps, the clearest challenge we are facing. The need to quickly tackle these challenges, to safeguard opportunities for future generations, helps to boost increasing demand for innovative solutions.

Business opportunities and challenges for Semcon: Many companies have increased their investments in sustainability and various forms of streamlining projects, which provides Semcon with more opportunities to offer services and products.

Development 2018: During the year, Semcon carried out many interesting projects in, for example, connected factories and digital solutions in product information that may reduce resource utilisation. The electrification of the pumps used on milk tankers for Norwegian Tine will reduce emissions significantly – another method to contribute to sustainable product development through innovative solutions. Read more about Tine on page 36.



SEMCON'S FOCUS INDUSTRIES.

The industries where most of Semcon's customers operate are characterised by major development needs and a high rate of change.

Industry

The future trend is for consumers' demands for new products and models, plus increasing competition in the industry sector, to contribute to further cutting product life cycles. This means extra technology development investment and innovative product development. R&D investments in this sector are expected to increase by 3 per cent annually over the 2015–2025 period, according to Battelle. We are in the middle of Industry 4.0, also known as the fourth industrial revolution. This entails the assembly of a series of technologies and concepts within automation, process industrial IT and manufacturing technologies. Two other distinct trends are digitization and artificial intelligence, where machine learning [ML] and deep learning [DL] will impact the industry to a large extent in the future.

With its focus on end users and technology as a facilitator, Semcon has a good mix of product offerings. Semcon can also help to shorten conversion and lead times for customers and create more flexible manufacturing processes.

Life science

The life science industry can generally be split into the more established and global pharmaceutical companies, where outsourcing is relatively low, and the recently established and small pharmaceutical companies in terms of volume, where outsourcing is higher. Because it is costly and risky developing new pharmaceuticals, an increasing number of pharmaceutical companies choose to outsource and purchase complete development projects from small and medium-sized research companies, which ensures access to medicines that are commercially viable. In the future, we will witness increasing and changing care needs as the population ages. This will make demands on both new medical device solutions and more efficient health and long-term care. Digitization is also evident in the life science sector, including e-health and AI as distinct technology trends. This will provide substantial opportunities for Semcon's offerings within life science.

We are in the middle of Industry 4.0, also known as the fourth industrial revolution. This entails the assembly of a series of technologies and concepts within automation, process industrial IT and manufacturing technologies.

Automotive

The automotive industry is still experiencing tough competition. Players in the industry often debate value creation and the constant requirement to enhance cost efficiency, combined with stricter demands on product development, sustainability and innovation. According to the European Commission's report "The 2018 EU Industrial R&D Investment Scoreboard", which includes the 2,500 companies worldwide that invest most in research and development [R&D] [corresponding to approximately 90 per cent of global business-financed R&D], automotive industry investments in R&D amounted to approximately EUR 130 billion in 2017–2018. Companies based in the EU accounted for about EUR 61 billion of this amount, an increase of 6.1 per cent compared with 2015–2016.

There are a number of important market trends that influence Semcon's focus and direction. Connected vehicles [Car IT] – meaning when a vehicle collects, processes and presents information – has a rapid pace of development. The same applies to autonomous vehicles and electrification. Beryll's study "The autonomous future" concludes that one in ten new passenger car sold in the US in 2030 will be an autonomous vehicle. In KPMG's report "2019 Autonomous Vehicles Readiness Index", Sweden

is ranked 5 in terms of preparedness for autonomous vehicles. Even Norway, the UK and Germany, which are important markets for Semcon, feature in the top 10 list. In both of these areas, there are growth opportunities for Semcon to establish a strong position using our expertise where the end user behaviours and needs govern the technology.

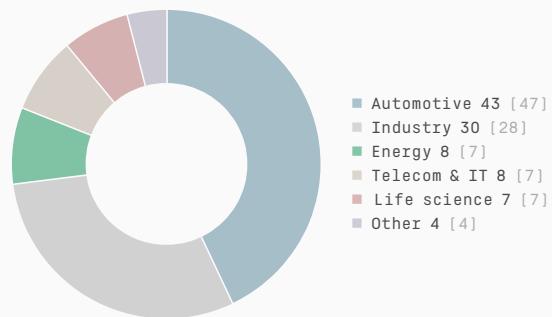
Energy

World energy demand continues to rise while the effects on the environment are becoming more acute. In addition to political will and financial resources, major technological advances and innovations will be required to reduce carbon dioxide emissions. This challenge applies not least in Germany, which is decommissioning its nuclear power stations by 2022. Alternative energy sources and energy technology are the areas that will result in the industry's shares of the overall R&D investments increasing over the next few years, according to Battelle. In this context, Semcon acts as a partner to optimise processes and structures to reduce environmental impact and costs during energy production.

Telecom & IT

The telecom & IT industry has seen a constant level of high investment driven by new technologies, a change in customer patterns and changes in market demands. Digitization and servitisation are seen as the greatest structural changes in the industry in recent years. The industry is also undergoing a technological shift, where R&D investments are focusing on various kinds of cloud services. Semcon's offering for cloud services is strong and there is significant potential to grow in these segments. The number of technologies tied to cloud services is expected to increase, in future accounting for the majority of R&D investments in the industry. *

Income per industry [%]



MARKET SITUATION.

R&D Magazine's annual rapport Global R&D Funding Forecast expected global investments in research and development [R&D] to amount to USD 2,326 billion for 2019. Even if the US alone still accounts for the largest share of global investments, with approximately 25 per cent, this share is gradually decreasing. On the other hand, China's gradually increasing share of investments means it now accounts for about 22 per cent of global investments and within the next decade it is expected to invest more in absolute terms in R&D than the US. The Asia region, which includes the major R&D investors China, Japan, South Korea and India, are forecast to account for approximately 44 per cent of global investments in 2019 [an increase from about 34 per cent ten years ago] — compared with Europe's approximately 20 per cent. Europe's investments in R&D are expected to increase 1.9 per cent in 2019 compared with 2018. Due to the increase in industrial R&D investments, the share of R&D in relation to total GDP rose to 2.1 per cent in Europe in 2017. However, this is far from the EU's target of 3.0 per cent, which in many European countries resulted in continuing tax incentives to boost R&D investments.

It is also worth noting that a distinct shift is taking place in the category of company investing most in R&D. A decade ago, the largest R&D investors were in the automotive, pharmaceutical and biotech industries. Now, they are found in information and communication technology [ICT], with companies such as Amazon, Google, Microsoft, Facebook and Intel. ICT — which includes artificial intelligence, autonomous systems, robotics and virtual environmental systems, is expected within the next 10-15 years to change the overarching technical environment.

Our international presence and ability to support our customers from more than 30 offices around the world, combined with our ability to guide customers in a time of increasing digitization of products, product development and production processes, makes Semcon a well-positioned partner.

The economic forecast from the Association of Swedish Engineering Industries in November 2018 expected growth in the global economy to be 3 per cent in 2018 and 2.5 per cent in 2019.

Trends for Semcon's main markets in 2018

Semcon's main market is Sweden, with a market share of about 4 per cent according to own estimates. Sales of services related to product development and technical information [in industrial technology] was expected to reach SEK 31.7 billion in 2018 with 25,800 employees, according to the trade association the Swedish Federation of Swedish Innovation Companies [former Swedish Federation of Consulting Engineers and Architects]. The trade association also ranks Semcon fourth in terms of sales amongst the top 50 companies active in industrial technology. Almega's service indicator in December 2018 suggests that the market climate remains strong in the private service sector, despite slowing slightly since the end of 2017. At the same time as staff shortages in the private service sector are at new record levels, which is preventing a large number of industries from expanding further. 42 per cent of service companies stated that a shortage of staff was the greatest obstacle to increased production.

The economic forecast from the Association of Swedish Engineering Industries includes many signals that taken together suggest a slowdown in the economic situation. One bright spot for Semcon

is that demand for industrial consultants remains relatively positive. However, a drop is expected in demand for investment goods in the technology industries' export markets, which in turn may also impact industrial consultants.

The UK is Semcon's second largest market and is expected to have strong potential for continued high growth, both in current and new industries, despite the UK's decision to leave the EU. According to the audit and advisory company KPMG, there are major opportunities for the UK automotive industry to – through greater innovation capacity and continuous improvements, together with digitization – increase production by GBP 74 billion over the next two decades. Global R&D Funding Forecast expects the ongoing Brexit discussions to impact R&D investments in the UK, but have less impact on other EU countries.

The Norwegian market was Semcon's third largest market in 2018, and growth has been robust following the acquisition of Devotek 2015. The market as a whole has witnessed a sharp recovery in line with the increase in oil prices. Demand for new technology and innovation will remain strong moving forward and Semcon continues to see major opportunities for growth in this market. *

Competitor overview

Competitor	Domestic market	Number of employees	Income mSEK	Year
HCL Technologies	India	120,081	65,768	2017/2018
Alten	France	33,700	23,266	2018
ÅF	Sweden	10,928	13,975	2018
Tata Technologies	India	> 8,500	3,527	2017/2018
Sigma	Sweden	3,573	3,512	2017
Etteplan	Finland	3,055	2,424	2018
Knowit	Sweden	2,260	3,083	2018
Rejlers	Sweden	1,953	2,365	2018
Combitech	Sweden	1,844	2,443	2018
HiQ	Sweden	1,629	1,853	2018
Prevas	Sweden	582	771	2018
Knightec	Sweden	496	486	2016/2017

When translating from domestic currencies to SEK, the exchange rates were as follows: EUR 10.25 and IND 0.127.



“

It's easy to lose perspective – not least women's perspectives – when the majority of technical developers are men. Because if people don't see a product as problematic, there's not all that much chance of them changing it. For us at Semcon, understanding end users of all kinds is crucial so that we can develop products that benefit people as much as possible.

Markus Granlund, President and CEO



**Adding perspectives to
benefit end users.**

80 per cent of all technology developers in the industry are men. But half of users are women. In order to add a new perspective in product development, we created a team of women and asked the public for suggestions of products that could be improved. In a short period of time, we received more than 500 suggestions. Our team chose a product that has looked the same for 86 years and that many people, particularly women, prefer to avoid – the towbar. The new smart concept means the trailer is connected to the car automatically, without the driver even needing to leave the vehicle. A good solution for everyone.



SUSTAINABILITY AT SEMCON.

This Sustainability Report, on pages 32-36, has been prepared in accordance with the Swedish Annual Accounts Act for Semcon AB and its subsidiaries.

Structure and framework for Semcon's sustainability work

Sustainability work is a common thread in Semcon's deliveries. Together with our customers, we ensure sustainable product development based on human behaviour. And if it is crucial for our customers' future then there is nothing more important for us at Semcon. This is how we create value.

We look upon sustainability as an integrated part of our mission, our customer offering and our internal corporate culture. Our sustainability efforts are directed towards the UN's 17 Sustainable Development Goals.

Our sustainability work is based on our policy for sustainability and quality and on our Code of Conduct, which is based on the UN's 10 Global Compact Principles relating to human rights, labour laws, environment and corruption. We are focusing on the principles that are most relevant for our operations and where we can make the greatest contribution, based on the materiality analysis conducted and on stakeholder dialogues.

Sustainability work is governed and followed-up

in our integrated management system and has targets and metrics that are relevant for the business operations. The Group's head of sustainability is a member of Group management and reporting on sustainability work is presented regularly at Group management meetings. A knowledge-intensive company such as Semcon has favourable prospects for a proactive and integrated sustainability agenda.

Our overall sustainability goal is that our customer offering is to support the Sustainable Development Goals, as formulated by the UN. This provides a significant potential to develop our business in the right direction, while helping to tackle some of the largest challenges of our time.

Integrated approach

To ensure that corporate responsibility pervades the entire organisation and our commitment, we describe and assess our work using five different perspectives:

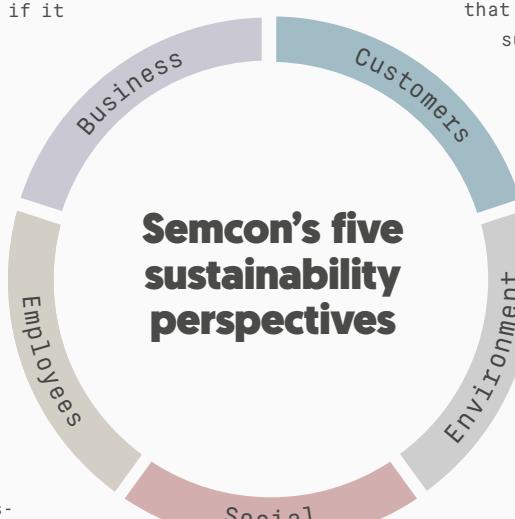
Employees – through a corporate culture where our employees thrive.

Business activities – through responsible business focusing on long-term profitability.

Customers – through customer value, based on end users.

Environment – through sustainable innovation and responsibility for our own environmental footprint.

Social – through social commitment.



Employees

5 GENDER EQUALITY



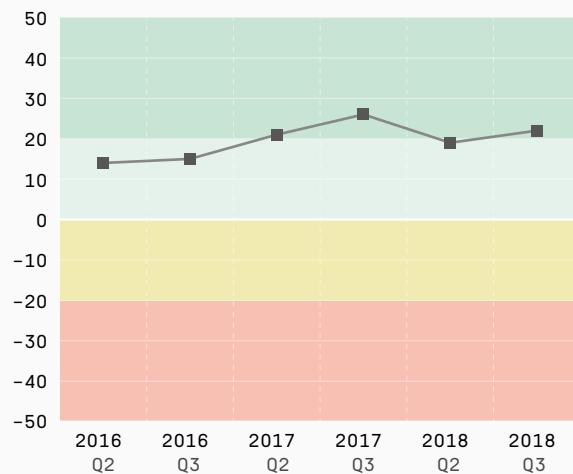
As a supplier of expertise and commitment, our sustainability responsibility rests on the relationship we have with our employees. This is where it begins, as when we feel inspired and appreciated for who we are

and can contribute with all our potential, this is when we can make a difference. We provide the necessary conditions for development, learning new things and to grow as a person, on both a professional and personal level. In 2018, we have defined our internal values to more clearly articulate our conviction that growth in our business is linked to growth in expertise, commitment and value creation. When we thrive, we can make a difference. It is a case of our culture. You can read about our six value principles, which form the basis of our culture, on page 14.

Our employee surveys, which are conducted twice per year, continue to show progress. In the latest survey, in autumn 2018, the main improvement noted during the year was in the way in which we cooperate within the Group. Similar to previous years, our employees are particularly satisfied with the good working environment and management.

We measure our attractiveness as an employer using eNPS, which stands for Employee Net Promoter Score, and is used as a measure for how willing employees are to recommend their workplace to friends and acquaintances. An eNPS value can vary from -100 to +100. A good value tends to vary between different industries, countries and cultures but a guiding principle is usually that a result above 0 is good, above +20 is very good and above +50 is exceptional. In the latest survey, Semcon's eNPS was +22.

Semcon's eNPS 2016–2018



At Semcon, we are convinced that diversity in combination with an inclusive culture is a key to success. Read more about how and why we work with this issue on page 12. When it comes to the balance between men and women in the company, we have specifically adopted the quantitative target to be an equal-opportunities company [40/60 gender balance] by the end of 2022.

Gender balance

	Men	Women
Organisation	70%	30%
Managers	72%	28%
Group management	71%	29%
Board of Directors	60%	40%

Business activities

8 DECENT WORK AND ECONOMIC GROWTH



All parts of Semcon's business are to be conducted on a commercial basis with greater focus on profitability, which entails demands on professionalism in both relationships and delivery. Our business activities are clarified through our business models. Read more about these on page 18.

By operating in several markets in different industries and by targeting differentiated customer segments, we are managing the risks in a responsible manner. Read more about our risks in the Director's Report on pages 42–43.

One key aspect of Semcon's professionalism comprises our relationship to customers and other business stakeholders. We build our long-term business commitments on respect and responsibility. Semcon's Code of Conduct provides the foundation for how we act in relation to our employees, business partners, shareholders and to the world around us. In the same manner, we make rigorous demands on our business partners. Semcon's Ethical Council assesses and makes decisions on the transactions Semcon wants to be involved in and contribute towards.

Semcon AB's Board has adopted the company's Code of Conduct. Every employee is responsible for complying with our Code of Conduct and other internal guidelines. The fulfilment of the Code of Conduct is ensured through training, management systems, internal control and audits. As an international Group, we also have operations, customers and other business partners in countries where there is a greater risk, for example, of corruption. One prerequisite for Semcon is that all of our business partners must respect ethics, which is guaranteed through requirements in agreements with our subcontractors.

In 2018, a new e-learning project on anti-corruption was launched as a means of further raising awareness among employees and to clarify the company's zero-tolerance of corruption. No cases of corruption were reported during the year.

In terms of human rights, the greatest risk for us is inequality in rights and opportunities at the workplace due, for example, to gender, ethnicity, nationality, religion or sexual orientation. No violations of human rights were reported during the year. Semcon promotes equal rights and opportunities for our employees and looks upon diversity as a prerequisite for the company. This conviction is defined in our diversity and inclusion policy. Read more about how we work with diversity on page 12.

Our whistleblowing function offers all employees an opportunity to raise suspected infringements of laws, the Code of Conduct or other serious irregularities. During the year, one case was reported, which was processed in accordance with the company's procedures.

Customers



Our starting point whereby we put people first is as relevant in our customer relationships as it is in our focus on end users.

For us, a deep understanding of people and their behaviours is central to everything we do. By focusing on human behaviour, it is possible to develop better products with a higher perceived quality. This offers Semcon and our customers competitive advantages.

We regularly participate in research projects in close collaboration with universities, research institutes and customers. Our participation in research projects allows us to be involved and develop the technology for tomorrow's products, which is a strength for our customers. Read more about how we work with research, development and innovation on page 37.

When delivery is complete, we follow up how satisfied our customers are, and make rigorous demands on the results. On a scale of 1–6, we aim for an average of 5 over the year. In 2018, our customers gave us a 4.9 [4.9].

Environment



Climate change and energy consumption are major challenges facing the global community. As a consultancy, without its own manufacturing or extensive logistics, Semcon's greatest contribution to environmentally

sustainable development is through the technical solutions we create for our customers. Environmental concerns and resource efficiency are always part of our deliveries and solutions. This may involve providing additional expertise in, for example, life cycle assessment, but above all concerns electrification of vehicles and machinery, transitioning energy, automation or digitization. In 2018, we noted growth in demand from our customers for modern, digital, sustainable and energy-efficient solutions.

The most important factor in our own carbon footprint is how we travel. We provide digital tools for communication and collaboration to promote productivity, resource efficiency and interaction, while reducing actual travel. In 2018, we decreased our CO₂ impact in Sweden related to business travel by 13 per cent per employee, which included fewer flights compared with last year. Average carbon emissions for the year were 448 kg per employee, compared with 514 kg in 2017. Vehicles we use in our own car fleet, company cars and pool vehicles have average CO₂ emissions of 113 grams per kilometre [117].

We are aiming to reduce our carbon emissions, energy consumption and waste volumes each year. The Group's modern head office in Göteborg is certified in accordance with the requirements of Green Building. Semcon's environmental management system is certified in accordance with ISO 14001 and the management system is audited both internally and externally. Relevant KPIs for our energy consumption will be drawn up in 2019.

Social responsibility



Semcon has been a proud main partner to SOS Children's Villages since 2014. We provide both financial support and direct involvement in the form of voluntary work by our employees in several countries. We

change the world, a little every day, for example by providing career advice and helping girls in India to complete their education. Our employees also provide help with homework in maths and technology for young people at the SOS operations for unaccompanied refugees in Hammarkullen near Göteborg. A collection is made every Christmas by our internal CSR ambassadors to donate to SOS Katastrofhjälp, and the company then matches the money collected. *



Examples of our offering, linked to the UN Sustainable Development Goals

The UN Sustainable Development Goals address several of the challenges we are working to solve, together with our customers. We therefore link our offering to these 17 sustainability goals. The goals our offerings contribute towards include:

Electrification and autonomy

11 SUSTAINABLE CITIES AND COMMUNITIES



Our offering in electrification helps our customers to develop products where fossil fuels are replaced by electricity, to improve the environment. Combined with our offering in autonomy, we can develop autonomous vehicles

that create the conditions for sustainable cities. Read more about our project with autonomous snowploughs at Oslo Airport on page 20.

Connected factories and maximal operating time

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Through its offering in connected factories, Semcon helps companies create an automated and connected manufacturing process that can reduce error rates and enhance efficiency. Our digital solutions in product information make the

right information available at the right time, which can be essential if a user needs to understand how a product or system can be used, or how preventive maintenance and repairs can be managed efficiently to achieve maximal operating time.

Smart energy solutions

7 AFFORDABLE AND CLEAN ENERGY



Access to sustainable, safe and reliable energy is fundamental to society as a whole. This is also an area that is facing a technological leap towards renewable energy sources and decentralised forms of distribution. In the future, reliability and control will also be important for energy supply as greater use is made of solar, wind and wave power, in addition to hydro and nuclear power. Semcon's experience in the energy sector has resulted in a sustainable offering, focused on substations, hydropower and converter stations.

Digital solutions in product information

13 CLIMATE ACTION



In a world where many companies have employees located around the world and still have a considerable need to share new knowledge, our offerings in e-learning provide opportunities to conduct training without the need for climate-impacting journeys. When we help our customers to optimise their aftermarket business, assisted by the latest technology for product information, we can together increase the service life of products. Our digital solutions in product information also reduce the need for printed user manuals and create the conditions for continuous updates without the need to print new manuals. Read more about how we work with product information for London Electric Vehicle Company on page 6.

Read more about

Semcon's strategy on page 10 • Semcon's organisation on page 85 • Semcon's markets on page 28

Auditor's report on the statutory sustainability report

To the general meeting of Semcon AB (publ), corporate, identity number 556539-9549

Engagement and responsibility

The Board of Directors is responsible for that the statutory sustainability report on pages 32-36 has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12. The auditor's report on the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in

scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinion

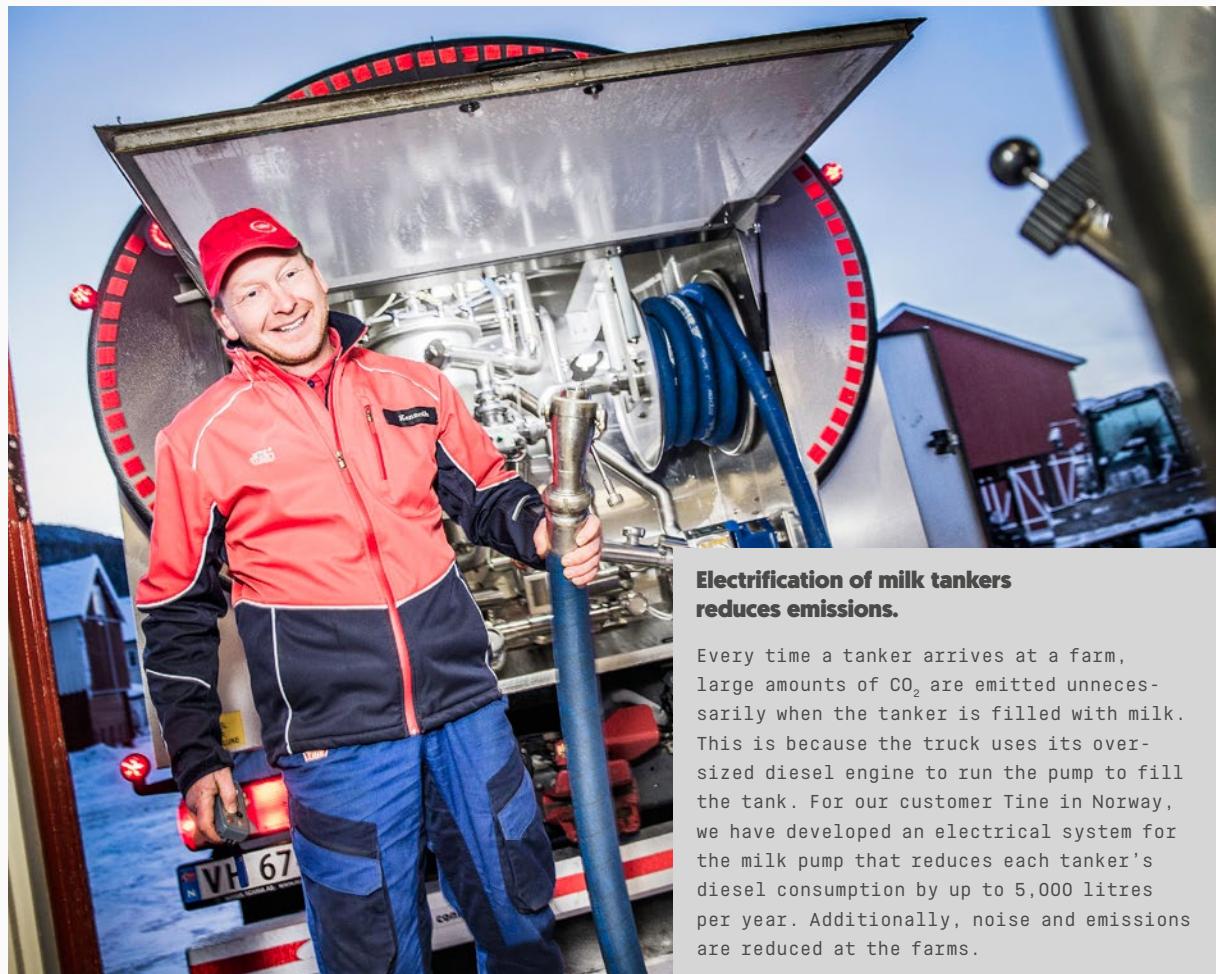
A statutory sustainability report has been prepared.

Gothenburg, 19 March 2019

Ernst & Young AB

Staffan Landén
Authorized Public
Accountant

Nina Bergman
Authorized Public
Accountant



RESEARCH, DEVELOPMENT AND INNOVATION AT SEMCON.

Semcon continually participates in many different research projects in collaboration with academia, institutes, authorities and customers. This provides us with the latest theoretical knowledge, and also valuable practical experience of future technologies and user needs. Insights from research projects are then available for our customers when we discuss their future challenges. We share this knowledge in our customer projects both by actively proposing new solutions and projects and by regularly taking part in development on-site at customer premises.

The emphasis in research projects is in line with our focus areas, such as design, autonomy and

AI. For example, it could concern new user-focused solutions for connected products, or the challenge of safety in autonomous vehicles. We also leverage the experiences gained from research projects in our innovation process with our customers. Here, they can learn about our expertise in many technology fields and effective innovation methods, with the ability to quickly assemble concepts and prototypes. Thanks to a structured innovation process and extensive experience, we know what is needed to succeed with an innovative approach – people. With an innovation team containing the right expertise and the right people, we can together create the best solution, based on human needs and behaviours. *



Financial statements

	39	Notes	
Directors' Report	46		
Consolidated income statements	46	Note 1 General information	56
Consolidated statements of comprehensive income	47	Note 2 Significant changes during the reporting period	56
Consolidated balance sheets	48	Note 3 Accounting policies	56
Consolidated changes in shareholders' equity	49	Note 4 Financial risks	61
Consolidated cash flow statements	50	Note 5 Critical estimations and assessments	62
Consolidated specification of capital employed and net debt	51	Note 6 Segment reporting and distribution of income	63
Parent Company's income statements	52	Note 7 Income	64
Parent Company's statement of other comprehensive income	52	Note 8 Remuneration to auditors	65
Parent Company's balance sheets	53	Note 9 Employees	65
Parent Company's changes in shareholders' equity	54	Note 10 Interest income and similar items	67
Parent Company's cash flow statements	55	Note 11 Interest expenses and similar items	68
Notes	56	Note 12 Tax	68
Auditor's report	78	Note 13 Earnings per share	70
		Note 14 Intangible assets	70
		Note 15 Tangible assets	72
		Note 16 Shares in Group companies	73
		Note 17 Acquisitions	73
		Note 18 Accounts receivable	73
		Note 19 Accrued non-invoiced income and invoiced non-accrued income	74
		Note 20 Prepaid expenses	74
		Note 21 Share capital	75
		Note 22 Accrued expenses	75
		Note 23 Contingent liabilities	75
		Note 24 Transactions with related parties	75
		Note 25 Operational leasing	76
		Note 26 Events after the balance sheet date	77

DIRECTORS' REPORT 2018.

The Board and CEO of Semcon AB [publ] co.id.no. 556539-9549 hereby present the annual report and consolidated accounts for the 2018 financial year.

Business

Semcon is an international technology company with engineering services and product information activities at more than 30 locations in Sweden, the UK, Norway, Brazil, Germany, Hungary, India and China.

Semcon's business areas

Semcon is organised into two business areas: Engineering Services and Product Information. Business Area Engineering Services provides engineering and digitization services in product, plant and production development. Operations aim to help customers to develop products, services, systems and plants to strengthen their competitiveness by providing innovative solutions along the entire development chain, from studies to specify requirements to the finished product. The business area provides engineering services focused on the automotive, energy, industrial and life science industries. Business Area Product Information offers services and complete solutions in product information. This includes information production and distribution. The information is made available in an appropriate manner for the user – which today means more frequent distribution via digital solutions, such as animations and mobile apps.

Important events during the year

- ＊ Daniel Rundgren was appointed as the new Business Area President of Engineering Services. Daniel is joining Semcon from the IT company EVRY and started as Business Area President in mid-May.
- ＊ In January, Semcon received the Årets Varumärkesresa [Brand Journey of the Year] award in Sweden.
- ＊ During the first quarter, Business Area Product Information renewed an agreement concerning owner information for the 19th consecutive year with one of the largest customers in the business area.
- ＊ Semcon was selected as "Rocket of the Year" among Sweden's most attractive employers. The survey is conducted by Universum among engineering students.
- ＊ A number of new framework agreements were signed

during the quarter, including with SKF, the Swedish Transport Administration, Siemens Industrial Turbomachinery, Essity, Stockholm County Council and Getinge.

- ＊ In April, Semcon acquired the German product information company Haas-Publikationen GmbH. The company has almost 50 employees and sales amounted to SEK 44 million in 2018.
- ＊ During the third quarter, Semcon initiated a new collaboration with XM Reality to use augmented reality [AR] to develop the user experience of product information.
- ＊ In September, Semcon extended its life science focus and a new framework agreement was signed with Astra Zeneca. An additional office was opened in Södertälje in conjunction with the new framework agreement.
- ＊ During the third quarter, Semcon deepened its collaboration with Powercell to automate the manufacture of eco-friendly fuel cells.
- ＊ Semcon has, in collaboration with among others Norwegian Tine, which is responsible for most milk transportation in Norway, developed an electrical system for the milk pump that reduces each tanker's diesel consumption by up to 5,000 litres per year.
- ＊ Semcon cooperated with Veoneer in software development for designing their new control units for autonomous driving.
- ＊ Semcon was entrusted with preparing user information, with an innovative approach to both content and digital distribution, for the newly established electric car brand Polestar.

Sales and profit

Operating income amounted to SEK 1,842 million [1,762] and organic growth was 2 per cent. The year included one fewer working day compared with last year. Operating profit amounted to SEK 120 million [95], yielding an operating margin of 6.5 per cent [5.4].

Engineering Services reported a highly favourable earnings improvement due to stronger demand and higher productivity. Product Information noted a deterioration in earnings due to lower volumes

40 FINANCIAL STATEMENTS

in ongoing customer assignments during the first half of the year. Nevertheless, operating profit improved during the second half of the year.

Net financial items amounted to SEK - million [-1], yielding profit before tax of SEK 120 million [95]. The tax expense for the year amounted to SEK -26 million [-22]. Profit after tax amounted to SEK 94 million [72] and earnings per share after dilution totalled SEK 5.25 [4.00].

Cash flow and financial position

Operating cash flow from current activities was SEK 111 million [38]. The Group's cash and cash equivalents amounted to SEK 44 million [81]. In addition, the Group had non-utilised credit of SEK 251 million [376] as of 31 December. The previous revolving credit facility of EUR 22.8 million was replaced with a revolving credit facility of SEK 100 million, which extends until October 2021. Shareholders' equity amounted to SEK 567 million [557] and the equity/assets ratio was 61 per cent [61]. The Group's net cash amounted to SEK 44 million [78].

Investments

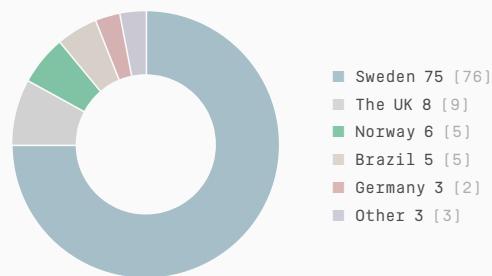
Investments in hardware, licenses, office supplies and equipment amounted to SEK 9 million [9].

Acquisitions of companies

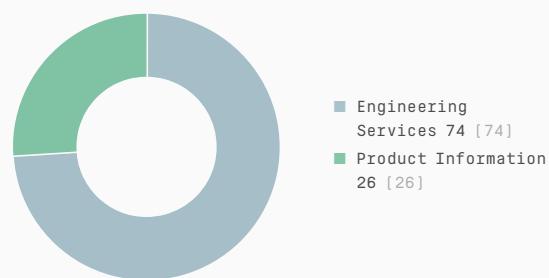
In April, Semcon acquired the German product information company Haas-Publikationen GmbH. The company has almost 50 employees and sales amounted to SEK 44 million in 2018. For further information on the acquisition, see Note 17, page 73.

Change in operating income		
compared with preceding year		
	2018	2017
Acquisitions	1.9%	-%
Currency effects	0.4%	-%
Organic growth	2.2%	0.4%
Total	4.5%	0.4%

Income per market [%]



Income per business area [%]



Equity/assets ratio [%]



Engineering Services

Business

The business area's slightly more than 1,400 employees provide services in areas such as digitization, product development, plant engineering and production development services. The offer is aimed at requirement and concept studies, design, calculations, construction, embedded systems, testing, simulation, quality control, project management, production and process development and expertise in lean production and service development. Engineering Services has offices in Sweden, Norway, the UK, India and Brazil.

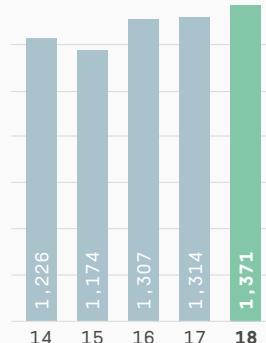
Markets and customers

Business activities mainly focus on the automotive, industry, energy and life science sectors. Customers include ABB, AB Volvo, Alstom, Aston Martin, Astra Zeneca, Autoliv, Bombardier, CEVT, Geely, Fortum, General Electric, Getinge, Husqvarna, Jaguar Land Rover, MAN, McLaren, Metso, Rolls-Royce Marine, Saab, Scania, Siemens, Vattenfall and Volvo Cars.

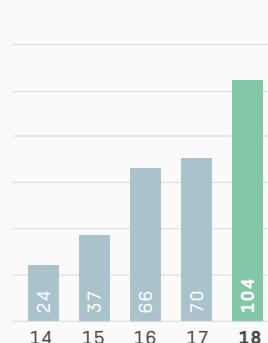
Development in 2018

The business area's income amounted to SEK 1,371 million [1,314] and organic growth was 5 per cent. Demand is healthy for the business area's offering within product development and production optimisation, and sales increased to life science and industrial customers, among other sectors. Several new customers signed framework agreements with Semcon during the year, which creates favourable conditions for continued healthy demand. Operating profit improved to SEK 104 million [70], yielding an operating margin of 7.6 per cent [5.4]. Earnings improvements were mainly reported for operations in Sweden and Norway due to stronger demand and higher productivity. Performance in the UK was weaker due to a drop in demand from two of the largest customers. The development of Semcon's digital offering in areas including AI, autonomous solutions and electrification together with improved productivity means profitability for the business area is expected to remain healthy moving forward.

Income [mSEK]



Operating profit [mSEK]



Product Information

Business

The business area's more than 700 employees provide complete solutions in product information with the primary focus on customers' aftermarket business. The business area's offering supports products and systems throughout the product life cycle: from sales and marketing to installation, maintenance, diagnostics, repairs, as well as training service staff. The business area has offices in Sweden, the UK, Hungary, Germany, China and Norway.

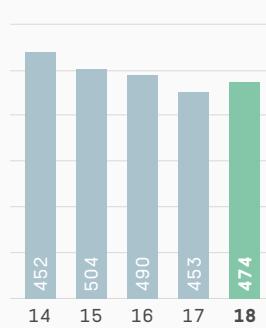
Markets and customers

Customers are mainly in the automotive, telecom and IT, engineering, medtech and energy sectors. These include ABB, AB Volvo, Baxter, Bombardier, CEVT/Lynk & Co, ESAB, Jaguar Land Rover, Saab, Siemens, London Electric Vehicle Company, UniCarriers and Volvo Cars.

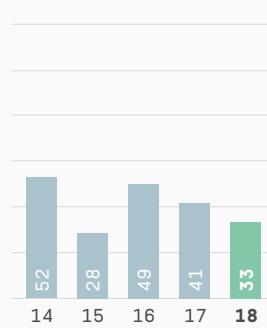
Development in 2018

The business area's income amounted to SEK 474 million [453] and organic growth was -5 per cent. Two major customers relocated their operations from Europe to Asia, the effects of which could not entirely be filled by new assignments during the first six months of the year. Operating profit amounted to SEK 33 million [41], yielding an operating margin of 7.0 per cent [9.0]. Operating profit improved during the second half of the year and a sustained earnings improvement is expected moving forward as income increases. Among other activities, a new partnership agreement was signed with a global machinery manufacturer and the initial planning stage commenced in the third quarter. Part of the business area's strategy is focused on a high proportion of managed service contracts and a high level of resource efficiency through deliveries involving networking teams from several countries.

Income [mSEK]



Operating profit [mSEK]



Employees

At 31 December, there were 2,119 [2,076] employees and 2,045 [1,980] employees in active service. The average number of employees was 2,042 [1,982], of which 1,195 [1,256] in Sweden, 236 [191] in Brazil, 196 [176] in Hungary, 113 [121] in India, 108 [108] in the UK, 71 [22] in Germany, 68 [58] in Norway and 55 [51] in China. Employees are trained on an ongoing basis, taking into account employees' requirements and the expertise Semcon expects its customers to require in the future. On 31 December 2018, 74 per cent [64] of employees had university or college education. 44 per cent [48] had worked for more than three years in the Group, 28 per cent [31] between one and three years and 28 per cent [21] shorter than one year. The proportion of women was 30 per cent [30]. In Sweden, the proportion of women was 32 per cent [31]. In the respective business areas, the number of employees was as follows: Engineering Services 1,414 [1,447] and Product Information 705 [629].

Research and development

The majority of Semcon's development costs concern development within the framework of customer projects. Other development costs are expensed in the accounts. These costs are not considered to be significant. Exceptions are made for costs for development of specific programs or technical platforms, which are capitalised in accordance with IAS 38. Semcon also takes part in several external research projects in the field of connected vehicles, sustainable product development and new materials to ensure a prominent position in terms of expertise.

Sustainability

Semcon is covered by the rules for sustainability reporting and has prepared a sustainability report for Semcon AB and its subsidiaries for the period 1 January 2018 to 31 December 2018. In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, Semcon has chosen to prepare the statutory sustainability report as a report separate from the annual report. The sustainability report is available on pages 32-36 of this document and was submitted to the auditors together with the annual report.

Semcon's main contribution for reducing environmental impact is in the products and services the company develops for customers. Semcon's specific expertise throughout the product life cycle means that the company can create sustainable, complete solutions covering energy efficiency, both small and large-scale, light constructions, smart products, efficient production development and user behaviour. This provides technology that promotes eco-friendly use or communicates energy-saving

functions in such a way that users understand. Read more about Semcon's sustainability work on pages 32-36 and 43.

Risks in the Group's business

Semcon is exposed to a number of risks that may affect the Group's results. Semcon has chosen to divide the risks the company faces into financial and business-related risks. Semcon evaluates and identifies significant risks continually at the organisation and in strategic planning.

Financial risks

The company has identified a number of financial risks that could affect earnings including: financial risk, liquidity risk, credit risk and currency risk. For further information about financial risks, see Note 4 on page 61.

Business-related risks

The company has identified the following main business-related risks:

Economic climate dependency

RISKS: Semcon's customers are affected to varying degrees by a poor economic climate as this can negatively impact demand for Semcon's services.

MANAGEMENT: Semcon continuously works to broaden its customer base to minimise dependency on different markets and industries as well as individual customers, which may be affected by a poor economic climate. Semcon's customer base consists mainly of companies in the automotive industry and European industrial companies in various industries even though new customers from other geographic markets such as China, India and Brazil have been added in recent years.

EXPOSURE: Semcon is a global company with activities in Sweden, the UK, Brazil, Norway, Germany, Hungary, India and China. The percentage of sales to customers outside Sweden amounts to 25 per cent.

Industry dependency

RISKS: Semcon's business is affected to varying degrees by developments and dependency on individual industries.

MANAGEMENT: To minimise the dependency on the automotive industry, Semcon is prioritising growth in other industries, such as energy and life science.

EXPOSURE: Since last year, exposure to the automotive industry has been reduced and amounts to 43 per cent of the Group's total sales.

Single-customer dependency

RISKS: A customer can end an assignment or project at short notice or gradually cut back on business volumes. This can result in a risk, since Semcon cannot always guarantee full cost coverage, par-

ticularly for employees who cannot immediately be transferred to another assignment.

MANAGEMENT: Semcon works continuously to broaden its customer base to minimise its dependency on single customers.

EXPOSURE: Semcon's customer base mainly comprises European industrial companies in various sectors and foreign customers in the automotive industry. The ten largest customers account for 49 per cent of the Group's total sales, which is 6 percentage points lower than in 2017. No one customer accounts for more than 10 per cent of total sales.

Employees

RISKS: There is always a risk that key employees or a large number of employees choose to leave the company. There is immense competition for skilled employees, which generally means that salaries may rise above the agreed contracts, both for groups of employees and individual key employees.

MANAGEMENT: Semcon prioritises activities to be an attractive employer and thereby improve employees' job satisfaction. Resources are set aside for training, recruiting and induction activities.

EXPOSURE: In 2018, employee turnover remained high and was 25 per cent.

Sustainability

RISKS: Semcon's presence on the global market carries sustainability risks in the areas of human rights, working conditions, environment and corruption.

MANAGEMENT: Semcon reduces its exposure to sustainability-related risks using set regulations, such as the company's Code of Conduct, which is based on the UN Global Compact, and its Quality and Sustainability Policy. Semcon has a certified environmental management system in place to ensure that environmental legislation is followed throughout the Group. Semcon takes a zero-tolerance approach to any form of corruption and has a framework in place that clarifies the ethical rules for Semcon's conduct in relationships with customers and other stakeholders. In addition, Semcon has a whistleblowing function where each employee is given the opportunity to anonymously report any suspected breaches of the Code of Conduct. No cases of infringements against the Code of Conduct or other serious irregularities were reported during the year.

Price pressure

RISKS: The risk of being exposed to price pressure is high in development-intensive industries.

MANAGEMENT: Semcon offers competitive prices in all markets but also gives customers the opportunity of using Semcon's entire network of local and international offices. Semcon is continuing to adhere to

its set plan of moving away from fixed hourly-based pricing towards more performance-based deliveries. This can increase the risk but also provides opportunities to improve profitability. Price pressure has remained strong, although there are variations between different sectors and markets. Every reduction or increase in total annual fees by one percentage point impacts the outcome by about SEK 15 million. The main priority is to offer the right solutions for customers and that they are based on results instead of primarily hours delivered.

Fixed price projects

RISKS: Fixed price projects expose the company to risks if projects cannot be completed to budget and/or if the project cannot be completed on time.

MANAGEMENT: All projects are planned, budgeted and carried out according to joint, fixed working methods. Semcon actively works with project management and is ISO 9001 and ISO 14001 certified. Meanwhile, projects give the Group the potential of improving profits through efficiency gains and by using expertise from various Semcon offices on projects.

EXPOSURE: During the year, employees received training as part of Semcon's project manager training, which is based on the Group's own project methodology, the Semcon Project Model.

Liabilities

RISKS: There is a risk that incorrectly carried out assignments and projects can affect results.

MANAGEMENT: The Group is insured according to industry practice for such eventualities.

EXPOSURE: During the year, a review of insurance cover took place in all of the Group's markets. Over the years, Semcon has only used its insurance on a few occasions.

Sensitivity analysis

A change in the following variables would affect sales and results as follows:

Variable	Change	Income	Impact on profit before tax
Utilisation	± 1%	mSEK 18	mSEK 18
Price	± 1%	mSEK 15	mSEK 15
Staff costs	± 1%	-	mSEK 13
No. working days	± 1 day	mSEK 7	mSEK 6

Seasonal variations

The number of working days per quarter varies year on year, which is an important factor to consider when analysing the income for the various quarters. Each working day represents around SEK 7 million in income and impacts operating profit by about SEK 6 million.

No. working days in Sweden	Q1	Q2	Q3	Q4	Total
2016	61	61	66	64	252
2017	64	58	65	63	250
2018	63	59	65	62	249
2019	63	58	66	62	249
2020	63	58	66	63	250

Incentive scheme

The AGM, held on 25 April 2018, decided to establish a long-term performance-based share savings scheme for about 20 senior executives and key personnel in the Semcon Group. This scheme runs for four years starting in July 2018 and covering a maximum of 180,000 shares. The current holding of own ordinary shares is considered to fulfil obligations under the performance-based share savings schemes 2015, 2017 and 2018.

Work of the Board

The work of the Board is described in the Corporate Governance Report on page 85.

Remuneration to the Board and senior executives

Remuneration to the Board was decided by the 2018 AGM following proposals by the Nominations Committee. Remuneration to the Board until the 2019 AGM amounted to SEK 1,720,000, of which SEK 600,000 for the Chairman and SEK 280,000 for other Board members not employed by the company. The Board decides on remuneration to the CEO. Semcon has decided that the Board in its entirety will carry out the Remuneration Committee's assignments.

The Board proposes that the AGM decides to establish the following guidelines for determining salaries and other remuneration to senior executives up to the time of the 2020 AGM.

1. In these guidelines, senior executives are the CEO and President and the other members of the Semcon Group's senior management team.
2. These guidelines shall apply for agreements reached after the 2019 AGM and for previous agreements changed after the 2019 AGM.
3. The company shall have a remuneration level and other employment terms that are needed to recruit and retain senior executives with the right skills and capabilities to achieve the company's objectives. Total remuneration paid to each senior executive – made up of various components such

as fixed salary, bonus, participation in share-based incentive scheme, pension benefits and other remuneration and benefits – shall be reasonable, competitive and market-based, and shall be decided with regard to, among other things, performance, position and importance for the Group.

4. Fixed salary shall be paid for satisfactory work. It shall normally be reviewed once a year.
5. A bonus of a maximum of nine months' salary shall be offered to senior executives. This bonus shall be primarily based on results and bonus targets, established once a year.
6. In addition to applicable collective agreements and similar, senior executives shall be given the right to arrange individual pension solutions, whereupon salary and bonus relinquishment may be utilised to increase pension payments provided no increased cost is incurred for the company over time. All solutions agreed in future shall be defined-contribution pensions.
7. Notice of resignation for senior executives shall be a minimum of six months and maximum of 12 months. If notice is given by the company, a notice period of 12 months is to apply Dismissal pay and severance pay combined must not exceed 18 months' salary.
8. In addition, other remuneration and benefits may be offered to senior executives to facilitate possibilities to complete work assignments.
9. The Board has the right to deviate from these guidelines in individual cases if there is good reason.

The Board's proposals are in line with previous years' guidelines except notice of resignation and dismissal pay, where the guidelines proposes maximum of 18 months compared to 12 months in the previous year. In 2018, the Board has exercised its right to deviate from the guidelines in one case. The deviation was an addition to an employment contract with the CEO, that means the dismissal pay and severance pay may amount to 18 monthly salaries. The Board of Directors is of the opinion that special grounds are in place for the deviation taking into account the requirement to offer market terms and conditions. Senior executives' remuneration and benefits are presented in Note 9 on page 65.

Class of shares and ownership structure

At year-end 2018, Semcon's share capital was SEK 18.1 million, or 18,112,534 shares all with a quotient value of SEK 1. All shares carry the right to one vote and are of the same share class. Every share entitles the holder to equal shares in the company's assets and profits. There are no restrictions on the transferability of shares. At 31 December, the JCE Group owned 25.8 per cent [25.8] of Semcon's shares, Nordea Investment Funds 9.8 per

cent [7.9], Avanza Pension 5.0 per cent [3.3], BNY Mellon 4.4 per cent [-] and Öhman Fonder 3.2 per cent [3.6]. The ten largest shareholders owned 57.2 per cent [59.9] of the capital and voting rights in the company. Semcon owned 682,669 [281,719] of the company's shares. Semcon had 5,239 [4,440] shareholders, of whom 32.6 per cent [33.1] were registered abroad.

Buy-back of own shares

The Board resolved on 6 December 2017 to buy back 200,000 ordinary shares pursuant to the authorisation of the 2017 AGM. The Board resolved on 25 April and 6 December 2018 on another buy back of not more than 400,000 ordinary shares pursuant to the authorisation of the 2018 AGM. The Board's decision aims to improve the company's capital structure. Up until 31 December, 457,716 shares had been repurchased within the three authorisations

Financial objectives

The objectives aim to create long-term shareholder value. Semcon aims to achieve the following financial objectives for the company:

- * an operating margin of at least 8 per cent
- * an equity/assets ratio of over 30 per cent
- * a share dividend from a long-term perspective of at least one-third of profit after tax

Events after the balance sheet date

No significant events occurred after the end of the year.

Proposed dividend

According to Semcon's financial objectives, a share dividend shall be paid to shareholders and, from a long-term perspective, is to be at least one-third of profit after tax. The Board of Directors proposes a regular dividend of SEK 3.00 [2.50] per share, which represents 57 per cent [62] of earnings per share after dilution. Last year, an extra dividend of SEK 1.00 per share was also paid. The dividend proposed of SEK 3.00 [3.50] per share corresponds to SEK 54.3 million [61.9]. The record date is proposed as Friday, 26 April.

Parent Company

Operating income for the Parent Company amounted to SEK 19 million [22] and relates to payment for intra-Group services. Profit before tax amounted to SEK 88 million [91].

Proposed allocation of profits

The AGM has the following at its disposal in the Parent Company:

SEK

Profit brought forward and other capital contributions	225,378,407
Profit for the year according to the income statement	72,021,701
Total	297,400,108

The Board proposes that the profits be appropriated as follows:

Dividend to shareholders	54,337,602
Carried forward	243,062,506
Total	297,400,108

For additional results of the Group and Parent Company and their financial position, refer to the following income statements, balance sheets, statements of comprehensive income, changes in shareholders' equity and cash flow statements, along with the accompanying accounting policies and notes.

CONSOLIDATED INCOME STATEMENTS

mSEK	Note	2018	2017
OPERATING INCOME			
Net sales	6.7	1,842.2	1,762.4
OPERATING EXPENSES			
Purchase of goods and services		-344.1	-335.7
Other external expenses	8, 25	-144.4	-146.2
Staff costs	9	-1,223.1	-1,170.9
Amortisation of intangible assets	14	-3.2	-3.1
Depreciation of tangible assets	15	-8.7	-7.9
Gain/Loss from shares in associated companies		0.9	-3.4
Operating profit		119.6	95.2
FINANCIAL ITEMS			
Interest income and similar items	10	2.1	1.7
Interest expenses and similar items	11	-2.0	-2.3
Profit before tax		119.7	94.6
Tax	12	-25.7	-22.2
Net profit for the year from continuing operations		94.0	72.4
Net profit/loss for the year from discontinuing operations		-	0.1
Profit for the year		94.0	72.5
Of which attributable to:			
Parent Company's shareholders		94.0	72.5
Non-controlling interests		-	-
Total profit after tax		94.0	72.5
Earnings per share before dilution, SEK	13	5.34	4.06
– of which continuing operations	13	5.34	4.05
Earnings per share after dilution, SEK	13	5.25	4.00
– of which continuing operations	13	5.25	4.00
Number of shares at year-end	13	18,112,534	18,112,534
Average number of shares	13	18,112,534	18,112,534
Average number of shares excluding number of own shares	13	17,618,791	17,866,914

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

mSEK	2018	2017
Profit for the year	94.0	72.5
Items that can be reclassified to profit or loss		
Translation differences for the year	-1.2	-3.5
Total	-1.2	-3.5
Total other comprehensive income	-1.2	-3.5
Total comprehensive income	92.8	69.0
Comprehensive income attributable to:		
Parent Company's shareholders	92.8	69.0
Non-controlling interests	-	-
Total comprehensive income	92.8	69.0
Total comprehensive income for the year attributable to Parent Company's shareholders has arisen from:		
Continuing operations	92.8	68.9
Discontinuing operations	-	0.1
Total comprehensive income	92.8	69.0

CONSOLIDATED BALANCE SHEETS

mSEK	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Fixed assets			
Intangible assets	14		
Goodwill		316.5	274.7
Other intangible assets		10.6	13.1
Tangible assets	15		
Plant and machinery		21.1	22.7
Inventory, computers and equipment		10.4	8.4
Financial assets			
Deferred tax assets	12	3.2	3.2
Total fixed assets		361.8	322.1
Current assets			
Accounts receivable	18	347.4	337.0
Current tax receivables		5.6	0.4
Other receivables		10.2	6.8
Accrued non-invoiced income	19	144.9	140.3
Prepaid expenses	20	22.1	22.6
Cash and cash equivalents		43.5	80.9
Total current assets		573.7	588.0
Total assets		935.5	910.1
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	21	18.1	18.1
Other capital contributions		34.5	34.5
Reserves		-26.2	-25.0
Profit brought forward including profit for the year		540.5	529.0
Total shareholders' equity		566.9	556.6
<i>Of which non-controlling interests</i>		-	-
Long-term liabilities			
Pension obligations		-	3.0
Deferred tax	12	40.1	44.9
Total long-term liabilities		40.1	47.9
Current liabilities			
Accounts payable		51.9	51.6
Current tax liability		24.4	5.6
Other liabilities		66.6	67.5
Invoiced non-accrued income	19	24.0	20.5
Accrued expenses	22	161.6	160.4
Total current liabilities		328.5	305.6
Total shareholders' equity and liabilities		935.5	910.1

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

mSEK	Share capital	Other capital	Profit brought forward	Non-controlling interests		Total shareholders' equity	
	contribution	Reserves	Total				
Opening balance on 1 January 2017	18.1	34.5	-21.5	498.3	529.4	-	529.4
Comprehensive income							
Profit for the year	-	-	-	72.5	72.5	-	72.5
Items that can be reclassified to profit or loss							
Translation differences for the year	-	-	-3.5	-	-3.5	-	-3.5
Total other comprehensive income	-	-	-3.5	-	-3.5	-	-3.5
Total comprehensive income	-	-	-3.5	-72.5	69.0	-	69.0
Transactions with shareholders							
Buy-back of own shares	-	-	-	-1.9	-1.9	-	-1.9
Share-based remuneration	-	-	-	0.3	0.3	-	0.3
Share dividend	-	-	-	-40.2	-40.2	-	-40.2
Total transactions with shareholders	-	-	-	-41.8	-41.8	-	-41.8
Opening balance on 1 January 2018	18.1	34.5	-25.0	529.0	556.6	-	556.6
Comprehensive income							
Profit for the year	-	-	-	94.0	94.0	-	94.0
Items that can be reclassified to profit or loss							
Translation differences for the year	-	-	-1.2	-	-1.2	-	-1.2
Total other comprehensive income	-	-	-1.2	-	-1.2	-	-1.2
Total comprehensive income	-	-	-1.2	94.0	92.8	-	92.8
Transactions with shareholders							
Buy-back of own shares	-	-	-	-21.3	-21.3	-	-21.3
Share-based remuneration	-	-	-	0.7	0.7	-	0.7
Share dividend	-	-	-	-61.9	-61.9	-	-61.9
Total transactions with shareholders	-	-	-	-82.5	-82.5	-	-82.5
Closing balance on 31 December 2018	18.1	34.5	-26.2	540.5	566.9	-	566.9

CONSOLIDATED CASH FLOW STATEMENTS

mSEK	Note	2018	2017
CURRENT ACTIVITIES			
Operating profit			
Depreciation/amortisation	14, 15	11.9	12.6
Shares in associated companies		-0.9	3.4
Gain/Loss on the divestment of operation		-3.5	17.1
Other items not affecting cash flow		-2.2	-1.2
Interest received and similar items		2.1	1.6
Interest paid and similar items		-2.0	-1.3
Income tax paid		-19.6	-11.7
Cash flow from current activities before changes in working capital		105.4	99.4
CHANGE IN WORKING CAPITAL			
Change in work in progress		5.3	-56.4
Change in current receivables		-1.1	-33.0
Change in current liabilities		0.9	27.5
Total change in working capital		5.1	-61.9
Cash flow from current activities		110.5	37.5
INVESTING ACTIVITIES			
Acquisition of subsidiaries	17	-57.2	-
Divestment of subsidiaries		1.9	164.2
Investments in associated companies		-	-2.5
Investments in intangible assets	14	-0.8	-1.7
Investments in tangible assets	15	-7.9	-7.7
Payment from sales of fixed assets		0.1	-
Cash flow from investing activities		-63.9	152.3
FINANCING ACTIVITIES			
Change in overdraft facilities		-	-83.5
Repayment of loans		-	-70.2
Buy-back of own shares		-21.3	-1.9
Dividend paid		-61.9	-40.2
Cash flow from financing activities		-83.2	-195.8
Cash flow for the year		-36.6	-6.0
Cash and cash equivalents at the start of the year		80.9	87.8
Translation differences		-0.8	-0.9
Cash and cash equivalents at year-end		43.5	80.9
Cash flow for the year has arisen from:			
Continuing operations		-36.6	-5.1
Discontinuing operations		-	-0.9
Total cash flow		-36.6	-6.0

CONSOLIDATED SPECIFICATION OF CAPITAL EMPLOYED AND NET DEBT

mSEK	2018	2017
CAPITAL EMPLOYED		
Total assets	935.5	910.1
Deferred tax liabilities	-40.1	-44.9
Accounts payable	-51.9	-51.6
Other non-interest-bearing current liabilities	-276.6	-254.0
Total capital employed	566.9	559.6
Average capital employed	563.3	611.9
CHANGE IN NET CASH		
Opening balance	77.9	-126.7
Cash flow from current activities	110.5	37.5
Net investments	-8.6	-9.4
Acquisition and divestment of subsidiaries	-55.3	216.6
Share dividend	-61.9	-40.2
Buy-back of own shares	-21.3	-1.9
Other	2.2	2.0
Closing balance	43.5	77.9
NET CASH		
Cash and cash equivalents	43.5	80.9
Pension obligations	-	-3.0
Total net cash	43.5	77.9

PARENT COMPANY'S INCOME STATEMENTS

mSEK	Note	2018	2017
OPERATING INCOME			
Net sales			
	7, 24	19.3	21.9
OPERATING EXPENSES			
Other external expenses	8, 25	-15.6	-26.1
Staff costs	9	-39.6	-29.5
Operating loss		-35.9	-33.7
FINANCIAL ITEMS			
Interest income and similar items	10	17.5	135.7
Interest expenses and similar items	11	-1.6	-31.5
Profit/loss after financial items		-20.0	70.5
APPROPRIATIONS			
Tax allocation reserve		-26.2	-
Group contributions received		134.8	28.4
Group contributions paid		-1.0	-8.3
Profit before tax		87.6	90.6
Tax	12	-15.6	-0.2
Profit for the year		72.0	90.4

PARENT COMPANY'S STATEMENT OF OTHER COMPREHENSIVE INCOME

mSEK	2018	2017
Profit for the year	72.0	90.4
Other comprehensive income	-	-
Total comprehensive income	72.0	90.4

PARENT COMPANY'S BALANCE SHEETS

mSEK	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Fixed assets			
Financial assets			
Shares in Group companies	16	92.0	92.0
Deferred tax assets		2.3	0.2
Receivables from Group companies		140.0	369.2
Total fixed assets		234.3	461.4
Current assets			
Receivables from Group companies		191.9	85.3
Other receivables		0.5	1.6
Prepaid expenses		0.8	1.1
Cash and cash equivalents		-	42.3
Total current assets		193.2	130.3
Total assets		427.5	591.7
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	21	18.1	18.1
Statutory reserve		25.1	25.1
Unrestricted shareholders' equity			
Share premium reserve		12.9	12.9
Profit brought forward		212.5	205.3
Profit for the year		72.0	90.4
Total shareholders' equity		340.6	351.8
Untaxed reserves			
Tax allocation reserve		38.5	12.3
Total untaxed reserves		38.5	12.3
Current liabilities			
Accounts payable		0.4	0.6
Liabilities to Group companies		15.6	217.2
Current tax liability		13.0	-
Other liabilities		1.5	1.1
Accrued expenses	22	17.9	8.7
Total current liabilities		48.4	227.6
Total shareholders' equity and liabilities		427.5	591.7

PARENT COMPANY'S CHANGES IN SHAREHOLDERS' EQUITY

mSEK	Share capital	Statutory reserve	Share premium	Profit/loss for the year	Profit brought forward incl.	Total shareholders' equity
Opening balance on 1 January 2017	18.1	25.1	12.9	247.5	303.5	
Comprehensive income						
Profit for the year	-	-	-	90.4	90.4	
Total comprehensive income	-	-	-	90.4	90.4	
Transactions with shareholders						
Buy-back of own shares	-	-	-	-1.9	-1.9	
Share dividend	-	-	-	-40.2	-40.2	
Total transactions with shareholders	-	-	-	-42.1	-42.1	
Opening balance on 1 January 2018	18.1	25.1	12.9	295.7	351.8	
Comprehensive income						
Profit for the year	-	-	-	72.0	72.0	
Total comprehensive income	-	-	-	72.0	72.0	
Transactions with shareholders						
Buy-back of own shares	-	-	-	-21.3	-21.3	
Share dividend	-	-	-	-61.9	-61.9	
Total transactions with shareholders	-	-	-	-83.2	-83.2	
Closing balance on 31 December 2018	18.1	25.1	12.9	284.5	340.6	

PARENT COMPANY'S CASH FLOW STATEMENTS

mSEK	2018	2017
CURRENT ACTIVITIES		
Operating loss	-35.9	-33.7
Interest received and similar items	7.5	13.7
Interest paid and similar items	-1.6	-1.5
Income tax paid	-4.7	-5.9
Cash flow from current activities before changes in working capital	-34.7	-27.4
CHANGE IN WORKING CAPITAL		
Change in current receivables	268.8	193.1
Change in current liabilities	-193.2	49.2
Total change in working capital	75.6	242.3
Cash flow from current activities	40.9	214.9
FINANCING ACTIVITIES		
Change in overdraft facilities	-	-83.5
Change in loans	-	-47.0
Buy-back of own shares	-21.3	-1.9
Dividend paid	-61.9	-40.2
Cash flow from financing activities	-83.2	-172.6
Cash flow for the year	-42.3	42.3
Cash and cash equivalents at the start of the year	42.3	-
Cash and cash equivalents at year-end	-	42.3

NOTES

NOTE 1

General information

Semcon AB [publ] is a Swedish listed public company registered with the Swedish Companies Registration Office with the co.id.no. 556539-9549. The company is registered in Göteborg, Sweden. The company is listed on the Nasdaq Stockholm Small Cap list under the SEMC ticker.

The Group's main business is providing engineering services and product information, which are

described in the Directors' Report in this Annual Report. The consolidated accounts for the financial year ending 31 December 2018 were approved by the Board on 18 March 2019 and will be presented to the Annual General Meeting on 24 April 2019 for final approval.

NOTE 2

Significant changes during the reporting period

No material changes took place in 2018. In February 2017, Semcon divested Business Area Engineer-

ing Services Germany. Operations are recognised in this Annual Report as discontinuing operations.

NOTE 3

Accounting policies

The most important accounting policies applied when these consolidated accounts were prepared are stated below. These policies have been applied consistently for each year represented, unless otherwise stated.

Basis for preparing the reports

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards [IFRS] as adopted by the EU, IFRIC interpretations, the Swedish Annual Accounts Act and recommendation RFR 1 of the Swedish Financial Accounting Standards Council [Supplementary Accounting Rules for Groups]. Recommendations that come into effect after the closing date will not have any significant effect on either the results or the financial position of the Group. The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 [Accounting for Legal Entities].

The Parent Company's functional currency is SEK, which is also the Group's reporting currency. All sums in the financial statements are given in SEK millions, mSEK, unless otherwise stated. The consolidated accounts have been prepared in accordance with the acquisition method, with the exception of:

* financial assets and liabilities [including derivative instruments] – which are measured at fair value

* assets held for sale – which are measured at fair value.

Preparing reports in accordance with IFRS requires using a number of important estimates for accounting purposes. It is also necessary for Group management to make a number of estimates when applying the Group's accounting policies. The areas that require a high degree of assessment, which are complex or are such areas where assumptions and estimates are of considerable significance for the consolidated accounts are presented in Note 5 on page 62.

Changes to the accounting policies and disclosures

New and amended IFRS and new interpretations for 2018

The following standards were applied by the Group for the first time in the financial year that began on 1 January 2018:

* IFRS 9 Financial Instruments
 * IFRS 15 Revenue from Contracts with Customers
 * Classification and measurement of share-based payment transactions [Amendment to IFRS 2].

None of the new standards had any material effect on the financial statements except for additional disclosure requirements.

New and amended IFRS and new interpretations that have not yet come into force

IFRS 16 Leases was issued in January 2016 and replaced IAS 17 Leases. IFRS 16 introduces a right-of-use model, meaning that the lessee must recognise essentially all leases in the balance sheet. Classification in operating and financial leases is therefore not necessary. Exceptions are leases with lease terms of 12 months or less or leases of low-value assets. The income statement is also impacted since the cost is recognised as depreciation and interest expense instead of other external expenses. The cash flow statements will be impacted in that cash flows from current activities will be higher given that the bulk of the payments made in relation to the lease liability will be classified in financing activities. The standard includes greater information disclosure requirements compared with the current standard. The Group will apply the standard from 1 January 2019. The Group will apply the simplified transition method and will not restate comparative amounts. The simplification rule, that the right-of-use asset (before adjustments for any advance payments) is to correspond to the lease liability, will be applied. Refer to Note 25 for information on the financial impact of the transition to IFRS 16.

Group management does not expect other new and amended standards and interpretations to have any material effect on the Group's financial statements when they are applied for the first time.

Consolidated accounting

In addition to the Parent Company, the Group consists of all subsidiaries in which the Group owns shares and directly or indirectly has the majority of voting rights, or through agreements has a controlling influence. Acquired companies are included in the consolidated accounts from the acquisition date. These consolidated accounts have been prepared in accordance with the purchase method, which means that the cost of the shares in Group companies is divided among identifiable assets and liabilities at the acquisition date at the fair value. The difference between the cost and the calculated value of equity in the acquisition analysis is recognised as consolidated goodwill. All transaction costs relating to acquisitions are expensed. An allowance is made in the acquisition analysis for deferred tax on acquired untaxed reserves. In addition, deferred tax is seen as the difference between the fair values of assets and liabilities and taxable residual values. Untaxed reserves accumulated after acquisition are divided into deferred tax liability and the remaining portion, which is recognised under profit brought forward. The consolidated shareholders' equity includes the Parent Company's equity and the part of the subsidiaries' equity accumulated after the date of acquisition.

The current rate method was used for translating the income statements and balance sheets. This method means that the balance sheets are translated at the closing day rate and the income statements at the average rate for the year. Translation

differences are recognised in other comprehensive income.

Pricing between Group companies

Pricing of services between companies in the Group follows market norms.

Transactions with related parties

Transactions with related parties follow market norms.

Associated companies

Associated companies are recognised when the Group is considered to have a significant but not decisive influence over operations and financial control and the company is neither a subsidiary nor a share in a joint venture. A significant influence is considered to exist if the company has a minimum holding of between 20 per cent and 50 per cent of the voting rights, or in any other way has a significant influence, but where there is no parent/subsidiary relationship. Holdings in associated companies are recognised in the consolidated income statement and balance sheet according to the equity method from the time that a significant influence is established. The equity method means that shares in a company are recognised at cost at the date of acquisition and then adjusted using the Group's share of the change in the company's net assets. Shares in associated companies' earnings are recognised on two levels in the consolidated income statement. Shares in earnings before tax is included in consolidated operating profit and shares in the taxes of associated companies is recognised in the consolidated tax expense. Unrealised gains on transactions between the Group and associated companies are eliminated in relation to the Group's holding in the associated company.

Segment reporting

Operating segments are reported so they correspond to the internal reports submitted to the chief operating decision maker. The chief operating decision maker is the CEO, who runs the operation together with the other members of Group management.

Cash flow statement

The cash flow statement is produced using the indirect method. Recognised cash flow includes only those transactions that have involved payments into or out of the company.

Revenue recognition

The Group recognises revenue when a performance obligation is satisfied, which is when the promised service is delivered to the customer and the customer assumes control of the service. Revenue consists of the amount that is expected to be received as remuneration for the transferred services. If the Group is to recognise revenue from contracts with customers, every customer contract is analysed using the five step model. The Group's primary revenue pertains to revenue from services, such as engineering services. An agreement is in place when enforceable rights and obligations arise for the

Group and for the customer. These rights and obligations normally arise when both parties sign the agreement. The Group also has framework agreements with certain customers. These framework agreements have no guaranteed volumes. In cases of a framework agreement without guaranteed volumes, an agreement with the customer arises first when an order/call, made by a customer according to the terms of a framework agreement, is approved as it is only then that enforceable rights and obligations arise for the Group and the customer.

The Group's agreements comprise both fixed price agreements and cost plus contracts with a fixed hourly rate. Variable remuneration in the form of, for example, discounts is not used. The service conducted by the Group does not create alternative uses for Semcon and Semcon is entitled to remuneration, including margin, for service rendered. This means control is transferred over time, and revenue is accordingly recognised over time. The Group applies an input method and recognises the revenue based on work performed, which is based on costs incurred in relation to the estimated total expenditure. On-account invoices received are recognised net against capitalised contract costs. If the net of the costs paid and on-account invoices received is positive, then the project is recognised as "Accrued non-invoiced income". Conversely, if on-account invoices received exceed contract costs incurred, projects are recognised as "Invoiced non-accrued income."

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are measured at the closing day rates. Exchange rate differences in current receivables and liabilities are included in operating profit/loss, while the differences in financial receivables and liabilities are recognised under financial items.

Research and development costs

The majority of Semcon's research and development costs concern development within the scope of customer projects. In other cases, the company's development costs are of an ongoing nature and are carried as an expense in the period in which they occur. These costs are not considered to be significant. Exceptions to this are costs incurred for the development of specific computer programs, which are recognised as an intangible asset [see below for more information].

Tangible assets

Tangible assets mainly consisting of computers, inventories and investments in leased premises have been valued at cost with deductions for accumulated depreciation and impairment losses.

Depreciation is based on the cost and is carried out on a straight-line basis on the useful life of the asset. Depreciation according to plan has been based on the expected useful life as follows:

- * Plant and machinery depreciated over 5-10 years
- * Computers depreciated over 3-5 years
- * Inventories depreciated over 5 years

Intangible assets

Goodwill

Acquired goodwill has an indeterminate useful life and is measured at cost with deductions for accumulated impairment. Goodwill is distributed among cash-generating units and is tested for possible impairment annually.

Other intangible assets

Other intangible assets include programs developed internally and acquired licenses. Other acquired intangible assets are measured at cost with deductions for accumulated amortisation and impairment losses. Cost comprises capitalised costs that arise from the date when the program is considered to be commercially viable and other criteria according to IAS 38 have been fulfilled. Expenses are amortised over the expected useful life of 3-8 years. Expenses for internally developed goodwill, trademarks and similar rights are recognised as they arise.

Impairment

Group management continually assesses the value of capitalised assets to identify any impairment requirement. Impairment is made in the event an asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the value in use of the asset in the business and the net realisable value. The value in use is the current value of all inward and outward payments relating to the asset during the period in which it is expected to be used in the business, plus the current net realisable value at the end of its useful life. A previous impairment is reversed when the assumptions used to establish the asset's recoverable amount have changed, meaning the impairment is no longer considered necessary. Reversals of previous impairments are tested individually and are recognised in profit or loss. However, impairment of goodwill is not reversed in subsequent periods.

Financial instruments

Financial instruments are every form of agreement that gives rise to a financial asset in a company and a financial liability or equity instrument in another company. Financial instruments recognised in the balance sheet include, among assets, accounts receivable and cash and cash equivalents. Liabilities recognised include accounts payable and borrowings [liabilities to credit institutions, overdraft facilities and other liabilities].

A financial asset and a financial liability is recognised when Semcon becomes party to this in accordance with the instrument's contractual conditions. Accounts receivable are recognised when an invoice has been sent and the right to remuneration is unconditional. A liability is recognised when the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not yet been received. Accounts payable are recognised when invoices have been received.

A financial asset and a financial liability are offset and recognised in a net amount in the balance sheet only when there is a legal right to offset the amounts and there is an intention to settle in a net amount or to simultaneously realise the asset and settle the liability. A financial asset is derecognised from the balance sheet when the contractual rights to the asset are realised, expire or when control is lost. A financial liability is removed from the balance sheet when the contractual obligations have been met or have been extinguished in any other way. On each reporting occasion, the company assesses whether there is objective indication of impairment of a financial asset.

The Group's financial assets are classified in the following class: Amortised cost. These assets are measured initially at fair value plus the transaction charges. Accounts receivable are initially recognised at the invoiced value and thereafter the asset is measured in accordance with the effective interest method. These assets are held according to the business model to collect contractual cash flow only as payments of the principal amount and interest on the principal amount outstanding. Assets are subject to a loss provision for expected loan losses.

The Group's financial liabilities are classified at amortised cost. These liabilities are initially measured at fair value including transaction charges. The subsequent measurement take place at amortised cost in accordance with the effective interest method. The expected duration of accounts receivables is short, which is why the value is recognised at a nominal amount without discounting with deductions for any impairment. Any impairment is recognised in operating expenses.

Cash and cash equivalents comprise cash, as well as immediately available balances in banks and corresponding credit institutes as well as short-term investments with a maturity, from the time of acquisition, of less than three months. Cash and cash equivalents are subject to the demands of loss provisions for expected loan losses.

Amortised cost is calculated using the effective interest method, meaning that any premiums or discounts and directly attributable costs or income are distributed over the term of the contract applying the estimated effective interest. The effective interest rate is the interest rate that provides the instrument's cost as a result in conjunction with current value calculation of future cash flows. Accounts payable are expected to have a short duration, which is why the liability is recognised at a nominal amount without discounting.

Unless otherwise stated, the carrying amount is considered to be a good approximation of the instrument's fair value due to the asset's or liability's short maturity or fixed-interest term.

The Group's financial assets and contract assets [Accrued non-invoiced income] are subject to impairment for expected loan losses. Impairment for loan losses according to IFRS 9 is forward-looking and a loss provision is made when there is exposure

to credit risk, normally at initial recognition. Expected loan losses reflect the present value of all shortfalls in cash flow relating to default, either for the next 12 months or for the expected remaining time to maturity for the financial instrument, depending on the class of asset and the credit deterioration since initial recognition. Expected loan losses reflect an objective, probability-weighted outcome that takes into account a number of scenarios based on reasonable and verifiable forecasts.

The simplified approach is applied for account receivable and contract assets. A loss provision is recognised, in the simplified approach, for the receivable or asset's expected remaining time to maturity. For other items covered by expected loan losses, an impairment model with three steps is applied. Initially, and on every balance sheet date, a loss provision is recognised for the next 12 months, alternatively for a shorter period depending on the remaining time to maturity [step 1]. If there has been a material increase in credit risk since the initial recognition, resulting in a rating of less than investment grade, a loss provision is recognised for the asset's remaining time to maturity [step 2]. For assets where credit is deemed to have deteriorated, the provision for expected loan losses remains until the asset matures [step 3]. For assets and receivables where credit has deteriorated, an estimate of interest income is based on the asset's carrying amount, net of loss provisions, unlike on the gross amount in the preceding steps. The measurement of expected loan losses is based on various methods. Method for account receivables and contract assets is based on historical bad debt losses combined with forward-looking factors. Other assets are impaired according to a rating-based method using external credit ratings. Expected loan losses are measured for the product on the probability of default, loss assuming default and exposure in the event of default. For assets and receivables where credit has deteriorated, an individual assessment is made taking into account historical, current and forward-looking information. The measurement of expected loan losses takes into account any collateral and other credit enhancements in the form of guarantees. These financial assets are recognised in the balance sheet at amortised cost, meaning net of gross value and loss provisions.

Changes to loss provisions are recognised in profit or loss. The calculations undertaken of expected loan losses as of 31 December 2018 do not add up to any material amounts for the Group.

Financial instruments are recognised in accordance with IAS 39 in comparative figures for 2017. IAS 39 had different classification categories compared with IFRS 9. The classification categories in IAS 39 still yield equivalent accounting at amortised cost. Furthermore, IAS 39 used another method for allowances for loan losses, which meant loss allowances took place in the event of an identified credit event, compared with the method according to IFRS 9 where loss allowance takes place for expect-

60 FINANCIAL STATEMENTS

ed loan losses. Otherwise, there are no material differences between the standards for the Group. The Group has not experienced any material impact from the transition from IAS 39 to IFRS 9.

Provisions

When a formal or informal commitment exists as a result of an event that has occurred and it is possible that resources will be required to fulfil the commitment and a reliable estimate can be made of the amount required, then such a commitment is recognised as a provision if the amount and settlement date are uncertain.

Income tax

The Group's tax expense and tax income are recognised as current tax, changes in deferred tax as well as tax on changes to untaxed reserves.

Current tax

Current tax is the tax estimated on the taxable results for the period in accordance with the tax regulations in each country. Current tax also includes possible adjustments originating from previous tax assessments.

Deferred tax

Deferred tax is calculated on the basis of the taxable and tax-deductible temporary differences between the carrying amount and taxable values of assets and liabilities. The deferred tax as assets set relating to loss carry-forwards have only been taken into account to the extent that it is probable that the loss carry-forwards can be deducted from the taxable profit in the future.

Leasing

The Group does not have any significant financial leases. The Group rents offices, cars and some office equipment. Rental agreements in which the risks and benefits associated with ownership remain to a significant extent with the lease provider are recognised as operational leases. The costs are recognised straight-line in the income statement over the rental period.

Employee remuneration

Employee remuneration is recognised in the form of earned and paid salaries plus bonuses earned. Full remuneration is paid for various commitments such as unutilised holiday entitlement and social security contributions.

Pensions

For pensions, Semcon recognises remuneration to employees according to IAS 19. According to IFRS, pensions are to be divided between defined contribution and defined benefit pensions. Defined contribution plans are defined as plans under which the company pays a fixed amount to a third party and the company has no further obligations once payment has been made. Such plans are recognised as a cost when the premium is paid. Other plans include defined benefit plans under which

the obligation remains within the Group. Commitments for retirement pensions and family pensions for salaried employees in Sweden are safeguarded via insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this is a defined benefit multi-employer plan. As in previous years, the company has not had access to information to enable it to recognise this plan as a defined benefit plan, which means that the ITP pension plans safeguarded via insurance with Alecta are therefore recognised as defined contribution plans.

Redundancy pay

Redundancy pay is paid when employment ceases before reaching retirement age, or when an employee voluntarily terminates employment in return for redundancy pay. The Group reports redundancy pay when it is clear that it is either a case of termination of employment in accordance with a detailed formal plan that is irrevocable or that the redundancy offer given was to encourage the voluntary redundancy and accepted by the person who received the offer. Benefits that fall due for payment more than 12 months after the closing date are discounted to the current value, if they are material.

Bonus

The Group reports liabilities and costs for bonus payments when they are linked to a contract or when there is an established practice that has created an informal obligation.

Share-based remuneration

The Group has share-based remuneration schemes (share savings schemes) according to which the company receives services from employees as payment for the shares. According to IFRS 2, salary costs should be recognised relating to the share savings scheme with an equivalent increase of the share capital. Costs are estimated on the basis of the number of shares expected to be issued by the end of the vesting period, conditional to an expected employee turnover rate being taken into consideration. The fair value of the shares has been based on the share price prevailing on the date the employee invested in the shares.

The total cost is recognised apportioned over the vesting period, which is the period during which the vesting conditions must be met. At the end of each reporting period, the Group re-evaluates its estimations of how many shares are expected to be vested. Any deviation from the original estimates that the re-evaluation gives rise to is recognised in the profit or loss and equivalent adjustments are made to shareholders' equity. When shares are issued, social security contributions must be paid on the value of the benefit for the employee. This value is generally based on the market value on the issue date. During the vesting period, a provision is made for these expected social security contributions, and costs are treated as cash-regulated share-based remuneration.

Accounting policies of the Parent Company

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 Accounting for Legal Entities.

Changes to accounting policies

The changes in RFR 2 Accounting for Legal Entities, which came into force in the 2018 financial year, did not have any significant effect on the Parent Company's financial statements.

Changes to RFR 2 that have yet to come into force
Group management does not expect changes to RFR 2 that have yet to come into force to have any significant effect on the Parent Company's financial statements when they are applied for the first time.

The differences between the Group and Parent Company's accounting policies appear below.

Group companies

Participations in Group companies are recognised at cost in the Parent Company's financial statements. Dividends are recognised as income insofar as they refer to profits generated after the acquisition. Dividends in excess of these profits are considered as repayment of investments and thereby

reduce the carrying amount of participations in Group companies.

Financial guarantees

The Parent Company applies the exception rule in RFR 2 to avoid applying the rules in IAS 39 for financial guarantees concerning guarantee contracts for the benefit of Group and associated companies. In these cases, the rules in IAS 37 are applied, meaning that financial guarantee contracts must be recognised as a provision in the balance sheet when Semcon has a legal or informal commitment as a result of a previous event and it is likely that an outflow of resources will be required to settle the commitment. It must also be possible to reliably estimate the value of the commitment.

Tax

In the Parent Company, untaxed reserves are recognised including deferred tax liabilities, unlike the consolidated accounts where untaxed reserves are divided into deferred tax liabilities and shareholders' equity.

Group contributions

The Parent Company recognises Group contributions paid and Group contributions received in the income statement under appropriations.

NOTE 4

Financial risks

Financing risks

Financing risks are risks associated with financing the Group's capital requirements and refinancing of outstanding loans being made more difficult or more expensive. Credit agreements consist of an overdraft facility of SEK 151 million and a revolving credit facility of EUR 100 million, which falls due in October 2021. The revolving credit facility is conditional on the customary covenants being fulfilled in the form of interest coverage ratio and net borrowings (excluding pensions) in relation to the operating profit/loss before depreciation/amortisation. All loan conditions were met with ample headroom as of 31 December.

Interest rate risks

Interest risks are the risks associated with effects on earnings and cash flow in case of long-term changes to the market rates. However, earnings sensitivity can be limited in the short term through the selected interest maturity structure. The Group's average fixed interest rate term on loans is not to exceed two years. At year-end, the Group had no interest-bearing loans.

Liquidity risks

Liquidity risks are the risks associated with not having access to cash and cash equivalents or

unutilised credit facilities to fulfil payment commitments. At year-end, the Group's cash and cash equivalents amounted to SEK 44 million [81]. In addition, the Group has a unutilised overdraft facility of SEK 251 million [376]. Liquidity in the Group will be placed in cash pools. Cash pools enable Semcon to carry out centralised liquidity management at national levels. These cash pools match the excess and shortfalls in the local subsidiaries for the respective countries and currencies.

Maturity analysis for contracted payment commitments

Group, mSEK	Up to 3 months	3-12 months	Over 12 months
Accounts payable	51.9	-	-

Currency risks

Semcon's accounting is conducted in SEK, but the Group has operations in a number of countries around the world. This means that the Group is exposed to currency risks. The majority of the exchange rate differences comprises translation differences that arise when foreign companies' income statements are translated to SEK. Currency exposure relates, for example, to GBP. A change in

GBP against the SEK of +/- 10 per cent would affect profit before tax by about SEK 2 million and profit after tax and shareholders' equity by about SEK 1 million.

Transaction exposure

Semcon has export income and expenses in a number of currencies, meaning the Group is exposed to currency fluctuations. This currency risk, referred to as transaction exposure, is currently limited.

Translation exposure (net investments)

The foreign subsidiaries' net assets constitute an investment in foreign currency that, upon consolidation, give rise to a translation difference. To limit the negative effects of the translation differences on the Group's shareholders' equity, hedging sometimes takes place through loans or forward agreements in the equivalent foreign currency.

Translation exposure (income statement)

Exchange rate changes also affect the Group's earnings in connection with translation of the income statements of foreign subsidiaries to SEK. Expected future earnings in foreign subsidiaries are not hedged.

Credit risks

Customer credit risk

Financial assets mainly consist of accounts receivable and accrued non-invoiced income. The creditworthiness of these items that have neither fallen due for payment nor require impairment have been assessed according to external credit ratings [if available] or on the basis of the customer's payment history. All new customers are checked with respect to their creditworthiness, and existing customers are continuously monitored. The Group's accounts receivable largely consist of receivables from large international companies whose financial position is considered solid. For certain customers, a separate bad debt insurance policy has been signed under which the excess component is 10 per cent. Of the Group's total accounts receivable, the majority relates to accounts receivable not due for payment. The vast majority of the due and non-reserved accounts receivable have a very short maturity date. The joint credit risk is considered

small. The maximum credit exposure corresponds to the assets' carrying amount. The maturity structure of accounts receivable is presented in Note 18 on page 73.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances at primarily all the major European banks and the assets are not considered to pose any risk. The maximum credit exposure corresponds to the assets' carrying amount.

Capital risk management

The Group's aim regarding its capital structure is to safeguard the Group's ability to continue its business, so that it can continue to generate dividends for shareholders and value for other stakeholders, and maintain an optimal capital structure to keep capital costs down. One of Semcon's financial targets is to have an equity/assets ratio of over 30 per cent. This key figure is calculated as shareholders' equity divided by total assets. At the end of 2018, the equity/assets ratio was 60.6 per cent [61.2]. To maintain or adjust the capital structure, the Group can change the dividend paid to shareholders, buy back shares, repay capital to shareholders, issue new shares, or sell assets to reduce liabilities. Borrowing is restricted by financial covenants in the loan agreements with banks, which is described in more detail in the section on financing risks.

Estimating the fair value

For accounts receivable, accounts payable and other non-interest-bearing receivables and liabilities – which are recognised at amortised cost with deductions for possible impairment – the fair value is judged to correspond to the carrying amount.

The Group's borrowing mainly has a short fixed-interest term. The fair value is therefore judged to correspond to the carrying amount.

The fair value of currency forward agreements is set by using currency forward rates on the balance sheet date, where the resulting value is discounted to the present value. The Group had no currency forward agreements outstanding on the balance sheet date.

There are no other financial liabilities that are measured at fair value through profit or loss or any financial assets that can be sold.

NOTE 5

Critical estimations and assessments

When compiling the Annual Report in accordance with IFRS and generally accepted accounting principles, the Group has made estimations and assessments about the future, which affect the carrying amounts of the assets and liabilities. These estimations and assessments are reviewed on an ongoing basis and are based on historical experience and other

factors considered reasonable under the prevailing conditions. In the event it is not possible to establish the carrying amounts of assets and liabilities using information from other sources, these estimations and assessments form the basis of the valuation. Using other estimations and assessments, the result may differ and the actual

result will, by definition, rarely be equivalent to the actual result. The estimations and assessments that have the greatest influence over Semcon's results and financial position are detailed below.

Impairment testing of goodwill

Every year, the Group tests goodwill for impairment in accordance with the accounting policy presented in Note 3 on page 56. The test requires estimating the parameters that affect the future cash flow and establishing a discount rate. The recoverable amount of the cash-generating units has thereafter been set using an estimate of the value in use. An account of the significant assumptions made is presented in Note 14 on page 70. As of 31 December 2018, the carrying amount of consolidated goodwill was SEK 316.5 million.

Recognition of income

The Group's revenue recognition is associated with important estimations and assessments pertaining to when the revenue is recognised over time. Revenue recognition from projects in progress is based on estimates of the results of projects in progress. It cannot be excluded that the outcome of projects in progress may differ from previously made assessments in terms of the total contract costs.

Assessment of loss carry-forwards

The recognised deferred tax assets in the Group concerning loss carry-forwards amounted to SEK 2.7 million on 31 December 2018. The carrying amount of these tax assets was tested on the balance sheet date and it is judged likely that the tax relief can be used against future taxable profit. In addition, there are loss carry-forwards of SEK 40.0 million for which no deferred tax asset has been recognised due to uncertainty as to when sufficient taxable profit will be recognised in the future. The loss carry-forwards refer, for example, to Norway where loss carry-forwards can be utilised for an unlimited period. Changes to assumptions regarding forecast future taxable profit might result in differences in measurements of deferred tax assets. If the future taxable profit in Norway deviates by SEK 10.0 million from management's estimate, then the deferred tax asset would increase or decrease by SEK 2.2 million.

NOTE 6

Segment reporting and distribution of income

The Group's two business areas, Engineering Services and Product Information, made up the Group's reportable operating segments in 2018. Engineering Services provides engineering services aimed at the energy, automotive, telecom and life science sectors. Product Information provides complete information solutions, mainly focusing on customers' aftermarket business. These two segments are the highest level at which management and the Board carries out follow-ups. The chief operating decision maker in the Group is the CEO, who runs the operation together with the other members of Group management. Engineering Services generates income mainly from engineering services for designing, developing products and production, while Product Information mainly generates its income by developing product information for entire product life cycles. Information concerning income divided between services is provided as this does not form part of the financial reporting, and the cost of producing the information is not justifiable.

The segments' accounting policies adhere to the same policies as those applied in the preparation of the consolidated financial statements, which are presented in Note 3 on page 56.

The Group recognises sales between the operating segments at current market prices.

Group management follows up the segments' results on the basis of operating profit. Financial items are not allocated among segments given that these are affected by measures taken by the central finance function. Neither are taxes allocated among the operating segments. The operating segments' assets and liabilities include directly attributable items together with such items that can be reliably allocated to the respective segment. The Group's long-term borrowing is not considered a liability among the segments, and is instead attributable to the finance function.

mSEK	Engineering Services		Product Information		Non-allocated items		Group total	
	2018	2017	2018	2017	2018	2017	2018	2017
Income	1,371.0	1,313.6	474.1	453.4	-2.9	-4.6	1,842.2	1,762.4
Operating profit/loss	103.9	70.4	33.0	40.8	-17.3	-16.0	119.6	95.2
Net financial items	-	-	-	-	0.1	-0.6	0.1	-0.6
Profit/loss before tax	103.9	70.4	33.0	40.8	-17.2	-16.6	119.7	94.6

64 FINANCIAL STATEMENTS

mSEK	Engineering Services		Product Information		Non-allocated items		Group total	
	2018	2017	2018	2017	2018	2017	2018	2017
Other disclosures								
Operating assets	577.1	605.2	255.3	171.0	–	–	832.4	776.2
Non-allocated assets	–	–	–	–	103.1	133.9	103.1	133.9
Total assets	577.1	605.2	255.3	171.0	103.1	133.9	935.5	910.1
Operational liabilities	210.0	210.8	57.0	56.3	–	–	267.0	267.1
Non-allocated liabilities	–	–	–	–	101.6	86.4	101.6	86.4
Consolidated liabilities	210.0	210.8	57.0	56.3	101.6	86.4	368.6	353.5
Shareholders' equity	–	–	–	–	566.9	556.6	566.9	556.6
Total shareholders' equity and liabilities	210.0	210.8	57.0	56.3	668.5	643.0	935.5	910.1
Investments	3.2	3.5	2.9	2.7	2.6	3.2	8.7	9.4
Depreciation/amortisation	3.2	3.2	4.2	3.4	4.5	4.4	11.9	11.0

Geographic location	Sales according to customers' geographic location		Intangible assets and tangible assets		Investments	
	2018	2017	2018	2017	2018	2017
Sweden	1,372.7	1,345.5	294.9	296.6	4.2	3.6
UK	143.5	155.4	14.6	16.1	0.9	1.1
Norway	105.9	88.1	0.5	0.4	0.3	0.2
Other	220.1	169.2	48.5	5.8	3.3	4.5
Total	1,842.2	1,762.4	358.5	318.9	8.7	9.4

The Group has no single customer that accounted for income of more than 10 per cent of consolidated sales.

Distribution of income

mSEK	Engineering Services		Product Information		Group	
	2018	2017	2018	2017	2018	2017
Distribution by country						
Sweden	1,088.9	1,042.8	283.8	302.7	1,372.7	1,345.5
UK	65.0	59.1	78.5	96.3	143.5	155.4
Norway	102.6	86.4	3.3	1.7	105.9	88.1
Brazil	88.4	84.2	–	–	88.4	84.2
Germany	4.5	12.8	44.8	19.7	49.3	32.5
Other	21.6	28.3	63.7	33.0	85.3	61.3
Eliminations	–	–	–	–	-2.9	-4.6
Total	1,371.0	1,313.6	474.1	453.4	1,842.2	1,762.4

mSEK	Engineering Services		Product Information		Group	
	2018	2017	2018	2017	2018	2017
Distribution by industry						
Automotive	617.9	623.5	172.8	211.8	790.7	853.3
Industrial	408.8	384.5	139.6	79.9	548.4	464.4
Energy	125.6	115.0	15.1	13.8	140.7	128.8
Life science	117.8	102.1	11.7	17.1	129.5	119.2
Telecom	16.8	10.3	124.2	122.4	141.0	132.7
Other	84.1	78.2	10.7	8.4	94.8	86.6
Eliminations	–	–	–	–	-2.9	-4.6
Total	1,371.0	1,313.6	474.1	453.4	1,842.2	1,762.4

NOTE 7

Income**Contract balances**

The Group's contract balances comprise accounts receivable, contract assets [Accrued non-invoiced income] and contract liabilities [Invoiced non-accrued income], see Notes 18 and 19.

The Group's account receivables normally fall due for payment in 30 to 60 days. Contract assets, meaning the Group's accrued non-invoiced income arises when the Group has carried out services for a customer that has not yet been invoiced. These assets are reclassified to account receivables when the invoice is drawn up. Contract liabilities pertain to the Group's deferred income, meaning receivables that customers have paid in advance for services not yet delivered to the customer and control of the service has therefore not been transferred.

The Group's contract liabilities at the end of the financial year are normally recognised as revenue in the following financial year.

Performance obligations

The Group's sales concerning service assignments are conducted against invoices, normally with payment terms of 30 to 60 days. The Group's performance obligations are included in agreements that normally have an original anticipated duration of no more than one year. The Group's outstanding performance obligation on the balance sheet date pertains to contracted services that have not been carried out. See also Note 3 Accounting policies.

NOTE 8

Remuneration to auditors

mSEK	Group		Parent Company	
	2018	2017	2018	2017
Ernst & Young				
Auditing assignment	1.3	1.3	0.4	0.4
Services in addition to auditing assignment	-	-	-	-
Tax consultancy	-	-	-	-
Other services	0.2	0.1	-	-
Total	1.5	1.4	0.4	0.4
Total remuneration to auditors	1.5	1.4	0.4	0.4

NOTE 9

Employees

Group	Average number of employees	2018		2017	
		Of whom women, %	Average number of employees	Of whom women, %	Average number of employees
Sweden	1,195	30	1,256	29	1,256
Brazil	236	20	191	23	191
Hungary	196	38	176	37	176
India	113	11	121	15	121
UK	108	22	108	20	108
Norway	68	15	58	14	58
China	55	71	51	70	51
Germany	71	31	22	49	22
Group total	2,042	29	1,982	29	1,982
Parent Company					
Sweden	11	33	12	33	12
Parent Company total	11	33	12	33	12

	2018			2017		
	Total salaries and other remuneration	Social security expenses	Of which pension costs	Total salaries and other remuneration	Social security expenses	Of which pension costs
mSEK						
Salaries, remuneration and social security expenses						
Parent Company	22.3	15.0	5.8	17.0	12.7	5.3
Subsidiaries	861.8	332.7	77.8	796.6	303.5	68.0
Group total	884.1	347.7	83.6	813.6	316.2	73.3
	2018			2017		
	Total salaries and other remuneration	Of which bonuses	Pension costs	Total salaries and other remuneration	Of which bonuses	Pension costs
mSEK						
Of which remuneration to senior executives						
CEO of the Parent Company	5.3	2.0	1.8	3.5	0.2	1.2
CEOs of subsidiaries	5.9	0.7	0.5	3.1	0.1	0.2
Board	1.7	-	-	1.7	-	-
Other senior executives	12.6	3.5	3.9	8.3	0.3	2.3

Remuneration to the CEO. According to the terms of the CEO's employment contract, the period of notice is 12 months if termination of employment is initiated by Semcon. If the CEO resigns, the period of notice is six months. If notice is given by Semcon, six months of salary may be paid according to which remuneration from other employment is to be deducted. A bonus may be paid in accordance with the rules established by the Board, which has been set at a maximum of nine times the fixed monthly salary. The CEO is entitled to a retirement benefit in the form of a pension scheme. The monthly premium for this pension scheme is 35 per cent of the fixed monthly salary. Remuneration to the CEOs of subsidiaries does not include remuneration to CEOs who are members of the group "other senior executives." Benefits concerning company cars amounted to TSEK 73 [74] for the CEO. Furthermore, costs for share-based remuneration impacted profit for the year in the amount of TSEK 355 [119] relating to the CEO.

Board of Directors. Of the fees to the Board of Directors in 2018, the Chairman of the Board received TSEK 600 [600]. Other Board members elected by the Annual General Meeting each received TSEK 280 [280]. Board fees totalled TSEK 1,720 [1,720].

Other senior executives. Other senior executives, six individuals [five], refers to Semcon's Group management [not including the company's CEO]. Other senior executives are entitled to bonuses based on how well they meet their respective business targets. The upper limit for bonuses has been set at 4.5-9 times the fixed monthly salary. The period of notice given to other senior executives is a maximum of 12 months. In addition, an executive may receive redundancy pay equivalent to six months of salary according to which remuneration from other employment is to be deducted. The pension agreements for senior executives are paid in accordance with the ITP plan, except for one executive whose monthly premium is 35 per cent of salary. Benefits concerning company cars amounted to TSEK 451 [327] for senior executives. Furthermore, costs for share-based remuneration impacted profit for the year in the amount of TSEK 531 [164] relating to senior executives.

Gender distribution among senior executives. Two of Semcon's five Board members elected by the Annual General Meeting are women. In 2018, Group management consisted of seven individuals, of whom two are women.

Pension obligations. Commitments for defined benefit old-age pensions and family pensions [alternative family pension] under the ITP 2 plan for salaried employees in Sweden are covered through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board [UFR 10 Recognition of ITP 2 pension plan] that is financed through insurance with Alecta, this is a multi-employer defined benefit plan. For the 2018 financial year, the company has not had access to the requisite information to allow reporting of its proportional share of the plan's obligations, plan assets and costs, which means that it was not possible to report the plan as a defined-benefit plan. Accordingly, the ITP 2 pension plan that is secured through insurance with Alecta is recognised as a defined contribution plan.

Expenses during the year for ITP 2 pension insurance policies signed with Alecta amounted to SEK 26.1 million [26.1]. Premiums for the defined benefit old-age pensions and family pensions are calculated on an individual basis and are influenced by items including salary, previously earned pension entitlements and remaining period of service. The collective consolidation level is the market value of Alecta's assets as a percentage of the insurance commitment calculated according to Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective consolidation level is usually permitted to vary between 125 and 155 per cent. If Alecta's collective consolidation level falls below 125 per cent or exceeds 155 per cent, then measures must be taken to create the conditions for the consolidation level to return to normal. One possible measure with a low consolidation level is to raise the contractual price for new subscriptions and expansion of existing benefits. One possible measure with a high consolidation level is to lower premiums. At year-end 2018, Alecta's surplus in the form of the collective consolidation level was 142 per cent [154].

Share-based remuneration. Semcon has three long-term performance-based share savings schemes for senior executives and key employees in the Semcon Group ("Performance-based share savings scheme 2015", "Performance-based share savings scheme 2017" and "Performance-based share savings scheme 2018"). To be able to take part in the schemes, participants must invest in shares. Employees who participate in the schemes can save an amount equivalent to 10 per cent of their fixed gross salary to purchase ordinary shares on Nasdaq Stockholm over a 12-month period from the date the schemes were implemented. If the shares purchased by the employee are retained for three years from the date of the investment and the individual was employed within the Semcon Group throughout the three-year period, then the employee will receive the same amount of ordinary shares ("matching shares") from the Semcon Group and, as long as performance requirements have been met, then a further one to four performance shares will be issued. For performance matching to occur, the annual average percentage increase in Semcon's earnings per share must meet certain targets. Refer to the table below for the respective schemes.

Group	mSEK	2018	2017	2015
Performance-based share savings schemes				
Basic value, earnings per share, SEK	4.00	3.75	4.16	
Target for average increase in earnings per share, %	5-20	5-20	5-15	
Number of participants on the balance sheet date	18	19	33	
Allocation of matching shares, number	1	1	1	
Allocation of performance shares, number	2-4	2-4	1-4	
Maximum number of matching shares	41,508	25,438	23,664	
Maximum number of performance shares	138,492	77,272	-	
Maximum number of shares in total	180,000	102,710	23,664	
Maximum dilution of earnings per share, %	1.0	0.6	0.1	
Expensed amount during the year, mSEK	0.4	0.8	0.2	
Savings period	July 2018– June 2019	July 2017– June 2018	July 2015– June 2016	
End date	June 2022	June 2021	June 2019	

NOTE 10

Interest income and similar items

Group	mSEK	2018	2017
Interest income	1.6	1.7	
Exchange rate differences	0.5	-	
Total	2.1	1.7	
Parent Company	mSEK	2018	2017
Interest income	6.3	6.4	
Dividend received	10.0	122.0	
Exchange rate differences	1.2	7.3	
Total	17.5	135.7	

NOTE 11

Interest expenses and similar items

Group	mSEK	2018	2017
Interest expenses		-1.0	-0.8
Exchange rate differences		-	-0.3
Other financial expenses		-1.0	-1.2
Total		-2.0	-2.3
Parent Company	mSEK	2018	2017
Interest expenses		-0.6	-0.4
Impairment		-	-30.0
Other financial expenses		-1.0	-1.1
Total		-1.6	-31.5

NOTE 12

Tax

Group	mSEK	2018	2017
Current tax		26.3	16.2
Tax concerning previous tax years		1.6	-2.4
Deferred tax expense attributable to temporary differences		4.2	7.7
Deferred tax income attributable to temporary differences		-6.0	0.7
Effects of changes to tax rate		-0.4	-
Total		25.7	22.2
Parent Company	mSEK	2018	2017
Current tax		17.3	-
Tax concerning previous tax years		0.3	-
Deferred tax expense attributable to temporary differences		-	0.2
Deferred tax income attributable to temporary differences		-2.0	-
Total		15.6	0.2
Differences between the Group's recognised tax and tax expense based on current tax rate			
Recognised profit before tax		119.7	94.6
Tax according to current tax rate in Sweden, 22.0% [22.0]		26.3	20.8
Tax effect of:			
Non-deductible expenses		1.9	1.2
Non-taxable income		-2.0	-0.6
Adjustments for previous tax years		1.6	-2.4
Effects of other tax rates abroad		0.9	1.3
Effects of valuation loss carry-forwards		-1.3	2.0
Effects of changes to tax rate		-0.4	-
Other		-1.3	-0.1
Tax for the year		25.7	22.2

Differences between the Parent Company's recognised tax and tax expense based on current tax rate

Recognised profit before tax	87.6	90.6
Tax according to current tax rate in Sweden, 22.0% [22.0]	19.3	19.9
Tax effect of:		
Non-deductible expenses	0.7	7.5
Non-taxable income	-4.7	-27.2
Adjustments for previous tax years	0.3	-
Tax for the year	15.6	0.2

Temporary differences arise in the event of differences between the carrying amounts and taxable values of assets and liabilities.

The Group's temporary differences have resulted in deferred tax assets and deferred tax liabilities for the following items

	2018	2017
Deferred tax assets		
Loss carry-forwards	2.7	2.8
Temporary differences for account receivable	0.3	0.1
Temporary differences for pension obligations	2.8	0.7
Other	0.3	0.2
Netting against deferred tax liabilities	-2.9	-0.6
Total	3.2	3.2
Deferred tax liabilities		
Untaxed reserves	13.9	8.4
Temporary differences for accrued non-invoiced income	20.1	27.8
Goodwill	6.1	6.4
Other	2.9	2.9
Netting against deferred tax assets	-2.9	-0.6
Total	40.1	44.9

The taxable loss carry-forward is SEK 52.3 million [57.7]. Of this, SEK 5.9 million [2.0] falls due within five years and for the remaining 46.4 million [55.7] there is no maturity date. For SEK 40.0 million [45.4] of the taxable loss carry-forward, no deferred tax asset has been recognised due to uncertainty as to when sufficient taxable profit will be recognised in the future. A deferred tax asset relating to loss carry-forwards was recognised in the amount of SEK 2.7 million [2.8] as it is judged likely that taxable profit will be available in the future, against which this loss carry-forward can be offset.

NOTE 13

Earnings per share

Group	2018		2017	
	Before dilution	After dilution	Before dilution	After dilution
Profit attributable to Parent Company's shareholders, mSEK	94.0	94.0	72.5	72.5
Weighted average number of shares during the year, [000]	17,619	18,113	17,867	18,113
Earnings per share, SEK	5.34	5.25	4.06	4.00
Of which continuing operations				
Profit attributable to Parent Company's shareholders, mSEK	94.0	94.0	72.4	72.4
Weighted average number of shares during the year, [000]	17,619	18,113	17,867	18,113
Earnings per share, SEK	5.34	5.25	4.05	4.00

Before dilution

Earnings per share before dilution are calculated by dividing profit/loss attributable to the Parent Company's shareholders by a weighted average number of outstanding ordinary shares during the period excluding shares held as own shares by the Parent Company, see Note 21 on page 75.

After dilution

When calculating earnings per share after dilution, the weighted number of outstanding ordinary shares is adjusted for the dilution effect of all potential ordinary shares.

NOTE 14

Intangible assets

Group	mSEK	2018	2017
Goodwill			
Opening cost		366.6	366.6
Acquisitions		42.4	-
Translation differences for the year		-0.6	-
Closing accumulated cost	408.4	366.6	
Opening impairment		-91.9	-91.9
Closing accumulated impairment	-91.9	-91.9	
Closing carrying amount	316.5	274.7	
Specification of goodwill			
Goodwill is distributed across the Group's business areas as follows:			
Engineering Services		262.3	262.3
Product Information		54.2	12.4
Closing carrying amount	316.5	274.7	

Testing for goodwill impairment is carried out annually and when there are indications that an impairment requirement exists. Recoverable amounts for each business area (cash-generating units) have been set according to management's calculated value in use. These calculations are based on the budgeted future cash flows for 2019. The budgeted cash flows are based on the current year's results, order intake and management's expectations regarding market development in 2019. For 2020-2023, an assumption has been made that

income will rise by 3 per cent annually, while a long-term growth rate of 2 per cent was used for the subsequent period. Sensitivity analyses have been carried out and if the assumed growth or operating margin deteriorates by 1 percentage point, there will be no need for impairment.

Cash flows have been discounted using a weighted cost of capital after tax equivalent to 8 per cent [8]. This is calculated using the Group's targeted capital structure, current risk-free long-term interest rate and a risk premium for shareholders' equity of 5 per cent and a margin for borrowed capital of 1 per cent. If the discount rate were to increase by 1 per cent to 9 per cent, the value in use would still be higher than the carrying amount.

Further assumptions used when calculating value in use for 2019:

Exchange rates and share of income	Exchange rates	Share of income per currency	
		Engineering Services	Product Information
SEK	1.00	77%	53%
EUR	10.00	-	21%
GBP	11.50	6%	19%
NOK	1.07	8%	-
Other		9%	7%
		100%	100%
Average tax rates		23%	21%

The estimated value in use for 2018 exceeded the carrying amounts by a good margin. The same long-term growth rate was used for estimating value in use for 2017. The rates used for 2017 were 23 per cent for Engineering Services and 19 per cent for Product Information. The exchange rates used in 2017 were EUR 9.50, GBP 10.75 and NOK 1.00.

Group	mSEK	2018	2017
Other intangible assets			
Opening cost		65.6	64.9
Investments		0.8	1.7
Acquisitions		2.5	-
Sales/disposals		-1.0	-0.1
Translation differences for the year		-0.3	-0.9
Closing accumulated cost		67.6	65.6
Opening amortisation		-52.5	-50.2
Acquisitions		-2.5	-
Sales/disposals		0.9	0.1
Amortisation for the year		-3.2	-3.1
Translation differences for the year		0.3	0.7
Closing accumulated amortisation		-57.0	-52.5
Closing carrying amount		10.6	13.1

Other intangible assets in the Group consist of licenses and computer software. Amortisation occurs straight-line over the useful life.

NOTE 15

Tangible assets

Group	mSEK	2018	2017
Plant and machinery			
Opening cost	50.8	49.9	
Investments	1.7	1.5	
Acquisitions	1.3	–	
Sales/disposals	-1.6	-0.3	
Reclassification	-0.3	-0.1	
Translation differences for the year	0.3	-0.2	
Closing accumulated cost	52.2	50.8	
Opening amortisation	-28.1	-24.8	
Acquisitions	-0.7	–	
Sales/disposals	1.6	0.3	
Amortisation for the year	-3.8	-3.4	
Reclassification	–	-0.3	
Translation differences for the year	-0.1	0.1	
Closing accumulated amortisation	-31.1	-28.1	
Closing carrying amount	21.1	22.7	
Inventory, computers and equipment			
Opening cost	62.4	58.3	
Investments	6.2	5.0	
Acquisitions	4.7	–	
Sales/disposals	-0.5	-1.0	
Reclassification	0.3	1.2	
Translation differences for the year	-0.1	-1.1	
Closing accumulated cost	73.0	62.4	
Opening amortisation	-54.0	-50.4	
Acquisitions	-4.3	–	
Sales/disposals	0.5	1.0	
Amortisation for the year	-4.9	-4.5	
Reclassification	–	-1.2	
Translation differences for the year	0.1	1.1	
Closing accumulated amortisation	-62.6	-54.0	
Closing carrying amount	10.4	8.4	

NOTE 16

Shares in Group companies

Parent Company	Group companies	Capital share, %	Voting rights, %	Carrying amount, mSEK	co.id.no.	Registered office
Semcon AB	Semcon Förvaltnings AB	100	100	58.8	556530-6403	Göteborg
	Semcon Informatic AB	100	100	17.7	556606-0363	Göteborg
	Semcon International AB	100	100	15.5	556534-4651	Göteborg
Total						92.0

The accumulated cost of shares in Group companies amounts to SEK 345.0 million and accumulated impairment SEK 253.0 million. A statutory specification of co.id.no. and registered office of all Group companies in the Group can be obtained from Semcon's head office.

NOTE 17

Acquisitions

In April, Semcon acquired 100 per cent of the shares in Haas-Publikationen GmbH, whose registered office is in Troisdorf, Germany. The company has more than 25 years of experience in the field of technical documentation and product information, primarily for the railway industry. The company has nearly 50 employees and operating income for the January–December 2018 period amounted to SEK 43.7 million and operating profit to SEK 8.3 million. Operating income for the holding period between April and December 2018 amounted to SEK 33.1 million and operating profit to SEK 6.0 million. The total purchase price was SEK 65.4 million and was paid in cash on transfer of ownership. External acquisition-related costs are recognised in operating profit and total SEK 0.9 million. Based on preliminary acquisition analyses, the acquisition has impacted the consolidated balance sheet and cash and cash equivalents according to the table below.

mSEK	2018
Tangible assets	1.1
Current assets	30.3
Current liabilities	-8.4
Net assets and liabilities	23.0
Intangible assets, goodwill	42.4
Total purchase price	65.4
Less: cash and cash equivalents in the acquired company	-8.2
Impact on consolidated cash and cash equivalents	57.2

Analysis of the acquisition of Haas-Publikationen GmbH found that the purchase consideration was larger than the carrying amount of net assets, and therefore gave rise to goodwill. In the acquisition of a consultancy firm, the main item acquired consists of human capital in the form of employee expertise, which is why the acquired companies' intangible assets have been assigned to goodwill.

NOTE 18

Accounts receivable

Group	mSEK	2018			2017		
		Gross	Reserve	Carrying amount	Gross	Reserve	Carrying amount
Accounts receivable, not due for payment	323.3	-	323.3	316.0	-	316.0	
Due for payment, 1-30 days	17.4	-	17.4	19.0	-	19.0	
Due for payment, 31-60 days	4.0	-	4.0	1.4	-	1.4	
Due for payment, over 60 days	3.6	-0.9	2.7	1.6	-1.0	0.6	
Total	348.3	-0.9	347.4	338.0	-1.0	337.0	

74 FINANCIAL STATEMENTS

Group	mSEK	2018	2017
Change in provisions for doubtful accounts receivable			
At the start of the year		-1.0	-2.1
Provision for expected losses		-0.3	-1.0
Confirmed losses		0.1	0.9
Actual payment of reserved receivables		0.3	1.2
At year-end		-0.9	-1.0

NOTE 19

Accrued non-invoiced income and invoiced non-accrued income

Accrued non-invoiced income is recognised in the consolidated accounts by project at the net value of the invoice in line with the percentage of completion minus invoiced sub-amounts and deductions for possible losses. In 2018, accrued non-invoiced income totalled a net amount of SEK 120.9 million [119.8].

Projects for which the total of the contract costs as of the closing date exceeds progress billings including deductions for possible losses are recognised in the balance sheet as receivables from customers. Projects for which progress billings exceed the total contract costs are recognised as liabilities to customers.

Group	mSEK	2018	2017
Accrued non-invoiced income			
Income/contract costs		267.4	237.8
Progress billings		-122.5	-97.5
Total		144.9	140.3
Invoiced non-accrued income			
Income/contract costs		75.5	16.8
Progress billings		-99.5	-37.3
Total		-24.0	-20.5

Significant changes

Through the acquisition of Haas-Publikationen GmbH, accrued non-invoiced income increased by SEK 12.8 million and invoiced non-accrued income increased by SEK 7.1 million.

NOTE 20

Prepaid expenses

Group	mSEK	2018	2017
Prepaid rent		8.0	7.9
Other items		14.1	14.7
Total		22.1	22.6

NOTE 21

Share capital

Date	Type of issue	Number of shares issued	Share capital after issue, SEK
7 March 1997	Formation of company	500,000	500,000
14 April 1997	Cash issue	4,003,700	4,503,700
14 April 1997	Non-cash issue	496,300	5,000,000
25 April 1997	Cash issue	12,338,521	17,338,521
31 August 2001	Cash issue	52,500	17,391,021
	Conversion of promissory note	351,245	17,742,266
1 June-31 December 2006	Conversion of promissory note	40,268	17,782,534
18 June 2008	New issue	330,000	18,112,534

The Parent Company's holding of own shares on 31 December was 682,669 [281,719].

NOTE 22

Accrued expenses

Group	mSEK	2018	2017
Staff-related costs		137.2	130.7
Other items		24.4	29.7
Total		161.6	160.4

Parent Company	mSEK	2018	2017
Staff-related costs		14.7	6.8
Other items		3.2	1.9
Total		17.9	8.7

NOTE 23

Contingent liabilities

Parent Company	mSEK	2018	2017
Guarantees provided		1.4	1.0
Total		1.4	1.0

NOTE 24

Transactions with related parties**Group**

The JCE Group is Semcon AB's largest shareholder with a shareholding of 25.8 per cent [31 December 2018]. No sales [-] were made to companies in the JCE Group, nor were any purchases made.

Parent Company

The Parent Company's sales to Group companies amounted to SEK 18.7 million [19.3] and purchases amounted to SEK 0.1 million [-].

For remuneration to senior executives, see Note 9 on page 65.

NOTE 25

Operational leasing

The Group rents offices at around 30 sites in Sweden, Brazil, the UK, India, China, Norway, Germany and Hungary. All rental contracts have been signed on commercial rates and with normal duration periods. In addition to rental contracts, the Group has a number of leases, mainly for company cars. These leases are subject to commercial terms and conditions and have a remaining contract term of one to three years.

Group	mSEK	2018			2017		
		Rent for premises	Other	Total	Rent for premises	Other	Total
Within 1 year		43.4	7.9	51.3	38.8	7.7	46.5
Between 1 and 5 years		110.0	6.7	116.7	132.1	6.6	138.7
More than 5 years		23.9	-	23.9	21.8	-	21.8
Future minimum leasing charges		177.3	14.6	191.9	192.7	14.3	207.0
Minimum leasing charges for the year		46.6	5.4	52.0	43.7	5.7	49.3
Parent Company	mSEK						
Within 1 year		-	0.7	0.7	-	0.6	0.6
Between 1 and 5 years		-	0.9	0.9	-	0.4	0.4
More than 5 years		-	-	-	-	-	-
Future minimum leasing charges		-	1.6	1.6	-	1.0	1.0
Minimum leasing charges for the year		-	0.4	0.4	-	0.5	0.5

Disclosures about IFRS 16 Leases

IFRS 16 Leases, which came into effect on 1 January 2019, replaces IAS 17 Leases. IFRS 16 introduces a right-of-use model, meaning that the lessee must recognise essentially all leases in the balance sheet. Classification in operating and financial leases is therefore not necessary. Exceptions are leases with lease terms of 12 months or less or leases of low-value assets. The Group will apply the standard from 1 January 2019. The Group intends to apply the simplified transition method and will not restate comparative amounts. The simplification rule, that the right-of-use asset [before adjustments for any advance payments] is to correspond to the lease liability, was applied to the transition.

Over the past year, the Group has examined all of the Group's leases pursuant to the new rules in IFRS 16. The standard will mainly impact reporting of the Group's operating leases, the majority of which consist of rental agreements for office properties. On the balance sheet date, the Group's operating lease obligations amounted to SEK 192 million. Of these obligations, approximately SEK 15 million is attributable to short-term leases and leases for which the underlying asset is of low value. These will be recognised as an expense on a straight-line basis over the lease term.

For the remaining lease obligations, the Group expects to recognise right-of-use assets amounting to approximately SEK 160 million on 1 January 2019, and lease liabilities of SEK 154 million [following adjustments for prepaid and accrued leasing fees recognised on 31 December 2018].

The Group expects profit after tax to be reduced by about SEK 2 million in 2019 taking into account the new rules. Operating profit, which is used to measure the segment's earnings, is expected to increase by approximately SEK 3 million. The change is due to the fact that interest on the lease liability is not included in this performance measure.

Group	mSEK
Operating lease obligations, 31 December 2018	192
Less: short-term leases/low value	-15
Total	177
Prepaid leasing fees	-6
Discounting	-17
Lease liability, 1 January 2019	154

NOTE 26

Events after the balance sheet date

No significant events occurred after the end of the year.

The Board and CEO give assurance that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and give a true account of the Group's position and results. The Annual Report has been prepared in accordance with generally accepted accounting policies and gives a true account of the Parent Company's position and results. The Directors' Report for the Group and Parent Company gives a fair overview of the development of the Group's and Parent Company's business, position and results and describes significant risks and uncertainties that the Parent Company and the Group companies face.

Göteborg, 18 March 2019

Markus Granlund
CEO

Tore Bertilsson
Chairman of the Board

Marianne Brisimar
Board member

Jan Erik Karlsson
Board member

Jeanette Reuterskiöld
Board member

Karl Thedéen
Board member

Christer Eriksson
Employee representative

Lars-Ove Jansson
Employee representative

Mats Sällberg
Employee representative

Our audit report was issued on 19 March 2019
Ernst & Young AB

Staffan Landén
Authorised Public Accountant

Nina Bergman
Authorised Public Accountant

AUDITOR'S REPORT.

To the general meeting of the shareholders of Semcon AB [publ], corporate identity number 556539-9549

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Semcon AB [publ] for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 38-77 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards [IFRS], as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of goodwill

Description

Goodwill amounts to MSEK 316.5 for the year ended December 31, 2018, equal to 34 percent of total assets for the company. The company prepares an impairment test yearly and if any indication of impairment, that the book value not exceeds the fair value. Fair value amount is calculated for each cash generating unit based on discounted future cash flows. Future cash flows are based on budget for 2019 and a growth rate of 3 % annually for the years 2020-2023 and a long-term growth rate of 2 percent for the subsequent period. The calculations also include also a number of assumptions as result, growth rate, capital expenditures and discount rate.

A change in assumptions can lead to a significant impact of the fair value and therefore the assumptions used have significant impact on the fair value calculation. Therefore, we have assessed valuation of goodwill to be a key audit matter. The impairment test procedures performed by the company is presented in note 5 "Critical estimations and assessments" and in note 14 "Intangible assets".

How our audit addressed this key audit matter
In our audit, we have assessed and tested the company's impairment test, including assessment of the accuracy of prior year's forecasts and assumptions.

We have compared with other companies to assess the reasonableness of estimated cash flow and growth rates, and by using EY valuation experts we have tested used discount rate and growth rates.

We have also tested the company's impairment model and method to prepare the impairment test



and sensitivity analysis. We have also audited the accuracy of the related disclosures.

Accounting for and valuation of projects

Description

Total revenues for the year 2018 amounts to MSEK 1842.2 and the revenue is generated from the company's projects that are run at current account or fixed prices. Revenue from projects on current accounts is recognized in line with work being carried out and revenue from fixed-price projects is recognized in accordance with the percentage of completion method. The percentage of completion is assessed on the basis of costs incurred for work performed in relation to the projects estimated total costs.

Accrued non-invoiced income and invoiced non-accrued income amounts to MSEK 144.9 and MSEK 24.0 for the year ended December 31, 2018.

Revenue recognition and valuation of projects is based on a several estimates and assumptions such as degree of completion, estimating remaining costs, profit margin and possible loss risk.

Incorrect estimates and assumptions may have a significant impact on the company's result and financial position.

For further information, refer to the company's accounting principle for revenues and projects on page 57, note 5 "Critical estimations and assessments" on page 62, note 7 "Revenue" on page 65 and note 19 "Accrued non-invoiced income and invoiced non-accrued income" on page 74

How our audit addressed this key audit matter
In our audit, we have reviewed and assessed Semcon's procedures for contract management and project accounting to ensure that the procedures are consistently applied and that the follow-up of projects is performed continuously.

We have identified and tested key controls in the project process to be able to rely on the company's controls in our audit.

We have reviewed a selection of significant projects in all business areas and discussed them with responsible project controllers. We have tested the samples against underlying data such as time sheets, contracts and supplier's invoices.

We have analyzed the profitability and the degree of completion assumption in a selection of projects to ensure that the assumptions regarding degree of completion and loss risk in the projects is reasonable.

We have audited the company's transition to IFRS 15 and assess that the used revenue accounting principles is in line with IFRS 15 and that the disclosure requirement in IFRS 15 has been fulfilled.

We have also audited the appropriateness of the related disclosures.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-37 and 82-95. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

- * Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- * Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- * Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- * Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- * Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- * Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report

unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Semcon AB [publ] for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our goal regarding the audit of the administration, and thus our opinion on discharge from liability, is to obtain audit evidence in order to be able to assess, with a reasonable degree of certainty, whether any board member or the CEO in any material respect:

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

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

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

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

Ernst & Young AB, with Staffan Landén as auditor in charge, was appointed auditor of Semcon AB by the general meeting of the shareholders on the 25 April 2018. This is the second year Ernst & Young AB are auditors of the company.

Gothenburg 19 March, 2019
Ernst & Young AB

Staffan Landén
Authorized Public
Accountant

Nina Bergman
Authorized Public
Accountant



DEFINITIONS.

Capital employed

The balance sheet total minus non-interest-bearing provisions and liabilities.

Cash flow per share

Cash flow from current activities divided by the weighted average number of shares outstanding over the year adjusted for the dilution effect of potential shares.

Debt/equity ratio

Net debt divided by shareholders' equity.

Earnings per share [EPS] before dilution

Profit/loss after tax attributable to the Parent Company's owners divided by the average number of ordinary shares outstanding excluding shares held as own shares by the Parent Company.

Earnings per share [EPS] after dilution

Profit/loss after tax attributable to the Parent Company's owners divided by the average number of ordinary shares outstanding adjusted for the dilution effect of potential shares.

Equity/assets ratio

Shareholders' equity as a percentage of the balance sheet total.

Net debt

Interest-bearing provisions and liabilities with deductions for cash and cash equivalents and interest-bearing receivables.

Operating margin

Operating profit as a percentage of operating income.

Operating margin before depreciation

Operating profit before depreciation/amortisation as a percentage of operating income.

Operating profit before depreciation

Operating profit plus amortisation of intangible assets and depreciation of tangible assets.

Organic growth

Year-on-year increase in income adjusted for currency effects, acquisitions and divestments.

P/E ratio

Price per share at year-end divided by earnings per share after dilution.

P/S ratio

Price per share at year-end divided by net sales per share.

Profit margin

Profit before tax as a percentage of operating income.

Return on shareholders' equity

Profit for the year after tax divided by the average shareholders' equity.

Return on capital employed

Profit before tax plus financial costs divided by average capital employed.

Shareholders' equity per share before dilution

Shareholders' equity divided by the number of shares at year-end, excluding shares held as own shares by the company.

Shareholders' equity per share after dilution

Shareholders' equity divided by the number of shares at year-end adjusted for the dilution effect of potential shares.

GLOSSARY.

Artificial intelligence [AI]

Collective term for computers and computer software with intelligent behaviour that understands its surroundings and can make its own decisions.

Deep learning [DL]

A field of AI where systems are created that are inspired by how the human brain works in terms of processing and creating patterns in data, through a large number of simulated levels of brain cells, to be used as an aid in decision-making.

Direct services

Semcon provides specialists who work in the customer's organisations.

Front office/back office [FOBO model]

Semcon's principle for the front office/back office model is that assignments and work should be carried out where we have the best skills and available resources. Back office carries out much of the work and the front office is responsible for project coordination and customer interaction.

Life science

Collective name for the pharmaceutical, medtech and biotech industries.

Machine Learning [ML]

Method to allow computers to "learn" based on data without programming the computers for this specific task. Used to detect, abstract and visualise patterns in large amounts of data.

Managed services

Semcon assumes overall responsibility for a defined function designed to provide products and services.

Product development cycle

The cycle from idea to end product.

Production development

Development of equipment, tools and processes to produce a product.

Satellite project

Semcon works in the customer's IT system from a Semcon office.

Semcon Project Model [SPM]

Semcon's project methodology, built on XLPM.

Solution based

Semcon assumes comprehensive responsibility for parts of or a complete project.

CORPORATE GOVERNANCE REPORT.

This Corporate Governance Report has been prepared in accordance with Swedish corporate law and Semcon's Articles of Association. The Articles of Association regulates the alignment of the business and share capital, and how and when the notice to attend the Annual General Meeting takes place. The Articles of Association are available in full on Semcon's website semcon.com. Semcon also complies with applicable Swedish and foreign laws and regulations.

Application

Semcon applies the Swedish Corporate Governance Code and has no deviations to report. The current code is available at: corporategovernanceboard.se.

General Meeting of Shareholders

The General Meeting of Shareholders is Semcon's highest decision-making body. The notice to attend must be published in the Official Swedish Gazette [PoIT], on semcon.com and in a press release. That the notice to attend has been published must be advertised in *Dagens Industri*.

At General Meetings of Shareholders, shareholders have the opportunity to exercise their voting rights and, in accordance with Swedish corporate law and Semcon's Articles of Association, to take decisions concerning the composition of the Board and other central issues. Shareholders or proxies can vote for the number of shares he/she owns or represents at the meeting. Resolutions at General Meetings of Shareholders usually require a simple majority. However, a qualified majority or 9/10 majority is sometimes required for some resolutions.

2018 Annual General Meeting

The Annual General Meeting [AGM] for the 2017 financial year was held on Wednesday, 25 April 2018 at Semcon's head office in Göteborg, Sweden. Representatives of 44 per cent of the share capital were present, of which underlying shares held by the members of the Nominations Committee represented 37 per cent. Tore Bertilsson was elected to chair the meeting. The Board of Directors, Group management and representatives for Ernst & Young AB were present at the AGM.

The AGM resolved on the following:

- ＊ that a dividend of SEK 3.50 per share [2.25] be paid
- ＊ to approve remuneration to the Board and its chairman
- ＊ that the Board shall consist of five AGM-elected members
- ＊ to re-elect Tore Bertilsson, Marianne Brismar, Jan Erik Karlsson, Jeanette Reuterskiöld and Karl Thedéen as Board members. Tore Bertilsson was elected as Chairman of the Board

- ＊ to elect Ernst & Young AB as the registered auditing firm until the close of next AGM
- ＊ to introduce a long-term performance-based share savings scheme for senior executives and key employees.

As in previous years, the AGM also granted the Board authorisation to:

- ＊ carry out a new share issue of a maximum 1,811,253 ordinary shares in the company
- ＊ acquire ordinary shares and transfer ordinary shares. Acquisitions may be made at any time for so many ordinary shares that the company holds a maximum of 10 per cent of all shares following acquisition.

Full minutes and information from the 2018 AGM are available at semcon.com.

2019 Annual General Meeting

The AGM for the 2018 financial year will be held on Wednesday, 24 April 2019 at Semcon's head office in Göteborg, Sweden. More information is available at semcon.com.

Share structure and voting rights

Semcon has one share class, ordinary shares, with a quotient value of SEK 1 and entitles the owner to one voting right. There were 18,112,534 [18,112,534] ordinary shares at year-end.

Shareholder structure

At 31 December, the JCE Group owned 25.8 per cent [25.8] of Semcon's shares, Nordea Investment Funds 9.8 per cent [7.9], Avanza Pension 5.0 per cent [3.3], BNY Mellon 4.4 per cent [-] and Öhman Fonder 3.2 per cent [3.6]. Semcon had 5,239 [4,440] shareholders, of whom 32.6 per cent [33.1] were registered abroad.

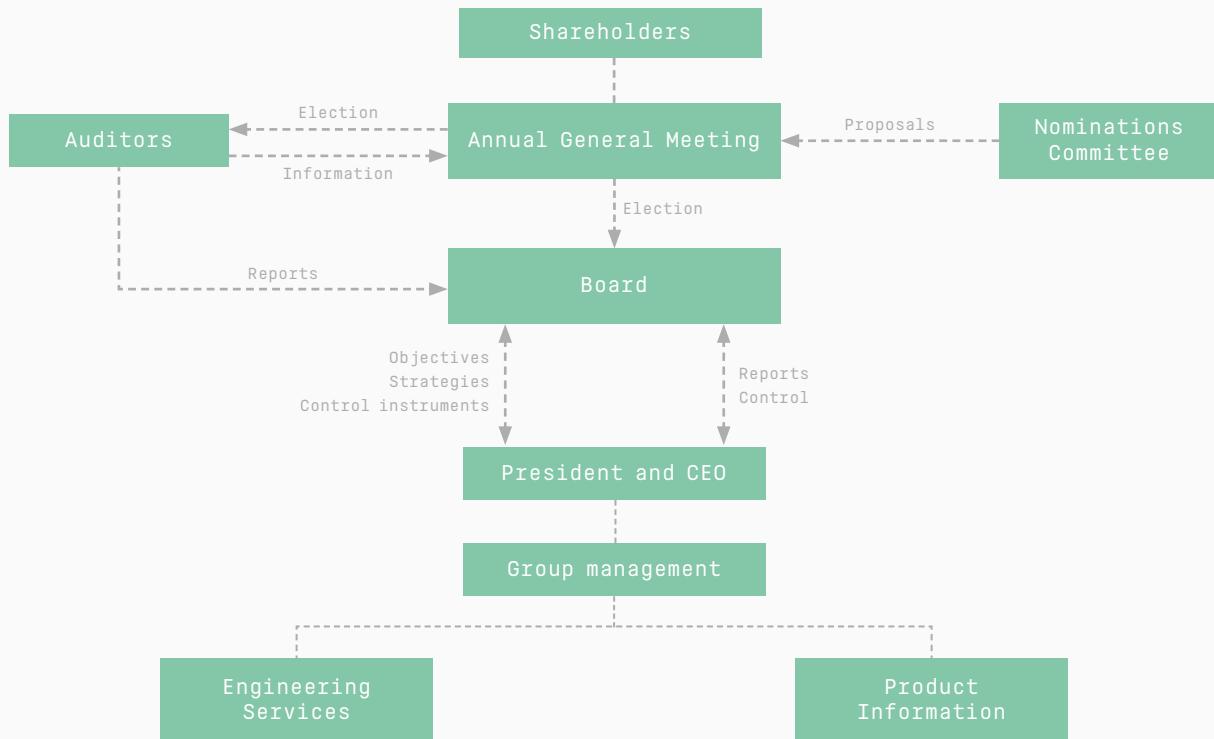
Nominations Committee

According to a resolution by the AGM, based on ownership statistics from Euroclear Sweden AB on 31 August for each respective year, the Chairman of the Board must convene the three largest shareholders in the company in terms of votes, who each shall appoint one member to the Nominations Committee. Should any of the abovementioned shareholders waive the right to nominate a member, this right will transfer to the next largest shareholder in terms of voting rights. The member nominated by the largest shareholder will serve as the chairman of the Nominations Committee.

The Nominations Committee is to present proposals to the AGM concerning:

- ＊ Chairman of the AGM

The summary below illustrates how responsibility for management and control of Semcon AB is divided between shareholders at the AGM, the Board, auditors and the CEO according to external regulations and internal policies.



- * Chairman of the Board and other Board members, remuneration to the Board and, in certain cases, auditors, and remuneration to the Board and auditors
- * The decision concerning principles for the composition of the Nominations Committee

The Nominations Committee's members will be announced no later than six months prior to the AGM. Information about the Nominations Committee's members and how proposals to the AGM can be submitted is available in press releases at semcon.com and in the Interim Report for the third quarter.

2018/2019 Nominations Committee

The Nominations Committee's members in 2018/2019 consisted of Ulf Gillberg, JCE Group AB [Nominations Committee's Chairman], Mats Andersson, Nordea Investment Funds, Faruk Tairi, Europea i Malmö and Tore Bertilsson, Chairman of the Board of Semcon AB [co-opted member]. No remuneration was paid to the members. The Nominations Committee held six minuted meetings. The basis of the Nominations Committee's work has mainly been the company's strategies and priorities and an evaluation of the Board and its size and composition. The Nominations Committee's proposal for election of Chairman of the Meeting, Board members, Chairman of the Board and auditors is outlined in the notice to attend the AGM, in addition to proposed remuneration to AGM-elected Board members and auditors. Furthermore, a proposal is submitted for appointing a Nominations Committee, which is published at the same time on semcon.com. Questions to the Nominations Committee can be submitted to: valberedning@semcon.com

Nominations Committee ahead of the 2019 AGM

	Representing	Share of voting rights, %*
Ulf Gillberg	JCE Group	25.8
Mats Andersson	Nordea Investment Funds	9.8
Faruk Tairi	Europea i Malmö	-
Tore Bertilsson	Semcon AB [co-opted member]	
Total		35.6

*Share of voting rights 31 December 2018

Board of Directors

The Board is ultimately responsible for the organisation and management of Semcon's business activities. The work of the Board is regulated by the Companies' Act, the Articles of Association and the rules of procedure adopted annually by the Board.

Board structure

The General Meeting of Shareholders elects Board members and their deputies in Semcon AB. According to the Articles of Association, the Board must consist of no fewer than three members and no more than eight members with no more than two deputies. Semcon AB's Board consists of five members elected by the AGM with no deputies, and three members elected by the employees. Of the eight Board members, of whom two are women, all are Swedish citizens. The Board's composition meets the requirements for being independent set by the Swedish Corporate Governance Code and by Nasdaq Stockholm. See table on page 87.

Work of the Board

During the 2018 financial year, the Board held nine regular meetings. The Board has adopted a number of steering documents and policies. The Board oversees the CEO's work by continuously monitoring the business throughout the year, and is responsible for ensuring that the organisation, management and guidelines for administering the company's affairs are suitably structured and that there is an appropriate level of internal control. Furthermore, the Board is responsible for developing and following up the company's strategies through plans and objectives, decisions regarding the acquisition and divestment of businesses, insurance issues and major investments. The Board sets out guidelines for the company's conduct in society to ensure its long-term value-adding capability. The Board also approves the interim reports and annual accounts. The work of the Board adheres to an agenda with fixed points for Board members. The Chairman leads and delegates Board work and ensures that urgent matters in addition to the fixed points on the agenda are addressed. Attendance at Board meetings is presented in the table on page 87. Other salaried employees in the company take part in Board meetings to present reports and as secretary.

Board meetings 2018

February: Annual accounts and Year-end report 2017, financial report, remuneration issues, CEO evaluation, internal control, debriefing of audit [auditors present].

March: Annual report, proposed resolutions and notice to attend AGM.

April: Interim report, January–March, financial report, GDPR, sustainability.

April: Statutory meeting, resolution on share buyback.

June: Review of market, trends and Semcon's position, bank procurement.

July: Interim report, January–June, financial report.

August: Follow-up and setting of strategies.

October: Interim report, January–September, financial report, debriefing of audit [auditors present].

December: Business plans and adoption of budget for 2019 for the Group and each of the business areas, GDPR, decision on share buyback, Board evaluation.

Statutory meeting

At the statutory Board meeting in connection with the AGM, the Board adopted the rules of procedure for the Board, terms of reference for the CEO, financial reporting instructions, authorisation procedures, Code of Conduct and the financial policy.

Board evaluation

Board members have evaluated the Board's work, which has been summarised and made available to the Nominations Committee. The areas evaluated cover such aspects as the composition of the Board, its level of expertise, organisation, day-to-day work and working climate. In addition, the Nominations Committee conducted personal interviews with the AGM-elected Board members.

Audit Committee

Semcon has decided that the entire Board will carry out the Audit Committee's tasks. The entire Board strives to maintain close contact with the company's auditors so that it can satisfactorily monitor significant issues concerning the company's accounts, reporting procedures, management of company assets and internal control. These types of issues are therefore dealt with by the Board as a whole. To ensure that the Board's need for information is satisfied, the company's auditors report to the Board at least twice a year. Staffan Landén and Nina Bergman, the company's auditors at Ernst & Young AB, have reported their views over the past year on the Group's internal control and procedures for reporting and accounting, and for reviewing the January–September interim report and annual accounts.

Remuneration issues**Remunerations Committee**

Semcon has decided that the Board in its entirety will carry out the Remuneration Committee's assignments.

Remuneration to the Board

Remuneration to the Board is decided by the AGM following proposals by the Nominations Committee. The AGM decided that remuneration to the Board in 2018/2019 should be SEK 600,000 [600,000] for the Chairman and SEK 280,000 [280,000] for each of the other Board members not employed by the company.

Remuneration to the CEO and senior executives

The AGM decides on remuneration principles and other employment guidelines for the CEO and senior executives who report to him. The Board decides on remuneration to the CEO.

The CEO's remuneration and benefits are presented in Note 9, page 65. Senior executives' remuner-

ation is proposed by the CEO and approved by the Board. All senior executives in Group management are entitled to a fixed salary, which can be supplemented with a variable salary of no more than nine months' salary based on how well they meet their targets. The fixed salary is adjusted to conditions in the market. Remuneration guidelines include the individuals, who during the time the guidelines applied, were part of Group management. The Board has the right to deviate from the guidelines if there is just cause to do so in special circumstances. Senior executives' remuneration and benefits are presented in Note 9 on page 65.

Auditors

Ernst & Young AB was elected as the company's auditor by the 2018 AGM until the 2019 AGM. The company's auditor in charge is Staffan Landén [born 1963]. His other audit assignments include Vattenfall AB, Alfa Laval AB, Polygon AB, Nederman Holding AB and Moment Group AB. Nina Bergman's other audit assignments include Zenuity AB and New Wave Group AB.

The auditors' interaction with the Board is described above. In addition to auditing, Ernst & Young also provides Semcon with advice on accounting issues. All services provided in addition to the statutory auditing service are checked specially to ensure there is no conflict of interest or disqualification issue. No senior executive at Semcon has held any position at Ernst & Young over the past five years. Semcon's remuneration to auditors and purchase of services in addition to auditing is presented in Note 8 on page 65.

Group management

Group management consists of the CEO, CFO, General Counsel, Director HR and Sustainability, Director Corporate Communications and Marketing and business area presidents, see pages 92-93. Group management holds regular meetings led by the CEO. The meetings follow an agenda and are minuted. In addition

to these meetings, a number of meetings are held with the business area management teams when Group management are present along with other employees of the Group. Group management strives to maintain close contact with every business area in order to support and provide help and the tools to enhance efficiency and in relation to marketing, business development and internal exchange of knowledge.

Business areas

Semcon's business activities were organised into two business areas in 2018. Semcon's organisation is characterised by far-reaching decentralisation, according to which every unit is highly independent and is granted extensive powers. In addition to continuous contacts, Group management's follow-up of the business areas is carried out mainly in the form of monthly internal debriefings by business area presidents, controllers and business area management teams.

Authorisation and decision-making procedure

The Group has an authorisation and decision-making procedure that clearly regulates powers at every level in the company, from individual employees to Semcon's management. The areas regulated include contract levels, processing of quotes/tenders, investments, rental and lease contracts and overheads. The organisation of an assignment or project varies according to its size, location and complexity. Semcon is certified and applies quality and environmental management systems according to ISO 9001:2008 and ISO 14001:2004, which are reviewed on a regular basis by external auditors.

Further information about corporate governance

The following information is available at semcon.com:

- * More in-depth information about internal control instruments, such as the Articles of Association and Code of Conduct
- * Information from Semcon's AGMs from 2005 and onwards [notices to attend meetings, minutes, etc.]

Composition of the Board of Directors

		Elected	Atten- dance	Dependent	Audit Committee	Remuner- ations Committee
Tore Bertilsson	Chairman	2015	9 of 9	Yes*	Yes	Yes
Marianne Brismar	Member	2008	9 of 9	No	Yes	Yes
Jan Erik Karlsson	Member	2016	9 of 9	Yes**	Yes	Yes
Karl Thedéen	Member	2016	9 of 9	No	Yes	Yes
Jeanette Reuterskiöld	Member	2016	9 of 9	No	Yes	Yes
Christer Eriksson	Employee representative	2007	9 of 9		Yes	Yes
Mats Sällberg	Employee representative	2014	9 of 9		Yes	Yes
Monique Pehrsson	Employee representative	2014	5 of 8		Yes	Yes
Lars-Ove Jansson	Employee representative	2018	1 of 1		Yes	Yes

*Tore Bertilsson is not independent of major shareholders.

**Jan Erik Karlsson is not independent of major shareholders.

A presentation of Board members is available on pages 90-91.

Internal control over financial reporting

The Swedish Companies Act regulates the Board and CEO's responsibility concerning internal control. The Board's responsibility is also regulated by the Swedish Corporate Governance Code, which includes requirements for annual external information disclosure concerning the manner in which the financial reporting is organised.

Internal control

Semcon has defined internal control as a process designed to provide reasonable assurance that Semcon's objectives are achieved in terms of appropriate, efficient operations, reliable reporting, and procedures for complying with applicable rules and regulations. The internal control involves the Board, CEO, Group management and other employees and is based on a control environment that creates the basis for the other four components in the process – risk assessment, control activities, information and communication, and monitoring. The process bases itself on the framework for internal control issued by the Committee of the Sponsoring Organizations of the Treadway Commission [COSO]. The control environment includes the values and ethics that the Board, CEO and Group management communicate and use and that are documented in Semcon's Code of Conduct. It also includes the Group's organisational structure, management, decision-making channels, authorisations and responsibilities as well as the expertise of employees. Semcon's mission, objectives and strategies are the basis of day-to-day work. Semcon is characterised by a decentralised organisation based in target-oriented management.

Internal control over financial reporting

Internal control over financial reporting aims to provide reasonable assurance concerning reliability of the external financial reporting in the form of interim reports, year-end reports and annual reports, and that the external financial reports are prepared in accordance with laws, applicable accounting standards and other requirements imposed on listed companies. The following description has been drawn up in accordance with the Swedish Corporate Governance Code and the current application instructions and constitutes the Board's report concerning internal control over financial reporting.

Control environment

The Board has overall responsibility for the internal control over financial reporting. The Board has set out written rules of procedure that clarify



the Board's responsibilities and that regulate the work of the Board. The Board will ensure that established principles for financial reporting and internal control are observed and that appropriate relationships with the company's auditors are maintained. The Board has prepared terms of reference for the CEO and instructions for financial reporting. The Group's internal control function provides support for the internal control over financial reporting in the Group's companies and business areas. Internal control instruments for financial reporting consist of the Group's financial policy, credit policy, information policy, investment rules, authorisation rules and the Group's accounting and reporting rules. Semcon's ethical values are documented in the Group's Code of Conduct, and staff policies complement other rules and instructions for employees. In recent

years, much time and effort has been spent on the Group's management systems and to establish clearer procedures and regulations for submitting tenders/bids, contractual terms and for signing agreements. To ensure adherence to these rules, training initiatives were conducted during the year. Projects were also carried out to fully harmonise the Semcon Group's projects, processes and financial processes at all subsidiaries.

Risk assessment

Semcon's risk assessment regarding financial reporting – meaning identification and evaluation of the most significant risks in the Group's companies, business areas and financial reporting processes – forms the basis for how these risks are managed. Management takes the form of accepting, reducing or eliminating the risk. Annual evaluation activities are carried out by the internal control function using a risk-based model. A number of criteria are considered to assess the degree of risk of inaccuracies occurring in financial reporting. Complex accounting policies might, for example, mean that the financial reporting risks being inaccurate for the items covered by such policies. Measuring certain assets or liabilities using various assessment criteria might also constitute a risk. The same applies to complex and/or changed business conditions.

Control activities

The significant risks identified for financial reporting are managed through various control activities and processes in the Group's companies and business areas, and aim to safeguard that the basic demands on external financial reporting are met.

The control activities build on the Group's minimum requirements for internal control over financial reporting and consist of comprehensive, detailed controls that can be preventative and exploratory in nature. The respective business areas are responsible for the Group's control instruments being implemented and observed and that any possible deviations are reported.

Information and communication

Information and communication about internal control instruments for financial reporting is published on Semcon's intranet. External communication consists of, for example, external financial reporting, such as interim reports and the Annual Report. There is a communication policy to support the information procedures in the Group. This clearly states who is allowed to communicate what type of information and that the information must be correct, coordinated, consistent, prompt and transparent, both internally and externally.

Monitoring

Monitoring to ensure effective internal control over financial reporting is carried out by the Board, CEO, Group management, the internal control function and the Group's companies and business areas. Monitoring is carried out informally and formally and comprises follow-ups of monthly financial statements against budgets and objectives as well as quarterly reports, which in certain cases is supplemented with independent reviews by external auditors. Monitoring and reporting to the

Board function effectively. Semcon has introduced a Group-wide reporting system for work related to internal control over financial reporting, which includes self-evaluation of all the Group's companies and business areas. This provides an overview of how the Group's subsidiaries and business areas meet the minimum requirements for internal control over financial reporting for material risks identified and also provides information concerning the status of the work. Each company and business area is responsible for preparing action plans for deviations, which are subsequently followed-up by the respective internal board of each business area. In view of the results of these activities, the company has thus far found no reason to introduce a special internal audit function.

Gothenburg, 18 March 2019

Board of Directors

Auditor's report on the corporate governance statement

To the general meeting of the shareholders of Semcon AB [publ], corporate identity number 556539-9549

in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2018 on pages 84-89 and that it has been prepared in accordance with the Annual Accounts Act.

Opinions

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

The scope of the audit

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

Gothenburg, 19 March 2019
Ernst & Young AB

Staffan Landén
Authorized Public
Accountant

Nina Bergman
Authorized Public
Accountant

BOARD OF DIRECTORS.



**Tore
Bertilsson**

CHAIRMAN OF THE BOARD SINCE 2016.

BOARD MEMBER SINCE 2015.

BORN: 1951.

QUALIFICATIONS: Master of Business Administration [MBA], School of Business, Economics and Law, University of Gothenburg.

PROFESSIONAL BACKGROUND:

Former deputy CEO and CFO of SKF and bank director of SEB.

NATIONALITY: Swedish.

OTHER BOARD ASSIGNMENTS:

Chairman of Perstorp, PRI Pensionsgaranti, JCE Group, Ludvig Svensson and Salinity as well as Board member of INGKA Holding [Ikea].

SHAREHOLDING IN SEMCON: 20,000.

Independent in relation to the company and company management. Not independent in relation to major shareholders.

**Marianne
Brismar**

BOARD MEMBER SINCE 2008.

BORN: 1961.

QUALIFICATIONS: Pharmacist Graduate and Master of Business Administration [MBA].

PROFESSIONAL BACKGROUND: Former CEO and owner of Atlet.

NATIONALITY: Swedish.

OTHER BOARD ASSIGNMENTS: Axel Johnson International, Concentric, Creades, Almi Företagspartner Väst, JOAB, GreenCarriers and Axis Communications.

SHAREHOLDING IN SEMCON: 5,000.

Independent in relation to the company, company management and major shareholders.

**Jan Erik
Karlsson**

BOARD MEMBER SINCE 2016.

BORN: 1949.

QUALIFICATIONS: Bachelor of Arts.

PROFESSIONAL BACKGROUND:

Former CEO of Capgemini Sverige and has held other senior positions at Capgemini Group.

NATIONALITY: Swedish.

OTHER BOARD ASSIGNMENTS:

Board member of Itera AS.

SHAREHOLDING IN SEMCON: -

Independent in relation to the company and company management. Not independent in relation to major shareholders.

**Jeanette
Reuterskiöld**

BOARD MEMBER SINCE 2016.

BORN: 1974.

QUALIFICATIONS: Construction engineer, Mälardalen University.

PROFESSIONAL BACKGROUND:

Business area president WSP Management. Former CEO of Arcona and Hifab Group.

NATIONALITY: Swedish.

OTHER BOARD ASSIGNMENTS:

Chairman of Sweden Green Building Council.

SHAREHOLDING IN SEMCON: 1,000.

Independent in relation to the company, company management and major shareholders.



**Karl
Thedéen**

BOARD MEMBER SINCE 2016.

BORN: 1963.

QUALIFICATIONS: Master of Science [MSc], KTH Royal Institute of Technology, Stockholm.

PROFESSIONAL BACKGROUND: President and CEO of Edgeware and formerly Senior Vice President and business area manager of Infinera and President of Transmode [publ.]. He previously held a number of senior positions at the Ericsson Group.

NATIONALITY: Swedish.

SHAREHOLDING IN SEMCON: 11,750.

Independent in relation to the company, company management and major shareholders.

**Christer
Eriksson**

EMPLOYEE REPRESENTATIVE SINCE 2007.

EMPLOYED SINCE: 2000.

BORN: 1969.

QUALIFICATIONS: Master of Engineering [M.E.] in Mechanical Engineering, Materials and Mechanical Technology, Luleå University of Technology.

NATIONALITY: Swedish.

SHAREHOLDING IN SEMCON: 2,492.

**Lars-Ove
Jansson**

EMPLOYEE REPRESENTATIVE SINCE 2018.

EMPLOYED SINCE: 2001.

BORN: 1964.

QUALIFICATIONS: 4-year technology programme, telecommunications engineering.

NATIONALITY: Swedish.

SHAREHOLDING IN SEMCON: 100.

**Mats
Sällberg**

EMPLOYEE REPRESENTATIVE SINCE 2014.

EMPLOYED SINCE: 1998.

BORN: 1967.

QUALIFICATIONS: Mechanical engineering qualifications from Erik Dahlberg upper-secondary school, Jönköping.

NATIONALITY: Swedish.

SHAREHOLDING IN SEMCON: 8,000.

GROUP MANAGEMENT.



**Markus
Granlund**

PRESIDENT AND CEO

BORN: 1975.
QUALIFICATIONS: Bachelor of Law, Lund University. Master of International Trade Law, Bond University, Australia. Managerial Finance, Marketing & Accounting, Bond University, Australia.
EMPLOYED SINCE: 2008.
SHAREHOLDING IN SEMCON: 36,069.

**Carin
Wiberg**

GENERAL COUNSEL

BORN: 1978.
QUALIFICATIONS: Bachelor of Law, University of Gothenburg.
EMPLOYED SINCE: 2012.
SHAREHOLDING IN SEMCON: 6,313.

**Björn
Strömberg**

CFO

BORN: 1960.
QUALIFICATIONS: Master of Business Administration [MBA], School of Business, Economics and Law, University of Gothenburg.
EMPLOYED SINCE: 2007.
SHAREHOLDING IN SEMCON: 20,057.

**Per
Nilsson**

**DIRECTOR CORPORATE
COMMUNICATIONS
AND MARKETING**

BORN: 1975.
QUALIFICATIONS: Media and Communication, Karlstad University.
EMPLOYED SINCE: 2015.
SHAREHOLDING IN SEMCON: 1,678.



**Karin
Koritz
Russberg**

**DIRECTOR HR AND
SUSTAINABILITY**

BORN: 1969.

QUALIFICATIONS: Bachelor of Science, Psychology, University of Gothenburg.

EMPLOYED SINCE: 2017.

SHAREHOLDING IN SEMCON:
1,612.

**Daniel
Rundgren**

**BUSINESS AREA PRESIDENT
ENGINEERING SERVICES**

BORN: 1974.

QUALIFICATIONS: Executive Management Program, Stockholm School of Economics.

EMPLOYED SINCE: 2018.

SHAREHOLDING IN SEMCON:
4,792.

**Johan
Ekener**

**BUSINESS AREA PRESIDENT
PRODUCT INFORMATION**

BORN: 1964.

QUALIFICATIONS: Master of Science [MSc], Computer Technology Programme, Chalmers University of Technology. Master of Business Administration [MBA], School of Business, Economics and Law, University of Gothenburg.

EMPLOYED SINCE: 2004.

SHAREHOLDING IN SEMCON:
12,646.

FIVE-YEAR SUMMARY.

Income statement mSEK	2018	2017	2016	2015	2014
Net sales	1,842.2	1,762.4	1,755.9	1,656.6	2,725.7
Operating expenses	-1,722.6	-1,667.2	-1,660.8	-1,598.4	-2,623.3
Operating profit	119.6	95.2	95.1	58.2	102.4
Financial income	2.1	1.7	3.4	2.2	1.0
Financial expenses	-2.0	-2.3	-3.6	-3.5	-6.0
Profit before tax	119.7	94.6	94.9	56.9	97.4
Tax	-25.7	-22.2	-26.9	-14.2	-22.0
Net profit for the year from continuing operations	94.0	72.4	68.0	42.7	75.4
Net profit/loss for the year from discontinuing operations	-	0.1	-116.3	-39.2	-
Net profit/loss for the year	94.0	72.5	-48.3	3.5	75.4
Balance sheet mSEK	2018	2017	2016	2015	2014
Goodwill	316.5	274.7	274.7	465.9	456.3
Other intangible assets	10.6	13.1	14.7	18.9	16.7
Tangible assets	31.5	31.1	33.0	51.0	49.8
Deferred tax assets	3.2	3.2	4.2	61.3	46.3
Other financial assets	-	-	-	-	17.0
Accounts receivable	347.4	337.0	278.9	433.1	416.1
Accrued non-invoiced income	144.9	140.3	133.7	108.2	157.9
Other current assets	37.9	29.8	30.4	71.7	57.6
Cash and cash equivalents	43.5	80.9	39.9	126.1	152.3
Assets held for sale	-	-	379.9	-	-
Total assets	935.5	910.1	1,189.4	1,336.2	1,370.0
Shareholders' equity	566.9	556.6	529.4	604.5	662.5
Long-term liabilities	-	-	40.3	97.3	91.6
Current liabilities	368.6	353.5	439.7	634.4	615.9
Liabilities held for sale	-	-	180.0	-	-
Total shareholders' equity and liabilities	935.5	910.1	1,189.4	1,336.2	1,370.0
Cash flow statement mSEK	2018	2017	2016	2015	2014
Cash flow from current activities	110.5	37.5	33.4	27.3	82.3
Cash flow from investing activities	-63.9	152.3	-33.6	-29.8	-29.3
Cash flow from financing activities	-83.2	-195.8	-40.8	-19.9	-65.7
Cash flow for the year	36.6	-6.0	-41.0	-22.4	-12.7

Key figures	2018	2017	2016	2015	2014
Growth in sales [%]	4.5	0.4	6.0	-1.5	8.7
Organic growth [%]	2.2	0.4	4.8	-2.8	4.8
Operating margin [%]	6.5	5.4	5.4	3.5	3.8
Profit margin [%]	6.5	5.4	5.4	3.4	3.6
Return on equity [%]	16.9	13.4	12.0	6.7	11.6
Return on capital employed [%]	21.4	14.1	13.2	13.4	12.7
Equity/assets ratio [%]	60.6	61.2	44.5	45.2	48.4
Debt/equity ratio [multiple]	-	-	0.2	0.2	-
Number of employees at year-end	2,119	2,076	2,044	1,979	2,990
Data per share	2018	2017	2016	2015	2014
Earnings per share before dilution [SEK]	5.34	4.05	3.81	2.38	4.20
Earnings per share after dilution [SEK]	5.25	4.00	3.75	2.36	4.16
Shareholders' equity per share before dilution [SEK]	32.52	31.22	29.63	33.83	36.87
Shareholders' equity per share after dilution [SEK]	31.30	30.73	29.23	33.37	36.58
Share price/shareholders' equity per share [multiple]	1.51	1.55	1.57	1.27	1.35
Cash flow per share [SEK]	6.10	2.07	1.84	1.51	4.54
Dividend per share [SEK]	3.00*	3.50	2.25	1.25	2.50
P/E ratio	9	12	12	18	12
P/S ratio	0.5	0.5	0.5	0.5	0.3
Share price at year-end [SEK]	47.30	47.70	46.00	42.40	49.40
Market value at year-end [mSEK]	857	864	833	768	895
No. of shares at year-end [000]	18,113	18,113	18,113	18,113	18,113
Average no. of shares [000]	18,113	18,113	18,113	18,113	18,113
Number of own shares at year-end [000]	683	282	243	243	143
Average no. of own shares [000]	494	246	243	204	143
No. of shareholders	5,239	4,440	4,478	4,671	3,657

2014 including discontinuing operations.

*Board's proposal

PRODUCT DEVELOPMENT BASED ON HUMAN BEHAVIOUR.