

Sectra contributes to a healthier and safer society

Annual Report 2018/2019



SECTRA

Knowledge and passion

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This is Sectra's Annual and Sustainability Report for 2018/2019. The formal Annual Report is on pages 48–92. The Sustainability Report on pages 12–19 and 56–60 comprises the Parent Company's and the Group's statutory sustainability report pursuant to Chapter 6, Section 11 of the Swedish Annual Accounts Act. The principles for corporate governance and diversity are described in Sectra's Corporate Governance Report, available at investor.sectra.com/governance

This is Sectra

Sectra offers solutions for medical image management and secure communications. We help hospitals all over the world improve their efficiency so that they can provide better healthcare to patients. We help government officials, diplomats and critical social functions use modern technology without jeopardizing security when managing and exchanging sensitive information.



This is Sectra

Sectra's business operations have been formed with passion and a genuine belief that the company can change society for the better in the areas in which we work. Contributing to a healthier and safer society is our strongest incentive.

A unique combination of medical IT and cybersecurity

Sectra offers products and services in the medical IT and cybersecurity sectors. This combination makes us unique and is a particularly valuable asset in the healthcare market, where the need for protection against unauthorized data access and cyberattacks has grown significantly in recent years.

Why we exist—global social trends

The overall aim of all our business operations is to solve major social problems that must be addressed in the foreseeable future. Two global trends are driving the underlying growth in Sectra's niche areas:

- The population trend in the industrialized world entails a major challenge for healthcare. In order to take care of more patients, particularly more elderly patients, healthcare must become more efficient.
- A higher degree of digitization in all areas of society is contributing to efficiency enhancements and simplifying people's everyday lives. However, this trend also makes systems and information more vulnerable to human error, information leaks, unauthorized data access and cyberattacks.

Our operating areas



Sectra in figures

60+

Countries with customers

700+

Employees

1 billion+

Net sales
SEK



Why invest in Sectra

Helping customers to improve the efficiency and quality of patient care and increase cybersecurity in critical social functions is Sectra's most significant contribution to a more sustainable society.

Six good reasons to invest in Sectra

Niche markets with strong growth potential

Healthcare, cybersecurity and critical infrastructure are rapidly changing markets, which creates major growth opportunities for companies such as Sectra.

Stability, profitability and long-term growth

Sectra has a 40-year history of growth and profitability. More than 50% of the company's sales comprise recurring revenue from long-term customer contracts.

Strong brand with multinational reach

Sectra is an established brand in niche areas where trust and stable products are highly important success factors. We have a multinational reach, with thousands of customers worldwide.

Strong, customer-focused corporate culture

A corporate culture focused on customer value and employees who are passionate about making a difference.

Long-standing owners and dedicated management

Principal owners dedicated to the long-term development of the company, and all members of management are shareholders.

Innovation

Sectra maintains a high pace of innovation and continuously invests in new and ongoing development. We also have a self-financed portfolio of exciting projects with the potential to add significant value.

Our vision—to contribute to a healthier and safer society



Value created for shareholders in 2018/2019

5.21

Earnings per share
SEK

+ 68.1%

Total return on
the share

+ 65.8%

Share price trend

4.50

Dividend/redemption
program per share
SEK

The year in brief

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Sectra growing quickly in the US

Imaging IT Solutions is continuing to grow, partly by securing prestigious agreements with healthcare providers in the US. Our main strength lies in our customers' perception of our products as stable and easy to use as well as their appreciation for our employees. This earned the company the top customer satisfaction rating in the industry for the sixth straight year.

Important strategic orders in digital pathology

Several customers in Europe have chosen Sectra's solution for digital pathology—a major growth area where we are contributing to improved cancer care. Sectra has a unique strength thanks to its ability to handle radiology and pathology in a single system, which contributes to more efficient diagnostics and saves money for our customers.



Increased customer value with new products and AI

The business units within Business Innovation have launched new products for orthopaedic planning and follow-up and expanded the customer offering in medical education. AI is an underlying theme in the work of the research department, which includes solutions to eliminate unwanted human variations in measurements and streamline repetitive and time-consuming tasks as well as combining AI with visualization.



Growing synergies between medical IT and cybersecurity

Hospitals are increasingly becoming targets for cybercrime. To help customers, we leverage Sectra's unique competence within IT security when we develop, implement and sell medical IT solutions. Now—for the first time—we have also provided Swedish healthcare regions with secure smartphones from Sectra.

Secure, mobile workplace with Sectra Tiger

Secure Communications is continuing to grow, primarily through increased sales of approved crypto products that protect information essential to the security of a country or critical social functions. To meet customer needs, we have expanded our offering in the secure communications product area, Sectra Tiger, to include tablets for secure mobile workplaces.



Capital Markets Day

See presentations from our 2019 Capital Markets Day
» investor.sectra.com/cmd2019

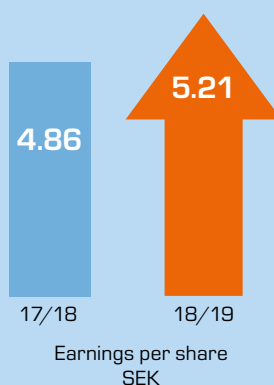


All financial goals achieved

We are growing as a company by making our customers successful. With all of our financial goals fulfilled and a strong cash flow, our aim is to continue growing in the long term. High customer satisfaction, favorable profitability and long-term customer contracts have laid a solid foundation for future growth.

Positive trend generates return for shareholders

With a focus on customer value, employees, innovation and sustainable business development, we create value for our customers and society, which also benefits our owners over the long term. The Board has proposed to the Annual General Meeting that SEK 4.50 per share be paid to shareholders through a share redemption program.



Quality is profitable

For additional performance measures, refer to the five-year summary on page 44.

1,413.5
Net sales
SEK million

235.5
Operating profit
SEK million

6.54
Cash flow per share
SEK

2,132.8
Order bookings
SEK million



CEO letter

"Every year, Sectra's products and services contribute to improved care for millions of patients across the world. At the same time, we are reducing the risk of eavesdropping on society's most important secrets and of unauthorized access to sensitive infrastructure, such as electricity production and distribution."

Torbjörn Kronander, CEO and President

We are growing as a company by making our customers successful

We are growing and attracting more and more customers around the world. But it is not only the number of customers that is growing. Sectra now has more than 8,000 shareholders, a position of trust that we are both pleased with and proud of. We look forward to continuing to contribute to a healthier and safer society together with our customers, employees and shareholders.

In autumn 2018, we celebrated our 40th anniversary as a company. As for many companies, there have been major challenges over the years, but we have overcome them with the help of a strong corporate culture and customers who have trusted us. Sectra was originally a technology-driven company with unique knowledge of encryption and signal processing. Like so many start-ups, we had fantastic solutions but no clear view of the nature of the problems—or whose problems—we would solve. Over the years, we have continued to evolve in the only direction possible and our starting point is now our customers, not the technology. Today we have fantastic customers and we help them solve problems in Sectra's areas, namely medical IT and data security. Digital signal processing and encryption are still at the heart of the solutions we offer but, although still important, they are only a small part of the overall whole. In recent years, we have also experienced increasing synergies between our core operating areas, whereby they strengthen each other, which is a very positive trend.

Thousands of customers put their trust in Sectra

Thousands of customers from all over the world put their faith in Sectra in areas where quality is crucial. This only happens because they trust us as a supplier, and we have to constantly earn that trust. The faith of our customers is Sectra's most important asset, our brand. To maintain their trust, we need to offer stable, easy-to-use, high-quality products that are developed, implemented and supported by dedicated employees who are always there for our customers. They say that trust takes 15 years to build, one minute to break and a lifetime to repair, if that is

even possible. This is why being humble and focusing on the success of every customer is so important. And if it ever goes wrong, our mantra is to “overspend on customer complaints” so that we can maintain the trust of our customers in the future.

Most satisfied customers for sixth consecutive year

One of the most important elements of our corporate culture is that all employees understand and are knowledgeable about the everyday operations and needs of our customers. Sometimes, our close collaboration and understanding of our customers' operations mean that we see opportunities to help with problems that the customer did not realize could be solved. This creates customer value and a competitive advantage. At Sectra, all employees meet with customers every year. Both our own and external customer satisfaction surveys show that this strategy is working—we have topped the rankings for customer satisfaction in our segments. I am also very proud of our IT solution for managing medical images, Sectra PACS, which has received a top ranking by major US hospitals for the sixth consecutive year. Receiving a top ranking for customer satisfaction in the US is a remarkable achievement for a medium-sized Swedish company. We offer outstanding products, but our main strength is nevertheless our customers' perception of our employees and corporate culture.

Increasing synergies between IT security and medical IT

Hospitals and healthcare have increasingly become prime targets of cybercrime. Cyberattacks on healthcare pose a threat to patients' lives and safety. This trend and the digital transformation of healthcare have contributed to increased synergies between our operations. The combination of expertise in IT security and medical IT under the same roof is a strength and sets us apart from the competition. Sectra is unique in this regard.

“Thousands of customers from all over the world put their faith in Sectra in areas where quality is crucial.”

Financial performance

The basic key figures for financial stability and the operating margin exceeded the Group's goals (see page 19) and we have therefore focused on the growth goal, calculated as operating profit per share. Particular focus is being devoted to North America, where we have a very high level of customer satisfaction and major growth potential. Our profit is also being reinvested in new geographic markets and more in-depth product offerings.

Our order bookings for 2018/2019 exceeded SEK 2 billion. Nearly half of these orders were from new customers. This impressive growth was mainly attributable to major multiyear customer contracts in Imaging IT Solutions. I'm particularly pleased to report that our growth initiatives and new markets in both medical imaging IT and cybersecurity are beginning to gain momentum. Major long-term customer contracts provide us with greater stability for the coming years, but also result in significant fluctuations in order bookings between quarters.

Medical IT and diagnostics

We have chosen to specialize in diagnostic imaging in areas that are closely related to diseases affecting the elderly—neurodegenerative, cardiovascular, cancer and musculoskeletal diseases. As a result of demographic changes and longer life expectancy, the world's elderly population is accountable for a growing proportion of healthcare costs. If we are to have a chance of providing decent care for the elderly in the future, major investments must be made to improve the efficiency of healthcare in these areas—this is where we can help.

A number of years ago, our customers were radiology clinics looking for imaging IT systems. Today, our customers are increasingly moving from individual department systems to larger scale enterprise solutions that meet all of their medical imaging needs. This also includes other major, image-intensive departments, such as cardiology and pathology. At the same time, the healthcare sector is undergoing a revolution—take for example the use of artificial intelligence (AI), which is helping physicians and other healthcare personnel to become more efficient by providing support for time-consuming routine tasks.

I believe that solutions for more effective collaboration around images and diagnostics are key to meeting the challenges of healthcare. Sectra runs one of the largest image-sharing networks in the world. In the UK alone, where virtually all hospitals are connected to Sectra's solutions, more than 35 million medical images are shared every week. Our services are used by both healthcare and telemedicine providers that provide hospitals with remote assistance with diagnoses and expertise. It is also becoming increasingly common that patients want access to their images, which is why we also offer products to meet this need.

One of our growth initiatives in Imaging IT Solutions is digital pathology. At an early stage, Sectra was asked whether we could handle microscopic images in the same way as radiology images. At the time, the technology was too immature to deal with the huge amounts of data contained in such images. But about six years ago, we decided that the technology was probably mature and, in collaboration with a number of Swedish county councils, started a project to build a demonstrator model to show how the technology worked. Due to this introductory project, Sweden is now a world leader in digital pathology.



Photo: University Hospital of Umeå

"Collaboration through the sharing of resources and specialist expertise is an area where patient benefits can often be achieved very quickly."

One typical example of patient benefits is how we have helped physicians in Umeå, Sweden and Vaasa, Finland work together to save the lives of stroke patients. In cases of stroke, every second until treatment is received counts. Sometimes, the patient may benefit from a mechanical procedure to remove the blood clot obstructing a vessel in the brain. This type of surgery is only performed in some hospitals and patients need to be transferred from the hospital where they have sought care, in this case in Vaasa, to a trauma center such as the University Hospital of Umeå where the procedure can be carried out. At the same time, the transport of critically ill patients is both risky and costly. To ensure that the right patient is transferred to Umeå for treatment, the local hospital performs a CT scan which is reviewed by physicians at the trauma center. Using Sectra's image-sharing solution, physicians in Vaasa can share images with physicians in Umeå for discussion and treatment decisions. When a stroke is deemed treatable, the patient is transferred by air ambulance.

No other country has such a high proportion of digital pathology departments. Of these digital departments, Sectra holds a dominant share of the market, providing a robust base for international growth. There is major potential for synergies between the image management systems for radiology and pathology. That is why the project was transferred from our incubator in Business Innovation to the Imaging IT Solutions business area, where digital pathology is now growing rapidly. Sectra is the only supplier that can combine digital pathology and radiology in the same system, which creates better and safer care for patients, while significantly reducing costs for healthcare providers who can use one system instead of two. Over the past year, we secured several strategically important contracts for digital pathology in Europe and we see no signs of a decline in interest moving forward.

We are continuing to broaden and deepen our medical diagnostic imaging portfolio, which revolves around diseases affecting the elderly and, as a result, have further enhanced our ability to manage the third-largest source of image data in healthcare—cardiology—in addition to radiology and pathology.

While the activities carried out by Business Innovation in this context are relatively small, our success in digital pathology shows how important our research and incubator activities are. We also have several exciting products in the field of musculoskeletal diseases (orthopaedics). These include a follow-up service to ensure that unnecessary repeat surgeries are avoided for implant surgery patients experiencing post-operative pain, which greatly benefits both patients and society. We also offer IT solutions for medical and veterinary education for customers in a wide range of countries, not least in Asia, where Sectra otherwise does not have a major presence. The transition from a dedicated supplier of systems to recurring revenue from subscriptions to medical case studies in a global database is happening quickly.

Cybersecurity

In Secure Communications, we are mainly focused on secure mobile workplaces, including both voice and data communications. These products often require formal certifications and approvals, which means the market is slow-moving by nature. Customer-specific development in close collaboration with Swedish and Dutch authorities is an important aspect of these operations. For example, it was these collaborations that originally formed the basis for Sectra Tiger, our offering within secure mobile telephony which has now been further developed to include products and services for secure mobile workplaces. We are working to expand the offering to additional customer segments. We sold this solution to two Swedish healthcare regions during the year—which was a good example of the synergies with our medical imaging IT operations—and we also have customers in other sectors who use our secure mobile ecosystem to handle critical sensitive information.

One major future initiative within Secure Communications is to provide companies in the energy sector and process industry with security analysis and monitoring services for critical operating systems. This offering was launched three years ago, and demand is now growing fast. We have gained numerous customers in Sweden since the start and have also entered the Finnish and Norwegian markets. This success is a testament to the value of Sectra's strong brand. No country would dare to entrust the data security of its most critical infrastructure to an unknown supplier. Sectra's long-standing experience and brand in the world's most advanced data security play an important role in this regard.

Driven by sustainability and social benefit

Focus on sustainability and environmental issues has increased in recent years.

At Sectra, our business has always been driven by social benefit. We founded and operate Sectra based on a vision of making

a positive contribution to society. This approach is reflected in our mission statements as well as our operational targets and values. This is how we ensure sustainable business development.

The future

Sectra has a strong brand in areas where trust is vital when it comes to choosing a supplier. With stable underlying operations with favorable profitability, long-term customer contracts and a steadily growing share of recurring revenue, we have a solid foundation for continued growth. We also have a number of exciting projects in the pipeline and new geographic markets that could eventually become significant.

When I think about where Sectra will be in five to ten years, I see a company that contributes to better healthcare for millions of patients by helping our customers to make more, faster and better diagnoses, thereby making healthcare more efficient. I see healthcare personnel receiving a higher quality, modernized education. I see more efficient orthopaedists treating the right patients in the right way. I see Sectra contributing to increased stability and safety in the world by protecting critical infrastructure and nations' most sensitive information. We still have the most satisfied customers in the industry and fantastic, dedicated employees. We have grown further through close, long-standing customer relationships. We have also incorporated AI into our systems in all business areas in order to further strengthen the customer value we offer.

In summary, thanks to a combination of significant growth opportunities in all of our operating areas, stable development, positive underlying cash flows and profit in our core operations, I have every reason to remain optimistic about the future.

Linköping, June 2019

Torbjörn Kronander
CEO and President Sectra AB



Sectra's value-generation model

A strong corporate culture lays the foundation for how Sectra creates value for its customers, its employees, society at large and thereby its shareholders. The Sectra culture revolves around customer needs and a long-term approach to everything we do. On the following pages, you can read about our goals and priorities for sustainable business development.

How Sectra creates value for customers and society

Vision

To contribute to a healthier and safer society.

Mission statements

Medical IT

To increase the effectiveness of healthcare, while maintaining or increasing the quality of care.

Cybersecurity

To strengthen the stability and efficiency of society's most important functions through solutions for critical IT security.

Goals

For our offerings to create value for society that far exceeds the price paid by the customer. At the same time, the compensation we receive must be sufficient to achieve our financial goals and thereby enable long-term growth. To accomplish this, we must have satisfied customers, motivated and innovative employees, and efficient processes. Our success is monitored through our financial goals and operational targets.

Refer to page 18.

Group-wide strategies for value creation and sustainable business development

Customer value and employees

- » Customers and customer satisfaction are always assigned top priority to enable long-term growth.
- » Close relationships with demanding customers to ensure that Sectra's solutions meet market demands for quality, functionality, and usability.
- » A corporate culture that motivates and inspires the company's employees to solve customer problems, help their fellow human beings and meet—and in many cases exceed—customer expectations.

Refer to page 14.

Innovation

- » Close cooperation with customers, universities and industrial partners in order to identify needs and ideas, is combined with a positive corporate culture where management allows the employees to test out new ideas and projects.

Refer to page 16.

Geographic expansion

- » International expansion mainly in areas and regions where Sectra holds an established position. This will primarily be achieved through organic growth, in certain cases supplemented by acquisitions that strengthen the Group's organic growth.
- » Expansion into new geographic markets following thorough analysis and at a controlled pace as Sectra achieves strong positions in existing markets.

Refer to page 17.

Sectra's corporate culture and values

Our strong corporate culture revolves around customer needs and a long-term approach to everything we do. It lays the foundation for how we create value.

Customer centered culture and employees

“The knowledge to meet expectations.
The passion to exceed them.”

Sectra's solutions are recognized for their stability and usability. But according to our customers, what truly sets Sectra apart from its competitors is the employees—a group of highly skilled individuals who are more than happy to share their experience and are prepared to go the extra mile to solve customers' problems. This Sectra spirit is reflected in our customer-oriented corporate culture.

Sectra is an established brand in niche markets where trust is a vital success factor. The disclosure of a nation's most important state secrets or a long-term power outage could have catastrophic consequences. The same would apply if a hospital's medical imaging system stopped working. In markets such as these, customers primarily purchase from suppliers that they trust.

Building this trust—like developing solutions that provide real value for our customers—requires a focus on understanding and supporting customers. All companies make mistakes sometimes. The difference is how often mistakes happen and how companies respond. That is why Sectra's corporate culture is an important part of our strategy and of how we create value.

Sectra's culture is based on:

- A strong drive to always meet or exceed customer expectations.
- Continuous improvement and innovations in high-tech fields.
- Offering solutions that benefit both individuals and society.
- Taking initiative and assuming responsibility—act and act smart.
- Collaboration with demanding customers and competent end-users to create solid solutions.
- Tolerance and respect for each other as individuals and friends.
- Job satisfaction and humor.

Ensuring employee satisfaction and development

The key to Sectra's success lies in its competent, responsible employees and their dedication to solving customer problems. A great deal of energy is devoted to employing the right people and creating a corporate culture where all employees are always there for the customer.

All new employees take part in “rookie” training, where personnel from around the world meet to learn about how we create value for customers. During this training, they learn about the corporate culture and how the actions of each employee are important for our customers' ability to contribute to a better society. Afterwards, ongoing skills training and frequent customer visits help to improve quality and give the company a greater understanding of customers' day-to-day operations.

We encourage our employees to grow and develop as individuals. At Sectra, you can start as a recent graduate, develop within your role and progress to other positions, an expert role or a managerial position. For instance, there is an annual program where coworkers can be nominated by colleagues and then appointed as seniors or fellows, with additional benefits and greater freedom. Sectra also encourages internal mobility between departments and between the Group's companies around the world. This spreads the company's combined expertise and promotes collaboration within the Group.





How the value we create contributes to a sustainable society

Our work helps our customers contribute to a more sustainable society. Read more on page 56.



UN Goal 3—Good Health and Well-Being: The focus in Sectra's medical operations is on good health and well-being for patients and for society as a whole. Cancer diseases, osteoarthritis and orthopaedic surgery represent some of the most costly and resource-intensive areas in the healthcare sector. Sectra's solutions facilitate and optimize diagnostics, planning and follow-up of patients in these areas.



UN Goal 9—Industry, Innovation, and Infrastructure: Within the critical infrastructure product segment, Sectra helps society to secure, for example, water and electricity supply and to protect these against different types of threats. Within the field of medical technology, Sectra helps healthcare providers to offer more efficient care in medical imaging by providing infrastructure, products and services for image sharing within and between different healthcare providers.



UN Goal 16—Peace, Justice and Strong Institutions: Within the secure communications product segment, Sectra helps politicians, authorities and the armed forces to ensure a functioning government. Using codes of conduct, Sectra also actively works to combat corruption and bribery and to comply with all laws and regulations in the areas where the company operates.

"Knowing that the products we deliver are actually helping people is incredibly encouraging."

Petter Gustafsson, employee in Sweden

Innovation for sustainable growth

Innovation is part of Sectra's identity. We want our customers to know that we are a future-proof choice that can help them meet the challenges of today as well as tomorrow. We continuously invest in new and ongoing development. This development takes place in close cooperation with our customers, and many of our research projects are conducted together with universities, hospitals and strategic partners around the world.

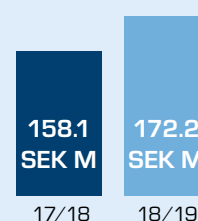
Examples of R&D projects and product launches in 2018/2019

- Development of a new functionality for managing medical images. New modules for business analytics, increased functionality for cardiologists and increased automation and assistance with the help of AI.
- The Analytic Imaging Diagnostics Arena (AIDA), a national research partnership in the field of AI for medical imaging diagnostics, as well as Sectra's own research using AI for interaction design.
- Participation in a major Swedish research project in the field of orthopaedic surgery aimed at developing methods to achieve higher precision in orthopaedic pre-operative planning and post-operative follow-up.
- New product that help orthopaedists plan joint replacement surgeries in 3D.
- Participation in a Swedish research project aimed at developing decision support systems for a more predictable supply of drinking water.
- Expansion of the Sectra Tiger family to include SECRET-level secure data transmission and tablets for secure mobile workplaces.



Increased functionality for cardiologists is one example of the product development carried out in 2018/2019.

The Group's R&D costs



10–15%

of consolidated sales are invested in R&D every year.

Patent portfolio

22

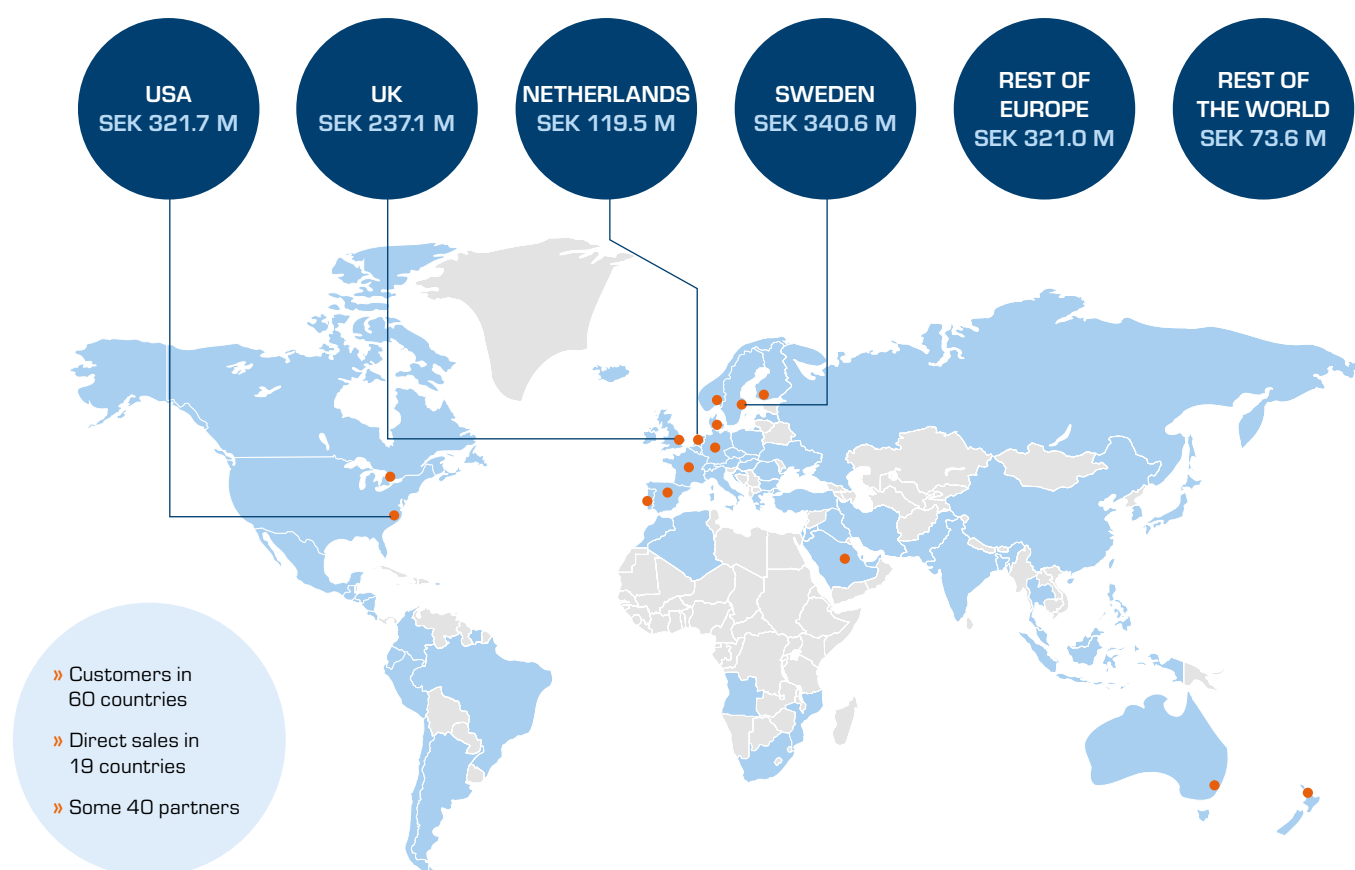
patent families in the Group.

Examples of research partners

The Center for Medical Image Science and Visualization (CMIV) at Linköping University, Karolinska Institute in Stockholm and Lund University in Sweden; Radboud University Medical Center and Utrecht University in the Netherlands; and University Hospitals of Cleveland in the US.

Geographic presence with the ambition of becoming market leader

Sectra believes that it is better to be big in a few countries than to be small in many. Its ambition is to be the largest or second largest supplier in the countries where sales are conducted through the company's own offices. Accordingly, the Group's long-term strategy is to continue to grow and become the leader in the segments and regions where the company conducts its own sales, supplemented with controlled growth initiatives in a small number of carefully selected markets carried out by the Group itself and through partners.



Geographic expansion

Over the past three years, Sectra has started subsidiaries for direct sales in France (medical systems), Canada (medical systems) and Finland (secure communications). During the same period, new distribution partners for medical systems have been added in Croatia, the Philippines, South Africa and South Korea. New distributors are gradually being added in the Medical Educational business unit, whose products

are mainly sold through partners, and the unit's products are represented in approximately 50 countries. While establishing a presence in new countries and adding additional partners is part of the Group's long-term growth strategy, it can be expected to take a few years for such initiatives to have any major impact.

- Presence via own offices or partners
- Sectra companies
- Amounts refer to sales per geographic market in 2018/2019

Group-wide goals

Customers are our top priority. Adopting a structured, long-term approach in order to achieve greater customer value is the main driving force for our employees. We create profitable growth by having satisfied customers and dedicated employees, which ultimately benefits our owners.

Operational targets

Sectra works towards financial goals (see the next page) as well as operational targets related to three areas: customers, innovation/new business and employees/culture/processes. By governing our operations with these goals in mind, we ensure that our operations create value and contribute to sustainable business development. During the year, we reviewed our internal planning process and how our goals are defined. In addition to the Group-wide goals, there are also business-specific goals in each business area and entity.

Customers

The value we create for customers lays the foundation for long-term, sustainable success. The goal is to have a high level of customer satisfaction in the markets and customer segments where we operate as well as to significantly improve our customers' operations through our solutions.

The goal for customer satisfaction is measured on an ongoing basis through internal evaluations based on the NPS method and through leading external evaluations in each area, such as KLAS for our medical systems in the US.

Employees, corporate culture and processes

Our employees—and the corporate culture that shapes their behavior and decision-making—are our main competitive advantage. We therefore aim to ensure we have satisfied employees who perceive Sectra as an equal-opportunity workplace and feel that our corporate culture motivates and inspires them. This is also crucial to our ability to recruit and retain the right personnel. These targets are monitored through our annual employee survey.

To ensure we are growing in an efficient manner, we will also monitor our operating profit in relation to payroll expenses over time.

Innovation and new business

Sectra aims to be a future-proof partner for our customers. Innovation and continuous development are therefore important. This target can be summarized in the words of the hockey great Wayne Gretzky: "Skate to where the puck is going to be." In other words, we must ensure that Sectra is well positioned to meet future customer needs.

This target will be monitored through our annual employee survey.

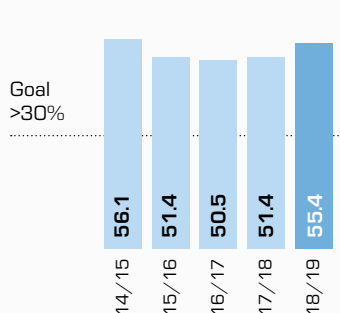
Financial goals

All Group-wide financial goals were surpassed during the year. Stability and profitability are considered hygiene factors. Once these are fulfilled, the focus shifts to our growth goal, and we reinvest our profit in areas that have the potential to increase customer value and thereby contribute to stable and long-term returns for our shareholders.

Goals in order of priority:

1. Stability

The equity/assets ratio is to be at least 30%.

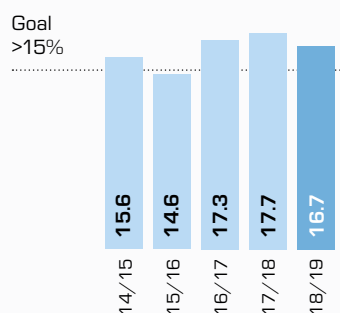


The equity/assets ratio exceeds the strategic goal. An increase in comprehensive income combined with a higher rate of capital turn-over contributed to an increase in the equity/assets ratio in 18/19.

Why this goal was established: A strong financial position provides security for customers and enables investments in products, services and areas that create additional value. A strong balance sheet also enables Sectra to finance managed-services agreements with customers, which is a major advantage since demand for these types of agreements has grown in recent years.

2. Profitability

The operating margin (EBIT margin) is to be at least 15%.

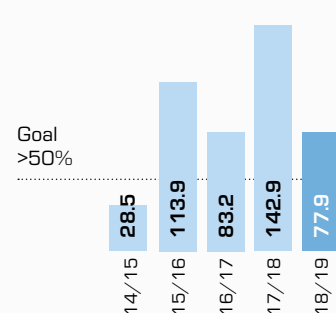


Profitability exceeds the strategic goal. Profitability has displayed a positive trend in recent years through structural changes, additional customers, a higher proportion of license and service sales, product development and a more efficient delivery organization.

Why this goal was established: A healthy operating margin means that the business transactions in which Sectra can provide the most value are given higher priority than devoting resources to areas in which such value is lower. Favorable profitability enables Sectra to implement growth initiatives that generate a strong long-term return for its shareholders.

3. Growth

Operating profit (EBIT) per share is to grow by at least 50% over a five-year period.



The growth in profit exceeds the strategic goal. The growth in profit per share is a result of growing sales and Sectra's long-term efforts to boost cost-efficiency while increasing the proportion of higher-margin products, such as software licenses.

Why this goal was established: Profit growth is a more relevant goal for the company than higher sales since the proportion of software, services and deliveries via the Internet increases at the expense of hardware deliveries, for example.

The goal is calculated per share in order to include the effects of potential acquisitions paid for with treasury shares and other dilution effects. This places the focus on ensuring that each acquisition results in higher operating profit per share, which is in the best interests of the shareholders.



Imaging IT
Solutions

Business
Innovation

Medical IT

To maintain a high quality of care despite today's population trend, the healthcare sector is being forced to accomplish more with the same or fewer resources. The treatment of patients with cancer and skeletal diseases entails enormous challenges. Medical diagnostic imaging and training is central to meeting these challenges.

How Sectra contributes to better cancer care

Sectra has chosen to specialize in diagnostic imaging in four areas facing major challenges related to diseases affecting the elderly—cancer care is one of them. The number of cancer cases is on the rise, which is creating a growing demand for quicker and more efficient cancer care. Thanks to improved diagnostics and treatment methods, more patients are surviving their cancer diagnosis. This is placing greater pressure on diagnostic care, since patients who have concluded their treatment must undergo regular examinations to check that their cancer has not returned. These factors combined are resulting in an increase in diagnostic imaging.

Sectra's solutions can improve the quality of care and shorten the time from suspicion to diagnosis and the start of treatment for several of the most common forms of cancer. The following areas are examples of how our offering contributes to cancer care.

More efficient work environment and tools for radiologists

Radiology plays a key role in cancer diagnostics. Sectra aims to offer a consolidated workstation, where radiologists can efficiently review images, take the measurements needed and enter the results in a response to the referring physician along with other comments—all without needing to open other programs or transfer information between programs manually. This increases patient safety and reduces the time it takes for the radiologists to make a diagnosis and communicate their results.

More efficient work environment and tools for pathologists

When the radiologist's results indicate the presence of cancerous tumor in a patient, a biopsy is taken to allow the pathologist to

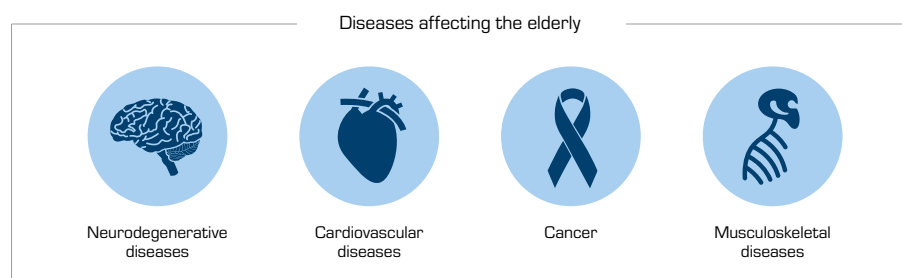
definitively determine the type and stage of cancer. This information is critical to ensuring the right treatment is administered. Sectra can provide pathologists with a fully digital review environment and thereby replace microscope reviews. Using digital tools means that the images are easily accessible at the primary hospital as well as for any experts who may be consulted at other hospitals—or even in other countries. Digital tools also provide the reviewing pathologist with support for a faster assessment and more personalized analysis.

Faster and easier communication of images and results

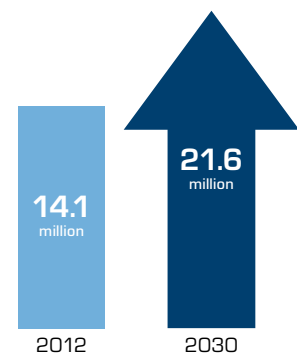
Sectra offers radiologists, pathologists and other experts in the care chain a shared solution for managing all images and results. This means that each expert's referrals, images, tests and results are immediately available to everyone authorized to access them. This gives all involved a more holistic patient overview, which increases the quality of care and accelerates the process of sending information between the various experts.

Integrated diagnostics

A shared imaging IT solution also enables integrated diagnostics. This means, for example, that the radiologist and pathologist can see each other's conclusions and receive support in the IT system in order to quickly and easily see when they disagree. Detecting and resolving such conflicting conclusions before the experts come together for their multidisciplinary tumor boards to discuss the treatment plans of individual patients saves time and money for the healthcare sector.



Sectra offers solutions for all diagnostic imaging, with a particular focus on cancer, cardiology and musculoskeletal diseases. We also work together with partners who provide solutions in the field of neurology.



The number of new cancer cases per year in the world is expected to increase by more than 50% until 2030.¹

The healthcare market

Aging population shines spotlight on diseases affecting the elderly

Social trends



Aging population

More than one in five people in Europe and North America are currently over the age of 60, a number that continues to rise.² Elderly people primarily suffer from diseases such as cancer, cardiovascular diseases, neurological diseases and diseases of the musculoskeletal system. Thus, increased efficiency in diagnosing and monitoring the progression of these diseases are a high priority.



Medical advances

Improved diagnostics and treatment methods allow more patients to survive their diagnosis. This means that more patients require regular examinations, which is contributing to an increased need for diagnostic imaging.



Fewer people to care for more

Improved living conditions are allowing people to live longer lives. At the same time, the number of children born in the world is decreasing.² As a result of this change in the relationship between the number of young and elderly people, there will be fewer people to provide and care for the growing population of older people in the future.



Digitization

A higher degree of digitization in healthcare enables greater efficiency, increased availability and improved quality of care. At the same time, such advances mean that systems and information become more vulnerable to human error, unauthorized data access and cyber-attacks.

Industry and technology trends



AI

Artificial intelligence, particularly machine learning, is an emerging technology in healthcare. It can be used, for example, to simplify and automate repetitive and time-consuming diagnostic tasks.



Patient involvement

Digital solutions and new methods give patients a greater influence over their own health and care. Individual patients can be provided with new tools that enable them to play an active role in managing their own health or assist in the care of a close relative.



Customized care

Patient treatment and medication are becoming increasingly personalized, based on genetics, previous medical history and the care results of other patients with the same disease. In the future, planning and follow-up will largely be image-based.

Customer challenges and needs



Resource collaboration

To accomplish more with the same or fewer resources, cooperation between various departments and players in the healthcare sector is increasing. In order to boost cost efficiency and competitiveness, growing numbers of mergers and acquisitions are being carried out. In the US, for example, only half of today's non-government health systems are expected to remain in 2024.³



Patient integrity and cybersecurity

Improved access to relevant patient information—without compromising patient integrity—is a prerequisite for improving the efficiency of care processes, avoiding incorrect treatment and reducing care times. At the same time, cybercrime targeting the healthcare sector is on the rise and represents a serious threat to patient safety, people's lives and integrity. Since the consequences are so serious, healthcare providers have found themselves forced to pay ransom, making cybercrime particularly lucrative in this sector.



Consolidation of IT systems

Growing numbers of healthcare providers are consolidating their IT systems in order to simplify maintenance and operation and cut costs. Reducing the number of IT systems also facilitates cooperation between various medical disciplines.



Educating more people more efficiently

In most countries in the world, there is a growing shortage of qualified healthcare personnel, particularly specialists. More people need to be trained. Creating more modern and efficient basic and further education programs for physicians, nurses and veterinarians is a top priority for many hospitals and universities.

Market size and growth rate

Responding to customers' challenges requires IT solutions with a high level of availability and security that can facilitate diagnosis, planning and patient monitoring. This allows customers to increase their productivity, reduce their lead times and cut costs along the entire care chain.

Medical imaging IT

The global market for medical imaging IT amounted to USD 3.1 billion in 2018 and is expected to grow to USD 3.2 billion by 2021. The average growth rate between 2018 and 2022 is estimated at 1.7%.⁴ Certain product segments are growing, while growth in others is more limited or declining. The latter applies, for example, to IT systems for radiology (PACS/RIS) that are limited to local units and smaller in size, particularly in North America and Europe.

As a result of increased collaboration and consolidation, a growing number of healthcare providers are choosing to replace their current solutions with consolidated systems that can handle image management across entire enterprises and/or regions, known as enterprise imaging. This segment currently accounts for about 18% of the market for medical imaging IT.⁴ The market has gained momentum in developed countries where of PACS for radiology and cardiology, vendor-neutral archive solutions and electronic medical record systems have achieved a high penetration level. Enterprise imaging for radiology and cardiology is expected to grow an average of 13.7% per year from 2018 to 2022.⁴

Growth is significantly higher in new segments, such as clinical decision support based on AI, advanced tools for analysis and diagnosis, and medical technology products that help physicians to adapt treatment and medication to the individual patient (companion diagnostics). This also applies to digital pathology, where the market is growing rapidly. There are 33 pathology laboratories in the Swedish market and more than 5,000 in the US. In Sweden, which is on the cutting edge of the transition to digital

pathology, half of the country's pathology departments are already fully digital, while the penetration level in the US, for example, is significantly lower.

Orthopaedics

Hundreds of millions of people suffer from osteoarthritis, a disease that often leads to hip, knee and shoulder joint replacement surgery. According to the UN World Health Organization, the disease is one of the main global healthcare challenges, alongside cancer and stroke. The number of patients affected by the disease has doubled over only a few generations.⁵ In total, nearly three million joint replacement surgeries are carried out annually⁶ worldwide, and this number is expected to rise sharply due to the aging population. In addition, more than eight million surgeries⁷ due to fractures caused by accidents, falls and activity-related injuries are performed globally every year. This creates significant market potential for IT systems and services that can streamline logistics and facilitate the planning and follow-up of orthopaedic procedures.

Medical education

Growing and aging populations, combined with more treatment options, are resulting in an increased need to train additional doctors and nurses. This is fueling demand for modern training systems and educational tools and materials in a wide range of subjects to streamline and improve medical education. The global market encompasses more than 2,500 educational institutions^{8,9} and hospitals offering basic and specialist training for doctors, nurses and veterinarians.

3 million

Joint replacement surgeries carried out annually worldwide

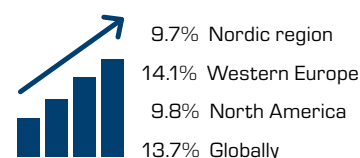
2,500

Educational institutions and hospitals the world over offer basic and specialist medical training

Enterprise imaging for radiology and cardiology⁴

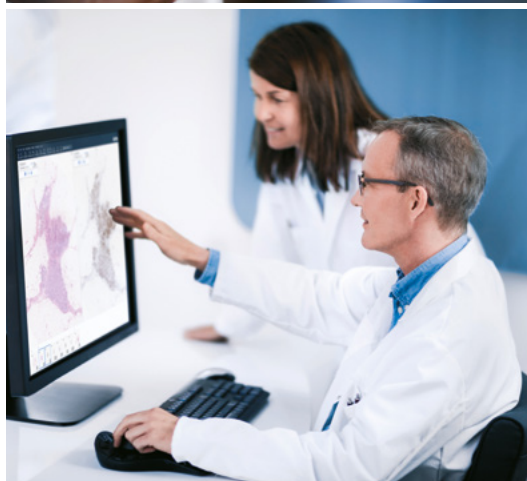
557.7

The global market in 2018, USD million



Average growth per year 2018-2022

Operating area Imaging IT Solutions



546 employees

Product offering

Medical IT systems and services that help customers care for more patients, while retaining or improving the level of quality. The operating area's offering includes:

- IT systems for managing, archiving, presenting and communicating of all types of medical images and patient information.
- Flexible delivery models that allow customers to choose, for example, between purchasing systems as traditional on-premises installations, cloud services or services where Sectra is responsible for the operation of the system.
- IT systems for operational follow-up and radiation dose monitoring.
- Maintenance in the form of support, system monitoring and upgrades.
- Consulting services related to integration, system design, data migration and business development.
- Training for users and administrators.

Customers

Public and private healthcare providers that offer medical imaging services. Customers normally include major hospitals, hospital chains and private clinic chains that are growing and being consolidated. These customers appreciate Sectra's ability to deliver extremely reliable and scalable solutions for medical diagnostic imaging. They also have a need for communication and collaboration between hospitals, which Sectra can meet.

Sales channels and geographic presence

Own sales organization and/or partners in some 30 countries throughout Africa, Europe, the Middle East, North America, Oceania and South-East Asia as well as in Japan. The operating area's largest markets are the Netherlands, Scandinavia, the UK and the US.

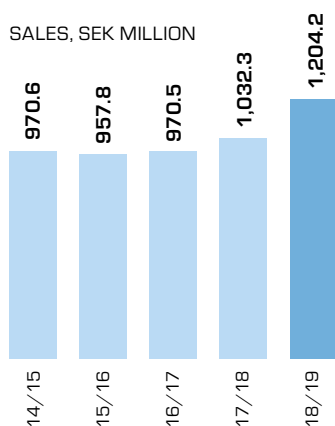
Major competitors

Agfa, Carestream, Change Healthcare, Fujifilm, GE Healthcare, INFINTT Healthcare, Intelrad, Philips and local players in various countries, such as Visage Imaging and Visus. Also, major IT companies specializing in archiving, such as Hyland Software.

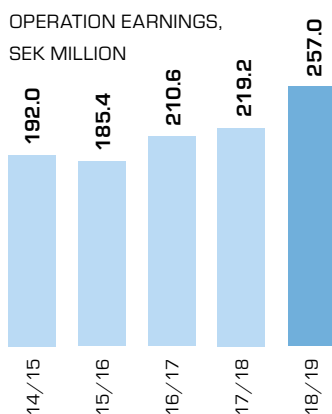
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 52.

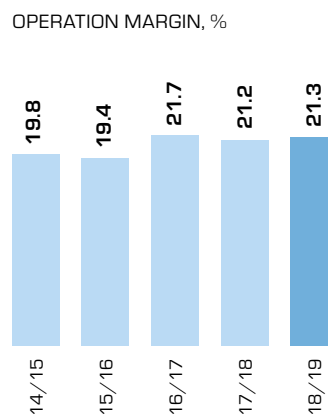
SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



OPERATION MARGIN, %



Where we are headed

The operating area's long-term goal is to be a leading provider of complete solutions for managing and communicating all types of medical images for diagnostic purposes, with a particular focus on cancer diagnostics. The operations mainly focus on large diagnostic imaging units, such as radiology, mammography, pathology and cardiology. Improving the efficiency of diagnostics and monitoring in cancer care is a common thread that runs through our offering in Imaging IT Solutions.

Where we are now

Sectra is one of the world's leading providers of IT systems for managing medical images and patient information related to diagnostic imaging. More than 1,800 healthcare providers worldwide currently use Sectra's systems and services.

Market position

The company commands a market-leading position in the Netherlands, Norway, Portugal and Sweden, and a prominent position in the UK. Sectra is also the market leader in other countries in the niche of breast imaging. In some countries, we command such a large market share that our growth in certain product segments is limited. However, this is not the case in the US, where we hold a relatively small, albeit growing, market share. A focus on high customer satisfaction has resulted in several prominent healthcare providers choosing Sectra's solutions, and the US customer base is growing. In recent years, the operating area has also initiated direct sales in two new countries: France and Canada. We are seeing a positive trend in these markets, with initial orders from customers in the start-up phase, and these establishments are important from a long-term growth perspective.

We have held a strong position in IT systems for managing radiology images for many years, and for six consecutive years we have won the industry's most prestigious award, "Best in KLAS", for our outstanding

customer satisfaction in this product segment among major US healthcare providers.

To enable healthcare providers to provide better, faster and more patient-centered care, Sectra offers systems and services for the management and archiving of all types of medical images, including non-radiology images. In recent years, we have further developed our offerings, including the fields of pathology and cardiology, which are important areas for the future. With components built on the same technical platform, customers can easily adapt and expand a departmental solution to create a multi-media archive (VNA) that supports all image management. Integration with the electronic medical record (EMR) and other relevant healthcare IT systems is an essential factor in our success. As more existing customers have taken the opportunity to expand their systems to include other areas beyond radiology, Sectra has strengthened its position as an enterprise imaging IT provider.

Focus on cancer diagnostics

Medical image management in cancer diagnostics is a key part of the operating area's strategy for the future. Most users are currently active in the fields of radiology and breast imaging. The use of medical images in other areas, such as pathology, is growing, partly as a result of more customers implementing systems for consolidated image management. Sectra's IT solutions facilitate integrated diagnostics by allowing images and information from various diagnostic specialties to be archived and viewed in a single system. This enables easier collaboration between, for example, radiologists and pathologists, who play a key role in efficient cancer care. With a steadily growing number of customers having already digitized their pathology departments, Sectra has built a strong brand now that the market has begun to gain momentum.

Selling digital pathology solutions for primary diagnostics in the US requires approval from the US Food and Drug Administration (FDA). Preparations for such an application are ongoing.

To learn more about [how Sectra contributes to improved cancer care](#), refer to page 21.

Increased focus on AI

AI that contributes to real value in healthcare is an underlying theme in several ongoing projects within our product development. These projects are currently concentrated on solutions that can be used in everyday diagnostics, reducing repetitive and time-consuming tasks while improving and streamlining workflow. To provide the healthcare sector with faster access to innovation, customers are offered the option of vendor-neutral integration of external AI applications. Being able to offer a complete solution, our strategy includes building a platform for AI applications.

Sectra also conducts several research projects within AI, which benefits the operating area. To learn more about this, refer to page 33.

Cloud-based services on the rise

Demand for IT solutions as cloud services continues to increase. The market is developing slowly, however, due to concerns over cybercrime and insufficient confidence concerning availability and the security of public data storage solutions. Several customers have chosen to purchase cloud-based services with Sectra's own data storage. This delivery model offers cost and security benefits and enables customers to devote greater focus to their core business: delivering quick and efficient care. The service offering is on the cutting edge, and several customers in Europe are already operating with cloud services from Sectra. While cloud services will ultimately generate major cost and operational benefits for Sectra, they initially entail cost increases connected to investments in hardware, development and organization.

The year in brief

The focus was on developing existing customer relationships and strengthening the product portfolio through the addition of solutions that further optimize customer operations. The operating area also intensified its marketing efforts, particularly in North America, and began a collaboration with a new distribution partner for digital pathology in the South Korean market.

Recognition for the industry's most satisfied customers

For the sixth consecutive year, one of Sectra's medical IT systems, Sectra PACS, topped the most important customer satisfaction survey in the industry—"Best in KLAS". With an increased number of customers using Sectra's VNA, this year we were also included in the VNA report issued by the market research company KLAS—again with the highest average score, but outside the formal ranking because the number of customers is, as yet, too few. This result was a strong contributing factor to Sectra's success in the US market, where the recognition has helped to open new doors.

» [sectra.com/klas](https://www.sectra.com/klas)

Sectra growing quickly in the US

The operating area reported increased order bookings in the US market. New contracts have been signed with several major reputable healthcare providers, such as Stanford University Hospital, Sanford Health and Kettering Health Network.

Breakthrough in Australia and two new growth markets

Australia's largest public health system, the New South Wales Ministry of Health, signed a 13-year contract with Sectra. The order pertains to services for managing all imaging information for 11 healthcare districts in the region. We also received orders from key customers in France and Canada, countries where we started direct sales in the last few years.

Success in digital pathology

Sectra has consolidated its position in the Netherlands and Scandinavia, leading markets in the transition to digital technology in the field of pathology. The prominent Radboud University Medical Center in Amsterdam and the Region of Southern Denmark are two examples of new customers in the area. The UK market has also begun to gain momentum. We have signed a contract in the UK to provide a regional IT solution that will span ten separate trusts of the Northern Cancer Alliance consortium.

AI research in cancer diagnostics

The UK consortium Northern Pathology Imaging Co-operative (NPIC) aims to be a world-leading center for AI research in cancer diagnostics. Sectra is contributing to this large-scale, three-year medical imaging project through its vendor-neutral platform for AI applications.

Cybersecurity growing increasingly important in healthcare

In today's environment, hospitals are targets for organized cyberattacks, and this represents a serious threat to patient safety, people's lives and patient integrity as well as the efficiency of healthcare. When it comes to procurement of medical IT systems, cybersecurity demands are increasing. In the UK, Sectra has received "Cyber Essentials" certification, thereby demonstrating that it meets the requirements for cybersecurity set for public procurements in the country.



"Our radiologists have seen numerous PACS products, and they feel that Sectra PACS is by far more functional and easier to use than other products."

US Manager, November 2018 on the KLAS website [klasresearch.com](https://www.klasresearch.com)



"More and more prestigious hospitals around the world are choosing our solutions. We have begun important collaborations with new customers, while also succeeding in prioritizing product development and broadening our offering. An expanded customer base and continued confidence among existing customers have helped us create favorable conditions for positive long-term growth."

Marie Ekström Trägårdh
President of Imaging IT Solutions and Executive Vice President of Sectra AB

The way forward

The table below shows a number of activities being prioritized by the operating area in order to reach its long-term goals.

Prioritized activities:	Can yield a positive effect on earnings:
Develop partnerships with existing customers through which Sectra's existing products and services can contribute to further efficiency enhancements. This includes growing in the product segment for archiving solutions (VNA) for all types of medical images.	Short term
Grow within radiology, cardiology and other areas of medical image management by adding new customers in regions where Sectra already has an established customer base. This includes a continued focus on the US, where Sectra has a very high level of customer satisfaction, but a relatively small market share.	Short term
Maintain high customer satisfaction by continuously measuring and monitoring customer opinions about Sectra.	Short to long term
Sales of the solution for digital pathology and activities to obtain approval of the solution for primary diagnostics from the US FDA.	Medium term
Greater internal efficiency. Partly by establishing a service-oriented organization that can support the sale of cloud solutions and partly through increased centralization and globalization to ensure optimal utilization of Sectra's specialist expertise.	Medium term
Continued product development and strengthening of the product portfolio. Special focus on medical image management in diseases affecting the elderly, particularly cancer diagnostics and cardiology, and on more efficient decision support for physicians and healthcare personnel based on technology such as AI and machine learning.	Medium to long term

Short term = 1–2 years Medium term = 3–5 years Long term = more than 5 years

For information on risks, refer to the [Sustainability Report](#) on page 56 and Note 29 [Risks, risk management and sensitivity analysis](#) on page 88.

“Using one system to display the images has greatly increased efficiency. Most importantly, we can make sure that the patient is getting the most appropriate treatment.”

Dr. Hannah Gilmore, division chief of anatomic pathology and director of the breast pathology service at UHC



Major US academic health system is preparing for digital pathology—successful pilot study completed

University Hospitals Cleveland (UHC) is a major health system in Ohio, US, and a Sectra customer for many years. The operation, with 18 hospitals and 40 clinics, is now preparing to introduce digital pathology. UHC conducted a pilot study in 2018 where they used Sectra's digital pathology solution for frozen section review and multidisciplinary tumor boards—with outstanding results.

Participants in the pilot study deemed digital pathology to have the potential to boost efficiency throughout the patient management journey and to improve both quality of work as well as quality of care. The benefits identified during the trial included better visualization, improved ergonomics and eliminating the need to wait for, look for or physically send slides with tissue samples. The participants also agreed that the ability to display digital pathology images at multidisciplinary conferences could greatly enhance the clinical care and efficiency system-wide, especially for tumor boards.

Digital pathology was also highlighted as a prerequisite for being able to use precision medicine and AI to potentially further improve diagnostics, treatment choice and disease monitoring.

Dr. Hannah Gilmore, division chief of anatomic pathology and director of the breast pathology service at UHC, confirms the advantages of including pathology in an enterprise imaging strategy:

“Using one system to display the images has streamlined how cases are viewed, annotated and presented and has greatly increased efficiency. Moreover, with this solution, the digital images of the pathology slides can now be saved alongside the radiology images for clinical documentation, education, and research use.”

Read the full customer case at
» medical.sectra.com/uhcpilot

Operating area Business Innovation



37 employees

Operations

Business Innovation includes the Orthopaedics and Medical Education business units as well as Sectra's research department. Business Innovation also manages and develops Sectra's patent portfolio.

Customers

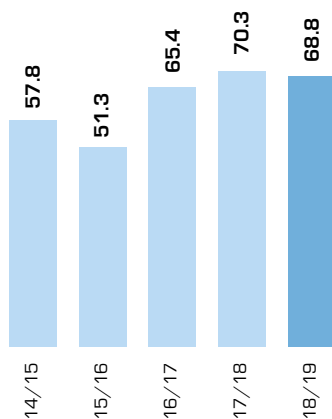
The Orthopaedics business unit is aimed at private and public orthopaedic clinics as well as suppliers of prosthetics and implants. The operations in Medical Education focus on educational institutions and hospitals offering basic and specialist medical or veterinary studies, either privately or publicly.

Sales channels

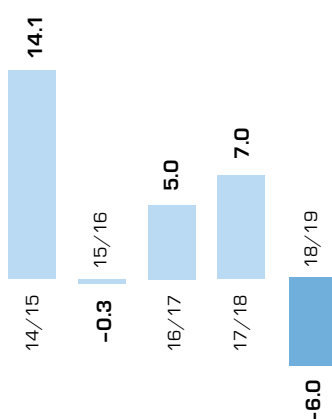
Own sales organization and distribution partners within Orthopaedics. Some 40 distribution partners within Medical Education. The business unit's solutions are also sold as part of Sectra Imaging IT Solutions' customer offerings.

Financial performance

SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



For comments on the company's financial performance, refer to the [Administration Report](#) on page 52.

The Group incubator

Business Innovation is the Group's incubator for future product areas. This is where we evaluate and utilize opportunities to commercialize new technologies and new segments that are not a natural match with the Group's main and related areas. The unit also includes new products and services that are not a natural match with the existing operating areas—for example, if the products in question are intended for users in other customer segments. The long-term goals for our Business Innovation operations are:

- To contribute to better care for patients by solving difficult and important problems encountered by Sectra's customers.
- For research projects to validate clinical benefits or lead to new and innovative solutions that add value for customers in Sectra's niche areas, thereby offering significant international business potential.
- To build and manage a strong patent portfolio in Sectra's key areas.
- To develop business models for new products and services.

Sound scientific and medical evidence is essential in healthcare, and implementing new technologies and methods is often a long process and associated with high risk. As a result, some research and other early-phase projects will never grow to any major

degree. In the long term, the business units in Business Innovation are to be managed in one of the following ways:

- Form a new operating area once the unit has become profitable and accounts for approximately 10% of the Group's sales.
- Be integrated into an existing operating area. This occurred, for example, when digital pathology was transferred to Imaging IT Solutions in 2014, due to the major synergies identified.
- Be sold to an external party if this proves to be the best solution from a financial standpoint. This occurred, for example, with the business unit for low-dose mammography products, which was divested in 2011. Sectra also sold a number of patents in 2015.
- Be discontinued if the unit does not offer sufficient potential. This occurred, for example, with the osteoporosis operations in 2017/2018.

Business Innovation currently comprises only medical technology projects, but may be expanded to include projects in other areas in the future. In certain cases, the projects are already profitable business units with existing customers that need to grow further before becoming an independent operating area.



Sofia Bertling
General Manager
Medical Education
business unit



Gustaf Schwang
General Manager
Orthopaedics
business unit



Claes Lundström
Research Director
Medical Systems

The year in brief

Orthopaedic solutions drive customers to choose Sectra as enterprise imaging vendor

Orthopaedists represent the largest internal customer group at many radiology departments. The broad product portfolio within orthopaedics makes Sectra's enterprise imaging solution unique. This was a key factor when Stanford Health Care purchased Sectra's solution for all of its medical imaging needs.

New orthopaedic products for planning and follow-up

Sectra's product portfolio has been expanded to include a new product for planning joint replacement surgeries in 3D. A follow-up service for patients experiencing pain after surgery has also been launched outside of Sweden. The first research study using Sectra's analysis service for follow-up of new implants was published.

Expanded customer offering for medical education and increased investments in usability

To give customers the ability to use Sectra's platform for medical education for a wider range of courses, a project has started to expand the training material to include additional specialist areas. Investments have also been made to further improve the platform's usability. For example, it is now easier to prepare lectures.

AI continues to attract significant attention

New results in the AI research field show that AI solutions can perform a select number of tasks at a level comparable to human experts. As part of its efforts to leverage the full benefits of AI in everyday healthcare environments, Sectra has focused on initiatives in interaction design. An area where two of Sectra's researchers have been published in the prestigious research journal ACM Interactions.



More stringent requirements on the implant industry are resulting in a growing need for clinical studies

The analysis service Sectra CTMA (CT-based Micro-motion Analysis) simplifies the clinical testing process for new implants. Watch an introductory video at:

» sectra.com/ctma-film

Orthopaedics

Safer surgery using digital planning

The number of joint replacement surgeries is expected to increase sharply due to an aging population worldwide and is a major global healthcare challenge; see the market overview on page 22. To meet the growing need for better, more efficient care, Sectra offers IT systems for image-based planning and follow-up of orthopaedic surgery—for example, hip, knee, spine and trauma surgery. Using 2D and 3D medical images, measurement tools and a library of more than 90,000 implant templates and click guides, orthopaedic surgeons can diagnose and plan with greater accuracy.

For hospitals, increased precision during planning leads to reduced costs, since the operating time is shortened and the number of implants to be prepared before every surgery is reduced. For the patient, more efficient planning and shorter operating times reduce the risk of post-operative infections and other complications.

Sectra's product offering in orthopaedics includes two new analysis services. One service helps orthopaedists determine if the pain experienced by some patients after

implant surgery is caused by a loose implant. If this is not the case, an unnecessary and risky surgery can be avoided. Furthermore, Sectra also contributes to simplifying and streamlining the validation process of new implants. This service simplifies clinical trials and makes it possible for implant suppliers to meet new, tougher demands from authorities.

Clinical studies are a part of the business unit's growth strategy. To disseminate knowledge and collect evidence for products and services, more than 20 new clinical studies were initiated in 2018 in collaboration with, for instance, several major hospitals in Sweden. Discussions concerning similar collaborations are also being conducted with customers in the UK, the Netherlands and the US.

Sectra is currently the market leader in Scandinavia in this niche and commands a strong market position in several other countries, including the Netherlands and the UK. The business unit is also advancing its position in the US, where the organization has recently expanded.

The way forward

- Contribute to improved orthopaedic pre-operative planning and reduce the amount of time spent in the operating theater through the development and sale of software and cloud-based services for planning and follow-up. Focus on expanding the joint replacement surgery (hip, knee and shoulder) and trauma segments through direct sales and in cooperation with implant suppliers.
- Grow primarily in the regions and countries where the business unit has its own sales organization: Benelux, North America, the Nordic region and the UK.
- Establish service for follow-up of orthopaedic surgeries outside the Swedish market.
- Establish analysis service for follow-up of new implants during clinical testing.

Medical education

Cloud-based teaching platform for international collaboration

By interacting with medical images from actual patient cases, students and resident physicians are provided with a better understanding of anatomy, bodily functions and variations, and better knowledge about various cases. Sectra offers a cloud-based training platform, Sectra Education Portal, which consists of software for interacting with medical cases, access to images of actual patient cases and training terminals for teaching large groups, such as Sectra's visualization table.¹⁰ Through the platform, customers can also share cases with other connected customers, such as universities, training centers and hospitals. During the last few years, the business unit has transitioned from supplying visualization

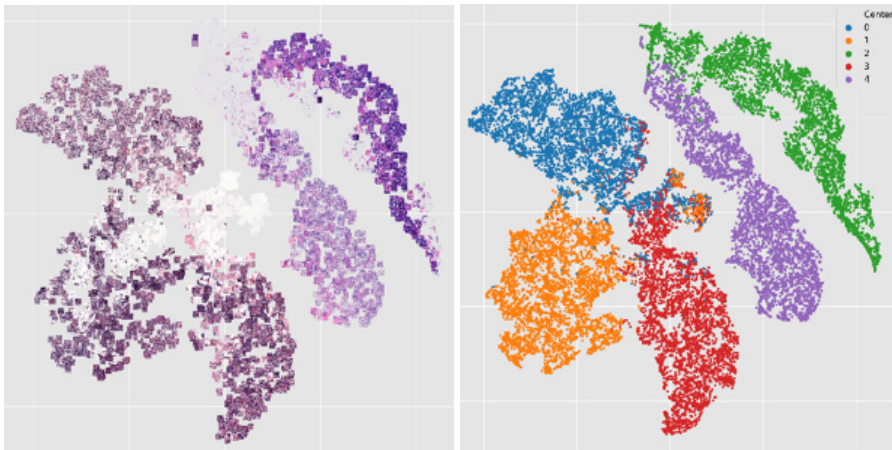
devices for a one-time fee to offering a subscription model with a greater focus on content.

Use of the solution continues to grow, and it is currently available for healthcare personnel, medical training programs and veterinarians at roughly 400 educational institutions and hospitals in some 50 countries. Sales mainly take place through distribution partners in Europe, the Middle East, North America, South America, South-East Asia and China. The network of distribution partners continues to expand and improve. For example, collaborations have been initiated with an additional partner in China and a new distributor in Mexico. Cyprus and Japan are the latest countries to be added to the distribution network.

The way forward

- Continue to expand the customer offering with complementary training material for several specialist areas.
- Create an offering tailored to different aspects of medical education to meet different customer groups' specific needs and enable price differentiation.
- Continued focus on usability in the development of training platforms.
- Grow in key markets such as the US, China and Europe.





Robust AI algorithms to manage differences in pathology images from different hospitals

The image to the left is a collection of tissue images from five hospitals. To the right, they have been color-coded according to which hospital they came from. There is a clear difference between hospitals, meaning that an AI solution trained at one hospital can function less effectively at another. Among other factors, the variation depends on what kind of scanner has been used to create the digital images. Creating AI algorithms that can manage these differences is thus an important research area for Sectra.

Research

Sectra's research department conducts and participates in projects to produce clinical evidence for existing technology as well as to create new products—all in an effort to contribute to the company's long-term business value. The department is home to seven researchers, three of whom divide their time between Sectra and various universities.

Ongoing research projects

Sectra is currently involved in approximately ten research projects, including projects in the fields of AI and orthopaedic surgery. Projects are also being carried out in the field of digital pathology, which remains an important area for the research team. In recent years, these digital pathology projects have enabled Imaging IT Solutions' product offerings to be expanded and improved.

AI is an underlying theme in much of the research department's work. Our researchers are working on solutions that combine AI and visualization, focusing on how physicians control and adjust computer results. Among other projects, Sectra is one of the main participants in the Vinnova-

funded project AIDA. The project serves as a national arena for research into AI for medical image analysis, with the aim of leveraging the full benefits of AI-based tools in the Swedish healthcare sector. Two of our researchers are also participating in the large-scale Swedish AI initiative WASP (Wallenberg AI, Autonomous Systems and Software Program). Sectra is contributing research in diagnostic imaging so that AI can move from the laboratory to providing real value in the healthcare sector. Sectra is also cooperating with Visual Sweden, which is on the way to becoming a world-leading hub for innovation in image analysis and visualization, with close cooperation between industry, academia and the healthcare sector.

In addition to AI research, Sectra is also participating in a major project in the field of orthopaedic surgery. The aim of the project, run by a large Swedish consortium, is to develop high-precision methods for planning orthopaedic surgeries and post-operative follow-up.



Secure
Communications

Cybersecurity

The ability to safely and efficiently handle sensitive information is central to the stability and security of society, particularly when it comes to important social functions and critical infrastructure. Sectra has extensive experience of protecting society's most critical communications, and is a strong brand in the area of encryption and secure mobile communications.

How Sectra contributes to increased operational security in the energy sector

Modern society is dependent on the safe and reliable operation of its critical infrastructure, such as energy companies and companies in the process industry. Growing digitization is resulting in increasingly complex IT and operational technology (OT) systems connected to internal and external networks. While this development is contributing to improved efficiency, it is also resulting in increased vulnerability.

Within the energy sector, which supplies society with electricity, heat and water, IT systems for monitoring and controlling industrial processes are used in a wide range of applications. Interruptions to operating environments can result in significant disruptions, resulting in major financial consequences. The text below looks at the challenges faced by an energy company to illustrate how Sectra's products and services help customers to increase their operational security, thereby contributing to a less vulnerable society.

Increased security awareness through risk and security analysis

Sectra's security experts help energy companies identify, prioritize and manage the risks that impact their operating environments. Our analysis services provide the customer with an overview of their strengths and weaknesses from a security perspective. Their operations are reviewed and mapped out, with a focus on their ability to deliver their critical services without disruptions. Based on this analysis, security managers and senior management can make well-founded decisions concerning security investments.

Raise the level of security using monitoring services

Based on the results of the risk and security assessments, the operations can prioritize their security measures. One important measure to improve cybersecurity is monitoring the behavior of various types of critical operational and process systems. The majority of suppliers that offer solutions for such monitoring do so in the form of systems that are managed and operated by the energy companies themselves. Instead, Sectra offers services that include monitoring of critical systems. Sectra's solution analyzes and detects if network traffic on the monitored systems deviates from the normal traffic. Deviations may be due to cyberattacks, technical errors or human errors—and by detecting these immediately, they can be rectified before they have serious consequences.

React quickly to abnormal activity

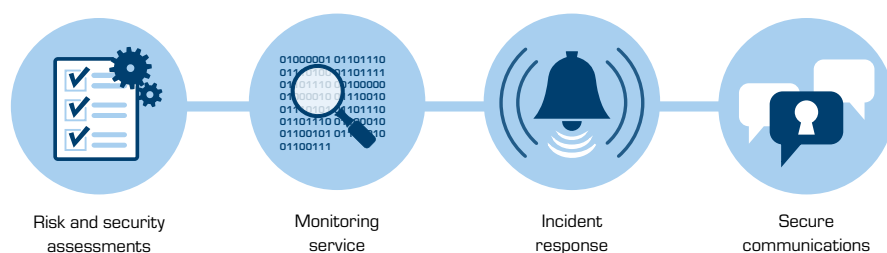
If abnormal activity is detected in a monitored system, Sectra's emergency response personnel are notified along with the emergency response personnel at the monitored operation. Together with Sectra, the customer forms an incident response team that takes emergency measures, such as disconnecting part of a system

or switching to a backup system. Sectra assists the customer in their evaluation of the incident and can contribute with expertise, experience and analysis methods. A monitoring history of events and network traffic is highly useful when it comes to addressing the incident and in subsequent evaluation and improvement processes.

Secure communications in the event of a serious incident or crisis

Customers are provided with the Sectra Tiger/R smartphone or tablet security solution to allow them to encrypt their conversations or data transfers with Sectra, for example, in the event of an incident. This enables the company's representatives and Sectra to discuss the incident without a risk of eavesdropping. If particularly sensitive information were to leak, this could result in worse damage or give an "attacker" information that could be used immediately or later.

In a crisis, officials at the municipal and county council level are also often involved in the emergency response efforts. These officials generally use the Rakel network, where Sectra can also provide encryption services that reinforce communications security.



The security market

Increased vulnerability among critical social functions resulting in stricter information security requirements

Social trends



Digitization

A higher degree of digitization is contributing to efficiency enhancements in society and simplifying people's everyday lives. However, an increasingly complex IT environment also makes systems and information more vulnerable to human error, information leaks, unauthorized data access and virus attacks.



Hybrid warfare

The internet and connected systems are used for hybrid threats and influence operations designed, for example, to manipulate and mislead the population of a country and paralyze political decision-making. Such attacks can impact the security, democracy and economy of an entire nation.



Cyber threats on the rise

The world is facing a growing number of cyberattacks and security incidents that impact social functions.¹¹ The purpose can be to cause operational sabotage, blackmail or to access sensitive information from government authorities and companies. Such attacks and incidents can have major financial consequences and cause serious problems in crisis and war situations.

Industry and technology trends



Increased collaboration

Many deliberate cyberattacks take place at a global level. This means that international and national collaboration and communication between government authorities and companies play a crucial role when it comes to combating cybercrime and terrorism, and protecting a country and its social functions from IT attacks.



Stricter demands on secure information management

New EU regulations and legislation regarding information management and national strategies for cybersecurity targeted at both companies and government authorities.



Paradigm shift in the crypto industry

In the future, new types of advanced supercomputers known as quantum computers may pose a threat to many of today's most important encryption methods. The security solutions being developed today must therefore offer protection against threats from quantum computers.



AI and the Internet of Things (IoT)

The rapid development of AI and IoT technology has the potential to add increased customer value to solutions in such areas as cybersecurity, energy efficiency and seamless financial transactions in the digital economy and society. At the same time, this development also creates greater vulnerability to cyberattacks.

IT developments in society, political instability in the world, and the growth of cybercrime are creating a greater need for Sectra's expertise and product offerings.

Customer challenges and needs

Government authorities and defense organizations



Crypto products that protect sensitive information and support collaboration

Government authorities and defense organizations have a major need for increased IT security in order to protect society's most sensitive information and systems. A key part of this work involves collaboration across national borders and organizations. This is resulting in demand for crypto products that support secure information sharing between partners.



Access to approved security products

The equipment used for handling and communicating classified information must, according to customer regulations, be reviewed and approved by an independent security authority. Ensuring access to modern and efficient solutions therefore requires investments in new development and approval of encryption systems and products.

Critical infrastructure



Business development

Digitization and automation of processes and work methods in order to facilitate efficiency enhancements and business development. This requires a new form of risk management, and balanced and proactive cybersecurity.



High level of security in critical IT and OT systems

Preventing, detecting and managing cyberattacks and other IT incidents requires regular threat and vulnerability analyses as well as monitoring of critical process and control systems. Monitoring also creates better opportunities for rapid action to be taken in the event of a disruption.

Market potential

Secure mobile communications

Most of Sectra's revenue from Secure Communications currently comes from security-approved communication solutions and customer-specific development projects. Due to export restrictions in the crypto industry, these types of sales are directed exclusively at customers in the European market.

Customers are restrictive with information about crypto equipment and planned investments. As a result, no relevant external market research is available. Sectra estimates that the number of potential users of the company's products for secure telephony at the SECRET security level is approximately 100,000 individuals in Europe. The corresponding figure for the slightly less demanding Restricted security level is estimated to be ten times higher.

As a result of an increase in general security awareness, demand for secure

solutions is also growing outside the traditional crypto segments. Authorities and companies that provide critical functions for society need to protect information, even when there is no formal legal requirement to do so. Examples of such areas include health-care, blue-light emergency services and the energy sector.

Security for critical IT and OT systems in the energy sector

Sectra's operations in the critical infrastructure product area are not subject to the same approval processes and export restrictions as crypto products. Sales of services in this area are thus not limited to Europe. However, the operating area is initially focusing on the Nordic security market for IT and critical OT systems in the energy sector, where annual sales are estimated at nearly SEK 2 billion (EUR 200 million).

Operating area Secure Communications



83 Number of employees

Product offering and customers

Approved crypto products

- Customer-specific development assignments and crypto products for data transfer as well as speech and text messaging that are approved by independent security authorities for exchanging sensitive information.
- Authorities, defense organizations, and EU and NATO organizations that handle classified information.

Secure mobile workplace

- Secure smartphones and tablets with VPNs specifically designed for mobile use, for users who handle sensitive information but who do not require approval from security authorities.
- Healthcare, blue-light services and emergency response authorities as well as industrial companies that handle sensitive information.

Security in critical infrastructure

- Risk and security analysis and data traffic monitoring to reduce the risk of access violations, interruptions or disruptions to critical networks and operating systems.
- Operations within critical social functions, for example energy and drinking water and the process industry.

Sales channels and geographic presence

Mainly direct sales, but also distribution partners in some countries. We have offices in the Netherlands and Sweden, which are our largest markets, as well as in Finland. Due to export restrictions in the crypto industry, sales of security-approved communication systems are directed exclusively at customers in the European market. These restrictions do not apply to our offering for critical infrastructure.

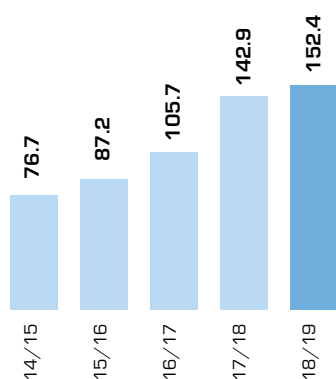
Major competitors

Within secure mobile communications and crypto development, companies such as Advenica, Cryptify, Rohde & Schwarz, Secunet, Selex Communications, Thales and Tutus. Within IT/OT security for critical infrastructure, mainly companies offering general data security services, such as Saab Combitech and other major consulting companies.

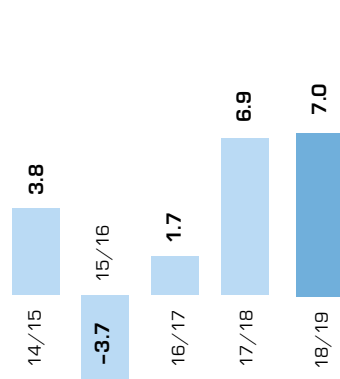
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 52.

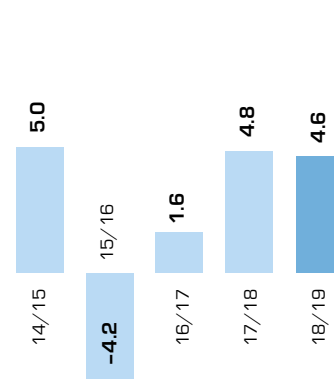
SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



OPERATION MARGIN, %





"The security situation in the rest of the world, combined with ongoing digitization, is imposing strict security requirements for critical social functions. With our exceptional knowledge of cybersecurity and the confidence bestowed upon us by European security authorities and customers, we are well equipped to respond to increased demand from both critical infrastructure and other important social functions. This provides us with favorable conditions for sustained growth."

Simo Pykälistö

President of Secure Communications and Executive Vice President of Sectra AB

Where we are headed

The operating area's long-term goal is to be a leading provider of solutions for critical IT/OT security. Sectra mainly focuses on government agencies, defense departments and society's critical operations. Ensuring that these players can execute their tasks in a secure manner increases the potential for an open, safe and stable society.

Where we are now

Sectra has more than 30 years of experience in developing secure voice and data communication systems. Our solutions are used by customers in most European countries, and by the EU and NATO. We have also identified two new growth areas: cybersecurity for critical infrastructure and secure mobile communications for users who handle sensitive information but who are not required to use approved products. We have received a positive response and initiated business in both of these areas, but are still in the investment and establishment phase.

Approved crypto products remain important for growth

Sectra offers communication solutions that protect information essential to the security of a country. This product segment is growing and remains an important and stable linchpin in the business area's operations. The products are subject to requirements from independent security authorities to obtain the approvals required for classified information in each country and organization. Among other regions, our products are approved in the EU, NATO, the Netherlands and Sweden. Solutions in this segment are often developed based on customer-specific development requests.

In some cases, as in the case of Sectra Tiger, these solutions can later be sold in a broader market. Another example is the development of crypto solutions for the Tetra network used by the Swedish blue-light emergency services.

Expanding secure mobile communications

Sectra is focusing on expanding its secure mobile communications operations into new customer segments for government authorities and private enterprises. Part of this work involves a partnership with the Korean company Samsung, through which

we offer a unique solution for smartphones and tablets. The solution is based on Sectra's encryption technology and VPN for mobile applications with strict security requirements, integrated into the Samsung Knox security platform. This solution is attracting growing interest, and contracts were signed with healthcare regions and energy companies during the year.

Critical infrastructure

Leveraging Sectra's strong brand in cybersecurity and crypto, we began focusing on an offering for customers within critical infrastructure during the 2015/2016 fiscal year. The ongoing establishment phase has been successful in Sweden, where we have conducted several risk and security analyses for energy companies, and we have now taken our first steps into Finland and Norway. In the last year, new customers have also chosen to use our monitoring services. Sweden's new Protective Security Act, which entered into force in 2019, has curtailed customer investment decisions, but is expected to promote growth in the market over the long term.

The year in brief

The focus during the year was on activities to help ensure and boost growth, broaden the operating area's offering and grow within the new customer segment of critical infrastructure. A key step toward continued expansion was to obtain security approval for newly developed products.

Sectra Tiger approved

New versions of our Tiger products were approved for classified communications in the Netherlands, the EU and NATO, which increases functionality and security for customers.

Additional sales of approved cryptography solutions to existing customers

Existing customers placed more orders for approved crypto products, primarily Sectra Tiger and the Ternety network encryptor.

NATO chooses Sectra Tiger to protect from eavesdropping

An order was received from NATO for the encrypted mobile phone Sectra Tiger/S.

Using our solution, officials within NATO can communicate information with strict confidentiality, up to the SECRET security level.

Customer offering expanded to provide greater security on tablets

We responded to growing demand for solutions that provide a secure and efficient method for telecommuting by expanding Sectra Tiger to include a VPN connection and platform security for tablets used at lower security levels.

Energy companies choose Sectra's services to increase cybersecurity

Several companies in the energy sector ordered our analysis and monitoring services. Several security analyses were conducted for customers in Scandinavia. We also invested in development that will help increase our in-house capacity and make it possible to offer services to a large number of customers while maintaining a high level of security.

Swedish healthcare regions use Sectra's smartphone to protect sensitive information

The healthcare sector is facing a growing threat of cyberattacks. Sectra's unique combination of secure communications and medical IT systems is an important asset for customers in the healthcare sector. Two Swedish healthcare regions purchased our secure smartphone, Sectra Tiger/R, to protect their sensitive and confidential information.



"The new generation of Sectra Tiger devices are robust enough to be used in both military and civilian contexts. Most of the security runs in background and is almost transparent for the user. This has allowed my organization to promote and easily implement a secure communication strategy."

Representative from the EU user group,
October 2018

“Our collaboration with Sectra is a prerequisite for building architecture and solutions that advance our operations in a connected world. Together with Sectra, we are building balanced security over time. We see Sectra as our strategic partner in this area.”

CIO of a Swedish energy company,
October 2018



The way forward

The table below shows a number of activities being prioritized by the operating area in order to reach its long-term goals.

Prioritized activities:	Can yield a positive effect on earnings:
Sales of security-approved communication solutions to existing and new customers in Europe, particularly within the Baltics, the Netherlands and the Nordic regions as well as EU and NATO organizations.	Short to medium term
Sale of customer-specific assignments. We focus on assignments that either provide important developments in expertise or are deemed to have a significant chance to result in product sales.	Short to medium term
Maintain high level of customer satisfaction by providing good service and working closely with customers during the development of new offerings.	Medium to long term
Expand the offering for mobile communications to include customer segments that do not require security-approved communication solutions. This initiative is based on closer collaboration, for example with Samsung, and on further development of the product offering.	Medium to long term
Growth through additional customers in the area of critical infrastructure. Primarily focusing on the energy sector and particularly vulnerable areas of the process industry in the Nordic region and other areas of Northern Europe.	Medium to long term
Increased cooperation with authorities and other companies as well as complementary acquisitions to meet our customers' security-related needs.	Medium to long term

Short term = 1–2 years Medium term = 3–5 years Long term = more than 5 years

For information on operating risks, refer to [the Sustainability Report](#) page 56, and Note 29 [Risks, risk management and sensitivity analysis](#) on page 88.

40 years of knowledge and a passion for contributing to a healthier and safer society

Sectra carried out its first consulting assignment in the late 1970s. A few years later, the company recruited additional joint owners with grand visions for Sectra's future. This marked the start of the company's expansion and development into a well-established brand in the area of information security and medical IT.



Sectra's founders Viiveke Fåk, Robert Forchheimer and Ingemar Ingemarsson are major shareholders in the company.

1978

A team of researchers from the Institute of Technology at Linköping University are presented with the task of creating a security solution for banks. In order to take on the assignment, Professor Ingemar Ingemarsson forms the company Sectra (SECure TRANsmision) together with his postgraduate students Viiveke Fåk, Rolf Blom and Robert Forchheimer.

1987

The Swedish defense forces place an order for the development of a cryptoprocessor, which marks the start of a focus on crypto products for classified information.

1993

Delivery of an IT system for medical image management to Mjölby health center, the first in Sweden to use digital radiology images.

1970s

1980s

1985

Jan-Olof Brüer, now the company's Chairman and second-largest owner, becomes joint owner and President. Sectra transitions into the development and sale of products and system solutions in data security and image encoding.



1989

Torbjörn Kronander is recruited to Sectra. Guided by a vision of digital radiology images, he starts and leads Sectra's operations within medical IT until 2012, when he takes over as CEO.

1990s

**1998**

With Sectra Tiger, the Swedish defense forces are the first in the world to use security-approved crypto mobile telephony.

2013

Sectra's digital image management system is named "Best in KLAS" for the first time for having the highest level of customer satisfaction in the US. As of today, we have won the prize six years in a row, and the attention we have received has boosted our growth in the US.

"Given the fact that customer confidence is a critical success factor, Sectra has always prioritized stable, long-term growth over rapid, high-risk expansion."

2016

The Group's sales surpass SEK 1 billion. Thanks to its long-term private and institutional owners, Sectra has developed at a controlled pace and remained a Swedish company.

2018

Sectra celebrates 40 years of knowledge and passion for contributing to a healthier and safer society!

1990s**1999**

The Sectra share is listed on Nasdaq Stockholm AB. Sectra becomes the first in the world to offer a system for digital planning of orthopaedic surgery.

**2010**

Launch of visualization technology for medical education. The solution contributes to increased understanding of anatomy and different illnesses.

**2015**

Launch of solutions for digital pathology, enabling pathologists to review tissue samples digitally instead of with a microscope.

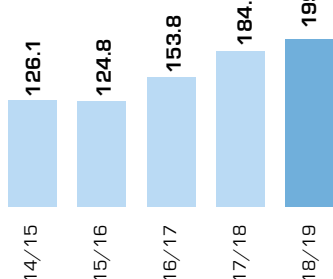
2016

The offering in secure communications is expanded to include cybersecurity for critical infrastructure, initially focused on the energy sector.

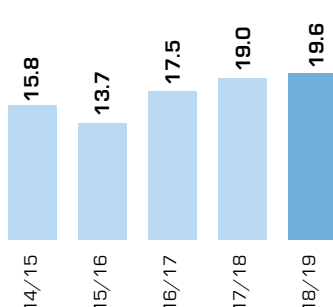
» Would you like to learn more about these and other events in Sectra's history?
Visit investor.sectra.com/history

Increased stability and profitability based on a long-term, innovative and efficient approach

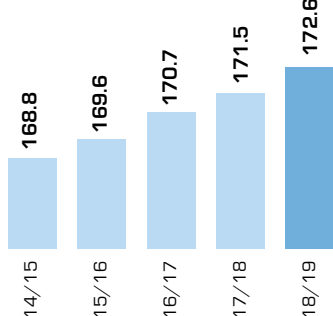
NET PROFIT FOR THE YEAR,
SEK MILLION



RETURN ON TOTAL CAPITAL, %



REDEMPTION/DIVIDEND TO SHAREHOLDERS,
SEK MILLION



* Pertains to the Board's proposal to the 2019 AGM

2018/2019

Long-term customer contracts and increased synergies

New multiyear customer contracts contributed to record-high order bookings, laying the foundation for stable growth over the long term. Successful medical IT system sales in the US and Australia as well as Sectra's new growth markets of Canada and France. Increasing synergies between medical IT and cybersecurity had a positive effect on the Group's performance.

The consolidated financial statements and segment reporting have been retroactively restated. Read more about the effects in [Note 5](#), page 76. The changes will not impact the current year's or future cash flows.

2017/2018

Positive earnings trend and healthy order book

The trend in order bookings improved and the fiscal year ended with a healthy order book and positive trends with respect to net sales and operating profit. All financial goals were exceeded. Geographically, Sectra displayed sales growth in essentially all markets, with the largest increases reported in the Netherlands, Sweden and the US. Secure Communications grew rapidly and once again reported profitability. All shares in the associated company Commit; Oy were divested, which had a nonrecurring positive effect on net financial items.

2016/2017

Stable performance by the Group despite unexpected currency effects

Sales growth in a number of markets. The outcome in the UK was adversely impac-

ted by currency effects in GBP following the Brexit vote. The future focus on new geographic markets, such as France, and new product areas, such as digital pathology and critical infrastructure, had a negative effect on the earnings trend, but offer major growth potential. All financial goals were exceeded, with positive trends with respect to net sales, operating profit and cash flow.

2015/2016

More healthcare customers in the operational phase yielded increased sales, earnings and cash flow

Sales growth, primarily in Norway, the UK and the US. Order bookings were well above net sales. Two companies were acquired and the market for Sectra's secure communication systems was expanded through the launch of IT security services for the energy sector. Increased cash flow and all financial goals were achieved.

2014/2015

Increased stability based on long-term customer contracts

Many large, long-term customer contracts were signed and record-breaking order bookings were achieved. Strong growth in Norway, the UK and the US. Cash flow impacted by the large number of customer projects in the installation phase. Launch of IT system for digital pathology and acquisition of partner company in Denmark. All financial goals were achieved.

» Interested in the company's ten-year history? Visit

investor.sectra.com/ten-year-summary

Strategic acquisitions and divestments

Sectra has grown both organically and through acquisitions. The company's first acquisition was carried out in 1995. Over the years, Sectra also divested various smaller operations. Most recently in 2011, Sectra divested the operation for development and sales of the low-dose mammography product MicroDose Mammography, an innovation that halved the radiation doses delivered during mammography examinations.

Sectra's five most recent acquisitions

Year	Company	Country	Operating area
2015	RxEye AB	Sweden	Imaging IT Solutions
2015	EXP Analytics Oy	Finland	Secure Communications
2015	it-mark ApS	Denmark	Imaging IT Solutions
2012	Product rights for radiation dose monitoring system	Sweden	Imaging IT Solutions
2012	Burnbank Ltd	UK	Imaging IT Solutions

Amounts in SEK thousand unless otherwise stated.
For a definition of key figures, see Note 34 on page 89.

	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015 ⁴
Sales, earnings and order bookings					
Net sales	1 413 522	1 209 181	1 125 109	1 080 857	961 392
Annual growth, %	16.9	7.5	4.1	12.4	12.6
Depreciation/amortization	-46 809	-39 928	-33 830	-27 501	-42 324
Impairment	0	0	-12 313	0	0
Operating profit (EBIT)	235 541	214 349	194 986	157 989	150 294
Growth in operating profit per share over five years, %	77.9	142.9	83.2	113.9	28.5
Profit before tax (EBT)	248 792	231 155	201 146	153 965	164 416
Net profit for the year	198 979	184 706	153 782	124 795	126 077
Order bookings	2 132 839	1 492 529	1 177 658	1 321 968	1 471 497
Profitability					
Gross margin, %	20.0	21.0	21.4	17.2	20.0
Operating margin, %	16.7	17.7	17.3	14.6	15.6
Profit margin, %	17.6	19.1	17.9	14.2	17.1
Return on total capital, %	19.6	19.0	17.5	13.7	15.8
Return on capital employed, %	35.9	34.5	30.9	23.0	25.1
Return on equity, %	29.8	30.4	26.5	20.5	20.6
Value added, SEK million	912.3	798.5	737.5	679.8	626.1
Funding and capital employed					
Capital employed, SEK million	759.4	717.6	691.6	681.0	667.7
of which, goodwill	56.8	55.3	52.5	64.0	46.8
of which, other intangible and tangible assets	166.0	176.0	168.9	158.3	178.8
Liquidity ratio, multiple	1.7	1.6	1.7	1.8	2.2
Equity/assets ratio, %	55.4	51.4	50.5	51.4	56.1
Debt/equity ratio	0.04	0.09	0.13	0.12	0.09
Investments ⁵ , SEK million	33.0	23.0	17.5	108.7	63.9
Cash flow					
Cash flow from operating activities before changes in working capital ⁵	209 299	225 355	197 774	163 838	165 639
Operating cash flow ⁵	250 696	207 531	192 069	185 853	85 039
Cash flow from investing activities ⁵	-33 029	-22 993	-17 492	-108 668	-63 931
Cash flow from financing activities ⁵	-168 933	-172 604	-146 084	-146 626	-154 288
Cash flow for the year ⁵	48 734	11 934	28 493	-69 441	-133 180
Employees					
No. of employees, average	706	645	616	587	546
No. of employees at the end of the period	746	674	638	625	565
Sales per employee, SEK million	1.9	1.8	1.8	1.8	1.8
Value added per employee, SEK million	1.2	1.2	1.2	1.2	1.1
The share					
Dividend/redemption per share ³ , SEK	4.50	4.50	4.50	4.50	4.50
Dividend yield, %	1.4	2.3	2.8	4.1	3.8
Earnings per share, SEK	5.21	4.86	4.07	3.33	3.38
Earnings per share after dilution ² , SEK	5.17	4.80	4.00	3.26	3.31
Cash flow per share ⁵ , SEK	6.54	5.44	5.07	4.96	2.28
Cash flow per share after dilution ^{2, 5} , SEK	6.51	5.39	4.99	4.85	2.23
Equity per share, SEK	18.98	17.34	16.21	16.16	16.44
Equity per share after dilution ² , SEK	18.89	17.16	15.95	15.80	16.01
No. of shares at balance-sheet date ¹	38 352 871	38 119 669	37 890 085	37 503 335	37 271 017
Average no. of shares	38 197 403	38 012 454	37 772 864	37 483 975	37 256 347
Share price at balance-sheet date, SEK	322.0	194.2	162.5	110.75	119.5
P/E ratio, multiple	61.8	40.0	39.9	33.3	35.3

¹ Adjusted for stock splits and bonus issues.

² Dilution is based on issued convertible programs. Refer to Note 2 on page 74.

³ 2018/2019 refers to the redemption program proposed by the Board of Directors.

⁴ The figures for 2014/2015 have not been adjusted in accordance with IAS 8 since this is not practically feasible. Refer to Note 5 on page 76.

⁵ The figures for 2015/2016 have not been adjusted in accordance with IAS 8 since this is not practically feasible. Refer to Note 5 on page 76.

Share value growth

On the basis of a strong financial position and solid cash flow, the Board of Directors has proposed that the 2019 AGM resolve to transfer SEK 4.50 per share to the shareholders. This proposal corresponds to a direct return of 1.4% based on the balance-sheet date share price. Combined with the price trend, this represents total value growth of 68.1% for the Sectra share during the fiscal year.

Dividend policy

Sectra's dividend policy is that the dividend for each year is to be adapted to the company's capital requirements for both operation and growth, and to the shareholders' demand for a direct return. The objective is to provide shareholders with a balanced and favorable direct return over time and to adjust the dividend so that the company's equity/assets ratio is never less than 30%.

Share redemption program and dividend

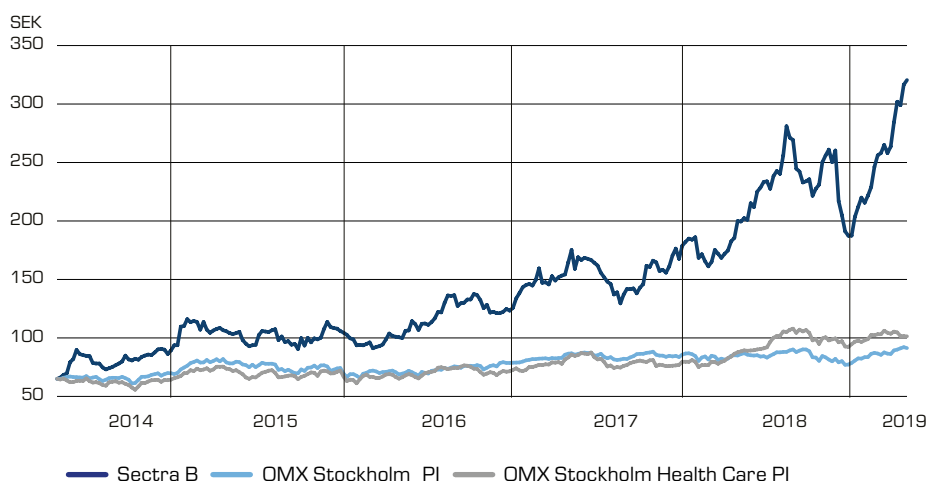
The 2018 AGM resolved to transfer SEK 4.50 per share, a total of SEK 171.5 million, to the shareholders through a share redemption program. Redemption was implemented through a 2:1 share split, combined with a mandatory redemption process and a stock dividend to restore the share capital. No ordinary dividend was paid.

The Board of Directors has proposed that the 2019 AGM resolves to transfer SEK 4.50 per share, totaling SEK 172.6 million, to the shareholders through the same type of redemption process. No ordinary dividend is proposed. More information and a schedule will be available for investors on Sectra's website not later than August 15, three weeks prior to the AGM on September 5, 2019.

On April 30, 2019, the equity/assets ratio was 55.4% and should the AGM resolve on a share redemption program in accordance with the proposal, the comparable equity/assets ratio will amount to 48.6%. This is well above Sectra's goal.

Share price trend May 2014–April 2019

» To see the current share price, visit investor.sectra.com/share

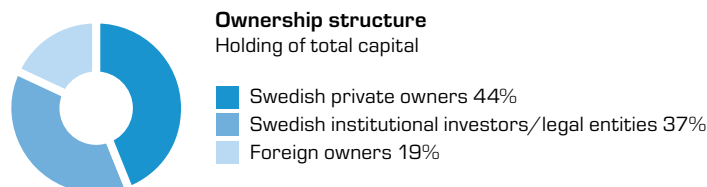


Share data	April 30, 2019	April 30, 2018
Market capitalization total no. of shares, SEK million	12,349	7,403
No. of shareholders	8,035	6,166
No. of shares	38,352,871	38,119,669
Closing price, SEK	322.00	194.20
52-week high, SEK	325.00	198.00
52-week low, SEK	179.02	129.25
52-week price trend, %	65.8	19.5
Stockholm Stock Exchange Total Index OMXSPI, 52-week	6.8	-0.9
Annual turnover rate	0.14	0.10
Annual average volume per day	22 416	14 223
Marketplace	Nasdaq Stockholm	
Ticker	SECT B	
ISIN code Class B share	SE0011452234	
Listing	March 3, 1999	
Segment	Mid Cap	
Sector	Health Care	

Share capital development and number of shares

Date	Transaction	Change in share capital	Total share capital, SEK	Total no. of shares
May 1, 2018	Opening balance		38,119,669	38,119,669
October 4, 2018	Share redemption program —2:1 split	0	38,119,669	76,239,338
October 18, 2018	Share redemption program —share redemption	-19,059,834.5	19,059,834.5	38,119,669
October 18, 2018	Share redemption program —stock dividend	19,059,834.5	38,119,669	38,119,669
January 3, 2019	New share issue —redemption of convertibles	233,202	38,352,871	38,352,871
April 30, 2019	Closing balance		38,352,871	38,352,871

The total number of shares outstanding on the balance-sheet date was 2,620,692 Class A shares and 35,732,179 Class B shares. One Class A share confers ten votes, while one Class B share confers one vote. All shares carry equal rights to the company's assets and profits. For more information about the share capital's development since the listing in 1999, visit investor.sectra.com/share-capital



Largest owners

The number of shares comprises direct shareholdings and holdings through related parties at April 30, 2019. For current holdings, see investor.sectra.com/shareholders

Shareholder	Class A shares	Class B shares	Capital	Votes
Torbjörn Kronander	465,620	2,622,678	8.1%	11.8%
Jan-Olof Brüer	465,622	2,601,790	8.0%	11.7%
Shannon AB*	623,686	403,253	2.7%	10.7%
Nordea Investment Funds**	0	5,599,509	14.6%	9.0%
Frithjof Qvigstad	262,866	1,902,519	5.6%	7.3%
SEB Investment Management	0	3,395,003	8.9%	5.5%
Viiveke Fåk***	221,700	1,088,150	3.4%	5.3%
Robert Forchheimer***	202,203	1,178,104	3.6%	5.2%
IF Skadeförsäkring AB	0	2,765,858	7.2%	4.5%
Ingemar Ingemarsson***	221,347	50,999	0.7%	3.7%
Fjärde AP-fonden	0	1,973,401	5.1%	3.2%
Thomas Ericson	136,329	284,914	1.1%	2.7%
Swedbank Robur Fonder	0	1,524,057	4.0%	2.5%
Öhman Fonder	0	575,814	1.5%	0.9%
Skandia Fonder	0	439,707	1.1%	0.7%
15 largest owners	2,599,373	26,405,756	75.6%	84.6%
Other owners	21,319	9,326,423	24.4%	15.4%
Total	2,620,692	35,732,179	100%	100%

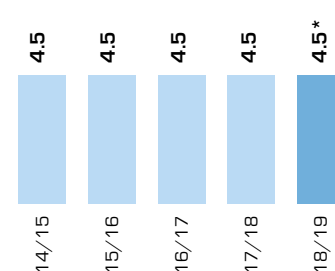
* Shannon AB is owned jointly by Torbjörn Kronander and Jan-Olof Brüer.

** Includes Nordea SICAV.

*** Sectra's founders.

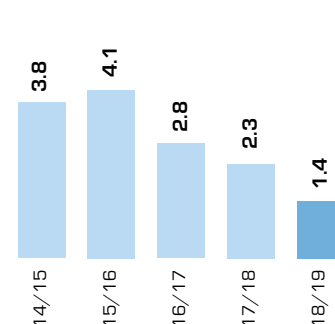
Source: Euroclear Sweden

DIVIDEND/REDEMPTION PER SHARE, SEK

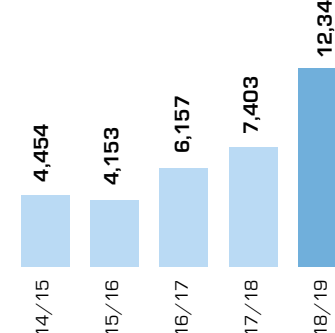


* Pertains to the Board's proposal to the 2019 AGM

DIRECT RETURN, %



MARKET CAPITALIZATION, SEK MILLION



Analysts

The following analysts monitor Sectra and regularly publish analyses:

Carnegie
Kristofer Liljeberg
tel. +46 (0)8 676 87 63

Pareto Securities
Christian Lee
tel. +46 (0)8 402 52 67

Board of Directors

The number of shares comprises direct shareholdings, holdings through related parties and legal entities on the balance-sheet date of April 30, 2019. Torbjörn Kronander and Jan-Olof Brüer's holdings include 50% of a holding through the jointly owned legal entity Shannon AB.

Jan-Olof Brüer

Chairman of the Board
Remuneration Committee Chairman



Torbjörn Kronander

Board member
President and CEO Sectra AB



Born/Elected	Born 1951/Elected 2013	Born 1957/Elected 1988/Employed 1985
Sectra holdings	777,465 Class A shares, 2,803,417 Class B shares and convertibles corresponding to 39,648 Class B shares	777,463 Class A shares, 2,824,305 Class B shares and convertibles corresponding to 42,982 Class B shares
Board fees 2018/2019	SEK 450,000	SEK 0
Board member's independence	One of the company's largest shareholders with 17.1% of the votes and 9.3% of capital	One of the company's largest shareholders with 17.1% of the votes and 9.4% of capital
Education/Title	PhD (Technology), Master of Business Administration, officer in the reserve armored troops, Honorary Doctor of Medicine from Linköping University	PhD (Technology), Master of Business Administration, officer in the Naval Reserve, Honorary Doctor of Medicine from Linköping University
Professional experience/previous assignments	Previously President and CEO of Sectra AB 1985–2012 and Board member of Arcam AB	Previously President of Sectra's medical operation and Executive Vice President of Sectra AB, full-time at Sectra since 1991, ship captain and Board member of Cellavision AB and others
Other posts	Board member of Sectra Communications AB, Shannon AB and Lilla Hallmare Gård och Förvaltning	Board member of the Center for Medical Image Science and Visualization (CMIV), Shannon AB and others, member of the Royal Swedish Academy of Engineering Sciences

Anders Persson

Board member
Member of the Audit Committee



Christer Nilsson

Board member, Audit Committee Chairman and Remuneration Committee member



Born/Elected	Born 1953/Elected 2004	Born 1952/Elected 2008
Sectra holdings	39,912 Class B shares and convertibles corresponding to 5,865 Class B shares	14,420 Class B shares and convertibles corresponding to 1,389 Class B shares
Board fees 2018/2019	SEK 265,000	SEK 305,000
Board member's independence	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders
Education/Title	Doctor of Medicine, Professor, Senior Physician	Master of Science in Computer Technology
Professional experience/previous assignments	Director of the Center for Medical Image Science and Visualization (CMIV) and Senior Physician in radiology	President of Vestadil AB, previously Director and Advisor at 3i plc, senior positions at Datex-Ohmeda and Gambro
Other posts	Board member of the Center for Medical Image Science and Visualization (CMIV) and others	Chairman of the Board of Tawi Invest AB and Board member of Industrifonden and others

Ulrika Hagdahl
Board member



Tomas Puusepp
Board member



Birgitta Hagenfeldt
Board member and
Member of the Audit Committee



Born/Elected	Born 1962/Elected 2017	Born 1955/Elected 2017	Born 1961/Elected 2018
Sectra holdings	0	Convertibles corresponding to 1,000 Class B shares	1,000 Class B shares
Board fees 2018/2019	SEK 225,000	SEK 225,000	SEK 265,000
Board member's independence	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders
Education/Title	Master of Science in Computer Technology	Bachelor of Science in Engineering	Master of Business Administration
Professional experience/previous assignments	Founder of Orc Software AB, Head of Innovation at Orc Software AB 1987–1990, President and CEO of Orc Software AB 1990–2000	Previously President and CEO of Elekta AB and several senior positions at Elekta, various positions at the Research Institute of Physics at Stockholm University, Scanditronix and Ericsson	CFO and Executive Vice President of Avanza Bank Holding. Previously Head of Administration at the fund company RAM Rational Asset Management AB and Authorized Public Accountant at KPMG
Other posts	Board member of HiQ International AB, Beijer Group AB, Invisio Communications AB and others	Chairman of the Board of Global Medical Investments GMI AB and Board member of Elekta AB, Permobil AB and the Swedish-American Chamber of Commerce in New York	

Deborah Capello
Board member
Employee representative



Bengt Hellman
Board member
Employee representative



Andreas Örnéus
Deputy Board member
Employee representative



Filip Klintenstedt
Deputy Board member
Employee representative



Born/Elected/Employed	Born 1970/Elected 2014/ Employed 2004	Born 1980/Elected 2015/ Employed 2014	Born 1981/Elected 2018/ Employed 2007	Born 1981/Elected 2019/ Employed 2008
Sectra holdings	300 Class B shares	0	0	1,250 Class B shares
Education	Master of Science in Engineering, Master of Science in Business Administration and Economics	Master of Science in Information Technology	Bachelor of Information Technology	Master of Science in Computer Technology
Position	Deployment Owner, Imaging IT Solutions operating area	Software Developer, Imaging IT Solutions operating area	Development Engineer, Imaging IT Solutions operating area	Product Manager, Imaging IT Solutions operating area

» For current holdings, see investor.sectra.com/board-of-directors

» For information about matters addressed by the Board in 2018/2019, refer to the Board's Corporate Governance Report at investor.sectra.com/corporate-governance-reports

Group Management and Auditor

The number of shares comprises direct shareholdings, holdings through related parties and legal entities on the balance-sheet date of April 30, 2019. Torbjörn Kronander's holdings include 50% of a holding through a legal entity owned jointly with Board member Jan-Olof Brüer.

Torbjörn Kronander

President and CEO of Sectra AB and Board member



Simo Pykälistö

President of Secure Communications operating area and Executive Vice President of Sectra AB



Marie Ekström Trägårdh

President of Imaging IT Solutions operating area and Executive Vice President of Sectra AB



Born/Employed	Born 1957/Employed 1985/Board member since 1988	Born 1972/Employed 2003	Born 1961/Employed 1996
Sectra holdings	777,463 Class A shares, 2,824,305 Class B shares and convertibles corresponding to 42,982 Class B shares	35,500 Class B shares	49,585 Class B shares and convertibles corresponding to 5,193 Class B shares
Education/Title	PhD (Technology), Master of Business Administration, officer in the Naval Reserve, Honorary Doctor of Medicine from Linköping University	Master of Science in Business and Economics	Bachelor of Science in Systems Science and IT
Previous professional experience/assignments	President of Sectra's medical operation and Executive Vice President of Sectra AB, full-time at Sectra since 1991, ship captain and Board member of Cellavision AB	CFO of Sectra AB, CFO of Pronyx AB, Finance Director at CDT Nordic, Group Controller at M2 Engineering AB, Finance Manager at Kesko Svenska AB, Economist at OKO Bank	President of Sectra Skandinavien AB, Executive Vice President of Sectra's Imaging IT Solutions operating area and senior positions at Sectra, Consultant at Frontec AB, Developer/Project Manager at Fujitsu ICL
Other posts	Board member of the Center for Medical Image Science and Visualization (CMIV), Shannon AB and others, member of the Royal Swedish Academy of Engineering Sciences	Board member of Sunda Hus AB and Insurance Underwriting Agency OÜ	Board member of Pledpharma AB and member of the Royal Swedish Academy of Engineering Sciences

Mats Franzén

Chief Financial Officer



Sofia Bertling

General Manager, Medical Education business unit



Gustaf Schwang

General Manager, Orthopaedics business unit



Born/Employed	Born 1969/Employed 2016	Born 1970/Employed 2018	Born 1976/Employed 2017
Sectra holdings	12,500 Class B shares	1,350 Class B shares	900 Class B shares
Education/Title	Master of Science in Business Administration and Economics	PhD (Technology)	Master of Science in Engineering
Previous professional experience/assignments	CFO of HTC Group AB, CEO of HTC Cleaning Technology AB Group, CFO of Toyota Industries Europe AB, Senior Group Accountant at BT Industries AB, Authorized Public Accountant and Head of PwC's Linköping office	President and CEO of Hermes Medical Solutions AB, Inc, Ltd and senior positions at Hermes, Research Engineer at Swerea KIMAB	Director Special Accounts at Elekta AB and senior positions at Elekta, Board member of Swecare Foundation, General Manager at Seaway Group, R&D Director at Nautor's Swan and others.
Other posts	Board member of Terrasancta AB	Board member of Fingerprint Cards AB and Chairman of the Board and CEO of ReachIT Consulting	

Per Andersnäs
Vice President
Operational Excellence & IT



Lisa Everhill
Chief People and Brand Officer



Claes Lundström
Research Director Medical Systems



Born/Employed	Born 1962/Employed 1997	Born 1979/Employed 2006	Born 1973/Employed 1997
Sectra holdings	300 Class B shares	2,353 Class B shares and convertibles corresponding to 514 Class B shares	7,469 Class B shares and convertibles corresponding to 2,172 Class B shares
Education	Master of Science in Computer Technology	Master of Science in Business Administration	PhD (Technology)
Previous professional experience/assignments	Product Development Director Imaging IT Solutions operating area and others, senior positions in Sectra's medical operation	Market Communication and Investor Relations Manager and other senior positions in Sectra's medical operation	Product Development Project Manager and others, senior positions in Sectra's medical operation
Other posts			Associate Professor at the Center for Medical Image Science and Visualization (CMIV)

Staffan Bergström
Senior Executive Vice President,
Imaging IT Solutions operating area



Born/Employed	Born 1962/Employed 1988
Sectra holdings	144,753 Class B shares and convertibles corresponding to 7,339 Class B shares
Education	Licentiate of Science (Technology), Master of Business Administration
Previous professional experience/assignments	Other senior positions in Sectra's medical operation
Other posts	Board member of Mirantum AB

Auditor

Mia Rutenius
Chief Coordinating Auditor
Grant Thornton Sweden AB



Born/Appointed	Born 1974/Appointed 2016
Sectra holdings	0
Education	Authorized Public Accountant
Other posts	Chief Coordinating Auditor for Dedicare AB (publ), BioArctic AB (publ), Columbus AB, Poolia AB (publ) and others. Board member of Grant Thornton Sweden AB

» For current holdings, see investor.sectra.com/executive-management

Administration report

The Board of Directors and the President of Sectra AB (publ), Corporate Registration Number 556064-8304, hereby submit the Annual Report and the consolidated financial statements for the period from May 1, 2018 to April 30, 2019. The following sustainability report, income statements, balance sheets, statements of changes in equity, cash-flow statements, accounting policies and notes comprise an integrated part of the Annual Report.

Statement

The information in this Annual Report is such that Sectra is obliged to make public in accordance with the Securities Market Act. Sectra announced the publication of the year-end report for the 2018/2019 fiscal year on May 28, 2019 at 8:15 a.m. through a press release, and the report was published on Sectra's website. The publication of the complete Annual Report will be announced in a press release, and the report will be published on the website on June 28, 2019.

Corporate governance

Sectra applies the Swedish Corporate Governance Code ("the Code"). Sectra has prepared a Corporate Governance Report in accordance with the rules and application instructions in Swedish legislation and in the Code. The report has been prepared as a separate document from the Annual Report and the auditor's statement is enclosed therein.

- » These documents, together with other information about corporate governance at Sectra, are available on the Group's website investor.sectra.com/governance

The Group's operations and structure

Sectra conducts research, development and sales of high-tech products and services in the niche markets of medical imaging IT and cybersecurity. Sectra AB is the Parent Company of the Group, which comprises the operating areas Imaging IT Solutions, Secure Communications, Business Innovation and Other Operations. The latter refers to Sectra's operating area for the joint functions of administration, Group finances, IT, regulatory affairs, recruitment, marketing communication and investor relations activities. The operating area for the financing of managed-services agreements with customers, Sectra Customer Financing, has been discontinued as a segment due to a changed view of the transfer of risk for Group-financed managed-services agreements in the UK. These activities are reported under Other Operations. The consolidated financial statements and segment reporting have been retroactively restated in accordance with IAS 8, refer to [Note 5](#) on page 76 for more information.

The Group has its head office in Sweden and a number of subsidiaries around the world. Refer to [Note 12](#) on page 83 for more information. Sectra's operating areas are organized as separate companies based on the customer segments and geographic markets targeted.

Significant events

During the fiscal year

- Through a share redemption program, a total of SEK 171.5 million was distributed to the shareholders, corresponding to SEK 4.50 per share.

For a summary of 2018/2019, refer to pages 6–7.

After the balance-sheet date

- The Board and the President propose that the Annual General Meeting resolves to distribute SEK 4.50 per share, a total of SEK 172.6 million, to the shareholders through a 2:1 share split in combination with a mandatory redemption process. No ordinary dividend is proposed.

Outlook

Sectra plays a key role in meeting needs in the areas of medical imaging IT and cybersecurity, two changing, growing markets with additional scope for expansion. Sectra's customers operate in some of society's most critical functions. The company's job is to help its customers become more efficient and give them the tools to in turn make people's lives healthier, safer and more secure. By following Sectra's vision, this is how the company creates value for its customers, shareholders and society as a whole.

The combination of medical imaging IT and information security operations in the same Group makes Sectra unique. The company is well positioned in these areas, with stable solutions, a long-term future focus and high customer satisfaction. The Group's financial position is enabling investments in existing and new markets, product development and future-oriented projects. Due to its long-term customer relationships, dedicated and highly competent employees, high-quality and innovative products, and strong financial position, Sectra has the necessary prerequisites to continue delivering solutions in accordance with the company's vision—to contribute to a healthier and safer society.

Financial overview, Group

Change in accounting policies and timing of transfer of risk and restatement of consolidated financial statements and segment reporting

In conjunction with the implementation of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, the company performed a new analysis of its customer contracts, which resulted in a change to the view of the point in time when the transfer of risk takes place for Group-financed managed-services agreements in the UK. The consolidated financial statements and segment reporting have been retroactively restated. Read more about the impact of the

Performance measures¹

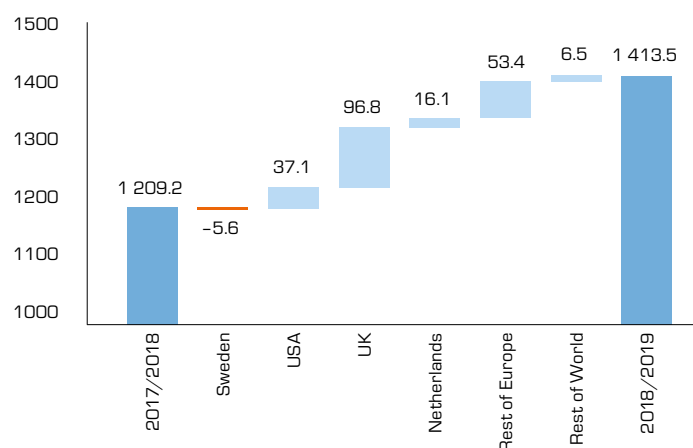
	2018/2019	2017/2018	Change %
Order bookings, SEK million	2 132.8	1 492.5	42.9
Net sales, SEK million	1 413.5	1 209.2	16.9
Operating profit, SEK million	235.5	214.3	5.5
Net financial items, SEK million	13.3	16.8	-20.8
Profit before tax, SEK million	248.8	231.2	7.6
Profit after tax, SEK million	199.0	184.7	7.7
Operating margin, %	16.7	17.7	n/a
Profit margin, %	17.6	19.1	n/a
Earnings per share, SEK ²	5.21	4.86	7.2
Cash flow per share, SEK ³	6.54	5.44	20.2

¹ For information about the impact of the retroactive restatement, refer to Note 5 on page 76.

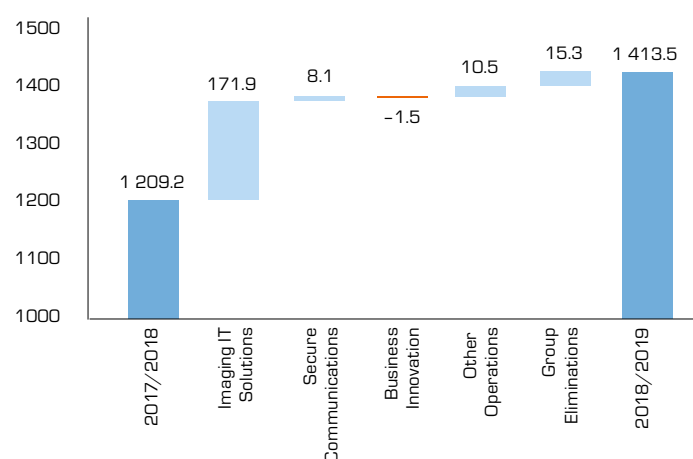
² Prior to dilution.

³ Cash flow from operations after changes in working capital.

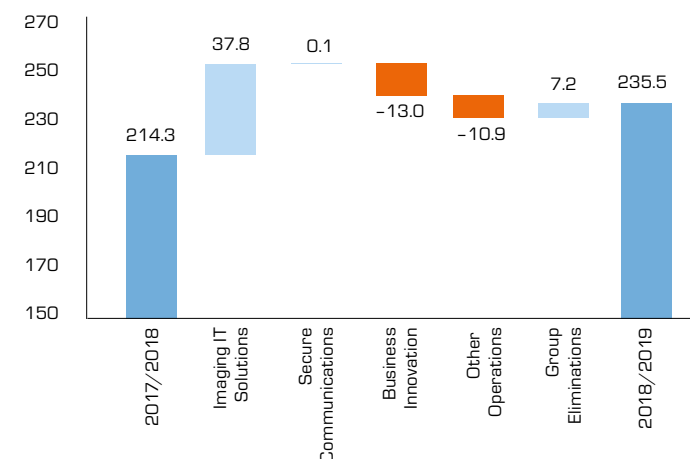
Sales trend per geographic market SEK million



Sales trend per operating segment SEK million



Earnings trend per operating area SEK million



change in assessment and the new accounting standards in [Note 5](#) on page 76. These changes will have no impact on cash flow for the year or future cash flow.

Comments on order bookings, sales and earnings

Order bookings increased 42.9% to SEK 2,132.8 million. The increase was attributable to major customer contracts in Imaging IT Solutions as well as new growth areas and new markets that are starting to gain momentum. In geographic terms, Australia is responsible for the largest increase as a result of a major contract signed with NSW Health. Imaging IT Solutions' sales success—for example, in Canada, Sweden and the US—also contributed to this positive trend. Major long-term agreements contribute to increased stability, but also give rise to significant variations in order bookings between periods. In the US, the company is devoting particular focus to growth, and agreements with a number of prominent key customers were signed during the fiscal year.

The Group's net sales rose 16.9% to SEK 1,413.5 million. Sectra's Imaging IT Solutions and Secure Communications operating areas reported sales growth. Geographically, the UK, the US and Rest of Europe accounted for the largest increases. In Sweden, the trend declined due to the outcome in Secure Communications. However, it should be noted that individual deliveries can be substantial and therefore result in major variations between periods.

More than 70% of Sectra's net sales are carried out in foreign currency, primarily EUR, USD and GBP. Refer to [Note 29](#) on page 88. Sectra benefited from exchange-rate movements during the fiscal year. Adjusted for currency fluctuations, sales rose 12.0% compared with the preceding fiscal year.

The Group's operating profit increased 9.9% to SEK 235.5 million. This corresponds to an operating margin of 16.7%, which exceeds Sectra's financial goal of 15%. Adjusted for currency fluctuations, operating profit increased 0.7%. The Group's outcome was burdened by a higher share of third-party products and increased operating expenses, mainly due to higher personnel and consulting costs as a result of intensified growth initiatives.

The Group's net financial items declined SEK 3.5 million to SEK 13.3 million. Currency fluctuations had an impact of SEK 4.9 million (1.6) on the Group's financial items. Sectra does not hedge its operations, and currency fluctuations therefore have an immediate impact.

Profit after net financial items increased 7.6% to SEK 248.8 million, corresponding to a profit margin of 17.6%. The comparative figures for 2017/2018 included nonrecurring items that had a positive net effect of SEK 9.1 million on net financial items. These items primarily pertain to the sale of 100% of the shares in the associated company Commit; Oy. Excluding nonrecurring items, profit after net financial items rose 12.0%. Earnings per share totaled SEK 5.21 (4.86).

Financial position and cash flow

After adjustment for exchange-rate differences, the Group's cash and cash equivalents at the end of the reporting period amounted to SEK 331.9 million (282.3). The Group's debt/equity ratio was 0.04 (0.09) as of the balance-sheet date. Interest-bearing liabilities amounted to SEK 31.5 million (56.6) and pertained to convertible loans held by employees and Board members. During the fiscal year, Sectra issued SEK 3.0 million (0) in new convertible loans, while two convertible loans totaling SEK 28.1 million were converted to shares. Refer to [Note 2](#) on page 74.

The Group's cash flow from operations after changes in working capital amounted to SEK 250.7 million (207.5). This increase mainly pertained to a decrease in capital tied up in operating current assets attributable to customer projects in the installation phase. Cash flow per share was SEK 6.54 (5.44). Cash flow from investing activities was a negative SEK 33.0 million (neg: 23.0) for the fiscal year. These investments mainly pertained to capitalized development projects. The Group's total cash flow was SEK 48.7 million (11.9). This result includes a distribution of SEK 171.5 million (170.7) to the shareholders through a share redemption program. Excluding the share redemption program, total cash flow increased to SEK 220.2 million (178.9).

Investments and depreciation/amortization

Group investments during the fiscal year amounted to SEK 34.9 million (42.0). These investments mainly pertained to capitalized development costs. Depreciation/amortization totaled SEK 46.8 million (39.9).

Capitalization of development costs during the fiscal year amounted to SEK 25.2 million (28.2). Amortization of capitalized development projects during the fiscal year totaled SEK 27.3 million (21.7). At the end of the period, capitalized development costs amounted to SEK 102.6 million (104.6).

Every year, Sectra invests 10–15% of its consolidated sales in research and development (R&D) projects. Read more on page 16. R&D costs for the fiscal year amounted to SEK 172.2 million (158.1).

Seasonal variations

Sectra's seasonal variations entail that most of the company's invoicing and earnings are traditionally generated at the end of the fiscal year. The variation in order volumes in individual quarters can be substantial when customers sign extensive, multiyear agreements with the company, for example, for medical IT projects or encryption systems.

Financial overview, operating areas and Parent Company

Imaging IT Solutions

Sectra's largest operating area, Imaging IT Solutions, is growing by adding new customers and through renewed and expanded contracts with existing customers. In 2018/2019, the operating area's sales rose to SEK 1,204.4 million (1,032.3), up 16.7%. Operating profit rose 17.2% to SEK 257.0 million (219.2), corresponding to an operating margin of 21.2% (21.7). Combined with currency fluctuations, increased sales contributed to a positive earnings trend.

The operating area is implementing long-term growth initiatives in new product areas, such as digital pathology and cardiology, and expanding into additional geographic markets through the establishment of its own operations and through new distributors. In the US, where the trend was highly positive, Sectra has secured orders

through important procurements and received high rankings in surveys of the alternatives that customers would be likely to choose in the future. In 2018/2019, Imaging IT Solutions also achieved an important breakthrough in Australia as well as in France and Canada where we have begun conducting direct sales in recent years. We are also seeing growing demand for digital pathology solutions and have secured a number of strategically important procurements in Europe over the past year. Read more about the operating area on page 24.

Business Innovation

In 2018/2019, Business Innovations' sales amounted to SEK 68.8 million (70.3), with an operating loss of SEK 6.0 million (profit: 7.0). Sectra is currently undergoing a generational shift in both Orthopaedics and Medical Education, with growing costs that are impacting its financial results. Operating profit for the fiscal year was also charged with provisions of SEK 4.2 million for doubtful accounts receivable.

Both business units have new products that have attracted considerable market attention, and new managers were appointed during the preceding fiscal year, who are now working to accelerate the development and launch of the new products. The unit's products are increasingly being delivered as a service. This means that an order initially generates lower sales, but the total sales from the service are spread over a longer period of time, which provides greater stability for the future. Read more about the operating area on page 29.

Secure Communications

Secure Communications is growing, primarily through increased sales from project-based development activities and approved crypto products that protect information essential to the security of a country or critical social functions. The operations are also growing in the critical infrastructure product area, where the unit's focus on Sweden has been successful. Several risk and security analyses have been carried out on behalf of Swedish energy companies and the critical process industry, and we have now taken our first steps into Finland and Norway. In the last year, new customers have also chosen to use Sectra's monitoring services. In 2018/2019, sales rose 6.7% to SEK 152.4 million (142.9) and operating profit increased 1.5% to SEK 7.0 million (6.9).

Sectra is focusing on expanding its secure mobile communications offering to include secure mobile workplaces and new customer segments for government authorities and private enterprises. In 2018/2019, contracts were signed with healthcare regions and energy companies that had a need to protect their sensitive information. Operating profit was burdened by intensified growth initiatives in critical infrastructure and costs to further strengthen the offering in the secure communications segment and expand into additional customer segments and geographic markets. Read more about the operating area on page 38.

Other Operations

Other Operations pertain to Sectra's joint functions for administration, recruitment, Group finances, IT, regulatory affairs, marketing communications and investor relations activities. As a result of the retroactive restatement (refer to [Note 5](#)), Sectra Customer Financing is recognized in Other Operations. Sales from Other Operations are entirely intra-Group in nature and amounted to SEK 62.7 million (52.2). An operating loss of SEK 28.4 million (loss: 17.5) was reported. The outcome for Other Operations was charged with higher consulting costs, which were largely temporary in nature, and to a lesser extent, with costs for increased resources in central functions to meet the needs for central services in the growing operational activities.

Parent Company's sales and profit

The Parent Company, Sectra AB, includes the Business Innovation operating segment as well as the head office's functions for Group finances, IT, regulatory affairs, marketing communications, and investor relations activities. For more information, please refer to the following income statements, balance sheets, accounting policies and notes.

The share

On the balance-sheet date, Sectra's share capital totaled SEK 38,352,871, distributed between 38,352,871 shares. Of these shares, 2,620,692 were Class A and 35,732,179 were Class B shares. One Class A share confers ten votes, while one Class B share confers one vote. All shares carry equal rights to the company's assets and profits. These figures include a new share issue due to the conversion of convertibles (2014/2018 and 2015/2018 programs) during the fiscal year corresponding to 233,202 Class B shares.

As of the publication date of this report, on full exercise of outstanding convertibles, the number of Class B shares will increase by 177,980, corresponding to 0.5% of the capital and 0.3% of the voting rights in the company. These figures include the effects of a recalculation of the conversion price for outstanding convertible programs due to the share redemption program for 2018. Refer to [Note 2](#) on page 74 for further information.

The Articles of Association contain a right of first refusal clause for the transfer of Class A shares. No other agreements between shareholders entailing restrictions on the right to transfer shares are known to the company. Nor is the company party to any agreements that would take effect should control of the company change through public purchase offers.

Major shareholders

On the balance-sheet date, Sectra had 8,035 (6,166) shareholders. Of these, the following shareholders had direct and indirect holdings comprising more than 10% of the number of votes for the total number of shares in the company on the balance-sheet date:

- Torbjörn Kronander, who directly and indirectly through the company Shannon AB represents 17.1% of the voting rights.
- Jan-Olof Brüer, who directly and indirectly through related companies and the company Shannon AB represents 17.1% of the voting rights.

Authorization

The 2018 Annual General Meeting authorized the Board of Directors, during the period until the next Annual General Meeting, to decide on a new share issue of not more than 3,700,000 shares. The purpose of the authorization was to facilitate the use of new share issues for financing market investments and acquisitions of companies or operations, to cover the costs arising as a result of the company's incentive programs and to constantly adapt the company's capital structure. The Annual General Meeting also resolved to authorize the company to repurchase not more than 10% of the company's own shares up until the next Annual General Meeting. On the balance-sheet date, the Board had not utilized either of these authorizations.

Board's statement concerning the proposed repurchase of the company's own shares

The Board of Directors' statement is reported under [Note 31](#).

Guidelines for remuneration to senior executives

In accordance with the guidelines prepared by the Board, the 2018 Annual General Meeting adopted the following policies for remuneration and other terms of employment for company management (the President and other members of Group Management). All current agreements follow these principles. The Board proposes to the 2019 Annual General Meeting that the guidelines remain unchanged. The guidelines state that:

Remuneration to company management is based on normal market terms, while also ensuring the shareholders' best interests. Remuneration primarily comprises fixed salary, variable salary, pension benefits and other benefits, such as a company car. Pension benefits are defined-contribution.

Fixed salary is established by accounting for the executive's experience, responsibilities and performance and is based on normal market conditions. Variable remuneration is proportionate to the executive's responsibilities and authority. It has a maximum limit and is based on the fulfillment of targets that promote the company's long-term creation of value. Where applicable, variable salary portion is based on predetermined and measurable criteria. The company's costs for the variable salary portion for the President and other members of company management amount to not more than 50% of the fixed salary costs.

The notice period for terminating employment by an employee is a maximum of 12 months. If employment is terminated by the company, the total notice period and the time during which severance pay is received is a maximum of 24 months.

Ordinary retirement age is 65. Pension terms and conditions are market-based and based on defined-contribution pension solutions. The pension premium is not more than 30% of the fixed and variable salary.

Board members with special expertise who perform services for the company beyond the scope of their Board assignment may receive a fee for such services payable at market rates. Decisions on such fees are taken by the Board of Directors, without the participation of the Board member in question.

Issues concerning remuneration to company management are handled by the President. Remuneration to the President is resolved by the Board of Directors.

The Board of Directors shall be able to deviate from the guidelines for remuneration drawn up by the Annual General Meeting if there are special reasons for so doing in individual instances.

Sustainability Report

Sectra endeavors to improve society by helping to make it healthier and safer. Acting responsibly towards customers, employees, regulations and the environment is part of Sectra's corporate culture.

Sectra's sustainability efforts are directly linked to the company's vision and mission statements. Our strategic business priorities go hand in hand with our value-creation focus areas for sustainability efforts—customer value, innovation for sustainable growth, and employee satisfaction and development. The foundation is our corporate culture, where an ethical approach to business permeates everything that we do. Through the priorities and goals defined to create value for our customers, we also create value for our employees, shareholders and society as a whole. Sectra's operational targets and financial goals are also our sustainability targets and are monitored using the same goal process: from Sectra's business areas to the management team to the Board. The business model and goals/targets are described on pages 12–19. On these pages, Sectra presents how the company's mission statements and product offerings help customers make people's lives healthier, safer, and more secure.

Sectra's approach to customer value and employee satisfaction and development is described in detail below, and complements the information on pages 12–19. Our approach to business ethics, the environment and risk management is also described here.

Customer value

Customer satisfaction

In all markets, the company regularly conducts its own customer satisfaction surveys based on a Net Promoter Score (NPS). Refer to the fact box. These surveys provide important information for achieving high customer satisfaction and continuing to develop as a company. Sectra's goal is to achieve an NPS of at least 20% for all sub-areas and products measured. In 2018/2019, the goal was achieved by a healthy margin for 12 of the 14 sub-areas. Customer feedback on Sectra reflects high-quality deliveries. External surveys, such as "Best in KLAS," show equally positive results as the company's own surveys.

» Read more on Sectra's website sectra.com/KLAS

Facts about NPS

The Net Promoter Score (NPS) is calculated based on the answer to the question "Would you recommend Sectra, our products and services to a friend or colleague?" Customers answer the question on a scale from 0 to 10. Respondents who give a 9 or 10 are referred to as ambassadors, and those who give between 0 and 6 are referred to as critics. A 7 or 8 is seen as neutral.

The NPS is calculated by subtracting the percentage of critics from the percentage of ambassadors. The NPS interval is between -100 (only critics) and 100 (only ambassadors). A positive NPS (higher than 0) is considered good.

Quality and product safety

Quality control and product safety are highly important, since Sectra's products and services can mean the difference between life and death for individuals and large groups of people. Moreover, some

Quality Policy Medical IT

Our mission is to increase effectiveness of healthcare, while maintaining or increasing quality in patient care. The high-level quality objectives for all our quality management activities are:

- We always put human safety first, and as a part of that we must always follow regulations.
- We work in close partnership with our customers to gain a superior understanding of their requirements and expectations.
- We always try to put an extra "wow" into our solutions.
- We are to continuously improve our solutions striving to increase the effectiveness of our customers.
- We all impact quality and are personally responsible for the quality of our solutions.
- We are to maintain or improve the effectiveness of our quality management system, The Sectra Way.



Quality Policy Secure Communications

Our mission is to strengthen the stability of society and increase efficiency in critical functions by enabling the secure and effective exchange of sensitive information. The high-level quality objectives for all our quality management activities are:

- We put information security for our customers first. Our customers entrust us the protection of their most sensitive data and we need to manage this trust with care.
- We strive to help increasing the efficiency of our customers and are to continuously improve our solutions and services towards this aim.
- We maintain a balanced approach to security where availability and usability are key factors.
- We work in close partnership with our customers to gain a superior understanding of their requirements, expectations and operating environment.
- We all impact quality and are personally responsible for the quality of the solutions and services we provide.
- We are to maintain or improve the effectiveness of our quality management system, BMS.



Sectra products handle sensitive and confidential information that may be crucial for national security. In accordance with medical technology and other regulations, Sectra follows quality control procedures designed to continuously improve the safety and effectiveness of its products before, during and after they are delivered to customers. IT security is another field deeply rooted in processes, procedures, products and services. Sectra also has procedures and processes in place to follow up security and quality in its products and services after delivery. For example, incidents involving Sectra's products and services are systematically investigated in order to identify the underlying causes. Based on these investigations, corrective and/or preventive measures are taken for the products in question and, in certain cases, reports are submitted to the relevant authorities.

Sectra's operating areas are certified according to relevant standards in their respective areas, including ISO 9001:2015, ISO 27001:2013, ISO 13485:2016 and ISO 13485:2016/CMDCAS. This means that internal and external consultants review the company every year to assess its compliance with these standards and its internal processes and notify Sectra of any need for corrective actions. The company also works with its own certification programs and internal training courses for employees and distributors.

The company's products are subject to industry-specific regulations and requirements. Sectra's crypto products are evaluated and approved by security authorities since they are used to protect highly sensitive information. Sectra's medical IT systems comply with European regulations for CE marking and the Medical Device Directive (Council Directive 93/42/EEC concerning medical devices), and have received regulatory approval from the authorities in all markets where Sectra sells these IT systems, such as the US Food and Drug Administration (FDA) in the US.

Ensuring employee satisfaction and development

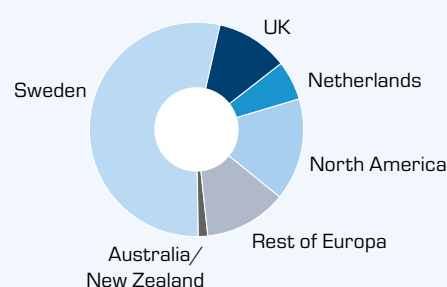
Sectra monitors employee satisfaction through annual employee surveys. One of the goals monitored in the survey is whether employees have a good "gut feeling" when coming to work. The goal is to achieve a score of more than 3.5 on a scale of 5. In 2018/2019, the goal was achieved by a healthy margin and the outcome was 4.0 (4.0).

In order to retain and develop competent and dedicated employees, employees and managers work together to identify development needs and draw up development plans in conjunction with regular performance appraisals. This is conducted using an established process for personnel management, which is part of the company's management system. Internal and external courses, training programs, various certification programs and supervision help to ensure that employees have the correct skills for their role and their duties. To better equip managers with the skills to align their leadership with the corporate culture and to give employees an opportunity to live and embrace Sectra's culture, we started a leadership development program for new managers in 2018/2019.

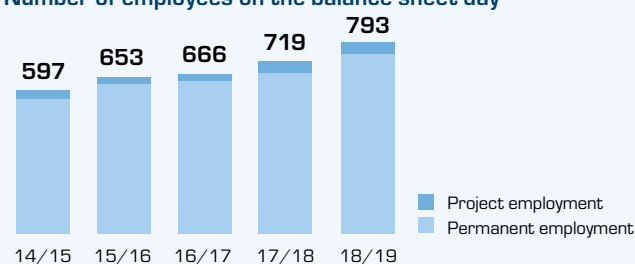
Over the past two years year, Sectra has worked to optimize and clarify its internal processes for recruitment, personnel, training and other activities designed to improve competencies and achieve

Sectra's personnel have extensive expertise and a solid educational background. 85% of its employees have a university degree and many have completed postgraduate studies.

Distribution of employees by country



Number of employees on the balance sheet day



certification. This included updated guidelines, better system support through the introduction of a new Talent Management System and a new central function for recruitment support.

Work environment

The basis for the company's work environment initiatives is that all employees should feel involved in activities related to the work environment through an interplay where experience and opinions about the environment are taken into account in everyday working procedures. This is described in Sectra's work environment policy. Examples of work environment goals:

- No employee shall be exposed to any risk of injury or sickness due to their work.
- All Sectra employees shall experience a good quality of life in their work with respect to physical, psychological and social conditions.
- The company shall take rapid and conscientious action to ensure its employees can return to work after long-term illness, work-related injury or other problems.

The Group takes a proactive approach to occupational health and safety issues, for example, by offering health screenings, wellness programs and training opportunities.

Equality and diversity

Sectra's workplace shall be distinguished by equal opportunities and equal treatment, with everyone assuming responsibility for the treatment of their fellow human beings. In line with the company's policy in the area, Sectra works continuously to promote equal opportunities in order to achieve gender balance and diversity. The policy states that the company's position on human rights is that no form of discrimination will be tolerated regardless of ethnic or national origin, skin color, gender, sexual orientation, religion, political opinions, nationality or social origin. Sectra has zero tolerance towards all forms of discrimination, bullying and harassment.

Sectra's organization has global operations, where language skills and the ability to operate in different cultures are important success factors. For example, the Group's employees come from some 30 different countries and bring experience from a range of cultures and settings.

The availability of women engineers is low in Sectra's technology-intensive niche areas, but the company is still seeking to achieve a better gender balance. Of the Group's employees, 71% (71) are men and 29% (29) women. As of the balance-sheet date, 30% (30) of Group Management were women. Refer to [Note 2](#) on page 74 for further information. The way employees experience equal opportunities and equal treatment at the company is followed up in the annual employee survey.

Policies and processes

Sectra has established the following policies and processes in the company's management system for controlling its sustainability work:

- Code of Conduct
- Policy and process for managing information security risks
- Policy and process for managing medical technology risks
- Environmental policy and environmental plan
- Work environment policy
- Policy for gender equality and diversity
- Policy for gender equality on the Board of Directors
- Policy for salaries and bonus payments
- Policy and process for whistleblowing

Business ethics

Working together with Sectra is to be viewed as a stamp of quality for customers as well as employees and partners. Sectra considers its corporate culture, in combination with its Code of Conduct, to be crucial factors in ensuring that the company's business is fair, honest and complies with applicable laws. The company's corporate culture, Code of Conduct and quality and control processes help to guide the decisions and actions of its managers, partners and employees during the course of their daily work.

Sectra pays tax in each country where it operates in accordance with prevailing law and OECD:4 Transfer Pricing Guidelines, which helps to boost development in the local community in each country.

Code of Conduct

Sectra conducts global business, with its principal exposure to countries in Europe and the US. The company's model for working with customers, distributors and strategic partners is based on responsibility, transparency and knowledge sharing. Sectra has worked with several of its customers for more than 20 years. These close, long-term partnerships play a very important role in Sectra's success. Accordingly, it is vital that the company's efforts to increase its market shares and win the loyalty of new customers do not jeopardize its business ethics and responsibility.

Sectra's Board has established a Code of Conduct that addresses various areas, such as product safety, work environment, confidential information, anti-corruption, conflicts of interest, use of social media and competition. It also describes the values and basic principles that Sectra expects its Board members, managers, employees, consultants and partners to follow. When it comes to external parties and sub-suppliers, this is regulated through the terms of agreement or (in the case of large companies over which Sectra has only a minor influence) in the choice of sub-supplier. The Code of Conduct is included in all distribution agreements and Sectra is entitled to terminate its business relationships at short notice if the code is not followed. Should this happen, Sectra is also entitled to transfer its ongoing service agreements to a new partner or take over the agreements itself, making it clear to the counterparty in question that Sectra treats such breaches with the utmost seriousness.

Based on the structure of the company's value chain, we consider the risk of human rights violations to be minor. Sectra does not therefore have any formal monitoring and control of results in this area. Nevertheless, working to promote human rights in all parts of Sectra's operations is of the utmost importance to us. For this reason, we intend to address human rights in 2019 as part of Sectra's Code of Conduct.

Combating corruption and bribery

The company does not tolerate corruption and works proactively to ensure that neither the company nor its partners are involved in any form of corrupt activities. As part of this work, Sectra's external auditors carry out a number of specific recurring audit procedures in subsidiaries worldwide.

As part of its Code of Conduct and anti-corruption policy, Sectra has introduced a whistleblower system where employees and other individuals can report inappropriate behavior or other deviations. All employees must feel confident that they can report irregularities and serious incidents that impact the company without fear of adverse consequences. All reports made in accordance with this whistleblower policy will be given serious consideration and they will be handled professionally and in confidence.

Environment

Sectra's environmental work is characterized by consistent environmental consideration and continuous improvement processes in respect of climate impact and resource use. This applies to both the internal and external environment. Sectra's environmental policy is available on the Group's website investor.sectra.com/sustainability.

The Group's activities are largely comparable with working in a traditional office environment. This means that the environmental impact of these activities is limited, which is why the company does not have any formal monitoring and control of results in this area.

External environmental impact

Sectra primarily sells proprietary software and services and, to a lesser extent, physical products, including those from external suppliers. Proprietary physical products are produced by sub-suppliers in Europe. With respect to the resale of hardware, the Group's external suppliers are large, global companies with processes and policies in place for key sustainability issues.

Sectra's management system includes an environmental plan. The plan describes the environmental impact and environmental goals of the Group's business activities and the measures taken to achieve these goals.

From an environmental perspective, the digital radiology systems that Sectra develops, for example, are highly advantageous. By enabling remote viewing, these systems help to reduce the number of patient trips and meetings as well as the transportation of medical images.

The company's operations are not subject to notification or permit requirements under the Swedish Environmental Code.

Internal environmental impact

The company endeavors to ensure that its workplaces and premises are environmentally friendly and can save energy and resources by using technical equipment that is modern, green and energy efficient. Environmentally friendly alternatives are used where possible and when economically justified to minimize climate impact from travel and transportation. Telephone and videoconferencing are widely used.

Risk management

Given the fact that customer confidence is a critical success factor, Sectra prioritizes stable, long-term growth over rapid, high-risk expansion. Because Sectra is active in several industries and a large number of markets, the Group's overall exposure to political and market risks, for example, is limited. To prevent risks, the company has established a number of policy documents that explain Sectra's values and how its managers and employees are expected to conduct themselves. These documents include policies governing risk management, information security, the Code of Conduct, equality, the environment, work environment and financial matters. Business and financial risks are analyzed continuously and measures to reduce the Group's risk exposure are taken as needed. The risks with the highest risk index score in the annual review performed by the Board and Executive Management are described on page 60. The index scores for those risks that Sectra has identified in the areas of environment, social conditions, personnel and respect for human rights are considerably lower, which is why they are not reported. Read more about how the company assesses risks in [Note 29](#) on page 88 under Risks and risk management.

About the Sustainability Report

Sectra's Sustainability Report comprises pages 12–19 and 56–60 of the Annual Report. The Report encompasses the Parent Company Sectra AB (Corporate Registration Number 556064-8304) and all units included in Sectra's consolidated financial statements for the 2018/2019 fiscal year. Refer to [Note 12](#) on page 83. The Sustainability Report has been prepared in accordance with the provisions of the Swedish Annual Accounts Act, Chapters 6–7. Sectra's principles for corporate governance are described in the Corporate Governance Report (see investor.sectra.com/governance), which also presents the Board of Directors' diversity policy. By signing the Annual Report and consolidated financial statements, the Board of Directors and the CEO have also approved the Sustainability Report. The auditor's statement on the Sustainability Report is included in the auditor's report presented on page 90.

RISKS WITH HIGH RISK INDEX SCORE	MEASURES TO LIMIT RISK
(Risk index score = assessed probability multiplied by assessed financial impact)	
Leaks of confidential information and cybersecurity threats	
Employees of the company are exposed to, or have access to, confidential information. As a result of IT advances and a growing number of cybersecurity breaches in society, there is now a greater risk that important confidential information belonging to Sectra and its customers could be exposed. Leaks of confidential information could impact customer confidence in the company, have a serious effect on the company's sales and result in fines or compensation claims.	Confidentiality agreements are signed with all employees and consultants. Employees and consultants working in the Secure Communications business area also undergo security checks and are provided with mandatory training for handling confidential defense information. Sensitive information is handled in small groups and, in special cases, a logbook is kept with the names of the people who have access to the information. Executive Management and employees in particularly exposed positions use Sectra's solutions for secure mobile telephony. In 2018/2019, additional resources were set aside to improve the Group's IT security. Internal training courses and security tests are performed regularly.
Intellectual property right disputes	
Sectra invests considerable resources in product development. In 2016/2017, Sectra began selling a system for digital pathology—a new field with patents from various players, which increases the risk of patent disputes.	To ensure a return on its R&D investments, the company analyzes the requirements for various products in terms of intellectual property rights in order to identify and protect these products through patents. Sectra's patent portfolio currently comprises 22 patent families.
Risks related to business ethics	
The focus on business ethics has increased, both within the company and in the global business environment. This is particularly true when it comes to corruption and bribery, which have received greater attention in the media due to a number of international scandals. According to Executive Management's assessment, the company's risks in this area are increasing as a result of the growing number of international distribution partners, which are more difficult to monitor using internal procedures.	Sectra has a Code of Conduct that contains a strict anti-bribery policy, which is intended to limit the risk of individual instances of bribery. For more information, refer to the heading Business ethics and combating corruption. The Code of Conduct is included in all distribution agreements and Sectra is entitled to terminate its business relationships at short notice if the code is not followed. Other measures include ongoing assessments of subsidiaries and partners and specific audit procedures for selected subsidiaries each year.
Currency exchange risks	
The Group's exposure to currency exchange risks mainly arises through transactions in foreign currencies in the form of customer and supplier payments and, to a lesser extent, in connection with the translation of foreign subsidiaries' income statements and balance sheets. The Group's largest exposures are in USD, EUR and GBP.	Sectra continuously monitors risks and cash flows in foreign currencies. Subsidiary financing is carried out in the local currency. The Group does not currently hedge its transaction exposure since the costs involved in effectively managing hedging contracts are deemed to be higher than any potential gains. In 2018/2019, currency effects had a positive impact on the Group's operating profit.

RISKS WITH HIGH RISK INDEX SCORE	MEASURES TO LIMIT RISK
(Risk index score = assessed probability multiplied by assessed financial impact)	
Outstanding accounts receivable	
The Group's customers primarily include government authorities, public healthcare providers and other reputable customers with high credit ratings, although payment practices vary between countries. Sectra is exposed to greater credit risks in countries where many of its customers are privately owned, such as the US. An increase in the number of partners outside Europe is contributing to a higher risk of potential credit problems.	Sectra has procedures in place to ensure thorough credit ratings of its customers and partners. To minimize credit risks in fixed-price projects, Sectra makes extensive use of advance partial payments and bank guarantees.
Product liability and property risks	
Through its operations, Sectra assumes product liability, which means that personal injury or damage to property caused by the company's systems at the premises of a customer or third party could lead to compensation claims. Increased sales of cloud services are leading to greater risk exposure and a need for new types of insurance, such as cyber insurance. The terms and conditions for the cover offered by these types of insurance is, however, not clear.	Insurance needs are evaluated on an annual basis. Insurance policies have been taken out for the property and liability risks to which the Group is exposed. The probability of risk pursuant to product responsibility is low, as Sectra has historically never had any claims. However, the overall risk is increasing due to a rise in cyber threats in society. Any claims that may arise due to cyber threats may have a substantial financial impact on the operations.
Patient security and integrity	
The medical IT systems developed and sold by Sectra may impact patient security. Along with an increase in the number of cybersecurity incidents around the world, new and stricter requirements from local authorities and the EU have contributed to higher risk. An incident relating to patient security or the loss of patient information may result in the loss of customers, reduced sales and fines or compensation claims.	The company's products are developed, manufactured, marketed, sold and maintained in accordance with quality-control procedures and processes. For more information, refer to the heading Quality and product safety. After its products are delivered to customers, Sectra follows quality-control procedures designed to improve the safety and clinical effectiveness of its products. Incidents involving Sectra's products are investigated systematically in order to identify the underlying causes. Based on these investigations, corrective or preventive measures are taken for the products in question and, in certain cases, reports are submitted to the relevant authorities. Sectra's products are evaluated by such organizations as the FDA in the US, which reduces the company's patient security risk. Internal and external audits are performed on a regular basis.

Approval of reports

Pursuant to a Board decision on June 28, 2019, the consolidated financial statements have been approved for publication and will be presented to the Annual General Meeting for adoption on September 5, 2019.

The following funds are at the disposal of the Annual General Meeting (SEK):

Share premium reserve	103 568 245
Loss brought forward	-40 325 131
Net profit for the year	188 896 474
	252 139 588

Proposed appropriation of profits

The Board and President propose that the profits be appropriated so that SEK 252,139,588 is carried forward. The Board and President propose that the Annual General Meeting resolves that SEK 4.50 per

share be transferred to shareholders through a 2:1 share split combined with a mandatory redemption process and a stock dividend to restore the share capital. This entails a transfer of SEK 172,587,919.50 to the company's shareholders. No ordinary dividend is proposed.

Board of Directors' affirmation

We believe that the consolidated financial statements and Annual Report were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and generally accepted accounting principles and present a true and fair view of the Group's and the Parent Company's financial position and earnings.

The Administration Report for the Group and the Parent Company presents a fair review of the Group's and the Parent Company's operations, financial position and earnings and describes the material risks and uncertainties facing the Parent Company and the companies included in the Group.

Linköping, June 28, 2019

Torbjörn Kronander
President and CEO
Board member

Jan-Olof Brüer
Chairman of the Board

Christer Nilsson
Board member

Ulrika Hagdahl
Board member

Birgitta Hagenfeldt
Board member

Tomas Puusepp
Board member

Anders Persson
Board member

Bengt Hellman
Board member
Employee representative

Deborah Capello
Board member
Employee representative

Our auditor's report was submitted on
June 28, 2019
Grant Thornton Sweden AB

Mia Rutenius
Authorized Public Accountant

Consolidated income statements

SEK thousand	Note	2018/2019	2017/2018
Operating income			
Net sales ¹	1	1 413 522	1 209 181
Capitalized work for own use		37 269	28 228
Other operating income		3 407	3 706
Total income		1 454 198	1 241 115
Operating expenses			
Goods for resale ¹	5	-254 457	-180 294
Personnel costs	2	-676 807	-584 103
Other external costs	3, 4	-240 584	-222 441
Depreciation of tangible assets ¹	11	-14 325	-13 300
Amortization of intangible assets	10	-32 484	-26 628
Total operating expenses		-1 218 657	-1 026 766
Operating profit		235 541	214 349
Financial items¹			
Interest income and similar profit/ loss items	6	14 497	18 286
Interest expenses and similar profit/ loss items	7	-1 246	-1 480
Total financial items		13 251	16 806
Profit after financial items		248 792	231 155
Taxes ¹	9	-49 813	-46 449
Net profit for the year		198 979	184 706
Attributable to:			
Parent Company owners		198 979	184 706
Non-controlling interest		0	0
Earnings per share, SEK			
Before dilution ¹		5.21	4.86
After dilution ¹		5.17	4.80
No. of shares on balance-sheet date			
Before dilution		38 352 871	38 119 669
After dilution	2	38 530 851	38 515 550
Average no. of shares before dilution		38 197 403	38 012 454
Average no. of shares after dilution	2	38 523 210	38 506 104

Consolidated statement of comprehensive income

SEK thousand	Note	2018/2019	2017/2018
Net profit for the year		198 979	184 706
Items that may be reclassified to profit and loss			
Change in translation differences from translating foreign subsidiaries		10 517	11 962
Other comprehensive income for the year		10 517	11 962
Total comprehensive income for the year		209 496	196 668
Attributable to:			
Parent Company owners		209 496	196 668
Non-controlling interest		0	0

¹ The current and comparative fiscal year have been restated. Refer to Note 5.

Consolidated balance sheets

SEK thousand	Note	April 30, 2019	April 30, 2018	April 30, 2017
ASSETS				
Fixed assets				
Intangible assets	10	182 651	188 087	182 053
Tangible assets ¹	11	40 148	43 150	39 306
Financial assets ¹	15, 28	170 274	172 120	184 591
Deferred tax assets ¹	9	5 996	4 272	8 072
Total fixed assets		399 069	407 629	414 022
Current assets				
Inventories	16	40 859	30 019	24 707
Accounts receivable	17, 29	258 913	253 460	225 436
Current tax assets		7 648	6 424	8 120
Other receivables		14 208	51 848	13 252
Prepaid expenses and accrued income ¹	18	262 186	254 749	256 923
Cash and cash equivalents	19	331 935	282 341	273 216
Total current assets		915 749	878 841	801 654
Total assets		1 314 818	1 286 470	1 215 676
EQUITY AND LIABILITIES				
Equity¹				
Share capital		38 353	38 120	37 890
Other contributed capital		330 185	302 336	281 583
Reserves		96 050	71 444	36 302
Retained earnings, including net profit for the year ¹		263 321	249 054	258 235
Total equity		727 909	660 954	614 010
Long-term liabilities				
Long-term provisions	20	14 356	14 137	14 396
Deferred tax liabilities ¹	9, 20	7 395	5 889	22 674
Other long-term liabilities	21	6 451	28 528	56 611
Total long-term liabilities		28 202	48 554	93 681
Current liabilities				
Accounts payable		55 322	46 264	43 011
Current tax liabilities		22 102	49 651	32 966
Current provisions	20	8 972	6 941	15 923
Other current liabilities	22	71 035	105 002	64 790
Accrued expenses and deferred income ¹	23	401 276	369 104	351 296
Total current liabilities		558 707	576 962	507 986
Total equity and liabilities		1 314 818	1 286 470	1 215 676

For information on pledged assets and contingent liabilities, see Note 24.

¹ The current and comparative fiscal years have been restated. Refer to Note 5.

Consolidated cash-flow statements

SEK thousand	Note	2018/2019	2017/2018
OPERATING ACTIVITIES			
Operating profit ¹		235 541	214 349
Adjustment for non-cash items ¹	25	41 716	42 199
Interest and dividends received ¹		14 497	18 286
Interest paid		-1 246	-1 480
Income tax paid ¹		-81 209	-47 999
Cash flow from operations before changes in working capital		209 299	225 355
Changes in working capital			
Change in inventories		-10 358	-4 979
Change in receivables ¹		35 271	-48 974
Change in current liabilities ¹		16 484	36 129
Cash flow from operations		250 696	207 531
INVESTING ACTIVITIES			
Acquisitions of intangible assets	10	-25 176	-30 246
Acquisitions of tangible assets ¹	11	-9 699	-15 068
Change in financial assets ¹	6	1 846	22 321
Cash flow from investing activities		-33 029	-22 993
FINANCING ACTIVITIES			
Raising of convertibles	21	2 951	0
Payment of contingent consideration		-346	-1 897
Redemption of shares		-171 538	-170 707
Cash flow from financing activities		-168 933	-172 604
Cash flow for the year		48 734	11 934
Cash and cash equivalents, opening balance		282 341	273 216
Exchange-rate difference in cash and cash equivalents		860	-2 809
Cash and cash equivalents, closing balance	19	331 935	282 341
Unutilized credit facilities	19	15 000	15 000

¹ The current and comparative fiscal year have been restated. Refer to Note 5.

Consolidated statement of changes in equity

SEK thousand	Reserves				Retained earnings, including net profit for the year	Total equity
	Share capital	Other contributed capital	Translation reserve	Other reserves		
Equity as of May 1, 2017	37 890	281 583	6 273	30 029	185 637	541 412
Correction of error ¹					72 598	72 598
Adjusted equity as of May 1, 2017	37 890	281 583	6 273	30 029	258 235	614 010
Net profit for the year					184 706	184 706
Other comprehensive income			11 962			11 962
Allocation to fund for development costs				23 180	-23 180	0
Conversion to shares	230	20 753				20 983
Redemption of shares					-170 707	-170 707
Equity as of April 30, 2018	38 120	302 336	18 235	53 209	249 054	660 954
Adjustment of opening balance according to IFRS 15					916	916
Adjusted equity as of May 1, 2018	38 120	302 336	18 235	53 209	249 970	661 870
Net profit for the year					198 979	198 979
Other comprehensive income			10 517			10 517
Allocation to fund for development costs				25 223	-25 223	0
Reversal from fund for development costs				-11 134	11 134	0
Conversion to shares	233	27 849				28 082
Redemption of shares					-171 539	-171 539
Equity as of April 30, 2019	38 353	330 185	28 752	67 298	263 321	727 909

Other contributed capital comprises premiums paid in conjunction with share issues. The translation reserve includes exchange-rate differences arising in the translation of foreign subsidiaries' financial statements. Other reserves include the statutory reserve and fund for development costs.

There are no non-controlling interests in the Sectra Group.

¹ The comparative year has been restated. Refer to Note 5.

Parent Company income statements

SEK thousand	Note	2018/2019	2017/2018
Operating income			
Net sales	1	130 600	121 278
Capitalized work for own use		4 368	6 517
Other operating income		2 450	2 831
Total income		137 418	130 626
Operating expenses			
Goods for resale		-17 097	-17 392
Personnel costs	2	-66 088	-53 287
Other external costs	3, 4	-70 618	-56 373
Amortization of intangible assets	10	-3 098	-2 386
Depreciation of tangible assets	11	-6 231	-5 265
Total operating expenses		-163 132	-134 703
Operating loss		-25 714	-4 077
Profit from financial items			
Interest income and similar profit/ loss items	6	69 647	14 007
Interest expenses and similar profit/ loss items	7	-1 488	-1 320
Profit after financial items		42 445	8 610
Appropriations	8	185 497	226 629
Profit before tax		227 942	235 239
Tax on net profit for the year	9	-39 046	-51 934
Net profit for the year		188 896	183 305

Parent Company balance sheets

SEK thousand	Note	April 30, 2019	April 30, 2018
ASSETS			
Fixed assets			
Intangible assets	10	16 166	14 896
Tangible assets	11	17 858	19 150
Participations in Group companies	12	35 597	35 597
Participations in associated companies	13	564	564
Receivables from Group companies	14	230 290	222 239
Deferred tax assets	9	996	98
Total fixed assets		301 471	292 544
Current assets			
Receivables from Group companies		369 680	406 861
Accounts receivable	17	15 900	28 387
Other receivables		1 530	1 972
Prepaid expenses and accrued income	18	8 704	9 435
Cash and bank balances	19	225 324	212 709
Total current assets		621 138	659 364
Total assets		922 609	951 908
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		38 353	38 120
Statutory reserve		226 456	226 456
Fund for development costs		13 167	10 214
Total restricted equity		277 976	274 790
<i>Unrestricted equity</i>			
Share premium reserve		103 568	75 719
Retained earnings		-40 325	-49 140
Net profit for the year		188 896	183 305
Total unrestricted equity		252 139	209 884
Total equity		530 115	484 674
Long-term liabilities			
Other long-term liabilities	21	6 451	28 528
Total long-term liabilities		6 451	28 528
Current liabilities			
Accounts payable		3 843	6 873
Liabilities to Group companies		310 117	336 986
Current tax liabilities		12 812	33 210
Provisions	20	4 706	3 588
Other current liabilities	22	27 870	30 038
Accrued expenses and deferred income	23	26 695	28 011
Total current liabilities		386 043	438 706
Total equity and liabilities		922 609	951 908

Parent Company cash-flow statements

SEK thousand	Note	2018/2019	2017/2018
OPERATING ACTIVITIES			
Operating loss		-25 714	-4 077
Adjustment for non-cash items	25	24 032	17 371
Interest and dividends received	6	60 718	7 392
Interest paid	7	-1 488	-1 319
Income tax paid		-63 602	-32 802
Cash flow from operations before changes in working capital		-6 054	-13 435
Changes in working capital			
Change in receivables		52 898	-38 282
Change in current liabilities		-41 792	53 001
Cash flow from operations		5 052	1 284
INVESTING ACTIVITIES			
Acquisitions of intangible assets	10	-4 369	-6 517
Acquisitions of tangible assets	11	-4 938	-8 939
Acquisitions of associated companies	13	0	-564
Payment of loans to subsidiaries	14	-550	0
Repayment of loans from subsidiaries	14	511	38 053
Cash flow from investing activities		-9 346	22 033
FINANCING ACTIVITIES			
Raising of convertibles	21	2 951	0
Group contributions received/paid	8	185 497	139 000
Redemption of shares		-171 539	-170 707
Cash flow from financing activities		16 909	-31 707
Cash flow for the year		12 615	-8 390
Cash and cash equivalents, opening balance		212 709	221 099
Exchange-rate difference in cash and cash equivalents		0	0
Cash and cash equivalents, closing balance	19	225 324	212 709
Unutilized credit facilities	19	15 000	15 000

Statement of changes in Parent Company's equity

SEK thousand	Share capital ¹	Statutory reserve	Fund for development costs	Fund for fair value	Share premium reserve	Retained earnings, including net profit for the year	Total equity
Equity as of May 1, 2017	37 890	226 456	4 402	0	54 966	127 381	451 095
Net profit for the year						183 305	183 305
Total change in capital excluding transactions with the company's owners	0	0	0	0	0	183 305	183 305
Allocation to fund for development costs			6 517			-6 517	0
Reversal from fund for development costs			-705			705	0
Conversion to shares	230				20 753		20 983
Redemption of shares						-170 707	-170 707
Equity as of April 30, 2018	38 120	226 456	10 214	0	75 719	134 167	484 674
Net profit for the year						188 896	188 896
Total change in capital excluding transactions with the company's owners	0	0	0	0	0	188 896	188 896
Allocation to fund for development costs			4 368			-4 368	0
Reversal from fund for development costs			-1 416			1 416	0
Conversion to shares	233				27 849		28 082
Redemption of shares						-171 538	-171 538
Equity as of April 30, 2019	38 353	226 456	13 166	0	103 568	148 573	530 114

¹ On the balance-sheet date, Sectra's share capital totaled SEK 38,352,871, distributed among 38,352,871 shares. Of these shares, 2,620,692 are Class A shares and 35,732,179 are Class B shares.

Accounting policies

General accounting policies

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the EU. In addition, the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1 Supplemental Accounting Rules for Groups were applied.

All amounts are in SEK thousands, unless otherwise stated.

New and amended accounting policies that become applicable from 2018/2019

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and application of the standard is mandatory for fiscal years starting January 1, 2018 or later. IFRS 9 contains new requirements for classification and measurement of financial instruments, derecognition, impairment and general hedge accounting. The new standard introduces a new model for impairment of accounts receivable, which entails that impairment is recognized for expected credit losses rather than credit losses that have already occurred. Upon the transition to IFRS 9, the exemption rules contained in the transitional provisions have been applied and prior periods have thus not been restated. IFRS 9 has not had any material impact on Sectra's financial statements since its historical loss patterns, on which the IFRS 9 model is based, have a low forecast value with respect to expected credit losses. Individual circumstances, which are also considered under IFRS 9, are expected to have a much more significant impact on the assessment of expected credit losses and are already taken into account. Since no differences with respect to classification, measurement and impairment have arisen in conjunction the implementation of IFRS 9, there has been no effect on opening equity.

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue*, and application of the standard is mandatory for fiscal years starting January 1, 2018 or later. IFRS 15 introduces a control-based revenue recognition model and provides more detailed guidance in many areas that were not previously described in the applicable IFRS, such as how to recognize contracts containing several performance obligations, variable consideration, the customer's right of return and repurchase rights of suppliers. An analysis of the expected impact of the transition to IFRS 15 was carried out during the preceding year, the conclusions of which are presented below by operating segment. The selected transition method to IFRS 15 entails that the accumulated effect of the transition will be recognized against equity as of the transition date of May 1, 2018. In all cases, the total transaction price of a contract is allocated to the specific performance obligations based on its relative standalone selling price. The payment terms vary between contracts. When determining the transaction price, variable consideration, constrained estimates of variable consideration, the existence of a significant financing component, consideration with non-cash funds and consideration payable to the customer are to be taken into account when applicable. Revenue is recognized either over time or at a point in time, when or if the Group meets the performance obligations by transferring the promised goods or services to the customer. The Group recognizes a contract liability (invoiced non-recognized income) when payment has been received for an unfulfilled performance obligation. See [Note 23](#). Similarly, if the Group satisfies a performance obligation before consideration is received, the Group recognizes a contract asset (recognized non-invoiced income). See [Note 18](#).

Imaging IT Solutions' customer contracts include various combinations of deliveries of licenses, installation services, support and

maintenance services and upgrades, hardware, and hardware support and maintenance. Significant integration and adaptation of licenses and installation services normally takes place, which is considered a distinct performance obligation and is to be recognized in revenue over time during the installation phase. Under IFRS 15, support and maintenance services and upgrades are considered to be distinctly separate from installations and are recognized in revenue over a period of time corresponding to the contract period as a separate performance obligation. The introduction of IFRS 15 entails differences in terms of when revenue is recognized. The difference is attributable in all material respects to the fact that under the current standards, the significant risks and benefits are considered to have been transferred for the first year of license upgrades as of the installation date, while under IFRS 15, they are considered to be separate performance obligations that are to be recognized over time as of the installation date and one year forward.

Secure Communications' customer contracts include various combinations of pre-studies, component deliveries, installation services, support and maintenance services and upgrades, and product deliveries. Pre-studies are considered a separate performance obligation and are recognized as revenue at a point in time when the pre-study is completed. Installation services and components are delivered as a combined solution and are therefore deemed to jointly comprise a performance obligation that is recognized as revenue over time during the installation phase. Support and maintenance services are considered a distinct performance obligation according to the contracts and are recognized as revenue over a period of time corresponding to the contract period. No material effects from the implementation of IFRS 15 have been identified.

Business Innovation's customer contracts include various combinations of licenses, hardware, upgrades and expanded warranty offerings. Licenses and hardware are considered to comprise a distinct performance obligation. Revenue is recognized at a point in time when delivery has been made to the customer. Upgrades are considered a distinct performance obligation and are recognized as revenue over a period of time corresponding to the contract period. Expanded warranties are considered to comprise a separate performance obligation, with revenue recognized over a period of time corresponding to the expanded warranty period. No material effects from the implementation of IFRS 15 have been identified.

Sectra Customer Financing is no longer reported as a segment due to the changed assessment. See [Note 5](#). Financial income arising over a period of time corresponding to the contract period attributable to the financial asset (see [Note 15](#)) related to activities for the financing of major managed-services agreements with healthcare customers is now reported in the "Other Operations" segment.

The indicative assessed impact on equity on May 1, 2018 amounted to a decrease in the Group's equity of SEK 15–20 million. As a result of the changed assessment of when the transfer of risk takes place for Group-financed managed-services agreements in the UK (see [Note 5](#)), meaning that the risk associated with installation is now considered to be transferred to the customer in pace with the installation process, the transition effect on equity has also been restated. Under IFRS 15, the Group has determined that completion of the performance obligation also takes place over a period of time corresponding to the installation period in the Group. This has therefore impacted the transition effect under IFRS 15, which amounts to an increase of SEK 916 thousand. See the tables on the next page and the consolidated statement of changes in equity.

The Group's revenue from contracts with customers is recognized in accordance with the policies of the individual segments.

The effect on opening equity as well as other relevant balance-sheet items has been adjusted compared with the previous accounting policy due to the changed assessment of Group-financed managed-services agreements in the UK. The tables below show the final effects of IFRS 15.

Consolidated income statement

SEK thousand	May 18– April 19 IAS 11/18	May 18– April 19 effect	May 18– April 19 IFRS 15
Net sales	1 409 134	4 388	1 413 522
Capitalized work for own use	37 269	–	37 269
Reversal of contingent consideration	–	–	–
Other operating income	3 407	–	3 407
Goods for resale	–254 457	–	–254 457
Personnel costs	–676 807	–	–676 807
Other external costs	–240 584	–	–240 584
Depreciation/amortization and impairment	–46 809	–	–46 809
Operating profit	231 153	4 388	235 541
Net financial items	10 507	2 744	13 251
Profit after net financial items	241 660	7 132	248 792
Taxes	–47 333	–2 480	–49 813
Profit for the period	194 327	4 652	198 979

Consolidated balance sheet

SEK thousand	April 30 2018 IAS 11/18	Effect Opening balance	April 30 2018 IFRS 15
Assets			
Intangible assets	188 087	–	188 087
Tangible assets	43 150	–	43 150
Financial assets	172 120	–	172 120
Deferred tax assets	4 272	–	4 272
Total fixed assets	407 629	–	407 629
Other current assets	594 865	1 635	596 500
Cash and cash equivalents	282 341	–	282 341
Total current assets	877 206	1 635	878 841
Total assets	1 284 835	1 635	1 286 470
Equity and liabilities			
Equity (incl. profit for the period)	660 038	916	660 954
Provisions	21 078	–	21 078
Deferred tax liabilities	5 889	–	5 889
Long-term liabilities	28 528	–	28 528
Current liabilities	569 302	719	570 021
Total equity and liabilities	1 284 835	1 635	1 286 470

Sales by business segment

SEK million	May 18– April 19 IAS 11/18	May 18– April 19 effect	May 18– April 19 IFRS 15
Imaging IT Solutions	1 199.8	4.4	1 204.2
Secure Communications	152.4	–	152.4
Business Innovation	68.8	–	68.8
Other Operations	62.7	–	62.7
Group eliminations	–74.6	–	–74.6
Total	1 409.1	4.4	1 413.5

Operating profit/loss by business segment

SEK million	May 18– April 19 IAS 11/18	May 18– April 19 effect	May 18– April 19 IFRS 15
Imaging IT Solutions	252.6	4.4	257.0
Secure Communications	7.0	–	7.0
Business Innovation	–6.0	–	–6.0
Other Operations	–28.4	–	–28.4
Group eliminations	5.9	–	5.9
Total	231.1	4.4	235.5

Sales by geographic market

SEK million	May 18– April 19 IAS 11/18	May 18– April 19 effect	May 18– April 19 IFRS 15
Sweden	340.1	0.5	340.6
US	317.9	3.8	321.7
UK	237.1	–	237.1
Netherlands	119.5	–	119.5
Rest of Europe	320.9	0.1	321.0
Rest of World	73.6	–	73.6
Total	1 409.1	4.4	1 413.5

The accounting policies and calculation methods are otherwise unchanged compared with those applied in the 2017/2018 fiscal year.

New and amended accounting policies that become applicable from 2019/2020 or later

IFRS 16 Leases replaces IAS 17 *Leases* and application of the standard is mandatory for fiscal years starting January 1, 2019 or later. IFRS 16 entails that all contracts with a term of more than 12 months of a certain monetary materiality are to be recognized as assets and liabilities in the balance sheet, with depreciation, amortization and interest expenses recognized in profit and loss. Accordingly, contracts that are currently recognized as operating leases will be capitalized in the balance sheet. The process of identifying the company's leases and determining the effects was completed during the fourth quarter. The estimated effect on the opening balance-sheet total is an increase of SEK 94 million. The equity/assets ratio in the opening balance-sheet total will decline 3.7 percentage points, while the total cash flow will remain unchanged.

The standard will be applied in accordance with the modified retrospective approach, meaning that upon transition to IFRS 16 the liability for remaining payments of the leased asset will be calculated with a corresponding asset in the form of a right-of-use asset, resulting in no impact on opening equity. Comparative figures will not be restated. Leases with a term of 12 months or less and leases where the

underlying asset has a low value are not included in the liability and the right-of-use asset in the balance sheet.

Parent Company

The Parent Company applies the Swedish Annual Accounts Act and RFR 2 Accounting for Legal Entities. This means that the EU-approved IFRS rules and statements are applied as far as possible within the framework of the Annual Accounts Act and Swedish taxation practices.

The rules for measurement and clarification follow IFRS and are the same as those applied within the Group, except that the arrangement follows the Annual Accounts Act and may thus deviate from IFRS in certain cases. Untaxed reserves and appropriations are also recognized in the Parent Company in accordance with Swedish law. Participations in subsidiaries are recognized in accordance with the cost method.

In accordance with RFR 2, exchange-rate differences arising on monetary items comprising part of a net investment in a foreign operation are to be recognized in profit and loss and not in other comprehensive income.

The rule of the Swedish Annual Accounts Act on the capitalization of development costs came into effect in 2016. The rule entails that when development costs are capitalized, the corresponding amount must be transferred from unrestricted equity to restricted equity under the "Fund for development costs," and is to be recognized separately in the balance sheet.

Basis of preparation for the reports

Assets, provisions and liabilities are measured at cost or nominal value unless otherwise stated in the notes that follow. The preparation of financial statements in accordance with IFRS requires that the Group uses accounting assumptions and estimates for the future. The most important estimates and judgments are presented in [Note 27](#).

Consolidated financial statements

The consolidated financial statements have been prepared using the acquisition method, and cover those companies in which the Parent Company, directly or through subsidiaries, exerts a controlling influence. A controlling influence means that the Parent Company directly or through subsidiaries has an influence over the company, is entitled to variable returns and is also able to exercise its influence over the company to affect these returns.

The Group's internal receivables and liabilities, revenues and expenses, and unrealized gains or losses arising from transactions between Group companies, have been eliminated in their entirety during preparation of the consolidated financial statements.

Acquisitions

When acquisitions are made, the acquired companies are absorbed into the Group as of their acquisition date. The cost of the subsidiary's shares is determined by means of an acquisition analysis conducted at the time of the acquisition. The compensation transferred by the Group to obtain a controlling influence over subsidiaries is calculated as the total fair value of the net assets on the date of acquisition, which comprises the fair value of an asset or liability that has arisen from an agreement on contingent consideration. The acquired net assets also comprise intangible assets in the acquired company that have not previously been recognized.

The difference between the acquisition cost for the subsidiary's shares and the estimated fair value of the acquired net assets at the time of the acquisition is recognized as Group goodwill. Acquisition costs are recognized as they arise.

Translation of foreign subsidiaries

Functional currency

The consolidated financial statements are presented in SEK, which is the Parent Company's functional and reporting currency. Items in the financial statements for companies in the Group are valued in the currency that is used where the company has its main operations, that is, in its functional currency.

Transactions and balance-sheet items

Transactions in functional currencies are recognized initially in the functional currency at the currency rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate prevailing on the balance-sheet date (year-end rate). Exchange-rate differences arising in payment of transactions in foreign currencies and in translation of monetary assets and liabilities at the year-end rate are recognized in profit and loss.

Financial statements of foreign operations

The assets and liabilities of foreign Group companies are translated at the year-end rate. The income statements are translated at the average rate during the reporting period. Any exchange-rate differences that arise are applied directly to Group equity.

Translation differences that arise in the translation of current receivables and liabilities in foreign currency for which payment is planned within the foreseeable future are recognized in profit and loss. Translation differences that arise in the translation of long-term receivables in foreign currency and that constitute net investments in subsidiaries are recognized against equity in the Group.

Segment reporting

The division by operating segment is based on the areas of operation monitored by the Board of Directors and Executive Management in the internal reporting, and on whether an individual segment's sales exceed 10% of the Group's total sales. The Group's operations are divided into the following segments: Imaging IT Solutions, Secure Communications, Business Innovation and Other Operations. Other Operations pertain to Sectra's joint functions for administration, Group finances, marketing communication, IT, regulatory affairs and investor relations activities. Due to the discontinuation of the Sectra Customer Financing segment, financial income from customer-financed managed-services agreements is now reported in the "Other Operations" segment.

Revenue

IFRS 15 Revenue from Contracts with Customers has been applied since the fiscal year commencing on May 1, 2018. The recognition of revenue in the Group as well as per segment is presented below. Refer also to "New and amended accounting policies that become applicable from 2018/2019" above.

In all cases, the total transaction price of a contract is allocated to the specific performance obligations based on its relative standalone selling price. The payment terms vary between contracts. When determining the transaction price, variable consideration, constrained estimates of variable consideration, the existence of a significant financing component, consideration with non-cash funds and consideration payable to the customer are to be taken into account when applicable. Variable consideration and financing components exist in certain cases. Revenue is recognized either over time or at a point in time, when or if the Group meets the performance obligations by transferring the promised goods or services to the customer. In cases where revenue is recognized over time, the input method is primarily

used. Revenue is thus recognized on the basis of the inputs required to complete the performance obligation. Key inputs include labor hours expended and costs incurred in relation to the total labor hours expected and total costs for completing the performance obligation. The internal analysis of IFRS 15 conducted in the preceding year revealed that the input method largely provides a better and more reliably measurable overview of the transfer of the performance obligation than the output method.

Imaging IT Solutions

The segment's customer contracts include various combinations of deliveries of licenses, installation services, support and maintenance services and upgrades, hardware, and hardware support and maintenance. Significant integration and adaptation of licenses and installation services normally takes place, which is considered a distinct performance obligation and is to be recognized in revenue over time during the installation phase. Support and maintenance services and upgrades are considered distinctly separate from the installation and therefore a separate performance obligation, whereby revenue is recognized over a period of time corresponding to the contract period.

Secure Communications

The segment's customer contracts include various combinations of pre-studies, component deliveries, installation services, support and maintenance services and upgrades, and product deliveries. Pre-studies are considered a separate performance obligation and are recognized as revenue at a point in time when the pre-study is completed. Installation services and components are delivered as a combined solution and are therefore deemed to jointly comprise a performance obligation that is recognized as revenue over time during the installation phase. Support and maintenance services are considered a distinct performance obligation according to the contracts and are recognized as revenue over a period of time corresponding to the contract period.

Business Innovation

The segment's customer contracts include various combinations of licenses, hardware, upgrades and expanded warranty offerings. Licenses and hardware are considered to comprise a distinct performance obligation. Revenue is recognized at a point in time when delivery has been made to the customer. Upgrades are considered a distinct performance obligation and are recognized as revenue over a period of time corresponding to the contract period. Expanded warranties are considered to comprise a separate performance obligation, with revenue recognized over a period of time corresponding to the expanded warranty period.

Pensions and post-retirement benefits to employees

The Sectra Group has defined-contribution pensions only, which means that the Group makes payments to various pension institutions on an ongoing basis. These payments are expensed continuously and constitute the Group's pension costs for the year, which are recognized under "personnel costs". Sectra has no other pension obligations and is not responsible for any value changes in the paid-in premiums. This means that Sectra does not bear the risk when pensions are paid, and no pension obligations are recognized as liabilities in the balance sheet. For other remuneration of employees, see [Note 2](#).

Intangible assets

Intangible assets are recognized at cost less amortization and impairment losses for all intangible assets excluding goodwill. Goodwill is recognized at cost less impairment losses. Individual assets are measured regularly to identify potential impairment requirements. If the carrying amount exceeds the recoverable amount, the differences are charged against profit for the period on an ongoing basis as they arise. For an asset that does not generate cash flows, the recoverable amount is calculated for the cash-generating unit to which the asset belongs. The recoverable amount is the higher of the asset's net selling price and value in use. Value in use is calculated as the present value of future cash flows for specific assets. The amortization period for intangible assets exceeds five years if the asset is expected to generate financial benefits, based on individual assessment, over a period exceeding five years. Impairment is reversed if the asset's recoverable amount exceeds its carrying amount. Impairment losses on goodwill are never reversed.

Capitalized development costs

Sectra develops proprietary software and equipment in the fields of medical imaging and secure communications. All research costs are expensed directly, and customer-related development costs are included in project costs, which are expensed at the time of revenue recognition. Internal development costs for standard products are capitalized and recognized as intangible assets to the extent that they are expected to generate financial benefits in the future. Additional requirements for capitalization are that project costs can be reliably estimated, that it is technically possible to complete the project, and that the Group has the necessary resources to complete development. Capitalized project costs include all expenses directly attributable to materials, services and remuneration of employees. Capitalized development costs are subject to straight-line amortization over the period of use per individual asset, although the maximum amortization period is five years. Amortization of capitalized development costs commences when the asset is completed and sales have commenced.

Goodwill

Goodwill represents future economic benefits arising from a business acquisition that are not specifically identified and recognized separately. Refer to "Acquisitions" for information about how goodwill is determined the first time it is recognized. Goodwill is recognized at cost less accumulated impairment losses. Refer to [Note 10](#) for a description of impairment testing.

Patents and licenses

Acquired patent rights are recognized at cost and subject to straight-line amortization over the assets' ten-year estimated period of use. Acquired license rights are recognized at cost and subject to straight-line amortization over the assets' five-year estimated period of use.

Trademarks and customer relationships

Trademarks and customer relationships pertain to acquisition-related assets. These rights are initially measured at fair value and subject to straight-line amortization over the assets' ten-year estimated period of use. Acquired customer contracts are long-term, valid for up to ten years. The probability of renewal of contracts after expiry is very high, even for shorter contract periods, which is why the period of use has been deemed to be ten years. Acquired trademarks have been built up over a long period of time in the acquired companies and are closely linked to customer values, which justifies a period of use of ten years.

Tangible assets

Depreciation according to plan is based on the original cost and estimated financial lifetime. The Group has estimated the following useful lives:

Buildings	40 years
Office furniture	10 years
Equipment and office machines	5 years
Equipment at customer premises	3–10 years, depending on the useful life in each agreement.

Leases

Through operating and finance leases, the company utilizes equipment, premises, computers, cars and items for onward leasing. All of the Group's leases are recognized as operating leases, since the material risks and benefits are deemed to remain with the lessor.

Operating lease payments are charged against net profit for the year. These costs are recognized as ongoing operating expenses in profit and loss, and are spread over the entire term of the lease.

Borrowing costs

Borrowing costs are expensed when they are not directly attributable to the acquisition, construction or production of a qualifying asset and are part of the cost of that asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. The Sectra Group had no qualifying assets on the balance-sheet date.

Inventories

Inventories are recognized at the lower of cost according to the first-in, first-out (FIFO) method or net selling price. Estimated obsolescence has thus been taken into account. Costs for internally manufactured semi-finished and finished goods consist of direct production costs plus a reasonable surcharge for indirect production costs.

Receivables

Receivables are recognized at the amount expected to be collected, based upon individual assessment.

Taxes

The Group's total tax comprises current tax and deferred tax. Deferred tax pertains to tax on temporary differences and loss carryforwards. Within the Group, deferred tax is calculated on untaxed reserves, loss carryforwards and internal profits. Current tax is calculated on the taxable surplus, including any adjustments to previous years' current tax. Deferred tax assets pertaining to loss carryforwards are recognized only if it is likely that future profits will arise that will entail lower tax in the future.

Financial instruments

Financial instruments include both assets and liabilities. Long-term receivables, securities holdings and other receivables, accounts receivable and cash and cash equivalents are recognized as assets. Financial liabilities include convertibles, accounts payable and other financial liabilities.

Financial assets

Except for those accounts receivable that do not contain a significant financing component and are measured at their transaction price in accordance with IFRS 15, all financial assets are initially measured at

fair value. Financial assets are recognized in the balance sheet when the company becomes party to the agreement, and are derecognized when the agreement expires or the company loses control over the assets. Market-listed shares are measured at market value, and value changes are recognized in profit and loss. Cash and cash equivalents and short-term investments of surplus liquidity are measured on a continuous basis at amortized cost and value changes are recognized in profit and loss. Long-term receivables, loans and accounts receivable are continuously measured at amortized cost. A bad debt provision is made when an expected credit loss exists under the original terms of the receivable. The IFRS 9 impairment model uses more forward-looking information to account for expected credit losses. This replaces the previous impairment model in IAS 39. Credit loss recognition is no longer dependent on the Group first identifying a credit loss event. Instead, the Group accounts for more extensive information in the assessment of credit risk and measurement of expected credit losses, including previous events, current conditions, and reasonable and supportable forecasts that impact the expected possibility of obtaining future cash flows from the asset. The Group applies a simplified approach when recognizing accounts receivable and other receivables and contract assets, and recognizes expected credit losses for their remaining term to maturity. This is where the expected weaknesses in contractual cash flows exist, considering the risk of default at any time during the expected life of the financial instrument. When determining the expected credit losses, the Group uses its historical experience, external indicators and forward-looking information for the calculation.

Cash and cash equivalents

Cash and cash equivalents consist of cash and funds deposited in banks and similar institutions, together with other short-term, highly liquid investments that mature within 90 days of their date of acquisition and that can be readily converted to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are recognized in the balance sheet when the invoice is received or when the company in another manner becomes party to the contractual obligations. A financial liability is derecognized from the balance sheet when the obligation specified is discharged and all liability expires. Financial liabilities are initially measured at fair value adjusted for transaction costs. They are subsequently measured at amortized cost using the effective interest method, except for financial liabilities measured at fair value through profit and loss. Interest expenses are recognized directly in profit and loss. Convertible loans are recognized as combined financial instruments divided into a liability and an equity portion in so far as the interest paid on the convertible is not adjusted to market terms. If so, the liability portion is recognized at fair value, discounting future cash flows at the market interest rate. The equity portion is calculated as the difference between the nominal value and the fair value of the loan. The interest paid on convertible loans on the balance-sheet date is considered market-based, which is why the convertible loan is recognized in its entirety as a liability.

Provisions

A provision is recognized in the balance sheet when the Group has an existing legal or informal obligation due to a past event and an outflow of economic resources may be required to settle the obligation and a reliable estimate of the amount can be made.

Fair value

The method for calculating the fair value of financial assets and liabilities is based on three measurement levels. At measurement Level 1, fair value is calculated based on quoted market prices and instruments traded in an active market. At measurement Level 2, quoted market prices are not available, but variables for the calculation of fair value are obtained from market quotations. At measurement Level 3, fair value is calculated based on data that is not available in the market. The Group's financial assets and liabilities mainly belong to measurement Level 2 and 3. Refer to [note 28](#).

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Note 1 Operating segments, function classification and earnings

Information regarding the company's operating segments and geographic areas was used to evaluate sales and earnings in the Group and to allocate the Group's resources among various segments. The identified operating segments are: Imaging IT Solutions, Secure Communications, Business Innovation and Other Operations. The basis for the geographic distribution is the customer's billing address.

Imaging IT Solutions develops and sells medical IT systems and services that help customers care for more patients, while retaining or improving the level of quality. The business area's offering encompasses IT systems for managing, archiving and presenting all types of medical images and patient information as well as IT systems for operational follow-up and radiation dose monitoring. The segment also offers maintenance in the form of support, system monitoring, consulting services related to integration, system design, data migration and business development. The largest product area in the segment is IT solutions for managing and archiving radiology images and patient information.

Secure Communications develops and sells products and services for secure voice and data communications and the protection of society's most sensitive IT infrastructure. The segment is divided into three product divisions: Tiger, which offers products for secure voice and data communications; project-based development, which develops customized encryption systems and products; and critical infrastructure, which offers security and threat analyses and system monitoring services for control systems in society's critical operations. Development and production take place in Sweden. Sales are primarily conducted in EU countries from the business area's offices in Sweden, the Netherlands and Finland.

Sectra's business units in Business Innovation develop and sell IT systems for planning and monitoring orthopaedic surgery, products for medical education and research projects. Sectra carries out research projects and manages and develops its patent portfolio in this segment.

Other Operations pertain to Sectra's joint functions for administration, recruitment, Group finances, marketing communications, IT, regulatory affairs and investor relations activities. As a result of the retroactive restatement (refer to Note 5), the former Sectra Customer Financing segment is recognized in Other Operations.

Operating segments

	Imaging IT Solutions		Secure Communications		Business Innovation		Other Operations	
	18/19	17/18	18/19	17/18	18/19	17/18	18/19	17/18
Net sales	1 204 191	1 032 341	152 357	142 866	68 785	70 322	62 696	52 210
Depreciation/ amortization	29 711	26 681	7 872	4 940	2 787	2 257	6 439	6 050
Operating profit/loss	257 022	219 185	7 036	6 904	-6 048	6 957	-28 425	-17 476
Assets	1 311 655	1 334 211	187 550	137 374	43 420	54 328	1 055 636	1 110 338
Liabilities	1 104 539	1 136 486	175 020	125 611	22 949	26 984	530 731	640 653
Investments	20 804	22 997	4 765	6 860	4 368	4 965	4 938	10 492

	Eliminations ¹		Total Group ²	
	18/19	17/18	18/19	17/18
Net sales	-74 507	-88 558	1 413 522	1 209 181
Depreciation/ amortization	0	0	46 809	39 928
Operating profit	5 956	-1 221	235 541	214 349
Assets	-1 283 443	-1 349 781	1 314 818	1 286 470
Liabilities	-1 246 331	-1 304 218	586 908	625 516
Investments	0	0	34 875	45 314

Geographic areas

	Sweden		UK		Netherlands		Rest of Europe	
	18/19	17/18	18/19	17/18	18/19	17/18	18/19	17/18
Net sales	340 640	346 153	237 117	140 325	119 496	103 382	321 020	267 654
Assets	567 892	536 109	294 877	316 473	112 125	68 803	190 976	174 416
Investments	30 533	38 796	147	629	656	1 871	3 318	3 483

	US		Rest of World		Total Group ²	
	18/19	17/18	18/19	17/18	18/19	17/18
Net sales	321 681	284 561	73 568	67 106	1 413 522	1 209 181
Assets	126 341	169 924	22 607	20 745	1 314 818	1 286 470
Investments	28	291	193	244	34 875	45 314

¹ 70.9% (58.1) of the Parent Company's total sales are attributable to other companies within the Group to which the company belongs. Purchases from Group companies amounted to 13.5% (17.3).

² Sectra has no customers that individually contribute more than 10% of total net sales. Of the Group's total intangible and tangible assets, amounting to SEK 222.8 million, SEK 127.5 million is attributable to Sweden, SEK 59.3 million to the UK and SEK 36.0 million to other countries.

cont. Note 1 Operating segments, function classification and earnings**Income statement classified by function³**

SEK thousand	18/19	17/18
Net sales	1 413 522	1 209 181
Cost of goods sold	-548 363	-444 935
Gross profit	865 159	764 246
Selling expenses	-283 104	-273 988
Administration expenses	-177 279	-122 119
Research and development costs	-172 163	-158 106
Other operating income	3 407	3 706
Other operating expenses	-479	610
Operating profit	235 541	214 349
Financial items	13 251	16 806
Profit after financial items	248 792	231 155
Taxes	-49 813	-46 450
Net profit for the year	198 979	184 706

³ Classification by function entails that the Group's departments have been categorized into groups based on their purpose and no types of costs are recognized separately. "Cost of goods sold" includes externally purchased products and costs for support and maintenance that are directly attributable to net sales for the period. The function "Research and development costs" includes direct costs for new development, capitalized work for own use and amortization of capitalized development projects. "Other operating income" includes such items as grants from Vinnova and exchange-rate gains. "Other operating expenses" includes other nonrecurring items and items that cannot be classified in any other function.

Note 2 Employees and personnel costs**Average number of employees and percentage of women**

	18/19		17/18	
	Total	of whom, women	Total	of whom, women
Parent Company				
Sweden	68	28	64	23
Group				
Australia	8	1	6	1
Denmark	13	4	12	2
Finland	5	2	4	2
France	3	2	3	3
Canada	5	1	2	1
Netherlands	42	12	35	10
Norway	22	7	20	8
New Zealand	2	0	2	0
Portugal	20	6	15	4
Spain	4	1	3	0
UK	77	24	76	22
Sweden	380	102	352	89
Germany	21	2	19	3
US	104	34	96	29
Group total	706	198	645	174

On the balance-sheet date, the proportion of female Board members amounted to 13% (10) including employee representatives on the Boards of Directors of all Group companies and to 33% (20) on the Parent Company's Board of Directors. The proportion of women in the Group's management groups, including company presidents, amounted to 30% (27) and the proportion of women in Group Management to 30% (30).

Salaries and other remuneration

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Board and President	32 730	29 108	4 916	4 921
Other employees	459 033	395 805	34 062	30 997
Total	491 763	424 913	38 978	35 918

Social security expenses

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Board and President				
Social security contributions	6 383	5 497	1 594	1 596
Pension costs	2 886	2 764	598	598
Total Board and President	9 269	8 261	2 192	2 194
Other employees				
Social security contributions	112 912	82 943	11 645	9 968
Pension costs	26 073	22 194	2 948	2 490
Total other employees	138 985	105 137	14 593	12 458

cont. Note 2 Employees and personnel costs

Remuneration of the Board, President and other senior executives 2018/2019

	Board fee	Basic salary	Variable remuneration	Other remuneration	Pension premiums	Total
Carl-Erik Ridderstråle, Chairman of the Board ¹	150	0	0	0	0	150
Jan-Olof Brüer, Chairman of the Board ²	402	0	0	0	0	402
Anders Persson	265	0	0	0	0	265
Christer Nilsson	292	0	0	0	0	292
Jakob Svärdström ¹	79	0	0	0	0	79
Tomas Puusepp	225	0	0	0	0	225
Ulrika Hagdahl	225	0	0	0	0	225
Birgitta Hagenfeldt ²	177	0	0	0	0	177
Total remuneration of the Board	1 815	0	0	0	0	1 815
President/CEO Torbjörn Kronander	0	2 486	616	0	598	3 700
Other senior executives (nine individuals)	0	9 733	1 953	0	1 960	13 646
Total remuneration of the President and other senior executives	0	12 219	2 569	0	2 558	17 346
Total	1 815	12 219	2 569	0	2 558	19 161

¹ Stepped down at the 2018 AGM.² Elected at the 2018 AGM.

Preparation and decision-making process

The Board fee was decided at the Annual General Meeting in accordance with the proposal of the Nomination Committee. Guidelines for remuneration of the President and other senior executives are determined at the Annual General Meeting. Remuneration to the President/CEO was prepared by the Remuneration Committee and decided by the Board of Directors. The President/CEO prepared and decided on the remuneration of other senior executives.

Remuneration of the Board

Fees are paid to the Board Chairman and other external members in accordance with the decision of the Annual General Meeting. Internal Board members are not paid a fee. In 2018/2019, a fee of SEK 225,000 was paid to each of the Board members, and SEK 450,000 was paid to the Chairman of the Board. For Audit Committee work, SEK 40,000 was paid to external Board members and SEK 80,000 to the Chairman of the Audit Committee. No separate fees are paid for Remuneration Committee work. Other remuneration pertains to consultant services for assignments in which a Board member has specialist expertise.

In cases where Board members invoice their fees, social security contributions are included in the invoice.

Remuneration of the President and other senior executives

Remuneration of the President/CEO and other senior executives is based on market terms and comprises basic salary, variable salary, other benefits

and pension. The fixed salary is determined taking into account experience, responsibility and performance. The variable salary is performance-based and capped at a percentage of the fixed annual salary, which is a maximum of 50%. "Other senior executives" refers to the nine individuals who, together with the President/CEO, comprised Group Management during the fiscal year.

Terms of notice and severance pay

The company must give the President/CEO 18 months' notice of termination. The President/CEO must give the company six months' notice of resignation. The notice periods for other senior executives range from three to 12 months on the part of the company, and from three to six months on the part of the executives. There are no special agreements regarding severance pay.

Pension

The retirement age for the President and other senior executives is 65. Pension benefits for the President and other senior executives are paid within the framework of the pension plan that applies to all employees, which is a defined-contribution and vested pension.

Convertible programs

Convertible programs enable employees and external Board members to acquire shares in the company.

Issued incentive programs

Convertible programs	2015/2019	2016/2019	2016/2020	2018/2022	2018/2023
Number of underlying Class B shares	26 963	124 155	19 062	6 800	1 000
Conversion price, SEK	129.80	173.40	183.60	376.80	388.90
Exercise period	Dec 9–13, 2019	Dec 9–13, 2019	Dec 10–16, 2020	Jan 10–14, 2022	Jan 9–13, 2023
Time to expiration	Dec 1, 2015– Dec 31, 2019	Dec 1, 2016– Dec 31, 2019	Dec 1, 2016– Dec 31, 2020	Nov 1, 2018– Jan 31, 2022	Nov 1, 2018– Jan 31, 2023
Interest rate during time to expiration	Stibor +2.25%	Stibor +2.25%	Stibor +2.25%	0.00%	0.00%
Dilution upon full conversion, capital	0.1%	0.3%	0.0%	0.0%	0.0%

Number of convertibles	May 1, 2018	Concluded programs	New programs	Increase due to recalculated price	April 30, 2019
Convertibles	395 881	–228 886	7 800	3 185	177 980
Total	395 881	–228 886	7 800	3 185	177 980

Recalculation occurred as a result of the share redemption program.

Note 3 Fees to auditors

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Grant Thornton				
Audit fees	2 003	1 980	1 333	936
Audit activities in addition to audit assignment	351	509	309	383
Tax advisory services	118	128	69	60
Other services	93	227	76	121
Audit fees to other auditors				
Audit fees	10	13	0	0
Other services	0	0	0	0
Total	2 575	2 857	1 787	1 500

Audit assignments involve an examination of the Annual Report and consolidated financial statements, accounting records and the administration of the Board of Directors and the President and other tasks performed by the company's auditor, including audit consultancy. The fee for audit assignments includes the statutory audit performed in each country. Audit activities in addition to the audit assignment pertains to quality-assurance services.

Note 4 Operating lease expenses

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Lease expenses paid for the year	23 220	24 297	9 511	9 142
Nominal value of agreed future lease payments:				
Due for payment within 1 year	24 119	24 238	11 443	9 324
Due for payment after 1 year but within 5 years	76 532	70 789	46 120	33 556
Due for payment after more than 5 years	72	2 865	0	0
Total	100 723	97 892	57 563	42 880

Note 5 Retroactive restatement of consolidated financial statements and segment reporting in accordance with IAS 8

Sectra has changed its assessment of when the transfer of risk takes place for Group-financed managed-services agreements in the UK, meaning that the risk associated with installation is now considered to be transferred to the customer in pace with the installation process. In conjunction with the implementation of IFRS 15, the Group determined that completion of the performance obligation also takes place over the installation period. According to the Group's previous assessment, the risk was deemed to be transferred to the Sectra Customer Financing operating area in conjunction with final delivery and then subsequently transferred to the customer over the term of the contract. As a result of this reassessment, the financial statements from 2008 and onwards have been restated. While the accumulated earnings over the contract term are unchanged at the Group level, the equalization effect on Group earnings over the contract term resulting from the internal sale of the contracts has been retroactively restated and is now recognized over the installation phase rather than the contract term. According to the new assessment of when the transfer of risk takes place and when the performance obligation is completed, operating profit and sales attributable to the project portion of the contract, which

were previously distributed over the contract term, will be recognized over the installation phase, while operating profit and sales pertaining to upgrades and support contracts will continue to be recognized over the contract term. This will result in earlier recognition of operating profit, but will make no difference in terms of cash flow or the customer's experience in terms of delivery or payment.

The figures presented in the year-end report have been restated for 2018/2019 and for the comparative years 2017/2018, 2016/2017 and 2015/2016. This retroactive restatement has affected the Group, Sectra Customer Financing (which has been discontinued as an operating segment) and Other Operations as well as the UK geographic segment and the subsidiaries Ebberöd Capital Ltd and Sectra Ltd. As a result of the adjustment, the Group's opening unrestricted equity for the 2017/2018 fiscal year increased SEK 55 million, an amount that would have comprised operating profit for the 2018 to 2028 fiscal years under the earlier policy for revenue accrual.

With respect to the balance sheet, there was a decrease in tangible assets, which previously comprised the hardware components of an installation, as well as other current assets, which referred to capitalized time in the installed projects. The previous accounting policy was based on material risks and benefits remaining in the Group. As a result of the change to this assessment and the transfer of risk to the customer for the installed projects, an item has instead arisen for financial assets, which comprises the present value of the cash flow expected to be received from the installation. The earlier items of sales and operating profit have been replaced by repayment and financial income. These changes have had no impact on customer payments and thus no impact on Sectra's total cash flow, but rather only impacted the category in which the payments are recognized.

Consolidated income statement	Previous	Change	After correction
	17/18		17/18
Net sales	1 266 496	-57 315	1 209 181
Capitalized work for own use	28 228	-	28 228
Reversal of contingent consideration	-	-	-
Other operating income	3 706	-	3 706
Goods for resale	-187 783	7 489	-180 294
Personnel costs	-584 103	-	-584 103
Other external costs	-222 441	-	-222 441
Depreciation/ amortization and impairment	-64 999	25 071	-39 928
Operating profit	239 104	-24 755	214 349
Net financial items	10 167	6 639	16 806
Profit after net financial items	249 271	-18 116	231 155
Taxes	-51 007	4 558	-46 450
Profit for the period	198 264	-13 558	184 706

Consolidated income statement	Previous	Change	After correction
	18/19		18/19
Net sales	1 415 463	-1 941	1 413 522
Capitalized work for own use	37 269	-	37 269
Reversal of contingent consideration	-	-	-
Other operating income	3 407	-	3 407
Goods for resale	-210 462	-43 995	-254 457
Personnel costs	-676 807	-	-676 807
Other external costs	-240 584	-	-240 584
Depreciation/amortization and impairment	-69 287	22 478	-46 809
Operating profit	258 999	-23 458	235 541
Net financial items	6 926	6 325	13 251
Profit after net financial items	265 925	-17 133	248 792
Taxes	-53 869	4 056	-49 813
Profit for the period	212 056	-13 077	198 979

Consolidated balance sheet	Previous	Change	After correction
	16/17		16/17
Assets			
Intangible assets	182 053		182 053
Tangible assets	103 205	-63 899	39 306
Financial assets	1 799	182 792	184 591
Deferred tax assets	30 283	-22 211	8 072
Total fixed assets	317 340	96 682	414 022
Other current assets	555 103	-26 665	528 438
Cash and cash equivalents	273 216		273 216
Total current assets	828 319	-26 665	801 654
Total assets	1 145 659	70 017	1 215 676

Equity and liabilities			
Equity (incl. profit for the period)	541 412	72 599	614 011
Provisions	30 318		30 318
Deferred tax liabilities	22 843	-169	22 674
Long-term liabilities	56 611		56 611
Current liabilities	494 476	-2 414	492 062
Total equity and liabilities	1 145 660	70 017	1 215 676

Consolidated balance sheet	Previous	Change	After correction
	17/18		17/18
Assets			
Intangible assets	188 087	-	188 087
Tangible assets	90 251	-47 101	43 150
Financial assets	37	172 083	172 120
Deferred tax assets	26 061	-21 789	4 272
Total fixed assets	304 436	103 193	407 629
Other current assets	647 631	-51 131	596 500
Cash and cash equivalents	282 341	-	282 341
Total current assets	929 972	-51 131	878 841
Total assets	1 234 408	52 062	1 286 470

Equity and liabilities			
Equity (incl. profit for the period)	605 998	54 956	660 954
Provisions	21 078	-	21 078
Deferred tax liabilities	5 889	-	5 889
Long-term liabilities	28 528	-	28 528
Current liabilities	572 915	-2 894	570 021
Total equity and liabilities	1 234 408	52 062	1 286 470

Consolidated balance sheet	Previous	Change	After correction
	18/19		18/19
Assets			
Intangible assets	182 650	-	182 650
Tangible assets	106 978	-66 830	40 148
Financial assets	37	170 237	170 274
Deferred tax assets	25 636	-19 639	5 997
Total fixed assets	315 301	83 768	399 069
Other current assets	701 964	-118 150	583 814
Cash and cash equivalents	331 935	-	331 935
Total current assets	1 033 899	-118 150	915 749
Total assets	1 349 200	-34 382	1 314 818

Equity and liabilities			
Equity (incl. profit for the period)	670 284	57 625	727 909
Provisions	23 327	-	23 327
Deferred tax liabilities	7 395	-	7 395
Long-term liabilities	6 451	-	6 451
Current liabilities	641 743	-92 007	549 736
Total equity and liabilities	1 349 200	-34 382	1 314 818

Consolidated cash-flow statement	Previous	Change	After correction
	16/17		16/17
Cash flow from operations before changes in working capital	204 258	28 182	232 440
Cash flow from operations after changes in working capital	235 185	-43 116	192 069
Investing activities	-59 553	42 061	-17 492
Financing activities	-146 084	0	-146 084
Total cash flow for the period	29 548	-1 055	28 493

Change in cash and cash equivalents

Cash and cash equivalents, opening balance	239 768		239 768
Exchange-rate difference in cash and cash equivalents	3 900	1 055	4 955
Cash and cash equivalents, closing balance	273 216	0	273 216
Unutilized credit facilities	15 000		15 000

Consolidated cash-flow statement	Previous	Change	After correction
	17/18		17/18
Cash flow from operations before changes in working capital	253 344	-27 989	225 355
Cash flow from operations after changes in working capital	222 692	-15 161	207 531
Investing activities	-41 974	18 981	-22 993
Financing activities	-172 604	0	-172 604
Total cash flow for the period	8 114	3 820	11 934

Change in cash and cash equivalents

Cash and cash equivalents, opening balance	273 216		273 216
Exchange-rate difference in cash and cash equivalents	1 011	-3 820	-2 809
Cash and cash equivalents, closing balance	282 341	0	282 341
Unutilized credit facilities	15 000		15 000

Consolidated cash-flow statement	Previous	Change	After correction
	18/19		18/19
Cash flow from operations before changes in working capital	238 193	-28 894	209 299
Cash flow from operations after changes in working capital	290 076	-39 380	250 696
Investing activities	-77 092	44 063	-33 029
Financing activities	-168 933	0	-168 933
Total cash flow for the period	44 051	4 683	48 734

Change in cash and cash equivalents

Cash and cash equivalents, opening balance	282 341		282 341
Exchange-rate difference in cash and cash equivalents	5 543	-4 683	860
Cash and cash equivalents, closing balance	331 935	0	331 935
Unutilized credit facilities	15 000		15 000

Consolidated statement of changes in equity

	18/19	17/18
Equity (incl. profit for the period) according to previous accounting policy	670 284	605 998
Effect of reversed eliminations of intra-Group profit	74 078	75 327
Effect of adjustment of reversed intra-Group profit up to and including 16/17 (correction in 17/18 Annual Report)	0	13 104
Effect of adjustment of recognized service revenue (previously recognized as effect of transition to IFRS 15)	-5 020	-20 646
Earnings effect for the year of changed accounting policy for Group-financed managed-services agreements	-13 077	-13 558
Currency adjustment	1 644	729
Total effect of restatement compared with previous accounting policy	57 625	54 956
Equity (incl. profit for the period) according to restatement	727 909	660 954

Alternative performance measures for the period and full-year according to previous accounting policy

	18/19	17/18
Order bookings, SEK million	2 132.8	1 492.5
Operating margin, %	18.3	18.9
Profit margin, %	18.8	19.7
Average no. of employees	706	645
Cash flow per share, SEK	7.56	5.84
Cash flow per share after full dilution, SEK	7.53	5.78
Value added, SEK million	935.8	823.2
P/E ratio, multiple	58.0	37.2
Share price at end of period, SEK	322.0	194.2
Return on equity, %	33.2	34.2
Return on capital employed, %	40.1	38.7
Return on total capital, %	20.7	20.9
Equity/assets ratio, %	49.7	49.1
Liquidity ratio, multiple	1.6	1.6
Equity per share, SEK	17.48	15.90
Equity per share after full dilution, SEK	17.40	15.73

cont. Note 5 Retroactive restatement of consolidated financial statements and segment reporting in accordance with IAS 8

Quarterly consolidated income statement and alternative performance measures according to previous accounting policy

SEK million	18/19				17/18			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales	440.4	341.6	327.4	306.1	387.9	300.1	313.4	265.1
Capitalized work for own use	15.6	10.7	6.3	4.6	7.7	11.1	5.6	3.9
Reversal of contingent consideration	0	0	0	0	0	0	0	0
Other operating income	0.3	1.1	1.5	0.5	0.9	1.5	0.5	0.9
Operating expenses	-328.6	-281.0	-270.1	-248.1	-295.4	-244.7	-243.6	-210.8
Depreciation/amortization and impairment	-19.1	-16.7	-16.7	-16.8	-17.4	-16.7	-16.1	-14.8
Operating profit	108.6	55.7	48.4	46.3	83.7	51.3	59.8	44.3
Net financial items	4.6	-0.2	6.1	-3.5	29.8	-6.3	2.1	-15.5
Profit after net financial items	113.2	55.5	54.5	42.8	113.5	45.0	61.9	28.8
Tax on earnings for the period	-21.2	-11.9	-11.3	-9.5	-22.7	-9.9	-12.1	-6.3
Profit for the period	92.0	43.6	43.2	33.3	90.8	35.1	49.8	22.5
Order bookings, SEK million	1 104.9	390.7	350.7	286.5	500.3	337.9	426.8	227.6
Operating margin, %	24.7	16.3	14.8	12.1	21.6	17.1	19.1	16.7
Cash flow per share, SEK	3.04	1.98	2.05	neg	2.68	1.21	1.33	0.64
Cash flow per share after full dilution, SEK	3.03	1.97	2.03	neg	2.65	1.20	1.31	0.63
Earnings per share, SEK	2.40	1.14	1.13	0.70	2.38	0.92	1.31	0.59
Return on equity, %	15.0	7.8	8.3	4.3	15.7	6.6	10.0	4.0
Return on capital employed, %	16.6	8.9	9.0	4.9	17.6	7.6	10.8	4.6
Equity/assets ratio, %	49.7	48.7	44.1	53.7	49.1	46.5	43.0	49.1
Equity per share, SEK	17.48	14.70	12.87	17.76	15.90	13.14	11.76	14.80
Share price at end of period, SEK	322.0	220.05	238.6	240.0	194.2	189.4	164.0	152.5

Four-year summary according to previous accounting policy

	18/19	17/18	16/17	15/16
Order bookings, SEK million	2 132.8	1 492.5	1 177.7	1 322.0
Net sales, SEK million	1 415.5	1 266.5	1 140.9	1 073.6
Operating profit, SEK million	259.0	239.1	200.1	165.5
Profit after net financial items, SEK million	265.9	249.3	199.7	154.8
Profit for the period after tax, SEK million	212.1	198.3	152.6	125.7
Operating margin, %	18.3	18.9	17.5	15.4
Profit margin, %	18.8	19.7	17.5	14.4
Earnings per share before dilution, SEK	5.55	5.22	4.04	3.35
Earnings per share after dilution, SEK	5.50	5.15	3.97	3.29
Dividend/redemption program per share, SEK	4.50	4.50	4.50	4.50
Share price at end of year, SEK	322.0	194.2	162.5	110.75
P/E ratio, multiple	58.0	37.2	40.2	33.0
Return on equity, %	33.2	34.2	28.1	21.7
Return on capital employed, %	40.1	38.7	32.5	24.2
Return on total capital, %	20.7	20.9	17.9	14.2
Equity per share before dilution, SEK	17.48	15.90	14.29	14.55
Equity per share after dilution, SEK	17.40	15.73	14.06	14.23
Equity/assets ratio, %	49.7	49.1	47.3	49.5

Note 6 Interest income and similar profit/loss items

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Other interest income	9 637	6 880	283	89
Interest income from Group companies	0	0	9 036	7 305
Dividends	0	0	51 400	0
Capital gain on shares in other companies	0	9 848	0	0
Exchange difference, net	4 860	1 558	8 929	6 613
Total	14 497	18 286	69 648	14 007

Note 7 Interest expenses and similar profit/loss items

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Interest expenses	1 246	1 480	1 085	1 271
Interest expenses from Group companies	0	0	403	49
Total	1 246	1 480	1 488	1 320

Note 8 Appropriations

	Parent Company	
	18/19	17/18
Group contributions	185 497	139 000
Change in tax allocation reserve	0	84 269
Change in excess depreciation/amortization	0	3 360
Total	185 497	226 629

Group contributions paid and received in the Parent Company are recognized as appropriations in profit and loss in accordance with the alternative rule for Group contributions in RFR 2 / IAS 27.

Note 9 Tax on net profit for the year

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Tax expenses				
Current tax	-52 480	-65 625	-39 944	-51 986
Deferred tax	2 667	19 176	898	52
Total tax expenses¹	-49 813	-46 449	-39 046	-51 934

Relationship between the Group's tax expense and recognized tax per applicable tax rate

Profit before tax ¹	248 792	231 155	227 942	235 238
Tax per applicable tax rate for the Parent Company (22%) ¹	-54 734	-50 854	-50 147	-51 752
Adjustment of tax for previous years	258	1 585	0	0
Tax effect of non-deductible expenses	-474	-1 748	-179	-233
Tax effect of non taxable income	158	5 248	11 308	0
Change in temporary differences	-709	2 755	-28	51
Tax effect of other tax rates in foreign subsidiaries	5 688	-3 435	0	0
Tax on net profit for the year	-49 813	-46 449	-39 046	-51 934

Deferred tax liabilities

Deferred tax liabilities on current assets	2 780	400	0	0
Deferred tax liabilities on surplus values	4 615	5 489	0	0
Total deferred tax liabilities	7 395	5 889	0	0

Deferred tax assets

Deferred tax assets on current assets	4 585	2 713	997	98
Deferred tax assets on provisions	1 411	1 559	0	0
Total deferred tax assets	5 996	4 272	997	98

¹The comparative year has been restated. Refer to Note 5.

Note 10 Intangible assets

	Group						Parent Company
	Capitalized development ¹	Goodwill ²	Patents and licenses ³	Customer relationships ⁴	Trademarks ⁵	Total	Capitalized development ¹
Opening cost	209 090	73 778	2 500	57 859	7 877	351 104	12 815
Translation difference	-2 019	2 838	0	683	-39	1 463	0
Investments for the year	30 246	0	0	0	0	30 246	6 517
Accumulated cost at April 30, 2018⁶	237 317	76 616	2 500	58 542	7 838	382 813	19 332
Opening amortization and impairment	-111 025	-21 244	-1 675	-28 657	-6 450	-169 050	-2 050
Translation difference	0	-114	0	975	91	952	0
Amortization for the year	-21 666	0	-300	-4 321	-341	-26 628	-2 386
Accumulated amortization and impairment at April 30, 2018	-132 691	-21 358	-1 975	-32 003	-6 700	-194 726	-4 436
Closing residual value according to plan at April 30, 2018	104 626	55 258	525	26 539	1 138	188 087	14 895
Opening cost	237 317	76 616	2 500	58 542	7 838	382 813	19 332
Translation difference	47	1 873	0	-755	20	1 185	0
Investments for the year	25 176	0	0	0	0	25 176	4 368
Accumulated cost at April 30, 2019⁶	262 540	78 489	2 500	57 787	7 858	409 174	23 700
Opening amortization and impairment	-132 691	-21 358	-1 975	-32 003	-6 700	-194 726	-4 436
Translation difference	0	-343	0	1 017	12	686	0
Amortization for the year	-27 288	0	-300	-4 531	-364	-32 483	-3 098
Accumulated amortization and impairment at April 30, 2019	-159 979	-21 701	-2 275	-35 517	-7 052	-226 523	-7 534
Closing residual value according to plan at April 30, 2019	102 561	56 788	225	22 270	806	182 651	16 165

¹ Capitalized development pertains to internally generated intangible assets comprising proprietary software and equipment for medical imaging and secure communications. The remaining amortization period on larger projects is one to five years. The largest remaining project concerns the development of IT systems in Imaging IT Solutions.

² Goodwill is attributable to the acquisition of Burnbank Systems Ltd, EXP Analytics Oy and RxEye AB. Goodwill attributable to the acquisition of RxEye AB was impaired in its entirety during the 2016/2017 fiscal year. Of total goodwill, SEK 44,775 thousand was attributable to the Imaging IT Solutions segment and SEK 12,013 thousand to the Secure Communications segment.

³ Remaining values in patents and licenses pertain to licenses in the Secure Communications segment.

⁴ Customer relationships are attributable to the Imaging IT Solutions segment and pertain to acquired assets from Sectra Sverige AB, Sectra imaXperts BV, Burnbank Systems Ltd, it-mark ApS and RxEye AB.

⁵ Trademarks pertain to acquired assets from Sectra Sverige AB and Burnbank Systems Ltd.

Of the accumulated cost, 9.8% (14.6) pertains to ongoing development projects and 90.2% (85.4) to completed projects.

Impairment of intangible assets

An impairment test is performed on intangible assets if there is an indication that an asset may be impaired, and on ongoing development projects and goodwill at least once annually. Impairment testing is based on future value-in-use calculations. The value of the Group's intangible assets is based on the value in use of the cash-generating development projects and acquired companies. The value in use is based on the cash flows that the assets are expected to generate. The recoverable amount comprises value in use, meaning the present value of the future cash flows that the intangible assets are expected to generate. All assumptions described below have been approved by the Board.

Cash-flow assumptions

Goodwill

Future cash flows for goodwill are based on expected synergy effects in terms of the growth potential for sales in the UK market for Imaging IT Solutions with respect to Burnbank Systems Ltd. Goodwill attributable to the acquisition of EXP Analytics Oy is based on future cash flows in the form of growth potential in the Finnish and Estonian markets.

Other intangible assets

The future cash flows used when calculating each unit's value in use are based on a detailed review of each development project.

Discounting factor

Along with a joint discount rate of 7.0%, each cash-flow generating unit is charged an additional individual risk premium of 1.0 percentage point in the event that the technical conditions pertaining to the unit are considered, in all material respects, to be new and an additional individual risk premium of 1.0 percentage point in cases where the market conditions are considered, in all material respects, to be new (2.0). Overall, the assessment is that the components included in the risk premium are unchanged compared with the preceding year.

Goodwill

A pre-tax rate of between 7.0% and 8.0% (7.1–8.1) was used when calculating cash flows associated with goodwill.

Other intangible assets

The present value of forecast future cash flows for development projects has been calculated using a pre-tax rate of between 7.0% and 9.0% (7.1–9.1).

cont. Note 10 Intangible assets**Forecast period and growth rate**

The forecast period when calculating value in use is determined by the asset's useful life of five years. The growth rate is based on the market growth in Sectra's individual product areas. The forecast period in connection with the calculation of goodwill has been set at five years. The growth rate assessment is based on market trends and growth goals in the business areas. The variation in assumed growth during the forecast period and thereafter between the respective acquired companies and the various development projects is significant, which means that average values can vary considerably between years. In cases where intangible assets are assumed to have a perpetual economic life, perpetuity growth has been set at 0% (0) under the prevailing external economic conditions, and for other assets, individual assessments have been carried out to determine the percentage by which the cash flow from each asset is assumed to be decreased.

Goodwill

The assumed average growth for the acquired companies is 14% (15) annually. The assumed average annual perpetuity growth is 0% (0).

Other intangible assets

The assumed average growth over the forecast period for all development projects is negative 3% (neg: 4) annually. The assumed annual perpetuity growth for all development projects is negative 20% (neg: 20).

Other assumptions regarding required yield

Risk-free interest:	Ten-year treasury bill on the balance-sheet date 0.2% (0.7)
Market risk premium:	6.8% (6.4)
Company-specific risk premium:	0.0–2.0% (0.0–2.0)
Beta value:	The beta value is calculated at 1.0 (1.0)
Interest expenses:	Sectra's assessed cost for borrowing
Tax rate:	Tax rate in Sweden

Since all assets were acquired using equity, the return requirement is between 7.0% and 9.0% after tax, which corresponds to between 8.9% and 11.5% before tax.

Impairment tests and sensitivity analyses for the year**Goodwill**

Impairment tests for the year show that impairment is not currently required in any of the acquired companies. Should there be any future changes in individual variables, the value in use may fall below the carrying amount which could lead to impairment. A sensitivity analysis in which the discount rate increases by 2 percentage points and annual perpetuity growth decreases by 2 percentage points results in the value that exceeds the carrying amount being reduced by an average of 33%. If growth during the forecast period also decreases by 2 percentage points, the value that exceeds the carrying amount is reduced by a total average of 36%.

Other intangible assets

Executive Management deems that any reasonable and possible changes in individual variables will not cause the value in use to fall below the carrying amount. A sensitivity analysis in which the discount rate increases by 2 percentage points and annual perpetuity growth decreases by 2 percentage points results in the value that exceeds the carrying amount being reduced by an average of 9%. If growth during the forecast period also decreases by 2 percentage points, the value that exceeds the carrying amount is reduced by a total average of 19%.

Parent Company

At April 30, 2019, the Parent Company held intangible assets related to capitalized development projects in Business Innovation amounting to SEK 16.2 million (14.9).

Note 11 Tangible assets

	Group		Parent Company	
	190430	180430	190430	180430
Opening cost	180 533	338 739	40 722	31 783
Translation difference	6 150	13 306	0	0
Investments for the year	9 699	15 068	4 938	8 939
Sales/disposals for the year	-3 911	-4 651	0	0
Adjustment of discontinued operations	0	-181 929	0	0
Closing accumulated cost	192 471	180 533	45 660	40 722
Opening depreciation	-137 383	-235 534	-21 572	-16 307
Translation difference	-4 174	-7 594	0	0
Depreciation for the year	-14 325	-13 300	-6 231	-5 265
Sales/disposals for the year	3 559	3 722	0	0
Adjustment of discontinued operations	0	115 323	0	0
Closing accumulated depreciation	-152 323	-137 383	-27 803	-21 572
Residual value according to plan	40 148	43 150	17 857	19 150
Total carrying amount	40 148	43 150	17 857	19 150

Note 12 Participations in Group companies

	Corp. Reg. No.	Reg. office	No. of participations	Share of capital, %	190430 Carrying amount	180430 Carrying amount
Parent Company:						
Sectra Imaging IT Solutions AB	556250-8241	Linköping, SE	300 000	100%	2 883	2 883
Sectra Communications AB	556291-3300	Linköping, SE	3 000 000	100%	3 000	3 000
Sectra Secure Transmission AB	556247-1283	Linköping, SE	100 000	100%	95	95
Ebberöd Capital, Inc.	20-8912327	Shelton, US	1 000	100%	0	0
Ebberöd Capital Ltd	6707408	London Stansted, UK	1 000	100%	0	0
Sectra Sverige AB	556483-9479	Linköping, SE	40 350	100%	21 016	21 016
Sectra Norge AS	975 353 265	Oslo, NO	5 000	100%	283	283
Sectra Inc.	06-1473851	Shelton, US	500	100%	384	384
Sectra Medical Systems GmbH	HR B 8546	Cologne, DE	500	100%	219	219
Sectra Danmark A/S	10073251	Odense, DK	5 000	100%	639	639
Sectra Ltd	4571654	London Stansted, UK	1	100%	0	0
Sectra Pty Ltd	105 376 190	Sydney, AU	1	100%	1	1
Sectra New Zealand Ltd	1539744	Auckland, NZ	1	100%	0	0
Sectra Medical Systems SL	B84352749	Madrid, ES	500	100%	2 290	2 290
Art Ces Lda	PT513270396	Porto, PT	5 000	100%	48	48
Sectra imaXperts BV	39069257	Almere, NL	500	100%	4 664	4 664
Sectra France SAS	811070317	Paris, FR	1 000	100%	9	9
Sectra Canada Inc	BC1112137	Vancouver, CA	100	100%	65	65
Total					35 597	35 597
Sectra Imaging IT Solutions AB:						
Paxlink AB	556572-3292	Linköping, SE	1 000	100%	811	811
RxEye AB	556807-9924	Stockholm, SE	1 090 856	100%	13 261	13 261
Burnbank Systems Ltd ¹	05968184	Ipswich, UK	1 000	100%	61 836	61 836
Burnbank Dataconnect Ltd	02860002	Ipswich, UK	1 450	100%	0	0
Burnbank Healthsystems Ltd	06502661	Ipswich, UK	2	100%	0	0
Total					75 908	75 908
Sectra Communications AB:						
Sectra Secure Solutions AB	556570-9325	Linköping, SE	3 000 000	100%	6 981	6 981
Sectra Communications Ltd	4884887	London, UK	1	100%	0	0
Sectra Communications BV	27264295	The Hague, NL	1 800	100%	164	164
Sectra Communications Oy	2679724-9	Helsingfors, FI	2 500	100%	23	23
Total					7 168	7 168

¹ Burnbank Systems Limited and Burnbank Dataconnect Limited are exempt from the requirement to have a statutory audit completed on their financial statements under section 479A of the Companies Act 2006 under UK law.

Note 13 Participations in associated companies

					Parent Company	
					190430	180430
Opening cost					564	0
Acquisitions for the year					0	564
Total					564	564

					190430	180430
	Corp. Reg. No.	Reg. office	No. of participations	Share of capital, %	Carrying amount	Carrying amount
Sectra Saudi Arabia Ltd	10213371171087	Riyadh, SA	500	50%	564	564
Total					564	564

The company is jointly owned by Sectra AB and Sectra Imaging IT Solutions AB, which own 50% each.

Note 14 Long-term receivables from Group companies

			Parent Company	
			190430	180430
Opening cost			222 239	250 020
New receivables			550	1 948
Amortized receivables			-511	-38 053
Exchange-rate difference			8 012	8 324
Total			230 290	222 239

Note 15 Financial assets

		Group		Parent Company	
		190430	180430	190430	180430
Other shares and participations		37	37	0	0
Long-term accounts receivable ¹		170 237	172 084	0	0
Total		170 274	172 121	0	0

¹ The current and comparative fiscal year have been restated. Refer to Note 5.

Note 16 Inventories

		Group		Parent Company	
		190430	180430	190430	180430
Component stocks		32 593	26 215	0	0
Finished products		8 266	3 804	0	0
Total		40 859	30 019	0	0

In 2018/2019, an inventory impairment of SEK 199 thousand (819) was recognized in profit and loss.

Equipment and components mainly used for development are reclassified as equipment or expensed through profit or loss, depending on the estimated useful life of the inventory item. Of the total inventory value, 0 is measured at fair value after selling expenses. Accordingly, the entire inventory is measured at cost since this value is lower than fair value after selling expenses.

Note 17 Accounts receivable**Accounts receivable per currency**

		Group		Parent Company	
		190430	180430	190430	180430
SEK		36 970	49 205	-628	4 404
USD		41 109	50 696	4 455	9 263
EUR		112 216	72 856	12 037	14 751
GBP		40 827	39 986	74	-6
Other currencies		27 791	40 717	-38	-25
Total		258 913	253 460	15 900	28 387

Change for the year in the reserve for expected credit losses

		Group		Parent Company	
		190430	180430	190430	180430
Opening balance		30 799	34 161	907	273
Realized losses		-268	-4 133	-268	0
Reversal of unutilized amounts		-12 129	-12 994	-552	-36
Reserve for expected credit losses		6 643	13 278	4 569	670
Exchange-rate effect		-322	487	0	0
Total		24 723	30 799	4 656	907

See Note 29 for an age analysis.

Note 18 Prepaid expenses and accrued income

		Group		Parent Company	
		190430	180430	190430	180430
Prepaid rent		3 746	4 176	1 998	1 592
Accrued interest income		2	2	2	2
Prepaid support agreements		31 640	19 258	3 073	2 348
Other items		68 376	43 038	3 631	5 493
Recognized non-invoiced income ¹		158 422	188 275	0	0
Total		262 186	254 749	8 704	9 435

¹ Recognized non-invoiced income constitutes contract assets according to IFRS 15. This item comprises non-invoiced income attributable to performance obligations that have been satisfied according to customer contracts, but that is dependent on terms other than the remaining calendar time before payment of the consideration falls due.

Note 19 Cash and cash equivalents

	Group		Parent Company ¹	
	190430	180430	190430	180430
Bank balances	331 935	282 341	225 324	212 709
Total	331 935	282 341	225 324	212 709

¹ Balances in the Group's cash-pool accounts are recognized in their entirety as cash and cash equivalents in the Parent Company and are included in the Parent Company's cash-flow statement. The subsidiaries' portion of the cash-pool accounts are recognized as short-term receivables from, or liabilities to, the Parent Company.

Bank overdraft facilities

	Group		Parent Company	
	190430	180430	190430	180430
Credit limit granted	15 000	15 000	15 000	15 000
Unutilized portion	-15 000	-15 000	-15 000	-15 000
Utilized credit amount	0	0	0	0

Note 20 Provisions

	Group				Parent Company
	Taxes	Guarantee commitments and other provisions	Contingent consideration	Total	Guarantee commitments
Carrying amount, May 1, 2017	26 539	13 202	17 117	56 858	2 190
Provisions made in the period	78	1 417	0	1 495	1 398
Translation difference	0	0	1 063	1 063	0
Amount appropriated	-20 729	-9 823	-1 897	-32 449	0
Carrying amount, April 30, 2018	5 888	4 796	16 283	26 967	3 588
Of which, total long-term portion of provisions	5 888	0	14 137	20 025	0
Of which, total short-term portion of provisions	0	4 796	2 146	6 942	3 588

	Group				Parent Company
	Taxes	Guarantee commitments and other provisions	Contingent consideration	Total	Guarantee commitments
Carrying amount, May 1, 2018	5 888	4 796	16 283	26 967	3 588
Provisions made in the period	2 624	5 970	0	8 594	2 416
Translation difference	0	0	47	47	0
Amount appropriated	-1 117	-3 011	-757	-4 885	-1 299
Carrying amount, Apr 30, 2019	7 395	7 755	15 573	30 723	4 705
Of which, total long-term portion of provisions	7 395	0	14 356	21 751	0
Of which, total short-term portion of provisions	0	7 755	1 217	8 972	4 705

The carrying amount at the end of the period is expected to be settled within one to five years for taxes, within one year for guarantee commitments and other provisions, and within three years for contingent consideration.

Note 21 Other long-term liabilities

	Group		Parent Company	
	190430	180430	190430	180430
Convertible debentures 15/19	0	3 500	0	3 500
Convertible debentures 16/19	0	21 529	0	21 529
Convertible debentures 16/20	3 500	3 500	3 500	3 500
Convertible debentures 18/22	2 562	0	2 562	0
Convertible debentures 18/23	389	0	389	0
Total	6 451	28 529	6 451	28 529

The assessment of whether the interest rate for convertibles is market-based is based on Sectra's current costs for borrowing. Refer to Note 29 for information concerning maturities and terms of interest, and Note 2 for more information about the convertible programs.

Note 22 Other current liabilities

	Group		Parent Company	
	190430	180430	190430	180430
Convertible debentures 14/18 reclassification from long-term liabilities	0	3 500	0	3 500
Convertible debentures 15/18 reclassification from long-term liabilities	0	24 582	0	24 582
Convertible debentures 15/19, converted during the fiscal year	3 500	0	3 500	0
Convertible debentures 16/19 reclassification from long-term liabilities	21 529	0	21 529	0
Value-added tax	27 703	60 646	1 047	760
Employee withholding taxes	9 247	8 205	863	718
Other liabilities	9 056	8 069	931	478
Total	71 035	105 002	27 870	30 038

Conditions

For information about the terms for the convertible debentures, see Note 2 Salaries and other remuneration.

Note 23 Accrued expenses and deferred income

	Group		Parent Company	
	190430	180430	190430	180430
Accrued social security contributions	33 935	29 951	6 654	4 985
Accrued vacation pay	52 767	48 485	8 115	7 067
Prepaid support agreements ¹	66 388	66 641	0	0
Accrued accounts payable	40 058	35 623	3 239	3 936
Invoiced non-recognized income ¹	147 111	124 773	3 198	5 436
Other items	61 017	63 631	5 496	6 587
Total	401 276	369 104	26 702	28 011

¹ Advances received for installation services not yet performed as well as prepaid service and support revenue constitute customer payments received before the goods or services have been transferred (contract liabilities) and for which revenue is expected to be recognized during the coming fiscal year. Installation services revenue is recognized during the installation phase, while service and support revenue is recognized during the contract period.

Note 24 Pledged assets and contingent liabilities

	Group		Parent Company	
	190430	180430	190430	180430
For bank overdraft facilities				
Chattel mortgages	36 250	36 250	11 000	11 000
Total pledged assets	36 250	36 250	11 000	11 000
Guarantees on behalf of subsidiaries			102 869	126 065
Total contingent liabilities			102 869	126 065

Note 25 Cash flow**Adjustment for non-cash items**

	Group		Parent Company	
	18/19	17/18	18/19	17/18
Depreciation/amortization and impairment	46 809	39 928	9 329	7 651
Exchange-rate differences	-10 342	431	8 929	6 612
Reversal of provision/provision	5 249	11 687	5 774	3 108
Capital gain/loss on sale of shares	0	-9 847	0	0
Total	41 716	42 199	24 032	17 371

Note 26 Related parties

The Group's related parties comprise Group Management and the Board of Directors as well as other key persons in senior positions. The Group has no transactions with related parties, apart from what is stated in Note 2.

Note 27 Important estimates and judgments and uncertainty in estimates

At year-end, certain judgments are made in regard to the application of accounting policies that affect the carrying amounts recognized on the balance-sheet date. These estimates for reporting purposes may deviate from the actual outcome. The following estimates may involve a risk of changes in the carrying amounts.

Impairment requirements relating to intangible assets including goodwill are assessed on an ongoing basis, based on the calculated recoverable amount per cash-generating unit. The recoverable amount is based on the unit's value in use, which consists of estimated future cash flows during its useful life. Estimates are based on budgeted long-term targets and anticipated growth. Group synergy effects were taken into consideration when calculating cash flow associated with goodwill. The present value of the forecast future cash flows for all development projects has been calculated using an after-tax discount rate of between 7.0% and 9.0% [7.1–9.1]. An after-tax discount rate of between 7.0% and 9.0% [7.1–9.1] has been used when calculating cash flows associated with goodwill. The growth rate assessment has been set in line with market trends and growth goals in the business areas. Assumptions regarding future cash flows may be uncertain.

The useful life of intangible assets excluding goodwill is based on the life of the asset. Amortization of intangible assets is based on estimated useful life per asset, which can have major significance for the Group's earnings and financial position.

Contingent considerations. There is a certain level of uncertainty in the assumptions regarding future sales and earnings attributable to contingent consideration liabilities.

Obligations in contracts arise upon the delivery of a system and during the duration of the contract. These obligations normally involve a guarantee period of 12 months and other obligations during the duration of the contract. Assessment of future guarantee costs is based on individual projects and prior experience. Deviations between the actual guarantee cost and the provisions occur for individual projects, but at Group level these deviations are limited.

Note 28 Measurement of financial assets and liabilities

Group, April 30, 2019	Amortized cost	Fair value through profit or loss	Total
Financial assets			
Investments held as fixed assets	0	37	37
Long-term accounts receivable	170 238	0	170 238
Other financial assets	170 238	37	170 275
Financial liabilities			
Accounts receivable	258 913	0	258 913
Cash and bank balances	331 935	0	331 935
Total assets	761 086	37	761 123
Financial liabilities			
Long-term liabilities	6 451	0	6 451
Provisions	7 754	0	7 754
Contingent consideration	0	15 573	15 573
Other current liabilities	25 029	0	25 029
Accounts payable	55 323	0	55 323
Total financial liabilities	94 557	15 573	110 130

Group, April 30, 2018	Accounts receivable and loan receivables	Financial assets available for sale	Other financial assets and liabilities	Total carrying amount	Fair value
Investments held as fixed assets	0	37	0	37	37
Long-term accounts receivable	172 084	0	0	172 084	172 084
Accounts receivable	253 460	0	0	253 460	253 460
Other short-term receivables	0	0	0	0	0
Cash and bank balances	0	0	282 341	282 341	282 341
Total financial assets	425 544	37	282 341	707 922	707 922
Financial liabilities					
Long-term liabilities	0	0	28 528	28 528	28 528
Provisions	0	0	21 078	21 078	21 078
Other current liabilities	0	0	28 083	28 083	28 083
Accounts payable	0	0	46 264	46 264	46 264
Total financial liabilities	0	0	123 953	123 953	123 953

The earnings effect of impairment losses and reversals of previous impairment on bad debt losses was a negative SEK 2,257 thousand, net (neg: 114). No gains or losses were recognized in any of the other categories.

For cash and cash equivalents and other receivables and liabilities with shorter lifetimes, the carrying amount is considered to correspond to the fair value. In the case of receivables or liabilities with a lifetime exceeding one year, the carrying amount has been discounted and corresponds to fair value.

Long-term financial liabilities pertain to convertible debentures and the time to expiration is one to four years. Other financial liabilities have a time to expiration of less than one year.

Calculation of fair value

The following methods were used to determine fair value:

- Securities holdings that are available for sale belong to Level 2, meaning that the calculation of fair value is based on market quotations or the calculation of future cash flows for which variables are obtained from market quotations whenever possible. The holding that can be sold amounts to SEK 37 thousand [37].
- The contingent considerations recognized in provisions in an amount of SEK 15,573 thousand [16,283] belongs to Level 3, which means that the calculations of fair value are based on unobservable inputs. The calculations were based on the likelihood that set goals would be achieved.

SEK 14,356 thousand [14,137] pertains to the long-term portion and SEK 1,217 thousand [2,146] to the short-term portion. The value of the contingent consideration attributable to the acquisition of it-mark ApS is based on the likelihood that the earnings objective set for April 30, 2020 will be achieved and is to be paid at a fixed amount per year. The fair value was assessed to be DKK 3.3 million [3.3], based on reasonable expectations with respect to the company's earnings trend. The value of the contingent consideration attributable to EXP Analytics Oy is based on the sales and earnings trend for both the company and the entire Secure Communications segment until April 30, 2020. The payment range is between EUR 0.1 million and EUR 1.0 million, which is based on market conditions for the company. The fair value was assessed to be EUR 0.9 million [0.9], based on reasonable expectations with respect to the market trend. The value of the contingent consideration attributable to the acquisition of RxEye AB is based on the sales performance of the company's products and certain markets up to December 31, 2020. The range for the contingent consideration is between SEK 0.0 million and SEK 110.0 million. The assessment of the fair value of SEK 1.5 million [1.8]. Future synergy effects from the acquisition were considered to have decreased and growth rate assumptions were revised. The sales performance and earnings above have a direct impact on all of the contingent considerations, which is why the considerations may be changed.

Note 29 Risks, risk management and sensitivity analysis**Risks related to operations**

Sectra's risks related to operations are limited. As a general rule, customers' operations are financed directly or indirectly with public funds and solvency is excellent, although payment practices vary between different countries. Because Sectra is active in a large number of geographic markets, the Group's overall exposure to political and market risks, for example, is limited. The largest individual risks related to operations are described below.

Customers and partners

Sectra's five largest partners and customers jointly account for 16.1% (15.9) of consolidated sales. No individual customer accounts for more than 10% of consolidated sales. Although sales to each customer are often divided among a number of agreements, the proportion of long-term managed-services agreements has increased and, therefore, the loss of a major customer could have a significant effect on the Group's long-term earnings and financial position. Due to the continuous expansion of operations, the proportion of the Group's business volume represented by each individual partner and customer is gradually declining.

Product liability and property risks

Through its operations, Sectra assumes product liability, which means that personal injury or damage to property caused by the company's systems at the premises of a customer or third party could lead to a claim being made against Sectra. Insurance policies have been taken out for the property and liability risks to which the Group is exposed.

Intellectual property rights

Sectra is a leader in the areas in which the Group operates and invests substantial resources in product development. To ensure a return on these investments, Sectra works continuously to analyze the requirements for different products in terms of intellectual property rights, and to identify and protect inventions through patents.

Other business risks

The prices for medical systems in the world market are largely governed by major international companies. Accordingly, the USD and EUR exchange rates have an effect on the price structure and competitiveness. Other business risks, such as market risks, suppliers, technical development, dependence on individual persons, cybersecurity threats and ethical risks are analyzed continuously. Measures are taken as needed to reduce the Group's risk exposure.

Financial risks

Sectra is exposed to financial risks pertaining to currency, interest, financing and liquidity risks. Rules and authority for management of financial transactions and risks are described in the Group's financial policy, which is determined by the Board. Responsibility for management of financial transactions and risks is centralized to the Parent Company's finance department. The aim is to support the Group's business activities by identifying and limiting the Group's financial risks, providing cost-efficient financing of Group companies and managing cash and cash equivalents on market terms.

Currency exchange risks

The Group's exposure to currency exchange risks mainly arises through transactions in foreign currencies in the form of customer and supplier payments and, to a lesser extent, in connection with the translation of foreign subsidiaries' income statements and balance sheets. In accordance with the Group's financial policy, subsidiary financing is to be carried out in the local currency and currency exposure pertains mainly to USD, GBP and EUR. Operating profit for the year includes an exchange loss of SEK 345 thousand (gain: 1,734) and net financial items include an exchange gain of SEK 4,860 thousand (gain: 1,558).

The Group's policy at present is not to hedge transaction exposure, since the potential gains to be derived from building up procedures to efficiently manage hedge contracts are not considered significant. Sectra monitors payment flows in foreign currencies on an ongoing basis, and hedging of transaction exposure may be implemented if the gains expected to be derived from exchange rate hedge contracts are deemed to be significant.

Group revenue and expenses in various currencies

SEK million			
Currency	Revenue	Expenses	Net exposure
SEK	340.2	-514.9	-174.6
USD	323.5	-234.9	88.6
EUR	235.7	-196.3	39.4
GBP	321.4	-169.2	152.2
Other currencies	192.7	-99.9	92.8
Total	1 413.5	-1 215.2	198.4

Interest-rate risks

Changes in market interest rates could affect the Group's earnings. The Group's interest-bearing assets are mainly short-term in nature, and pertain to securities that can be liquidated at short notice in the event of major changes in the general interest rate situation. On the balance-sheet date, the Group's interest-bearing assets exceeded its interest-bearing liabilities, as a result of which a decline in interest rates had an adverse impact on the Group and an increase had a positive effect.

Credit risks

The Group's credit risks can be divided into risks related to the customer's ability to pay as agreed and counterparty risks in conjunction with financial transactions.

Customer credit risk means that the customer fails to fulfill its undertaking for payment of customer invoices. The Group has set guidelines to ensure that customers have high credit ratings. Sectra's customers consist largely of government agencies and other highly reputable customers with high credit ratings, and whose credit risk is considered to be extremely low. To minimize customer credit risks in fixed-price projects, Sectra makes extensive use of advance partial payments.

Age analysis accounts receivable

SEK million		
	190430	180430
Accounts receivable not due for payment	184.2	176.9
Accounts receivable overdue by 0–60 days	50.8	47.4
Accounts receivable overdue by more than 60 days	18.0	21.8
Accounts receivable overdue by more than 120 days	30.6	38.2
Reserve for expected credit losses	-24.7	-30.8
Total	258.9	253.5

Counterparty risks arise in financial transactions and cash management in conjunction with the Group having claims on banks and other securities issuers. The maximum credit exposure and credit rating for approved counterparties is described in the Group's financial policy. To minimize credit risks, Sectra only uses counterparties with high credit ratings and invests in high-quality instruments.

Liquidity risks

To minimize liquidity risks, excess liquidity is placed only in bank deposits, or in securities that can be liquidated at short notice, and which have a smoothly functioning secondary market. Unutilized bank overdraft facilities are used in the event of temporarily elevated liquidity needs. The Parent Company monitors the Group's liquidity continually by compiling liquidity forecasts as a basis for investments or short and long-term borrowing.

On the balance-sheet date, the Group's unutilized credit facilities amounted to SEK 15,000 thousand (15,000).

Convertible loans 2015/2019, SEK 3,500 thousand, are payable in December 2019. Convertible loans 2016/2019, SEK 21,529 thousand, and 2016/2020, SEK 3,500 thousand are payable in December 2019 and 2020, respectively. Convertible loans 2018/2022, SEK 2,562 thousand and 2018/2023, SEK 389 thousand, are payable in January 2022 and 2023, respectively. Convertible loans 2015/2019, 2016/2019 and 2016/2020 carry a variable interest rate, Stibor +2.25%. Convertible loans 2018/2022 and 2018/2023 carry 0% interest. Other loans carry variable rates, which varied between 2% and 4% during the fiscal year. Leases and convertibles have terms of zero to four years. Refer to Notes 2 and 22 for further information about convertibles issued.

cont. Note 29 Risks, risk management and sensitivity analysis

Sensitivity analysis

The Group's earnings depend mainly on product sales and the cost of personnel and materials. The analysis below is based on the figures from the 2018/2019 fiscal year and how the variables named would have affected profit after net financial items if no measures such as hedging or adaptation of resources had been taken. Each variable is treated individually, provided the others remain unchanged. The analysis is not claimed to be precise, but is merely indicative.

Variable	Change	Effect on profit after financial items
Net sales/gross profit	+/- 1%	+/- SEK 12.1 million (+/- 10.8)
Cost of materials	+/- 1%	+/- SEK 2.5 million (+/- 1.9)
Personnel costs	+/- 1%	+/- SEK 6.8 million (+/- 5.8)
Interest rate levels	+/- 1%	+/- SEK 3.1 million (+/- 2.8)
Exchange-rate changes:		
SEK/USD rate	+/- 1%	+/- SEK 1.4 million (+/- 2.3)
SEK/EUR rate	+/- 1%	+/- SEK 2.3 million (+/- 2.1)
SEK/GBP rate	+/- 1%	+/- SEK 1.9 million (+/- 3.3)

In the event that the SEK weakens by 1% against the USD, GBP or EUR, profit after net financial items would improve by SEK 5.6 million.

Note 30 Asset management

Group's financial goals have been determined by the Board. The goal is to have a favorable and flexible capital structure so that it can be changed if the conditions for operations or for different borrowing alternatives change and maintain financial stability. The Group's equity/assets ratio goal is 30%. In the 2018/2019 fiscal year, the Group's equity/assets ratio was 55.4% (51.4).

The Group's capital is defined as total equity less any positive unrealized changes in value and amounted to SEK 727,909 thousand (660,954) at April 30, 2019. Sectra's operations have previously been characterized by major seasonal variations during the fiscal year, which is why the Board aims to maintain a healthy capital structure with a low debt/equity ratio.

Note 31 Board's statement concerning repurchase of own shares

The Board's justification that the proposed authorization to repurchase the company's Class B shares is consistent with the provisions of Chapter 17, Section 3, paragraphs 2 and 3 of the Swedish Companies Act is as follows:

Nature, scope, and risks of the operations

The nature and scope of the operations are specified in the Articles of Association and the published Annual Reports. The operations conducted by the company do not entail any additional risks other than those that exist or may be deemed to exist in the industry or those risks that are generally associated with conducting business operations.

The financial position of the company and the Group

The financial position of the company and the Group as of April 30, 2019 are presented in this Annual Report. The Annual Report also describes the policies applied for the measurement of assets, provisions and liabilities.

At the end of the 2018/2019 fiscal year, unrestricted equity in the Parent Company amounted to SEK 251.1 million (209.9) and the Group's retained earnings to SEK 262.4 million (249.0).

According to the Annual Report, the Group's equity/assets ratio is 55.4%. The authorization to repurchase the company's own Class B shares does not jeopardize the completion of any investments deemed necessary.

The company's financial position does not give rise to any assessment other than that the company can continue to operate and can be expected to meet both its long and short-term obligations.

The Board's assessment is that the amount of equity recognized in the most recent Annual Report is in reasonable proportion to the scope of the company's operations and the risks associated with conducting operations in consideration of the authorization now proposed to repurchase the company's own Class B shares.

Justification for proposed repurchase

reference to the above and to what has otherwise come to the knowledge of the Board of Directors, the Board is of the opinion that, after a comprehensive review of the financial position of the company and of the Group, the proposed authorization to repurchase and transfer the company's own Class B shares is justified according to the provisions of Chapter 17, Section 3,

paragraph 2 and 3 of the Swedish Companies Act, that is, with reference to the requirements that the nature of the business, its scope and the risks placed on the size of the company's and Group's equity and the company's and the Group's consolidation requirements, liquidity and financing needs in general.

Note 32 Proposed appropriation of profits

The following funds in the Parent Company are at the disposal of the Annual General Meeting (SEK thousand)

Share premium reserve	103 568
Loss brought forward	-40 325
Net profit for the year	188 896
Total	252 139

The Board and President propose that the profits be appropriated so that SEK 252,139 thousand is carried forward. In addition, it is proposed that the Annual General Meeting resolves that SEK 4.50 per share be transferred to the shareholders through a 2:1 share split, combined with a mandatory redemption process and a bonus issue to restore the share capital. This entails a transfer of SEK 172,588 thousand to the company's shareholders. No ordinary dividend is proposed.

Note 33 Events after the balance-sheet date

No events resulting in adjustments or significant events not resulting in adjustments took place between April 30 and the approval date for the publication of the financial statements.

Note 34 Definitions of key figures

As of July 3, 2016, the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures are applied. An alternative performance measures is a financial measure that is not defined or stipulated in applicable rules for financial reporting (such as IFRS or the Swedish Annual Accounts Act). Accordingly, alternative performance measures are to be explained in the financial reports. In accordance with these guidelines, the Group's alternative performance measures are defined below. The Group applies alternative performance measures since the company believes they provide valuable supplementary information for management and investors given that they play a central role when it comes to understanding and evaluating the Group's operations.

Gross margin: Operating profit before depreciation as a percentage of net sales.

Dividend yield: Dividend as a percentage of the share price on the balance-sheet date.

Equity per share: Equity divided by the number of shares at the end of the period.

Value added: Operating profit plus labor costs.

Value added per employee: Operating profit plus labor costs divided by average number of employees.

Adjusted equity: Recognized equity plus 78.0% of untaxed reserves.

Cash flow per share: Cash flow from operations after changes in working capital in relation to the number of shares at the end of the period.

Liquidity: Current assets divided by current liabilities.

P/E ratio: Share price at the end of the year in relation to the 12-month period's earnings per share.

Return on equity: Profit after tax as a percentage of average adjusted equity.

Return on capital employed: Profit before tax plus financial expenses as a percentage of average capital employed.

Return on total capital: Earnings after net financial items plus financial expenses as a percentage of average total assets.

Operating margin: Operating profit after depreciation as a percentage of net sales.

Debt/equity ratio: Interest-bearing liabilities divided by equity.

Equity/assets ratio: Equity as a percentage of total assets.

Capital employed: Total assets reduced by non-interest-bearing liabilities.

Earnings per share: Profit/loss after tax divided by the average number of shares.

Profit margin: Earnings after net financial items as a percentage of net sales.

Auditor's report

To the Annual General Meeting of the shareholders of Sectra AB (publ),
corporate identity number 556064-8304.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sectra AB (publ) for the financial year 2018-05-01–2019-04-30 apart from the sustainability report on pages 56–60. The annual accounts and consolidated accounts of the company are included on pages 52–89 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 30 April, 2019, and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 30 April, 2019, and their financial performance and cash flow for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not include the sustainability report on pages 56–60. 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/EU) 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/EU) 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 opinion.

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.

Existence, completeness and valuation of revenues and receivables relating to contracts with customers

Our opinion is that revenue from contracts with customers is a key audit matter since the revenue streams are high and the assessments

of when the conditions for revenue recognition according to IFRS are met are central for the financial reports. Contracts with customers include various combinations of deliveries of feasibility studies, component deliveries, licenses, installation services, hardware, and support and maintenance services and upgrades. Revenues are recorded either at a certain point in time or over time, when or if the Group fulfills the performance obligations by transferring the promised goods and services to the customer. Receivables relating to contracts with customers amounts to SEK 619 million, of which trade account receivable amounts to SEK 429 million as per April 30, 2019 and the measurement of these receivables are dependent on management's assessment of expected credit losses. Information regarding accounting policies concerning revenues is disclosed on page 67 and information regarding revenues and receivables relating to contracts with customers are included in [Note 1](#) and [Note 15, 17 and 18](#).

We have evaluated the company's work to implement IFRS 15 and examined that the company's policies are in accordance with the new standard. Our audit procedures have also included audit of routines and controls related to the revenue, accounting of projects, analytical procedures related to project accounting and audit of the accounting related to a sample of customer contracts in order to verify that the accounting is consistent with the Group accounting policies. Our audit procedures also included the company's assessment of expected credit losses.

During the year, Sectra made a changed assessment of the timing of the risk transition for Group financed operating agreement in UK, meaning that risk transition is now considered to be passed on to the customer during installation, instead of, as before, over the contract term. In connection with the introduction of IFRS 15 the assessment has been made that the fulfillment of the performance obligation also takes place over the installation period. The changed assessment entails retrospective calculations in the accounts record, where information is provided in [Note 5](#). Our audit procedures therefore also have included examination of the documentation and analysis of the conversion as well as provided information in the financial statements.

Valuation of goodwill

Goodwill amounted to SEK 57 million as per April 30, 2019. In accordance with IFRS goodwill should annually be tested for impairment. Our opinion is that valuation of goodwill is a key audit matter since the valuation is complex and relies on assessments related to future growth, required return as well as future market- and economic conditions. Information regarding accounting principles and impairment tests are included on page 67 and in [Note 10](#).

Our audit procedures included audit of:

- routines and controls related to accounting of goodwill,
- impairment tests included audit of the model for impairment tests and audit of the assumptions especially related to forecasts of cash-flows, future growth and required return,
- sensitivity analyzes,
- the applied accounting principles related to goodwill to ensure compliance with IFRS,
- disclosures in the annual report regarding the assumptions with largest impact on the impairment tests.

Existence and valuation regarding on-going development projects

Capitalized development expenditure amounted to SEK 103 million as per April 30, 2019, and includes both on-going and completed development projects. In accordance with IFRS capitalized development expenditure related to on-going projects should annually be tested for impairment. Our opinion is that capitalized development expenditure related to on-going projects is a key audit matter since the valuation is complex and relies on assessments related to forecasts of cashflows, future growth, required return as well as future market- and economic conditions. Information regarding accounting principles and impairment tests are included on page 67 and in [Note 10](#).

Our audit procedures included audit of routines and controls related to capitalization of expenditure for new projects, audit of new project to project plans and other supporting documentation, audit of impairment tests and audit of sensitivity analyzes. The audit of impairment tests has included audit of the model used for the impairment tests as well as audit of the assumptions especially related to forecasts of cashflows, future growth and required return.

Valuation regarding shares in subsidiaries and receivables on subsidiaries

Shares in subsidiaries amounted to SEK 36 million and receivables on subsidiaries amounted to SEK 600 million in the Parent Company accounts as per April 30, 2019. The valuation of these assets is dependent on management's assessment regarding indication for impairment and, on impairment testing, managements estimates of the subsidiaries future development. Accordingly, this area is considered to be of particular significance to our audit. Information regarding shares in subsidiaries and receivables on subsidiaries are included in [Notes 12 and 14](#).

Our audit procedures included audit of supporting documentation regarding management's assessment of the subsidiaries future development and audit of management's basis for assessment of indications of impairment in assets.

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 1–51 and 56–60. 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 the annual accounts and consolidated accounts that are free from material mis-

tatement, 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.

Auditors' 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 scepticism 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 Sectra AB (publ) for the financial year of 2018-05-01-2019-04-30 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 our 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.

Responsibility 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.

Auditors' responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member

of the Board of Directors or the Managing Director in any material respect:

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism 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 whether the proposal is in accordance with the Companies Act.

Auditor's opinion regarding the statutory sustainability report

It is the board of directors who is responsible for the statutory sustainability report on pages 56–60 and that it has been prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's examination of 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.

A statutory sustainability report has been prepared.

Grant Thornton Sweden AB, Sveavägen 20 SE-103 94 Stockholm, was appointed auditor of Sectra AB (publ) by the general meeting of the shareholders on September 6, 2018 and has been the company's auditor since 2002.

Stockholm, June 28, 2019

Grant Thornton Sweden AB

Mia Rutenius

Authorized Public Accountant

Glossary

Artificial intelligence (AI)

A collective term for the scientific field that studies the creation of machines and computer programs that display intelligent behavior. AI research encompasses numerous disciplines, including everything from studying philosophical issues to developing tangible technological solutions in such areas as medical diagnostics.

Cardiology

The field of medicine dealing with the functions and diseases of the heart.

Cloud

Cloud computing, meaning that computer power is distributed over the internet or company-specific intranets and not on individual computers.

Critical infrastructure

Basic infrastructure that is essential for the functioning of society, such as bridges and electricity and water supply.

Crypto

Equipment that uses mathematical manipulations (algorithms and keys) to encrypt information, so that it can be interpreted or read only by the intended recipient. To read encrypted information, the recipient must have the correct key and algorithm.

Hybrid threat, hybrid warfare

A type of threat or warfare blending conventional military warfare, irregular warfare and civil warfare, launched against a common target at various stages of a conflict. This can take the form of attempts to disrupt or wipe out critical social functions and influence decision-makers and populations.

Integrated diagnostics

Diagnostic collaboration between different medical specialties, for example, between pathologists and radiologists for diagnosing, treating and monitoring cancer patients. Integrated diagnostics is facilitated by digital technology, computer algorithms, clinical workflows and extended reporting to the patient's physician.

Machine learning

A discipline within AI (see above) where algorithms (computer programs) learn to solve tasks using analyzed data. One example involves allowing a program to train on a large sampling of known test images to learn to distinguish between healthy and diseased tissue, after which the program can also make accurate predictions regarding unfamiliar images.

Mammography

A radiology-based breast examination used to detect breast cancer at an early stage in asymptomatic women.

Multidisciplinary conferences

Meetings where representatives of various medical specialties—physicians, radiologists, pathologists, surgeons and oncologists—gather to discuss all of the findings related to a specific cancer patient and jointly decide on the best treatment strategy.

Operational technology (OT)

Hardware and/or software that controls and monitors devices, such as valves and pumps, that are part of a physical process. The terms industrial control systems (ICS) and supervisory control and data acquisition (SCADA) systems are also commonly used to denote operational technology systems.

Orthopaedics

A surgical specialty for disorders affecting the musculoskeletal system, meaning the skeleton, joints, tendons, other connective tissue and peripheral nerves.

Osteoarthritis

Arthritis or osteoarthritis is an inflammatory disease in the joints where the cartilage in one or several of the body's joints gradually breaks down.

Pathology

A specialized medical area that uses tissues and body fluids for diagnostic purposes.

Picture archiving and communication system (PACS)

An IT system for managing medical images, such as radiology images.

Precision medicine

Customized treatment for a particular patient based on their unique genetic profile and biomarkers in the form of albumin.

Process industry

A type of automated manufacturing industry with several manufacturing processes, such as the paper industry, the petrochemical industry, and iron and steelworks.

Radiology

A health science discipline and medical specialty that uses technologies for imaging the human body, such as X-ray, magnetic resonance imaging (MRI) and ultrasound.

Radiology information system (RIS)

An IT system for managing radiology patient data, such as appointment bookings, patient information and dictations at radiology clinics.

Trauma surgery

Surgical procedure on a patient with, for example, a bone fracture or life-threatening injury. Any type of external injury to the body is classified as a trauma in the medical sense.

Vendor-neutral archive (VNA)

IT solution for managing and archiving files such as medical images, audio files and film sequences in a shared multimedia archive.

Visualization table

Large, interactive touch screen with an image-viewing program that enables interaction with 3D images of human and animal bodies.

Virtual private network (VPN)

A technology used to create a secure connection or "tunnel" between two points along an unsecured data network, such as the internet.

List of references

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² UN report, 2017. World Population Prospects: the 2017 Revision, <https://esa.un.org/unpd/wpp/>

³ Report from Deloitte, 2014. The great consolidation: The potential for rapid consolidation of health systems, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/life-sciences-health-care/us-lshc-great-consolidation-111214.pdf>

⁴ Report Imaging IT, Archiving and Management World 2017, Signify Research, May 2017

⁵ Ian J. Wallace, Steven Worthington, David T. Felson, Robert D. Jurmain, Kimberly T. Wren, Heli Majanen, Robert J. Woods, Daniel E. Lieberman. Knee osteoarthritis has doubled in prevalence since the mid-20th century. Proceedings of the National Academy of Sciences, 2017. <http://www.pnas.org/content/114/35/9332>

⁶ The Orthopaedic Industry Annual Report for year ending December 31, 2012

⁷ The Orthopaedic Industry Annual Report 2013 by ORTHOWORLD, Inc.

⁸ Overview of the world's medical schools: an update. [2014] <https://doi.org/10.1111/medu.12499>

⁹ World Directory of Medical Schools, <https://www.wdms.org>

¹⁰ Sectra's visualization table was developed in cooperation with researchers at the Center for Medical Image Science and Visualization (CMIV), the Interactive Institute and Visualization Center C.

¹¹ The global risk report 2018, <https://www.weforum.org/reports/the-global-risks-report-2018>

Invitation to the 2019 Annual General Meeting

Date: September 5, 2019
Time: 3:30 p.m.
Place: Collegium, Teknikringen 7, Linköping, Sweden

Dividends, share redemption program

The Board and the CEO have proposed that the AGM resolve that SEK 4.50 per share be transferred to the shareholders through a share redemption program. No ordinary dividend is proposed.

Notice

Official notice will be distributed not earlier than six weeks and not later than four weeks prior to the AGM in the form of a press release and publication on Sectra's website. The notice will be announced in the *Swedish Official Gazette (Post- och Inrikes Tidningar)* and an announcement that notice has been given will be published in *Svenska Dagbladet*.

Attendance and notification

Shareholders wishing to attend the meeting must be recorded in the shareholder register maintained by Euroclear Sweden AB not later than August 30, 2019 and notify the company by email info.investor@sectra.com, telephone +46 (0)13 23 52 00 or mail to the following address: Sectra AB, Annual General Meeting, Teknikringen 20, SE-583 30 Linköping, Sweden. The notification should include the shareholder's name, personal or corporate registration number and daytime telephone number. Where applicable, the number of advisors should be specified. If shareholders intend to be represented by proxy, a power of attorney and other authorization documents must be included with the notification.

Trustee-registered shares

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB. Such registration is to be carried out via the administrator and completed not later than August 30, 2019.

Documents

Complete proposals for decisions and forms for notification and authorization will be available not later than August 15, 2019 (three weeks prior to the AGM) on investor.sectra.com/agm2019 and from Sectra's office in Linköping. Shareholders who wish to receive these documents by mail should contact the company by telephone +46 (0)13 23 52 00 or by e-mail info.investor@sectra.se.

Interim Reports 2019/2020

September 3, 2019	Three-month report
November 29, 2019	Six-month report
March 4, 2020	Nine-month report
June 3, 2020	Year-end report

Distribution of the Annual Report

The Annual Report is published on Sectra's website. A message will be sent by mail to all shareholders registered with Euroclear Sweden AB on June 30, 2019 announcing that the report is available and to contact the company for a printed copy. To reduce the company's environmental impact, mail distribution will be limited to Europe; other stakeholders should refer to the digital version.



After the AGM, shareholders are invited to visit Sectra's office in Linköping, where the company will serve light refreshments and demonstrate its products for a healthier and safer society.

Contact information, Sectra Group Headquarters

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Tel: +46 (0)13 23 52 00
sectra.com

For further contact information for Sectra's global offices, visit
sectra.com/contact

Contact for shareholders and investors

A new website for investors
was launched in 2019. Visit the
site here investor.sectra.com



Shareholder contact

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Chief Investor Relations Officer
E-mail: info.investor@sectra.se
Telefon: +46 (0)13 23 52 04

Subscription

Financial reports, press releases and corporate
governance information is available on the Group's website
investor.sectra.com

To subscribe and receive information by e-mail, visit
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Give us your feedback

We would like to know why you chose to buy shares in Sectra and what
you think of your investment and confidence in the company. Please
take the time to answer nine questions in Sectra's shareholder survey.
Your feedback is important!

» investor.sectra.com/irsurvey

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SECTRA

Knowledge and passion