

# Annual Report Sustainability Report 2018



***ahlsell***

10

We make it easier for our customers to be professional



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We create employee engagement



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Our suppliers appreciate that we are always close to the customer



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■ Audited report ■ Audited sustainability report

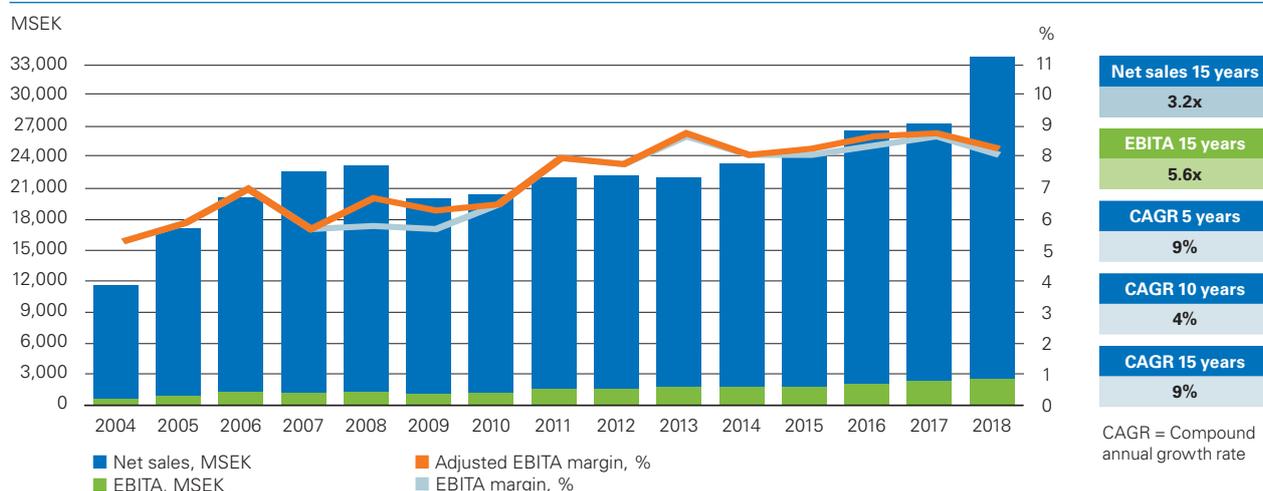
The Board of Directors and CEO of Ahlseil AB (publ), corp. ID 556882-8916, hereby present the Annual Report for the 2018 financial year for the Parent Company and the Group. The Annual Report consists of the Directors' report and the financial statements with notes and comments on pages 41-51 and 58-110. In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, Ahlseil has chosen to establish the statutory sustainability report as a separate report. The reviewed Sustainability Report appears on pages 14-16, 19-31, 46-50 (sustainability-related risks) and 116-120. The consolidated income statement and balance sheet and the the Parent Company's income statement and balance sheet are adopted by the Annual General Meeting.

This report has been made in a Swedish and English version. In case of any discrepancies between the Swedish and the English text, the Swedish text shall prevail.

# The distributor Ahlsell

<p>is Nordic <b>market leader</b> in technical installation</p>	<p>has a range that includes more than <b>a million</b> items within HVAC, plumbing and electrical, tools and supplies</p>	<p>has more than <b>100,000</b> professional customers in installation, industry, infrastructure and construction</p>
<p>is always close to the customer, with more than <b>240 branches</b> across the Nordic region</p>	<p>has successful e-commerce accounting for <b>28%</b> of sales</p>	<p>has the Nordic region's largest sales force for professionals. Of 5,700 employees, <b>70%</b> work in sales</p>
<p>sold goods and services for <b>31,291</b> MSEK in 2018</p>	<p>achieved an adjusted EBITA margin of <b>8.3%</b> in 2018</p>	<p>has been making it easier to be professional since <b>1877</b></p>

Development over the last 15 years



# Strong growth and intensified focus on increased efficiency

Market conditions in our main markets remained good and we have strengthened our customer relationships further through successful initiatives. Our consistent efforts to make our customers' everyday lives easier have shown results.



## Johan Nilsson

### 2015

Elected Board member, appointed President and CEO of Ahlseil AB (publ).

### 2008

Joined Ahlseil as Head of Operations in Sweden.

### Previous positions

CEO, IFÖ Sanitär and IDO, and Sales and Marketing Manager, Sanitec.

### Education

M.Sc. (Business and Economics), Lund University, and M.Sc. (Engineering), Lund Faculty of Engineering.

### Born

1960

### Shareholding at year end

809,913 shares, 202,429 warrants and 73,000 call options.

## Strong sales growth

Good market conditions with growth in all market segments, combined with successful initiatives, enabled us to achieve total net sales growth of 14% in 2018. Organic growth accounted for 7% of this.

The strong organic growth was driven by a continuing high construction investment level, increased infrastructure investments and good development within industry. In addition, several years of strategic sales initiatives have brought us continuing strong growth, both with new and existing customers, who appreciate the value of our customer offering.

Our total net sales amounted to MSEK 31,291 (27,484). We estimate that we have grown about seven percentage points faster than the market, thereby confirming our position as the Nordic market leader within technical distribution.

“ We estimate that we have grown seven percentage points faster than the market. ”

## Acquisitions are part of our DNA

Just as in 2017, the acquisition rate was high throughout the year. Of our growth in 2018, five percentage points came from acquisitions. While we have fully focused on realising synergies in line with those we have historically achieved from completed acquisitions, we have also worked at a high ambition level to add further acquisitions.

We signed agreements to acquire nine companies with total annual sales of approximately MSEK 960.

Several of the acquisitions were made in the “Tools & Supplies” product segment, and more specifically within personal protective equipment (PPE). One example is the acquisition of the Norwegian company Bekken & Strøm, with annual sales of MSEK 415, which was finalised in February. The acquisition made Ahlseil a market leader in personal protective equipment in Norway. This is a very positive development, as we see an ever growing focus on protective equipment and safety from our customers.

“ *Our broad exposure to several market segments with different cyclical patterns makes us enter the new year with a strong position.* ”

### Successful initiatives

The overall good market development created a solid basis for strong demand for our products. However, given the good conditions, the most important factor is how we respond to our customers' needs in the best possible way, to further strengthen our position. To name a few examples:

- Our successful e-commerce channel, which accounts for about 28% of sales, has strong growth of around 20%.
- We are gaining ground with our range of services and are involved in several exciting projects, such as Karlatornet in Gothenburg.
- By working closely together with our suppliers, we have successfully launched even more sustainable products and services for our customers.
- The investment in the central warehouse in Hallsberg has continued according to plan, despite record high sales volumes.
- Being a world-class distributor means delivery precision and efficient management of working capital. We are therefore proud to have handled a strong increase in volumes during the year without tying up more inventories.

### Increased focus on profitability

We have a stable and resilient business model, but the very strong growth does not just have advantages.

For example, our acquisitions had a dilutive effect on the margin for much of the year. However, towards the end of the year, after making progress in integrating the acquisitions, they had a margin in line with the average for the Group.

We also noted a weakening of the gross margin during the year, which was mainly an effect of strong growth in customer

and product segments with a lower margin as well as increased costs for handling high volumes, particularly in Norway.

We needed to strengthen our resources, primarily in logistics and transport, to maintain a high level of service to customers. In the short term, this has had an adverse effect on earnings.

Our adjusted EBITA amounted to MSEK 2,587 (2,405), corresponding to a margin of 8.3% (8.8).

However, we see good opportunities to improve our profitability and we therefore intensified our focus on cost-saving and efficiency-improving measures in our main markets in the second half of 2018. These measures are expected to bring overall savings of approximately MSEK 160 in 2019. We already saw positive effects from the measures taken in our Swedish operations at the end of the year.

The coming year will be a year in which we, in addition to already ongoing efficiency-improving measures, also intensify our focus on an improved sales mix. We are well aware that the chosen route towards increased profitability can affect the growth rate.

### We must be the best option

To ensure that we remain a natural part of our customers' everyday life in an ever-changing world also in the future, we must continuously make their everyday life easier.

We need to be close – not just locally through branches or through our sales staff, but wherever and however the customer prefers to reach us.

We must also ensure that we can deliver the right products and services, i.e. the most sustainable, efficient, smart and safe ones, exactly when the customer wants them.

Ahlseil has the most competent and committed employees in the market. To ensure that we attract, retain and develop our employees also in the future,

we place great emphasis on competence development and increased diversity.

The combination of these factors above will lead to improved customer satisfaction, more business and better profitability for Ahlseil.

### Delisting of Ahlseil

As our major owner CVC, through the company Quimper AB, acquired more than 90% of outstanding shares after their public takeover bid, Ahlseil was delisted in March 2019. The Board's previous proposal for a dividend of SEK 1.84 per share has changed as a result of the new ownership. The new proposal implies that all profits are balanced and that no dividend is paid.

For us at Ahlseil, a new form of ownership does not mean any change to our focus on creating value for our customers. We have been around for more than 140 years and have constantly refined our business model to create value.

### Outlook

Our broad exposure to several market segments with different cyclical patterns means that we enter the new year in a strong position.

I am confident that the positive development within industry and infrastructure will continue.

The current solid development in construction is also expected to continue, with stronger growth in renovation and new construction of premises than in new residential construction, which is expected to slow down.

Overall, I expect good demand and continuing growth for 2019, albeit at a somewhat lower level than in recent years.

Stockholm, March 2019



Johan Nilsson, President and CEO

# The year in review

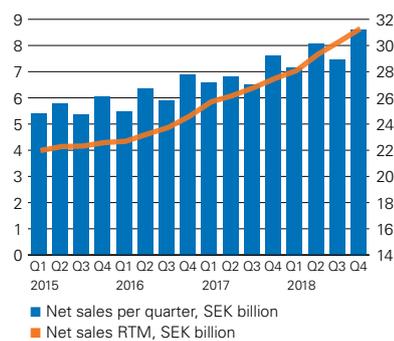
Favourable market conditions and growth in all market segments in combination with successful initiatives contributed to a sales increase of SEK 3.8 billion in 2018, corresponding to net sales growth of 14%.

## The year in brief

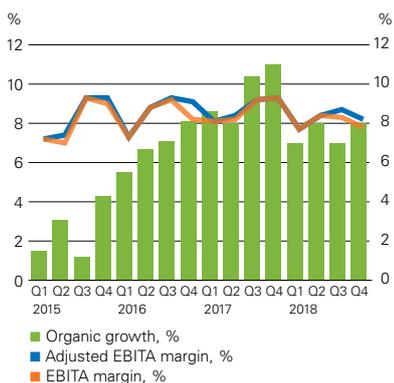
- Net sales increased by 14% to MSEK 31,291 (27,484).
- Organic growth was 7% (9).
- Eight acquisitions were made, with combined annual sales of approximately MSEK 886.
- An agreement was signed for a further acquisition with annual sales of MSEK 75.
- Adjusted EBITA increased by 8% to MSEK 2,587 (2,405), corresponding to a margin of 8.3% (8.8).
- In December, Quimper AB announced a public tender offer to the shareholders in Ahlsell to acquire all shares.



Net sales, SEK billion



Margin and organic sales growth



## Q1

### Continued strong organic growth

The year began strongly and sales for the first quarter increased by 9%, including organic growth of 7%. This was achieved despite fewer trading days, the Easter effect and a cold winter.

Market conditions remained positive in the main markets. All geographical segments showed positive organic sales growth in the quarter and profitability was good. In total, an EBITA margin of 7.7% (8.1) was achieved.

There was a high level of acquisition activity in the quarter. The high ambition level for further acquisitions continued, while great emphasis was placed on realising synergies.

## Q2

### High demand and strong results

The combination of continuing high demand and successful initiatives brought a strong second quarter for Ahlsell. Net sales increased by 18% and for the first time we exceeded 8 billion in one quarter. Organic growth was 8% and Ahlsell strengthened its market position.

Acquisitions were made in all three main markets and accounted for 5% of the sales increase.

Earnings were strong and increased by 19% compared with the previous year. The EBITA margin was slightly affected by acquisitions and by targeted sales and market initiatives aimed at further strengthening Ahlsell's position, particularly in Norway and Finland.

“ Good market conditions combined with several years of strategic investments have led to continuing strong sales growth.



### Financial summary and key figures

	2018	2017	2016	
Net sales, MSEK	31,291	27,484	24,606	
Total growth, %	14	12	9	Financial target, see p. 18
Organic growth, %	7	9	7	
Operating profit (EBIT), MSEK	2,138	2,043	1,719	
Profit (EBITA), MSEK	2,520	2,394	2,058	
Adjusted EBITA, MSEK	2,587	2,405	2,131	Financial target, see p. 18
EBITA margin, %	8.1	8.7	8.4	
Adjusted EBITA margin, %	8.3	8.8	8.7	
Profit after tax, MSEK	1,582	1,428	342	
Earnings per share, SEK <sup>1)</sup>	3.68	3.28	1.11	
Dividend per share, SEK <sup>2)</sup>	-	1.65	0.35	Financial target, see p. 18
Operating cash flow/EBITDA (cash conversion), %	81	78	90	Financial target, see p. 18
External net debt/Adjusted EBITDA, x	2.4	2.6	3.3	Financial target, see p. 18

<sup>1)</sup> Refers to basic and diluted earnings per share.

<sup>2)</sup> The Board's previous proposal for a dividend of SEK 1,84 per share has changed during 2019.

## Q3

### Record sales

The strong sales trend in the quarter proved once again that the Ahsell model is successful. Net sales amounted to MSEK 7,458, increasing by almost SEK 1 billion from the third quarter the previous year. This is an increase of 15%, of which organic growth was 7%.

The EBITA margin was 8.3%, adversely affected by both acquisitions and targeted sales initiatives.

In September, Ahsell organised a well-attended capital markets day. The message was clear: Ahsell has a stable and resilient business model, strives for profitable growth and has a strong focus on cost-saving and efficiency-improving measures.

## Q4

### Strong growth and intensified focus on increased efficiency

Good market conditions combined with several years of strategic investments in sales have led to continued strong growth. Sales growth amounted to 13%, of which 8% was organic.

The gross margin weakened during the quarter, which was an effect of strong growth in customer and product segments with lower profitability and increased costs for handling high volumes in Norway.

In Sweden, the already implemented measures yielded results towards the end of the year and the acquisitions, which previously had a dilutive effect on the margin, reported profitability in line with the average for the Group, exactly according to strategy.

## Acquisitions

During the full year 2018, eight operations were acquired with annual sales of just over MSEK 886. We made acquisitions in all our three main markets.

### Events after the end of the year

Since Mid-February 2019, Quimper AB controls more than 90% of the Ahsell shares, why the company was delisted in March. Also in 2019, the acquisitions PJ-Control Oy and Fundi AB, with combined annual sales of approximately MSEK 162, were finalised.

## Outlook 2019

Our broad exposure to several market segments with different cyclical patterns means that we enter the new year in a strong position. Overall, good demand and continuing growth are expected for 2019, albeit at a somewhat lower level than in recent years.

# History

## 141 years of entrepreneurship

Ahlsell has a rich history with roots in several hundred companies. Behind all these companies there have been enterprising entrepreneurs who, just like us at Ahlsell, want to make it easier for customers to be professional. Together we have achieved great success in doing so, and it is our clear ambition to constantly improve!

**2018** After several years of successful sales initiatives, good market development and acquisitions, Ahlsell's net sales increased by 14% in **2018**. However, as profitability did not develop at the same rate, profitability-improving measures were initiated. Sustainability has become a comparative advantage for Ahlsell and e-commerce accounts for 28% of sales. In July, it was decided to invest an additional MSEK 450 in the central warehouse in Hallsberg. The investment will ensure that Ahlsell is able to offer world-class logistics also in the future.

**2017** **2017** Ahlsell celebrated its 140-year anniversary. This was a year of successful strategic initiatives, a high acquisition rate, a strong result, improved employee engagement and, particularly important, even more satisfied customers. Ahlsell undertook to follow the UN Global Compact and identified four focus areas in sustainability, based on the global sustainability goals, which are now measured through different target figures in the organisation.

**2016** On 28 October **2016**, Ahlsell AB was admitted to trading on Nasdaq Stockholm's Large Cap list at a share price of SEK 46. The "One Ahlsell" strategy becomes the guiding principle, with the entire Company working according to the same strategy and sharing best practices. Ahlsell continues to develop different service concepts to provide added value for customers. Among the successes are Tryckt & Klart (printing on workwear), Ahlsell Academy (offering our customers competence development) and Track n' Trace (delivery tracking).

**2010s** The **2010s** are a period of investment in future growth. In **2011**, it was decided to build the world's then largest automated warehouse at the Swedish central warehouse in Hallsberg and in **2015**, substantial investments in the e-commerce platform were made. Ahlsell's market position was further strengthened through several acquisitions within Tools & Supplies. CVC acquires Ahlsell in **2012**.

**2000s** **The 2000s** were an exciting time for Ahlsell. The Hallsberg central warehouse expanded at a rapid pace and the success was followed by the construction of a central warehouse in Finland in **2003**. The high acquisition rate continued and the acquisition of Tibnor Industrivaruhus resulted in an additional product segment for tools. In Norway, Ahlsell also succeeded in building strong positions in both HVAC & plumbing and Electrical through acquisitions. Ahlsell's deliveries included 10,000 tonnes of pipes to the "Ormen Lange" gas pipeline project. **2006** Cinven and Goldman Sachs Capital Partners became the new principal owners of Ahlsell. Through acquisitions, Ahlsell was also established in Estonia and Åland.

**1990s** In **1990**, the central warehouse in Hallsberg opens, with an indoor surface of 28,000 m<sup>2</sup>, compared with today's 80,000. The **1990s** are marked by high acquisition activity and Ahlsell built a position within DIY (do-it-yourself) distribution with the acquisition of Gelia, and established a Finnish and Norwegian platform within HVAC & plumbing. In **1997**, Ahlsell's first online store was launched. Nordic Capital became the principal owner in **1999**.

**1980s** Ahlsell merged with AEG-Telefunken Elektriska AB in **1982**, giving Ahlsell a strategic position within Electrical. Ahlsell was bought-out from the stock exchange by Boliden AB in **1986** and about the same time Boliden was in turn taken over by Trelleborg AB. At this time, Ahlsell's business was highly diversified and included, among other things, wholesale, electronic manufacturing and contracting activities.

**1960s** After about half a decade of several acquisitions, including Ågren in **1962**, Ahlsell & Ågren was listed on the Stockholm Stock Exchange in **1964**. The Group's sales were about MSEK 411 and the company had 766 employees. The annual report for **1963-64** notes that "the business has developed satisfactorily during the year". In connection with the centenary in **1977**, the company was renamed "Ahlsell AB".

**1877** Ahlsell's history begins **1877** when the sales company John Bernström & Co was founded in Stockholm. The company sold machines, pumps and threshing machines. In **1922**, the company merged with Ahlsell & Ahrens, which sold cast enamelled sanitary utensils from Ankarsrum, Husqvarna and others, and pipes, fittings and pumps.  
*Trivia: After working for a while as an errand boy at Ahlsell & Ahrens, Gösta Ekman went on to become a famous Swedish actor.*

# Business model

## Successful since 1877

We are proud to offer our customers the market's broadest range of products in HVAC & Plumbing, Electrical and Tools & Supplies.

We provide over a million different items and related services and can therefore meet the needs of customers in many different industries. Our customer base is very fragmented and loyal. Our customers are in attractive markets with long-term trends that drive demand over time.

We sell our products through a comprehensive **omni-channel**, which means that our customers can choose to shop with us in the way that suits them best: online, by visiting branches, by phone, e-mail or by other means.

To ensure **good availability** for our customers, 200,000 of our items are held in stock, ready for delivery within 24 hours once an order is placed. Our more than 240 branches offer a selection of the most frequently sold items in stock, to meet our customers' needs in the best possible way. The average branch in Sweden is approximately 1,600 square metres, with about 13,000 stocked items.



**We offer several product categories** to our customers. This enables increased sales for existing suppliers, a wider product offering to customers and good profitability for Ahlsell. Our private labels, comprising carefully selected products of good quality, complement the range.

**Our market-leading position gives us economies of scale** for large volumes, and our efficient purchasing organisation always considers quality, effectiveness and sustainability – ensuring the customer always receives the best possible offer.

**A decentralised organisation** makes it possible to adjust rapidly to both ups and downs in demand, and between different product and customer segments. Almost 80% of the cost base is variable, which makes Ahlsell resilient to cyclical changes.

**We have historically succeeded in delivering considerable cost synergies through acquisitions**, while growing at the same rate or faster than the market. Acquisitions have contributed to stronger competitiveness, a broader product offering and a better presence in selected markets.

### Product segments



**HVAC & PLUMBING** comprises installation materials for heating, ventilation, refrigeration, water, sanitation and drainage



**ELECTRICAL** comprises cables and installation materials, lighting and accessories, automation products, data, telephony, safety and other electrical products such as measurement instruments.



**TOOLS & SUPPLIES** comprises tools, machines, personal protective equipment, construction products and other supplies.

# Customer promise

## We make it easier to be professional

### Broad product offering saves time and money

The breadth of our range enables our customers to work more effectively, as they can save time spent on purchasing, unloading and administration. We guide the customer towards an energy-effective choice through product labelling, manuals etc. In addition, competitive prices and economies of scale means that customers save money when purchasing within their core range.

### We are always close to the customer

We have everything that the customer needs and can be reached through a number of sales channels: by telephone, e-mail, online, in manned and unmanned branches, and in person. Our sales staff work actively to find solutions for our customers. We also have the largest e-commerce platform for installers in the Nordic countries.

### Ahlsell is a reliable partner

Ahlsell is a reliable partner that delivers the right products, in the right quantity, and at the right time. The customer chooses the delivery method. A well-functioning logistics apparatus enables this reliability, which is one of the most

important considerations for our customers when choosing a supplier.

### Sustainable and safe transport

The broad product offering means that Ahlsell has a high utilisation ratio for transport to the customer. This leads to fewer deliveries to the customer, which is both sustainable and saves unloading time. Ahlsell also works with safe transport, including spot checks for safe loading and sobriety of drivers, which ensures a secure journey for both people and the customer's ordered products.

### Services that make everyday life easier

In addition to products, we offer services to support and save time for the customer. This includes everything from "runners" that unpack incoming deliveries to temporary stores with automatic stocking at the customer's premises. There are also a number of add-on services, such as invoicing programs, insurance, safety training and printing of logotypes on workwear.

### Ahlsell is a central meeting place

Our branches are a central meeting place for customers, where they can quickly get help to find the right solutions in both

planned and unexpected situations. The branches have locally adapted ranges and are located in easily accessible industrial or commercial areas. In addition to regular branches, we also have on-site solutions and "pop-up-stores".



### Ahlsell reduces the total cost for the customer

Total cost for the customer		What Ahlsell provides
Product and service price	Direct cost	Quality products at the right price
Transaction costs <ul style="list-style-type: none"> <li>• Transport</li> <li>• Administration</li> <li>• Multiple order management</li> </ul>	Indirect cost	Product breadth and business model enable <i>One order – one delivery – one invoice.</i>
Cost of buying the wrong product <ul style="list-style-type: none"> <li>• Wrong product</li> <li>• Incorrect use of the product</li> <li>• Incorrect advice</li> </ul>	Indirect cost	We advise and help the customer make the best choice of product and service
Cost of incorrect delivery <ul style="list-style-type: none"> <li>• Lost working hours</li> <li>• High inventory value</li> <li>• Cost of multiple order management</li> </ul>	Indirect cost	We deliver already the day after the order Complaints about incorrect deliveries are very low (0.03% of sales value)



## Our attractive customer base

Ahlsell's customer base is large and fragmented. In many cases, even relatively large customers handle their purchases in a decentralised way. Most customers tend to purchase from several product categories, often in small quantities, which makes the distributor's role particularly important.

Our value proposition is suitable for both large and small customers. Small and medium-sized enterprises (SME) account for almost 45% of our net sales, and our ten largest customers represent about 6% of the total amount. The rest of the volume is generated by major customers within installation, industry, facility management and construction, and services-related activities.

Fast delivery, quality of offering and service, a social meeting environment and prices are key drivers of the purchase decision for SME customers. Meeting these criteria requires breadth and depth in the assortment, a local presence, and professional, experienced personnel.

SME customers typically make 60–70% of their purchases with their main distributor, and only one in five of them have changed main distributor in the last five years, which points to rational and loyal customers.

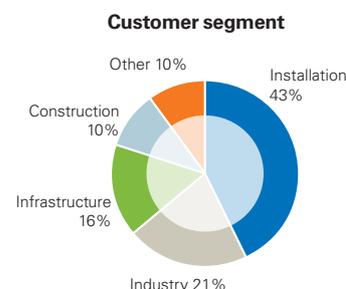
**Installation** – includes installers within plumbing, electrical and ventilation. They mainly purchase products in the HVAC & Plumbing and Electrical product segments. Customers range from small local companies to multinational installers and are usually multi-segment buyers.

**Industry** – consists of customers active in a number of different sectors that include, but are not limited to, manufacturing. In terms of customer size, the segment comprises everything from small local companies to multinational corporations.

For major industrial customers, Ahlsell's products normally constitute a small proportion of their total purchases, and we consolidate the purchase of a number of products in small quantities.

The customers are usually multi-segment buyers, although their purchases are mainly in the Tools & Supplies product segment.

**Construction** – comprises both major construction companies and small building firms. Large customers often work with sub-suppliers in the installation stage. Customers mainly purchase products



from the Tools & Supplies segment, but are also multi-segment purchasers.

**Infrastructure** – comprises state, municipal and private customers involved in major projects, such as the new bypass "Förfärd Stockholm", renovation of electricity grid equipment and fibre cable installations. These customers mainly purchase products from the HVAC & Plumbing and Electrical segments, but are also multi-segment purchasers.

**Other** – examples include facility management, cleaning companies and agricultural business. Expansion into new customer segments and sub-segments, both organically and through acquisitions, is an important driver of further growth.

## Market Overview

# We are the market leader

Ahlsell is market leader in the distribution of installation products, tools and supplies for professional customers in the Nordic region. Ahlsell's operations are primarily conducted in Sweden, Norway and Finland, which together account for 97% of the Group's net sales.



### Market size

Ahlsell offers suppliers cost-effective access to a geographically challenging market. Large areas, hilly terrain, long coastlines and lake areas present logistics challenges. The customer base is fragmented and products are sold to customers in installation, industry, infrastructure, construction and other segments. According to a market analysis conducted in connection with the IPO in 2016, Ahlsell's total addressable market in the three main markets was estimated at approximately SEK 160 billion. Our market share of the Nordic market addressing professional customers was assessed as 20%. Given our broad Nordic presence, in combination with a continuously increasing product offering, and an expanding number of customer categories, the current market is probably substantially larger.

### Important role of distributors

In the Nordic region, distributors represent approximately 70% of the total market. Direct sales and sales to DIY (Di-It-Yourself) companies account for the remaining 30%. These percentages have been historically stable, which

illustrates distributors' strong position in the value chain.

There are several types of distributor in the market: large specialists that focus solely on one product segment, small specialist wholesalers with local sales staff and multi-specialists like Ahlsell. Ahlsell offers customers a unique range within three product segments.

### Competitors

Ahlsell's competitors are usually specialised in a particular product segment. Within HVAC & Plumbing, our main competitors are Dahl (St Gobain) and Onninen (Kesko). Within Electrical, competition comes mainly from multinational companies such as Rexel, Sonepar and Solar, whose local sales organisations are our key competitors in all three countries, despite variations in their relative strength. In Finland and Norway, Onninen is also strong within Electrical. Within the Tools & Supplies product segment, Tools (Momentum Group) and Würth are our main competitors.

### Ahlsell's competitive advantages

At Ahlsell, we offer customers the concept of "One order, one delivery and one invoice." Most of our customers make

recurring purchases from more than one product segment, which proves that a broad product offering is important for our customers. Availability and size are a key competitive advantage in the distribution market. We achieve economies of scale within sales, purchasing, logistics, branches, IT and overhead costs, which provide a solid foundation for a competitive offering and good profitability. The competitive advantage is also proven in the branch network, where Ahlsell is able to operate profitable branches in smaller towns and cities thanks to our multi-segment offering.

### Ahlsell's market exposure and expected growth

Historically, the market has shown a growth rate of 1-2 percentage points above GDP growth. Ahlsell's growth target is to grow 2-3 percentage points faster than the market. To understand the driving forces behind the demand for Ahlsell's products and services, it is important to go beyond the customer segments and consider the types of projects for which the products are used. The table below shows Ahlsell's exposure to different market segments.

### Ahlsell's diversified market exposure

CONSTRUCTION – New construction		CONSTRUCTION -- Renovation		INDUSTRY	INFRASTRUCTURE
Residential	Commercial	Residential	Commercial		
<ul style="list-style-type: none"> <li>Population growth</li> <li>Interest rate level</li> <li>Number of dwellings</li> <li>House prices</li> <li>Number of new projects</li> </ul>	<ul style="list-style-type: none"> <li>Vacancy levels</li> <li>Number of buildings/commercial space</li> </ul>	<ul style="list-style-type: none"> <li>Number of dwellings</li> <li>Regulations and subsidies</li> <li>Housing stock age</li> <li>Conversion and refurbishing</li> </ul>	<ul style="list-style-type: none"> <li>Building stock age</li> <li>Leasing renewals</li> </ul>	<ul style="list-style-type: none"> <li>Industrial production</li> <li>Industrial investments</li> </ul>	<ul style="list-style-type: none"> <li>Population growth</li> <li>Urbanisation</li> <li>Age of existing infrastructure</li> <li>Political initiatives</li> </ul>
<b>15%</b> of net sales	<b>15%</b> of net sales	<b>35%</b> of net sales		<b>20%</b> of net sales	<b>15%</b> of net sales



## Supplier offering Unique Nordic presence

Ahlsell is the Nordic market leader and offers suppliers cost-effective access to a loyal customer base in a large geographical market with challenging distribution routes. The market is driven by long-term trends, such as urbanisation and population growth, which indicate good demand over time.

Ahlsell operates its business through an omni-channel model that includes a well-developed e-commerce platform and over 240 local branches. This ensures that the supplier's products are always close to the customer.

Our approximately 3,700 competent salespersons are the largest sales force for professionals in the Nordics. Ahlsell's continuous focus on improvement leads to "free innovation" in product development, sustainability and services for suppliers.

Thanks to our size and scale, we can guarantee sufficient volumes in cases where suppliers need to invest in order to meet the demand for, e.g., eco-friendly products. The majority of our purchases are made through local sales offices in the Nordic region, while our suppliers' production takes place mainly in Europe.

Our ten largest suppliers account for 24% of our purchases



# Value-creating strategy

## INPUT – DRIVERS, RELATIONSHIPS AND RESOURCES

### Drivers

Ahlseil has identified the following drivers: Sustainability, Outsourcing, Technical development & digitalisation and Urbanisation. Learn more on page 47.

### Employee relationships

We have about 5,700 dedicated employees. On average, our employees work with us for around ten years.

### Customer relationships

We have more than 100,000 active customers. Our ten largest customers account for around 6% of our net sales.

### Supplier relationships

We have good business relationships with approx. 11,000 suppliers, and we make significant purchases from about 3,000 of them. Our ten largest suppliers represent about 24% of our total purchases.

### Ahlseil's business

We have the market's broadest product offering, and three efficient central warehouses. Our omni-channel model means that we are always close to the customer: online, in our more than 240 branches and in our other sales channels.

### Own energy consumption

Our business consumed 66,977 MWh during the year. It is mainly our central warehouses and branches that consume the energy.

### Financial capital

At the end of 2018, we had more than 12,000 shareholders who have invested in the Company. In addition to equity, we also had borrowings of about SEK 7.6 billion from lenders.

## OUR WORK

### Overall objectives

Ahlseil's goal is to continuously contribute to strengthening our customers' competitiveness and to be an attractive partner to our suppliers. We aim to constantly develop our offering to fulfil our customers' requirements and exceed their expectations. Profitable growth will be achieved through a combination of organic

growth and acquisitions, and by making operational improvements. Our objective is to be the leading distributor within each of the product segments in our main markets.

### Business concept

To offer effective trading in installation products, tools and supplies for professional users.

### Customer promise

We make it easier to be professional.

### Values

Accountability, Openness and Simplicity. Learn more on page 29.

### Our strategy: One Ahlseil

Read more about our strategy on the pages that follow.

## OUTPUT – OUR RESULTS

### Financial targets

Our financial targets include growth, profitability, stable cash flows, financial strength and distribution of dividend. We definitely achieved our target to grow faster than the market through strategic growth initiatives and acquisitions. Learn about our targets and outcomes on page 18.

### Sustainability vision and targets

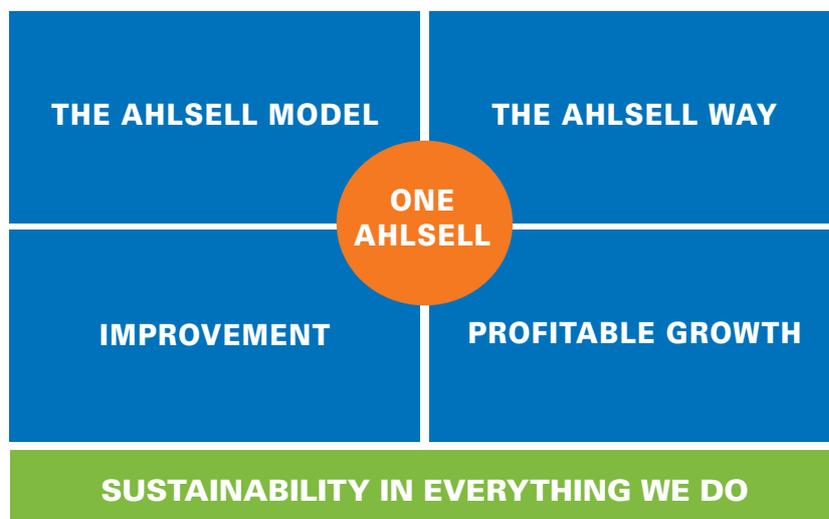
Our sustainability vision is to be the industry leader within sustainability and to take clear economic, social and environmental responsibility. We have a number of sustainability targets, which are followed up internally in the organisation. Most target figures pointed in the right direction in 2018. Learn more on page 19.

### Creating value for all stakeholders

Even though 2018 was a very successful year for Ahlseil, we have been creating value for stakeholders for much longer. During our 140-year history we have shown good development and created value for all stakeholders. Learn about our value creation on page 20.

# One Ahlsell

The guiding principle of our strategy is "One Ahlsell" which stands for a shared corporate culture and an effective organisation. Our strategy has four elements – the Ahlsell Model, the Ahlsell Way, Improvement and Profitable growth. "Sustainability in everything we do" is a natural element of our activities.



## The Ahlsell Model

For more than 140 years, we have worked according to the same fundamental customer satisfaction model. We call it the Ahlsell Model. Our four fundamental success factors that contribute to customer satisfaction are:

### Scale

A strong market position and large volumes give economies of scale in purchasing, sales, logistics and business support. Scale is a fundamental success factor for profitable distribution activities. Large volumes also make Ahlsell more attractive to suppliers.

### Breadth

A broad assortment and offering lowers the customer's total costs and increases customer loyalty. Expertise and depth in each product segment are offered via an effective matrix organisation. Breadth

also ensures profitable cross-sales and cost synergies for Ahlsell.

### Local presence

A local presence allows for close customer relationships and brand exposure. Branches provide rapid and flexible deliveries. The different channels represent an important competitive advantage and are particularly appreciated by SME-customers and multi-segment buyers.

### Business support

Good business support is fundamental to Ahlsell's offering. Business support includes a purchasing organisation, a decentralised sales force, specialist expertise, efficient logistics and distribution channels, and a stable and well-integrated IT platform.

### Successes in 2018

We have strengthened our position in personal protection equipment (PPE) through several acquisitions during the year. We believe that we fill an important function by providing personal protection in a world in which occupational health and safety is becoming increasingly important.

We have broadened our product offering and improved availability for our customers with more full-range branches. The number of branches increased by 19 during the year, mainly through acquisitions, and we have modernised 16 of those branches. Our branches are key bearers of our brand and we have worked actively to increase our sales staff's proactivity and service to customers.

## Improvement

We are a decentralised and learning organisation, which enables us to respond quickly to changes in demand and customer requirements.

The desire for continuous development and improvement is important in ensuring long-term success. Improvement requires strategic planning and follow-up, as well as a continuous focus on identifying and utilising improvement opportunities. By cooperating within the organisation, we can accelerate improvements.

### Successes in 2018

When our employees grow, our business develops. We have therefore put emphasis on product training, sales training and sales management training during the year, which has resulted in increased sales efficiency of at least 10% in our main markets.

We have several initiatives to reduce plastic use. We have already replaced a large proportion of our disposable plastic articles, such as straws, cutlery and glasses, with better alternatives. We have also started to charge for our plastic bags in our branches, with the surplus in Sweden going to WWF and their Baltic Sea work.

**The Ahlsell way**

The Ahlsell Way defines how we want to work within our organisation. The strategy includes creating employee commitment, shared values, our leadership, our code of conduct and how we work together.

**Values**

Our values are part of everything we do. They describe how we work and how we relate to customers, suppliers, society and, not least, each other. Leadership and employeeship in Ahlsell’s culture are defined by strong business acumen and an entrepreneurial spirit. This requires initiative and individual development, and the aim is to for all employees to be highly motivated.

**Code of Conduct**

Our Code of Conduct helps us to conduct business in an ethically, socially and environmentally sustainable way. We expect everyone in the organisation to adhere to the code. We also require our suppliers to follow this code.

**Market-oriented organisation**

Ahlsell strives to be a market-oriented and decentralised organisation with a focus on customer value, profitability and entrepreneurship. Shared corporate principles and models set the framework for follow-up, governance and business development.

**Successes in 2018**

We achieved a score of 72 in the Nordic employee job satisfaction survey (external benchmark: 66). The results show that we have a strong brand with proud employees who enjoy their work and relationships with colleagues.

The leadership index has increased since the previous year and is 75% (71). This is particularly pleasing in view of our focus on leadership, which has included a new leadership profile that sets out leadership expectations at Ahlsell, clearer role descriptions, work on coaching and skills development activities for our leaders.

**Profitable growth**

**Organic growth** Growing faster than the market requires innovation, creativity and strategic initiatives, both large and small, to reach new and existing customers. Ahlsell works proactively to develop new business with new and existing customers, as an important contribution to strengthening our organic growth.

**Acquisitions** Ahlsell is continuously strengthening its market position through large and small acquisitions. Acquisitions can take place both in existing markets, within established product categories, and within niches where clear synergies exist.

Acquisitions contribute to a broader product offering and bring new customer segments, markets, expertise and employees. Ahlsell has considerable experience in identifying, acquiring and integrating companies. There are significant integration benefits from coordinating purchasing, logistics, administration and sales.



**Successes in 2018**

Our acquisitions, which had a dilutive effect on the margin for much of the year, reported profitability for the last quarter of the year, which was in line with the average for the Group.

Our Group-wide focus on cost savings and efficiency measures during the year continued according to plan, and we already saw positive effects of this in our Swedish operations at the end of the year. In total, these initiatives will bring MSEK 160 in savings in 2019.

**Sustainability**

“Sustainability in everything we do” is a natural part of our business and we place a clear focus on areas where we can have the greatest positive impact.

For our customers, we make it easier to make sustainable product choices, both by having the right assortment, but also by clarifying which products are the better option.

If the customer wants a fossil-free delivery, we can also provide this. Sustainability has become a purchasing criterion for our customers and we often win contracts because of our sustainable focus.

For our suppliers, we are a pro-active purchaser that makes demands, gives feedback and offers suggestions for

improvement. As a purchaser of transport, we set high requirements for the truck fleet. We make spot checks of both vehicles (safe load, tyre depth, etc.) and drivers (sobriety) in terms of driveability.

We are proud to be one of the largest players to show the way in sustainability and our competitors are not slow in following us. This benefits the entire industry, society and ultimately all of us.

# Acquisitions are an important part of our strategy

Acquisitions play a key role in achieving our growth strategy.

The new companies help to strengthen our competitiveness, broaden our product offering and increase our presence in selected markets. This increased presence results in improved service to our customers and increased revenue for Ahlsell.

In 2018, eight companies were acquired with combined annual sales of approximately MSEK 886. The acquisitions account for about five percentage points of our total growth, which was 14%.

Historically, we have also successfully delivered significant cost synergies from our acquisitions. In the short term, the acquisitions often have a dilutive effect on profitability, but over time we have been successful in integrating our acquisitions and achieving profitability in line with the average for the Group.

In 2018, acquisitions had a dilutive effect on the EBITA margin in the early part of the year. After successful integration and management of the acquisitions, this effect slowed down at the end of the year. For the year as a whole, the acquisitions did not have a dilutive effect.

Mikael Falk, our Head of M&A, talks about acquisitions in an employee interview on page 32.



## Ahlsell's acquisition model

Valuation – before	Due diligence	Integration	Timing	Synergy	Valuation – after
~4–5% EBITA margin  ~7-8 % EV/EBITA valuation	Extensive process, including sustainability analysis	Purchasing	Almost immediate	~5–10% of sales	EBITA margin in line with the Group  ~3–4 EV/EBITA valuation
		Administration	~3 months	~20–40% lower costs	
		Logistics	3-6 months		
		Working capital	3-6 months	30% lower working capital	
		Sales	~3 months	Increased cross-sales	

# Financial targets

Ahlsell has adopted the following five medium-term financial targets, which are broken down and measured in different ways in the organisation within the framework of our business plan. Long-term and sustainable value creation for our stakeholders is important to us.

SALES GROWTH	Target	2018																				
<table border="1"> <caption>Sales Growth Data</caption> <thead> <tr> <th>Year</th> <th>Ahlsell, %</th> <th>Market, %</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>4</td> <td>3</td> </tr> <tr> <td>2016</td> <td>9</td> <td>4</td> </tr> <tr> <td>2017</td> <td>12</td> <td>7</td> </tr> <tr> <td>2018</td> <td>12</td> <td>5</td> </tr> </tbody> </table>	Year	Ahlsell, %	Market, %	2015	4	3	2016	9	4	2017	12	7	2018	12	5	<p>Achieve net sales growth of 2-3 percentage points above market growth through a combination of organic growth and acquisitions.</p>	<p>Ahlsell easily met the target. Net sales increased by 12%, excluding currency, which is 7 percentage points above the estimated average market growth for the period.</p>					
Year	Ahlsell, %	Market, %																				
2015	4	3																				
2016	9	4																				
2017	12	7																				
2018	12	5																				
ADJUSTED EBITA MARGIN	Target	2018																				
<table border="1"> <caption>Adjusted EBITA Margin Data</caption> <thead> <tr> <th>Year</th> <th>Adjusted EBITA margin, %</th> <th>EBITA margin, %</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>8.3</td> <td>8.1</td> </tr> <tr> <td>2016</td> <td>8.7</td> <td>8.4</td> </tr> <tr> <td>2017</td> <td>8.8</td> <td>8.4</td> </tr> <tr> <td>2018</td> <td>8.3</td> <td>8.1</td> </tr> </tbody> </table>	Year	Adjusted EBITA margin, %	EBITA margin, %	2015	8.3	8.1	2016	8.7	8.4	2017	8.8	8.4	2018	8.3	8.1	<p>Continuous increase in adjusted EBITA margin.</p>	<p>Ahlsell did not achieve the target. The adjusted EBITA margin was 8.3%, which is lower than 8.8% the previous year. Dilution of acquisitions and increased costs in connection with strong growth had a negative effect on the margin.</p>					
Year	Adjusted EBITA margin, %	EBITA margin, %																				
2015	8.3	8.1																				
2016	8.7	8.4																				
2017	8.8	8.4																				
2018	8.3	8.1																				
CASH FLOW	Target	2018																				
<table border="1"> <caption>Cash Flow Data</caption> <thead> <tr> <th>Year</th> <th>Operating cash flow/EBITDA, %</th> <th>Target, %</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>92</td> <td>90</td> </tr> <tr> <td>2016</td> <td>90</td> <td>90</td> </tr> <tr> <td>2017</td> <td>78</td> <td>90</td> </tr> <tr> <td>2018</td> <td>81</td> <td>90</td> </tr> </tbody> </table>	Year	Operating cash flow/EBITDA, %	Target, %	2015	92	90	2016	90	90	2017	78	90	2018	81	90	<p>A cash conversion rate over time of approximately 90%.</p> <p>Cash conversion rate: Operating cash flow/EBITDA</p>	<p>Ahlsell did not achieve the target. Strong growth and a stronger focus on delivery capacity results in tied-up capital and Ahlsell's cash generation was 81% at the end of the year.</p>					
Year	Operating cash flow/EBITDA, %	Target, %																				
2015	92	90																				
2016	90	90																				
2017	78	90																				
2018	81	90																				
NET DEBT	Target	2018																				
<table border="1"> <caption>Net Debt Data</caption> <thead> <tr> <th>Year</th> <th>Debt/equity ratio, x</th> <th>Target, min. 2x</th> <th>Target, max. 3x</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>3.9</td> <td>2.0</td> <td>3.0</td> </tr> <tr> <td>2016</td> <td>3.3</td> <td>2.0</td> <td>3.0</td> </tr> <tr> <td>2017</td> <td>2.6</td> <td>2.0</td> <td>3.0</td> </tr> <tr> <td>2018</td> <td>2.4</td> <td>2.0</td> <td>3.0</td> </tr> </tbody> </table>	Year	Debt/equity ratio, x	Target, min. 2x	Target, max. 3x	2015	3.9	2.0	3.0	2016	3.3	2.0	3.0	2017	2.6	2.0	3.0	2018	2.4	2.0	3.0	<p>Net debt/adjusted EBITDA of 2.0-3.0.</p> <p>The capital structure must ensure a sound financial position and also allow strategic initiatives.</p>	<p>Ahlsell achieved the target. Due to a highly cash generating business, Ahlsell reduced net debt, despite several acquisitions. Net debt at the reporting date was 2.4 times adjusted EBITDA.</p>
Year	Debt/equity ratio, x	Target, min. 2x	Target, max. 3x																			
2015	3.9	2.0	3.0																			
2016	3.3	2.0	3.0																			
2017	2.6	2.0	3.0																			
2018	2.4	2.0	3.0																			
DIVIDEND POLICY	Target	2018																				
<table border="1"> <caption>Dividend Policy Data</caption> <thead> <tr> <th>Year</th> <th>Dividend per share, SEK</th> <th>Earnings per share</th> <th>Dividend as % of EPS</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>0.21</td> <td>0.35</td> <td>60%</td> </tr> <tr> <td>2016</td> <td>0.35</td> <td>1.11</td> <td>40%</td> </tr> <tr> <td>2017</td> <td>1.65</td> <td>3.28</td> <td>50%</td> </tr> <tr> <td>2018</td> <td>0</td> <td>3.68</td> <td>0%</td> </tr> </tbody> </table>	Year	Dividend per share, SEK	Earnings per share	Dividend as % of EPS	2015	0.21	0.35	60%	2016	0.35	1.11	40%	2017	1.65	3.28	50%	2018	0	3.68	0%	<p>Payment of a dividend equivalent to 40-60% of net profit.</p> <p>The dividend must take into account acquisitions, the Company's financial position, cash flow and future growth prospects.</p>	<p>On January 24, 2019, Ahlsell's Board of Directors proposed, to the AGM, a dividend of SEK 1.84 per share, corresponding to 50% of earnings per share for fiscal year 2018. Due to change in ownership, the profit-allocation proposal has been amended and no dividend will be paid.</p>
Year	Dividend per share, SEK	Earnings per share	Dividend as % of EPS																			
2015	0.21	0.35	60%																			
2016	0.35	1.11	40%																			
2017	1.65	3.28	50%																			
2018	0	3.68	0%																			

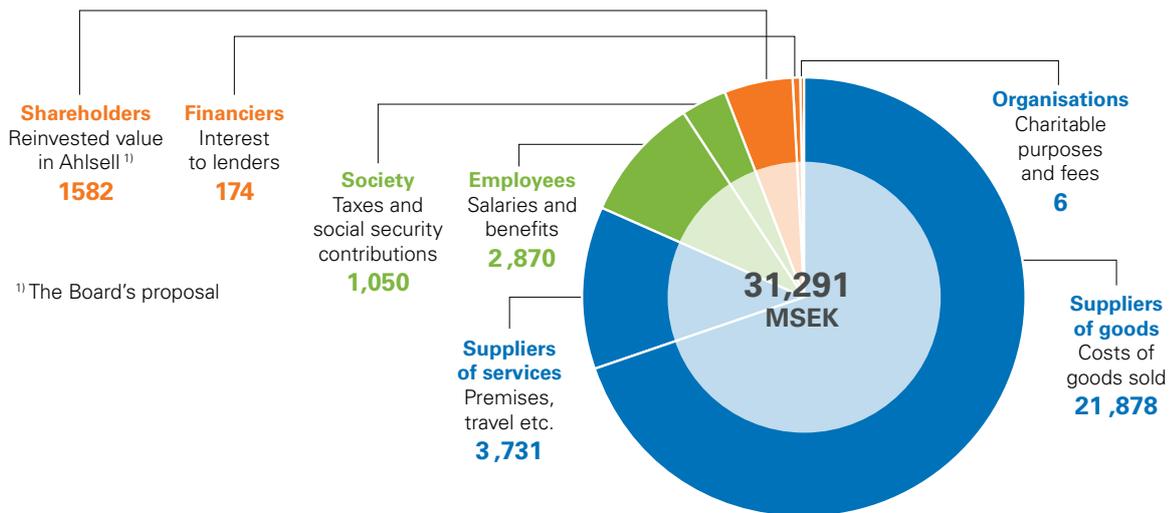
# Sustainability targets

To achieve actual improvement, we work within four focus areas with a number of different sustainability targets. A number of targets were adopted in 2017 (base year 2016) and are valid for four years. Some of them are shown below. The calculations are made for our three key markets, corresponding to 97% of our net sales.

<b>HEALTH AND SAFETY</b>	<b>Target</b>	<b>2018</b>
	<b>Good work attendance (health presence)</b>	<b>96%</b> 2017: 96% 2016: 96%
<p>We have a high level of employee work attendance (health presence), which was 96% in our three main markets in 2018. This corresponds to about 10 days of sickness absence out of a total of 250.</p> <p>Health presence has been stable since 2016.</p>		
<b>INNOVATION AND COLLABORATION</b>	<b>Target</b>	<b>2018</b>
	<b>At least ten new sustainable and environmentally-friendly products and services offered to our customers per year.</b>	<b>&gt;10</b> 2017: >10 2016: >10
<p>Sustainability is about cooperation. We therefore involve our suppliers in several innovation projects. The products we sell must be safe, reduce waste volumes and contribute to reducing greenhouse gas emissions. Learn more about our new sustainable and environmentally-friendly products on page 24.</p>		
<b>RESPONSIBLE SOURCING</b>	<b>Target</b>	<b>2018</b>
	<b>All<sup>1)</sup> our suppliers fulfil our Code of Conduct.<sup>2)</sup></b>	<b>76%</b> 2017: 48% 2016: 33%
<p><sup>1)</sup> Suppliers from which we purchase goods for sale to end-customers and from which we buy for more than SEK 150,000/year. (Corresponds to about 99% of purchased value.)</p> <p><sup>2)</sup> To achieve the target, the supplier must have signed our Code of Conduct and we must have assessed the supplier as also fulfilling our requirements.</p>		
<b>TACKLING CLIMATE CHANGE</b>	<b>Target</b>	<b>2018</b>
	<b>20%</b> <b>reduction of our CO<sub>2</sub> footprint/ MSEK in four years</b>	<b>1.16</b> 2017: 1.42 2016: 1.49
<p>We measure our carbon footprint in tonnes of carbon dioxide equivalents per MSEK net sales. As the base year is 2016, we have already achieved our target. However, our aim is to continue to improve. In absolute figures, the footprint from our own activities and freight transport was 35,319 tonnes of CO<sub>2</sub>e in 2018, a reduction of 7% from previous year. The reasons include an increased proportion of direct transport from Ahlsell to the customer, rather than via terminals and increased use of biofuels.</p>		

# Creating value for all stakeholders

We have been creating value for our stakeholders for more than 140 years. In 2018, we increased our revenue by approximately SEK 3.8 billion. Our value creation distributed by stakeholder is shown below:



At the Nordbygg Construction Fair in April, Ahlsell arranged a development forum in the area of sustainability. We gathered our most important suppliers to discuss sustainability issues and what we can achieve together. The picture shows moderator Elisif Elvinsdottir (right), Claes Seldeby, Head of Operations Sweden, and Gunilla Sandström, Environmental and Sustainability Manager at Ahlsell.



The Sustainable Supplier of the Year award was won by SprayMaster for their part in the production of a marking spray that does not contain harmful substances and is made of renewable raw materials. The prize was a donation to the Swedish Childhood Cancer Foundation.

# Continuous stakeholder dialogues

Suppliers	Employees	Customers	Shareholders and financiers	Society	Organisations
-----------	-----------	-----------	-----------------------------	---------	---------------

## Priorities for our stakeholders

We are in continuous dialogue with our stakeholders. By combining our stakeholders' priority areas with our opportunity to have an impact, we have come to the conclusion that the following areas are the most important ones for us and our work:

- Profitable growth for the Group
- Responsible sourcing
- Dedicated and committed employees who wish to develop further
- Safe and sustainable products and services of high quality
- Reduced environmental impacts from transport

Good, long-term relationships with our **suppliers** are the basis for everything we do. We arrange continuous development meetings, follow-ups and audits to develop our product flows and offering, and improve our cooperation. We organise joint customer days with suppliers and trade associations for long-term and value-creating collaboration. For example, during the 2018 Nordbygg Construction Fair, Ahlsell arranged a development forum in the area of sustainability. Learn more about our responsible sourcing on page 26.

Our **employees'** competence and comfort are important to us, and we hold annual development discussions with our employees. We also conducted our second employee survey in 2018, which shows that we have a strong brand with proud employees who enjoy their work and working relationships.

We insist that our employees act in accordance with our shared values and Code of Conduct. We use interactive group exercises, such as "The Code", see page 31, to ensure that everyone is well-informed. In some parts of our organisation, such as our central warehouse in Hallsberg, we also work on "Continuous Improvement". Learn more on page 29.

Making it easier for our **customers** to be professional is our most important mission. Each customer has a dedicated salesperson, who ensures that we meet the customer's needs in the best possible

way. The salesperson, in some cases also a Key Account Manager (KAM), combines several customers' needs with a view to finding a common and improved solution – often within sustainability and efficiency. Our ongoing discussions on tenders and agreements provide us with information on what we can do better and what the customer's needs are. We also conduct regular surveys, interviews and audits. If a customer is not satisfied, our sales support is ready to help with valuable dialogue.

At the end of 2018, Ahlsell was a listed company, with both **shareholders and capital providers**. About a hundred investor and analyst meetings were held in 2018.

Ahlsell's first capital markets day as a listed company was arranged in September. The day was well attended and the message was clear: we have a stable and resilient business model and we strive for profitable growth.

Shareholder relationships and dialogue are important to Ahlsell and we are always available in the event of any questions. The annual general meeting in May is another example of how we met our shareholders and addressed their questions during the year.

Ahlsell has about 5,700 employees and our activities create clear value in the **communities** in which we operate. In addition to salaries, social security contributions and tax, we also focus strongly on good cooperation with the municipalities where we are established. One such example is Ahlsell's participation in the rescue operation in the Sala forest fire during summer. Ahlsell's employees opened the branch outside opening hours and provided head torches, watering cans, buckets and much more.

Other **organisations** relevant to Ahlsell are trade associations, in which we take active responsibility for driving the industry in a sustainable direction. These associations also enable external environmental analysis that help us and the industry to comply with new laws and regulations. Membership also means that we undertake to follow ethical rules that promote

good business practice and sustainable development in the market. Examples of our trade association membership include SEG (Swedish Electrical Wholesalers Federation), RGF (Swedish Federation of Wholesalers in Heating, Sanitation and Plumbing), the Association of Swedish Building Materials Merchants and Swedish Ventilation.

Another organisation close to Ahlsell's heart is the Swedish Childhood Cancer Foundation (Barncancerfonden) and we are a main sponsor. In 2017, we initiated a partnership that involves the production and sale of 150,000 LED reflectors to raise money to fight child cancer. These reflectors can also protect and save lives in traffic.

We also nurture the industry's history through our support membership of Sweden's museum of plumbing in Bromma, outside Stockholm. The museum is a natural meeting place for the HVAC & plumbing industry.



Ahlsell is a main sponsor of the Childhood Cancer Foundation



Ahlsell nurtures the industry's history through support membership of Sweden's museum of plumbing.

SVERIGES VVS MUSEUM

# Sustainability in everything we do

Ahlsell aims to be the industry leader within sustainability and to take clear economic, social and environmental responsibility. We are convinced that our strategy not only contributes to a better world, but also higher profitability for Ahlsell.

### The basis of our sustainability strategy

“Sustainability in everything we do” is a natural part of our business and we place a clear focus on having a positive impact. Contributing to the development of a sustainable society comes naturally to us.

Sustainability work at Ahlsell is an integral part of both the overall strategy and day-to-day operations. Sustainability is a

recurring and important agenda item during the Board’s annual strategy days. We support the UN Global Goals for Sustainable Development and participate in the UN Global Compact. In doing so, we undertake to follow the ten principles in the areas of human rights, labour, the environment and anti-corruption. Our sustainability strategy, which was

adopted in 2017, is based on a materiality analysis of Ahlsell's risks, opportunities and environmental aspects, and dialogue with our stakeholders. Based on our position in the value chain, we focus on the sustainability goals for which our operations can make the greatest positive impact (marked with a green bar in the value chain below).



### Looking at the Global Sustainable Development Goals, we can make the greatest positive impact in goals 3, 9, 12 and 13.



Based on these goals, we have identified a number of focus areas that form the basis of our sustainability strategy. Our focus areas are:

- Health and safety
- Innovation and collaboration
- Responsible sourcing
- Tackling climate change

# Ahlseil's sustainability work

Sustainability in everything we do means that we integrate environmental, ethical and social issues into our governance and day-to-day operations.

## Ahlseil's Code of Conduct

Our focus areas are the starting point for our sustainability work and are largely based on our Code of Conduct, which describes how to act and what requirements we set for ourselves and our suppliers.

The Code is based on the UN Global Compact, the UN's Universal Declaration of Human Rights and related UN conventions, the ILO Core Conventions and the OECD Guidelines for Multinational Enterprises.

The Code of Conduct is adopted annually by Ahlseil's Board and is available for all to read on our website.

## Organisation and definition of responsibility

Ahlseil has several control documents in the form of policies and guidelines. Their aim is to guide the Company, support effective working methods and reduce identified risks by means of regular follow-ups.

Responsibility is clearly defined in the organisation. Ahlseil's Board defines policies annually, and these policies apply to the entire Group. Ahlseil's CEO is responsible for managing and implementing them in the day-to-day operations. The CEO is assisted by the Management group and the Sustainability Manager, who reports to the Company's Chief Purchasing Officer. The Sustainability Manager and the Heads of Operations are responsible for driving the process on sustainability in an operational framework.

Compliance with current legislation is monitored through internal audits within the framework of ISO 14001 and 9001. All the products we stock must comply with applicable laws and regulations. Statutory compliance includes: REACH, legislation that includes both a substitution and precautionary principle, CLP, RoHS, CPR, WEEE and other relevant CE directives. Suppliers must comply with Ahlseil's special requirements in accordance with ISO 14001. We continuously monitor our suppliers.

## Focus areas and goals

Our focus areas cover the entire Group. In the organisation, the sustainability goals are broken down into internal,

external, Group-wide and local sub-goals. Each function has responsibility for its goals, which means that sales divisions, purchasing and logistics can have different goals, although they are all committed to more sustainable operations.

Follow-up is critical and we constantly ensure that the various goals are still relevant. If new knowledge emerges, the goals are adjusted. Sustainability work is reported to Group management on a quarterly basis, and the Board is informed of follow-ups and ongoing initiatives at least once a year.

## Human rights, child labour and working conditions

By participating in the UN Global Compact, we have committed ourselves to preventing and reducing negative impacts on human rights – from us and our suppliers. Negative impacts may include poor working conditions, forced labour, child labour or activities that damage people's health.

We have included human rights in our Code of Conduct and we have processes in place to identify, prevent, manage and report risks related to human rights violations.

Ahlseil divides the risk of human rights violations into two parts: our own impact and our suppliers' impact. In 2018, 99% of our employees were covered by a collective agreement. The figure is not 100% because some of the acquired companies did not yet have collective agreements. Our Board of Directors has LO, TCO and Unionen representatives.

In accordance with our Code of Conduct, our suppliers must ensure that human rights and labour rights are respected. This includes a prohibition on forced labour, work outside statutory working hours or work in unsafe working environments at the premises of all Ahlseil suppliers. We do not tolerate child labour in our operations or the operations of the Group's suppliers, including their own sub-suppliers.

## Business ethics and corrupt behaviour

In all situations, regardless of country or market, Ahlseil's conduct must be characterised by responsibility and

respect for customers, suppliers, business partners and the local communities in which we operate.

Ethical conduct and good business practices are vital for our development and profitability. We ensure that we convince our business partners with purely commercial arguments. The goal is to develop long-term, stable business relationships in which Ahlseil is considered a responsible and professional partner.

We do not tolerate corruption and unethical business conduct. Neither Ahlseil nor any party acting on behalf of Ahlseil may grant, offer or encourage payments, gifts or other benefits that may affect or be perceived as affecting the objectivity of a business decision or a public authority decision.

In the same way, neither Ahlseil nor any party acting on Ahlseil's behalf may accept, receive or request gifts or other benefits.

### Whistleblower

Ahlseil always follows up suspected unethical conduct. We also have a whistleblower facility that is available to both employees and external parties to use as needed. The facility can be accessed via our website.

### Important external regulations

- UN Global Sustainability Goals,
- UN Global Compact,
- The Swedish Companies Act,
- Work environment legislation,
- ISO 14001 and 9001,
- Other applicable laws and regulations.

### Important internal regulations

Examples of policies, defined annually by the Board:

- Code of Conduct,
- Purchasing policy,
- Insider policy,
- Communication policy,
- Quality and environmental policy,
- Financial policy,
- People policy.

Examples of guidelines (detailed control documents), defined annually by Group management:

- Work environment,
- Employees' use of social media,
- Abuse issues,
- Authorisation and attestation instructions.

# The environment is always on the agenda

The main environmental impacts from AhlSELL's operations come from airborne emissions from transport, energy consumption at our facilities, sales of chemical-based products containing substances that are environmentally hazardous and harmful to health, and production of waste.

## Statutory compliance is key

Compliance with legislation, permit requirements and other regulatory decisions is of paramount importance to us and we therefore have zero tolerance for violations.

## Statutory reporting

AhlSELL's activities at its logistics centres are subject to statutory reporting with regard to, e.g., intermediate storage of used refrigerants. The permits granted are valid indefinitely, but annual environmental reports are required by the authorities in the relevant countries.

AhlSELL also holds permits for handling explosive and flammable goods and transferring particularly hazardous chemical-based products.

In addition, AhlSELL has the required permits for branches that stock over 100 litres of flammable liquids or gas indoors. AhlSELL also has a permit to hold gas depots at a number of branches.

## Ambitious targets

The sustainability targets were adopted at Group level in 2017, with 2016 as the base year for the calculations.

Our target is to reduce our carbon footprint by 20% in four years. This requires efforts throughout the value chain – such as climate-efficient logistics, energy-efficient lighting in branches and more energy-efficient products. One example is solar energy, which is a rapidly growing product category. As well as offering our

customers solar energy products, we also use solar energy ourselves. One example is our Hyvinkää central warehouse in Finland, which has solar panels on the roof. A total of 213,240 kWh was generated in 2018, making the warehouse self-sufficient in electricity. Some of our branches also have solar panels. In Vasa, the solar panels supply both the branch and the charging station for electric cars with fuel directly from the sun. This is perfect for our customers, who can charge their vehicles while doing business with us. At the end of 2018, we had 40 addresses where our customers and employees can charge their electric cars.

In absolute figures, we had a footprint of 35,319 tonnes of carbon dioxide equivalents during 2018, equivalent to 1.16 per MSEK net sales. The corresponding figures for 2017 were 37,877 tonnes and 1.42.

Our target for energy is to reduce total consumption by 20%. Between 2017 and 2018, our direct energy consumption increased in absolute figures. This is partly due to high sales volumes and activity at our central warehouses.

## Transport and delivery are key aspects

As one of the largest transport buyers in the Nordic region, AhlSELL takes special responsibility for reducing emissions from freight transport. We work actively to optimise our transport. At our three central warehouses in Sweden, Norway and Finland, hundreds of HGVs (Heavy Goods

Vehicle) with thousands of cubic metres of goods arrive and depart every day. From each warehouse, our logistics partners drive loaded HGVs to more than 80 terminals across the three countries. We use mass freight transport, with shared transport in urban areas, as far as possible for transport from the terminals in order to optimise filling ratios.

All our suppliers of freight are checked and undergo the same type of assessment as our producing suppliers. We focus on traffic safety and climate-efficient transport. There are many positive effects: advantages in tendering processes, reduced costs for all parties, less damage during transport, safer loads and safer working environments.

We also encourage travel-free meetings, such as video meetings.

## More efficient value chain

A sustainable approach includes seeking to reduce our consumption of packaging materials. At the three central warehouses, we use matched carton sizes. There are three reasons: to minimise consumption of materials, simplify handling, and optimise filling of pallets and lorries.

We also endeavour to recycle and recover as much as possible. Our three central warehouses have sorting stations where sorted waste is handled at environmental stations, with a material recovery ratio of 90%. For branches and other facilities, the equivalent figure is 46%.

## EXAMPLES OF ENVIRONMENTAL TARGETS

### Reduce carbon footprint by 20%

In absolute figures, we had a footprint of 35,319 tonnes of CO<sub>2</sub>e in 2018, equivalent to 1.16 per MSEK net sales. The corresponding figures for 2017 were 37,877 tonnes and 1.42.

A large proportion of our footprint comes from long-distance and distribution traffic. We have reduced this footprint by about 500 tonnes compared with 2017. Among the reasons are an increased proportion of direct transport from AhlSELL to the customer, rather than via terminals. In addition, the proportion of biofuels has increased in 2018 and the vehicle fleet's performance has improved.

### > 10 new products and services for increased sustainability per year:

- Sustainable packaging in the private label range
- Nordic Eco-labelled cleaning products
- PVC-free injection hose (Monomax)
- Recycled plastic bag in aid of Swedish Childhood Cancer Foundation
- Extended range of vapour and moisture barrier film
- Chemical-free wind barrier to replace roofing membranes
- Palm oil-free ginger biscuits
- Fire alarms without radioactive substances
- Efficient construction site logistics – more information on page 35
- Increased range of charging posts for electric cars



## Effective, sustainable and safe products

Our customer promise: “Ahlseil makes it easier to be professional” means that our customers must be confident that the products they buy from Ahlseil are safe to use and correctly labelled.

### **Safety has a clear place in Ahlseil's offering**

As many of our customers are active in sectors with a high risk of injury, the work to ensure safe products is an important sustainability issue for us. We continuously add new products to give customers and employees a safer working life and we are glad to help our customers make safer choices.

We offer more than a million products, which means that we have one of the most complete offerings in the Nordic region. This places high demands on our purchasing organisation, and our product offering is reviewed continuously. When we introduce new products, we place great emphasis on quality assurance, both in the products' value chain and their compliance with applicable regulations in each market.

Having the right safety equipment for the work is just as important as having safe products. We therefore have a wide offering of personal protective equipment. This includes protection of the head, hearing, eyes, respiration, hands and feet, but also protective wear, fall protection equipment, rescue equipment and hygiene articles.

### **Continuously increasing our offering**

We are pushing increased availability of sustainable, environmentally-classified products. Our offering is constantly expanding and we work close to our suppliers on these issues.

An example of the good cooperation between customers, suppliers and Ahlseil is the product Marker Eco which we launched in 2017 in consultation with Sveriges Riksbyggare. Ahlseil sold 40,000 (11,000) Marker Eco sprays in 2018, reducing hazardous substances by around 6,000 kg compared with traditional marking sprays.

### **Environmentally-classified construction products**

Demand for environmentally-classified construction products is expanding rapidly, as property owners are increasingly opting for environmental certification of their buildings. This also requires that our products are environmentally-assessed.

We are proud to be driving increased availability of environmentally-assessed construction products – for example, we have at least 3,500 environmentally-classified private label products. In total, we

have 29,000 private label products, but all are not relevant for environmental classification.

### **Sustainable services and training**

In addition to a wide product offering, Ahlseil has developed different training programmes, protection measures and information material to make it easier for customers to make wise and safe choices. These include protective equipment catalogues and sector-based manuals, helping customers to minimise the risk of work-related injuries. Examples of training courses that help to improve our customers' work safety include: Safe water, Hot work, Mobile work platforms, Contract law, Construction work environment coordinator, Electrical safety at work and the Public Procurement Act.

### **Sales expertise creating value for our customers**

The fact that our sales staff is well-informed and ready to help our customers to make the right choices reduces customers' total costs and strengthens their loyalty to us – a win for the customer, the environment and Ahlseil.

# Responsible sourcing

Ahlseil has a responsibility that extends beyond its own activities. The products we sell must come from suppliers that take human rights and the environment seriously.

## Ahlseil sets requirements

One of Ahlseil's most important assets is the trust of our employees and customers. This makes it absolutely necessary that our suppliers observe international guidelines concerning quality, social responsibility and the environment, as well as Ahlseil's own Code of Conduct. We have set higher requirements for our own and our suppliers' activities than those required by the law.

By accepting Ahlseil's Code of Conduct, suppliers undertake to observe the code in their own and their sub-suppliers' activities.

To be able to deliver to Ahlseil, the supplier must pass a supplier audit. The assessment is based on the requirements in Ahlseil's Code of Conduct. The aim is to examine the supplier's ability to fulfil the requirements before any agreements are signed.

## Ethical business conduct is a must

In all situations, regardless of country or market, Ahlseil's conduct must be characterised by responsibility and respect for customers, suppliers, business partners and the local communities in which we operate.

Ethical conduct and good business practices are vital for our development and profitability.

Ahlseil always follows up suspected unethical conduct. In 2018, Ahlseil became aware of eight suspected cases of unethical conduct. All cases have been investigated. One resulted in termination of employment. None of the cases had any legal consequences.

If we identify suppliers that do not comply with our Code of Conduct, we seek to obtain a positive outcome through dialogue as a first step. If there is no improvement, the cooperation is terminated.

Learn more about ethical business on page 23.

## Continuous evaluation

We constantly evaluate our suppliers, prioritising them on the basis of purchased value. Up to 2018, 44% of our suppliers, in terms of purchased value, have been audited during inspection visits. This figure does not include our private label suppli-



ers. The target is 50% within four years, with 2016 as the base year. At the end of 2016, 24% had been audited, which means that there has been an increase of 20 percentage points in the last two years. Once a supplier has been audited, the audit is valid until 2020. When Ahlseil audits its suppliers, the aim is to improve together. We jointly identify development and improvement opportunities. In addition to deficiencies, we also measure development opportunities. These assessments are made by an internal audit team and any deviations are documented and followed up.

## Partnerships for sustainable business

If the world is to achieve the UN's Global Sustainability Goals by 2030, we need to cooperate within and across sectors and throughout the value chain.

Our position in the market means that

we have good opportunities to influence our suppliers in the area of innovation and development. One of our cooperation projects with our suppliers is "Products and services for increased sustainability" within which we join forces to develop new sustainable products and services. Innovations must be characterised by usability and improved performance, and be more resource-efficient and cost-effective than their predecessors. They must also ensure a good and safe working environment, reduce waste volumes and help to cut down greenhouse gas emissions. Some examples are listed on page 24.

Further examples of productive cooperation include our membership of interest associations and sector organisations in the individual markets. This means that we undertake to observe ethical rules which promote good business practice and sustainable development in the market.

# Our private labels

About 10% of the products we sell are our private labels. The products are often developed and produced by our existing suppliers, and offer customers a high-quality and reasonably priced alternative to the established brands.

Our aim is for our private labels to be well-established and well-known to our customers. We strive to increase private label product sales in absolute terms.

Ahlsell's private label products must maintain the same quality and standard as similar goods in the sector, have the necessary certificates and comply with applicable rules and standards in the country in which Ahlsell operates.

We must also be able to control production in terms of quality and sustainability. Private label product suppliers are audited by internal quality inspectors or an established third-party company. The inspectors are trained in SA8000 in order to ensure a good working environment and protection of human rights.

We also have our own office in Guangzhou in China where our private label product suppliers are audited by internal quality inspectors, also trained in SA8000.

Proximity to our suppliers leads to greater understanding and good relationships, thereby supporting responsible sourcing.



## **a-collection**

Installation products for professionals



Highly regarded tool offering

## **ACTIVEWEAR**

Workwear and personal protection made from carefully selected materials



Fastening materials

# Our employees at the centre

We have around 5,700 employees in eight countries. To ensure a successful and long-term sustainable organisation, we place great emphasis on developing our employees and attracting competent new colleagues. We want our employees to feel pride and commitment when working for us.



## Our employees at the centre

An attractive product offering, combined with our employees' ability to be dedicated problem-solvers, makes Ahsell a strong and stable company in a changing world. In order to fulfil our customers' wishes and expectations, we need employees with a wide range of knowledge areas, experience and backgrounds.

Behind every delivery to the customer are our employees, taking responsibility for every detail in the chain. Our customer promise – *We make it easier to be professional* – is about much more than what is in the packages we deliver; it is about people. People who are keen to go the extra mile.

An important success factor is that all employees are given the opportunity to

grow in their professional role – this creates dedication!

## A safe and sustainable workplace

Our most important responsibility to our employees is to ensure a safe workplace. Our health attendance is 96% (96) for our employees in our three main markets. This corresponds to about 10 days of sickness absence (out of 250). This means that our employees were just as healthy in 2018 as in 2017.

We take safety very seriously and work actively to prevent and reduce the number of injuries at the workplace. To prevent work-related injuries, we work continuously on information, training and monitoring of work. Examples include introduction training for new employees, truck training courses, and training in

ergonomics, lifting and first aid. We cooperate with the occupational health services in the individual countries in order to prevent ill-health. Most of the injuries suffered by Ahsell's employees occur at our logistics facilities. Hence, we have a number of different safety regulations and directives that apply to hot work, emergency medical services and systematic fire prevention in place.

There were 61 (53) work-related accidents in our three main markets in 2018. This is an increase of eight from 2017. We define a work-related accident as an accident occurring at (not to and from) the workplace and resulting in absence of leave. The increase is due to the high level of activity, strong growth, increased volumes and higher number of employees.

” *Behind every delivery to the customer are our employees, taking responsibility for every detail in the chain.*



## ACCOUNTABILITY

We are accountable and we are the preferred partner for our customers. Accountability makes our business grow and creates profitability. I am accountable and help create a work environment where everyone can develop to their full potential.

**I am accountable!**

## OPENNESS

We are open minded towards people. We are open to new ideas and suggestions. Openness and transparency build trust, with colleagues, customers and suppliers. We know that the best work environment consists of people with different backgrounds and experiences. We work in an environment that encourages new ideas and methods, where it is easy to see new opportunities.

**I am open-minded!**

## SIMPLICITY

Simplicity is synonymous with the way we do business. We are down to earth, uncomplicated and clear. We work closely with our customers and make it easy for them to understand what we offer. We make decisions quickly and focus on what is essential. We strive to be a partner that simplify our customers’ business every day.

**I make it simple!**

### Values

Ahlsell’s values are important for achieving our One Ahlsell strategy. The values serve as Ahlsell’s compass and, among other things, describe our approach to colleagues, customers and suppliers.

The values are followed up in ongoing dialogue and in the annual employee dialogue. The values are also an important element of Ahlsell’s acquisition strategy. Shared values support the integration of new employees and companies. Our interview with our Head of M&A highlights the importance of the culture in our Company.

### Continuous improvement

At our central warehouses, we work on continuous improvement on both a small and large scale. In our continuous improve-

ment (CI) approach, we encourage our employees to improve their work processes and increase their quality of work.

Since we started CI at the Hallsberg central warehouse in 2013, there have been 7,642 suggestions for improvement, of which 4,713 have been implemented (62%). In 2018, we received 1,480 suggestions, of which 913 were implemented (62%). The suggestions that come in vary considerably, from reducing packaging to developing new training at Ahlsell Business School.

The suggestions sometimes relate to product development, such as the creation of “steel hedges” when handling soil pipes. The problem was that it had been difficult to handle the soil pipes when the packaging was opened. There was a danger that they could be knocked while

lying on the ground, and have to be discarded. As a solution, Ahlsell worked with the technology programme at Alléskolan in Hallsberg to design a steel hedge for the soil pipes. With its help, the pipes now stay still and are more easy to handle.

All central warehouse employees take part in the improvement work, and each department has an improvement group that pursues this work.

The employee with the month’s best suggestion at the Hallsberg logistics centre gets to use the specially reserved parking space closest to the entrance. If the winner is a cyclist, the bike gets to stand in the space – a source of frustration, but also motivation for car-drivers. Creating commitment does not always cost money.

# Employee year 2018

## A strong Ahlseil

The process of building a strong Ahlseil continues. During the year, we have conducted a large number of training courses and developed processes to improve the efficiency of managers and employees.

We have engaged in several cooperation initiatives aimed at increasing knowledge about Ahlseil as an employer, including cooperation projects with schools such as IHM Business School and various vocational colleges. We offer internships, summer jobs and degree projects, and participate in research studies and different events to strengthen our reputation as an attractive employer. We also cooperate with different recruitment partners who are well advanced in their work in areas such as open-minded recruitment.

The HR organisation works for clear and common processes throughout the Nordic region, which take place through projects

and cooperation, but also in HR management, with the HR managers for each country also involved.

Our focus is on being part of the activity, contributing from a different perspective and providing active support for leaders in their work on development and change, both strategic and operational.

Last year we produced a leadership profile which was implemented this year through workshops and discussions in different management groups. The leadership profile now forms the basis of our leadership evaluation, which takes place in the employee interviews and in succession planning. We also work with the leadership profile as a starting-point in our leadership recruitment, in both interviews and tests.

Over the last two years, we have invested in the development of our intranet, developed guidelines and built up an organisation around it. The intranet

is currently our largest communication channel for internal communication and an important cultural vehicle and facilitator for collaboration and information retrieval.

## Employee survey

For the second consecutive year, we conducted a Nordic employee survey. We achieved a score of 72 (69) in the Group-wide employee job satisfaction index (external benchmark: 66). The response rate of 87% (88) produced high reliability in the results and shows that employees are keen to contribute feedback.

The responses provide us with an important basis for future priorities. The employee survey shows that we have a strong brand with proud employees who enjoy their duties and working relationship.

## Zero tolerance for bullying, harassment and discrimination

At Ahlseil, we have zero tolerance for bullying, harassment and discrimination. We take every case very seriously. We therefore asked additional questions about these topics in this year's employee survey. We have developed our routines and appointed working groups to achieve our goal of zero tolerance.

## Increased leadership index

The leadership index has increased since the previous year and is currently 75% (71). This is particularly pleasing in view of our focus on leadership, which has included a new leadership profile that sets out leadership expectations at Ahlseil, clearer role descriptions, work on coaching and skills development activities for our leaders.

## Leadership profile

Good leadership creates a solid basis for good performance and encourages motivated and independent employees who take the initiative and work on their personal development. This is why we have produced a leadership profile.

The leadership profile is based on our values of accountability, openness and simplicity, and has three dimensions:

- Develop the business
- Develop employees
- Develop yourself

A large proportion of the leaders had workshops related to the leadership profile during the year. In addition, leadership training was initiated in areas such as labour law, work environment, learning modules to strengthen leadership and management group development.



**Competence development**

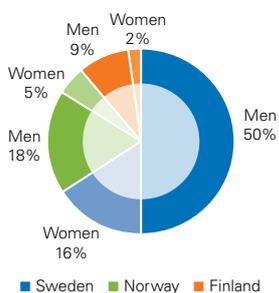
We are a decentralised and learning organisation, which enables us to respond quickly to changes in demand and customer requirements. In 2018, we have focused on product training, sales and sales management training and transfer of expertise between departments and countries. Development is based on constant learning and an ambition to be curious about the future and keep up-to-date with new external requirements. When the individual grows, the business develops. Compared with 2017, sales efficiency has increased by at least 10% in our main markets. Examples of how we measure this include the number of customer visits per area salesperson, and increase in sales per area salesperson.

**Diversity**

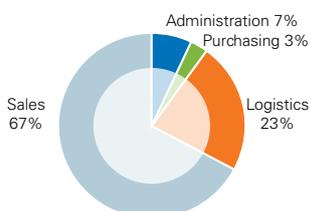
To meet and exceed our customers' expectations, we need employees with a broad expertise, experience and background. Diversity strengthens our competitiveness, contributes to higher employee dedication and ultimately brings increased customer satisfaction.

During the year, we increased the proportion of female managers, which was 18% at the end of the year. The total proportion of women in the Group is 23%. Our ambitions remain high and we are constantly working to increase the proportion of women in all areas. By way of example, the proportion of women in Group management has increased to 25% in 2018 compared with 0% in 2015. We see the same trend for our country management.

Number of employees/gender distribution <sup>1)</sup>



Number of employees/category <sup>1)</sup>



<sup>1)</sup> In our main markets.

★★★★★  
*It might look easy, but when you start playing, you'll wish you had a lifeline.*  
Jonas Linderöth, Professor of Pedagogy, Gothenburg University

★★★★★  
*Educational, even though I ought to know this inside out. Difficult but fun!*  
Gunilla Sandström, Environment and Sustainability Manager, Ahlsell

★★★★★  
*It's challenging to put your values to the test and take a stand against what you know to be wrong.*  
Claes Seldeby, Head of Operations, Ahlsell Sweden

[ THE CODE ]

ONE PROBLEM, FIVE SOLUTIONS.  
 AND NONE OF THEM ARE RIGHT.  
WHAT WOULD YOU HAVE DONE?

**“The Code”**

Our Code of Conduct applies to all employees in the Group and all business partners. It is the responsibility of employees to ensure that they understand and comply with the content of the Code of Conduct. The Code is available on our website and our intranet. Managers are also responsible for ensuring that each employee is updated on current policies during the annual employee dialogue.

To make it easier to understand and follow the Code of Conduct, we have developed “The Code” – a web-based training game that increases understanding of the problematic situations that may arise at work. Employees are required to respond to real dilemmas within e.g. work environment, bribery and competition issues.

All employees must have completed the game by 2020. About 2,150 “Ahlsellers” have completed the training game. (37% of employees).

“ To make it easier to understand and follow the Code of Conduct, we have developed the web-based training game *The Code*.

## Employee Interview

# Our acquisitions contribute to diversity

Acquisitions have been a success factor throughout AhlSELL's history. By combining companies with different strengths, AhlSELL has constantly grown stronger and broadened its offering to an ever-increasing customer base. In recent years, there has been a particularly high level of activity in AhlSELL's M&A team. We meet Mikael Falk, Head of M&A, to talk a little more about the work and plans of the acquisition organisation.



**Mikael Falk**  
Head of M&A

#### 2007

Started at AhlSELL.

#### 2008

Appointed Sales Director for the Swedish organisation.

#### 2016

Responsible for acquisitions at Group level.

#### Previous positions

CEO, Comfort AB  
CEO, Onninen Sverige AB

#### Education

Officer training from the Swedish Defence College in Sweden.

#### It seems to have been a really active time for the M&A team in 2018. How large is the team?

– Absolutely, it's been full speed ahead. Although we do major work, we're quite a small department. The team consists of four people.

#### Why are so many different companies acquired?

Acquisitions are a key component of AhlSELL's strategy for profitable growth. Acquisitions contribute towards strengthening our competitiveness, broadening our product offering and increasing our presence in selected markets. This increased presence has resulted in improved service to our customers and contributed to higher revenue and profitability.

#### In 2018, eight new companies were welcomed. How does AhlSELL ensure that the new employees feel part of the AhlSELL Group?

– We obviously want the employees to feel part of the AhlSELL Group as soon as possible.

Our acquisitions can look a little different, so it may take a long time before they are fully integrated. After we have closed an acquisition, we start the integration process straight away, which ensures fast and qualitative integration. The work includes representatives from different parts of the organisation, such as HR, IT, Purchasing, Sales and Logistics.

The CEO and HR welcome the new employees by presenting AhlSELL and highlighting the benefits of AhlSELL as an employer. We also offer training within the framework of our AhlSELL Business School, with some of the courses being compulsory (like general introduction, labour law,

work environment, alcohol & substance abuse) and others being supplementary courses (leading change, leadership@ahlSELL, effective teams, difficult conversations and so on).

#### How important is the corporate culture when we acquire companies?

– It's very important. I would describe AhlSELL as a very down-to-earth and modest company with sound values. This makes it easier for us to acquire companies with a similar culture.

On the other hand, of course, we're trying to bring our new employees into the same way of thinking and culture, so if the values are not the same, we simply have to make a little more effort when we welcome our new employees.

#### How does AhlSELL ensure that the acquired companies are sustainable and ethical?

– This is something that is carefully analysed in what is called the due diligence process prior to an acquisition. We see sustainability and ethics as a matter of course and when new companies join the Group they also receive training in our Code of Conduct.

We haven't yet encountered a target company that has advanced further than AhlSELL in sustainability, so it's often positive that the companies we purchase can quickly and easily get better.

#### Why do companies choose AhlSELL in particular?

– There are various reasons why businesses are sold to AhlSELL, but the most common one is that we have a good track record in the market with world-class logistics. All entrepreneurs want to focus on the market and want help with



Mikael Falk "in action" during the acquisition of Bekken & Strøm, one of the leading Norwegian companies in personal protective equipment.

back-office functions such as webshop, product data, digitalisation and sourcing & logistics. We receive very high marks from the acquired companies and are perceived as a skilled acquirer of new companies.

**Can you describe the acquisition strategy?**

– In short, it means that we acquire companies that give us synergies and add value to our business. We work with the organisation to select suitable companies and, after careful analysis, we contact them with a view to acquiring and integrating them into the Group.

**Are there acquisitions where Ahlsell fails to achieve expected synergies?**

– We have different levels of synergies in all our acquisitions. So far, we have leveraged these synergies, although some have taken a little longer than we imagined. Our size is a great help in this process, as distribution is largely about scale and economies of scale.

**“ We see sustainability and ethics as a matter of course and when new companies join the Group they also receive training in our Code of Conduct.**

**One of the major acquisitions in recent years, ViaCon, had low profitability at the time of acquisition.**

**Why was it so long before measures were taken to improve it?**

– It is unfortunate that we were delayed for a few months, but we always prioritise customer care and maintaining the quality of the operations ahead of the time aspect for integration.

Acquiring operations (personnel + warehouse + logistics) is complex. We had to “build a new legal unit within Ahlsell” in order to manage the pricing required to process ViaCon’s customer agreements.

We completed the integration into Ahlsell’s ERP system in September and ViaCon is delivering the expected profitability.

Patience is an important component in building a long-term profitable organisation.

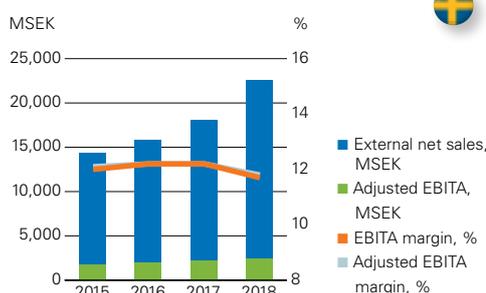
**What is the best thing about acquiring new companies?**

– Our acquisitions contribute to a diversity in the organisation, both in terms of experience and competence. Employees from the acquisitions also bring new approaches and knowledge that lead to a valuable exchange of experience. With this exchange, we can get better together!

# SWEDEN



Sales and EBITA



### Quick facts

- Head of Operations: Claes Seldeby
- Approximately 3,600 employees
- Central warehouse in Hallsberg
- 135 branches
- 85,000 warehouse articles

**Total sales growth 2018: 12%, of which organic 8%**

### Market description

In the Swedish market, manufacturers of technical installation products sell about 70% through distributors like Ahlsell. The market has a small number of large distributors in each product segment.

Ahlsell is the only distributor in the industry that offers breadth within three product segments. Ahlsell's market position is number one or two in each product segment and our strongest relative market position is in Tools & Supplies.

Examples of competitors: HVAC & Plumbing: Dahl (St. Gobain). Electrical: Elektroskandia (Sonepar), Solar, Selga and Storel (Rexel). Tools & Supplies: Tools (Momentum) and Swedol.

### Market development

The Swedish market has continued to be characterised by a strong economy and a high level of activity within industry and infrastructure. Also the construction sector showed high activity levels, despite a slowdown in building starts during the year. Good GDP, population and employment growth and low interest rates have driven the development.

### Development for Ahlsell Sweden

With high activity in many customer segments, market conditions for Ahlsell continued to be favourable. Sales to customers in the installation sector, construction and industry developed strongly. Towards the end of the year, an emerging shift from private new residential construction to more public investments and an increase in the renovation sector were noted. The year can be summed up as strong sales and earnings growth for all our three product areas. Adjusted EBITA increased by 8% to MSEK 2,386, corresponding to a margin of 11.8% (12.2).

### Strategic initiatives

Proximity to customers is a critical success factor in a world of ever-increasing competition. We have therefore continued to focus on sales and relationship-creating activities and further developed a strong and relevant service offering to strengthen our customers' competitiveness. We continued to invest in our omni-channel with investments in the branch network (now 135 branches), developed our sales organisation and made our e-commerce platform faster and more intuitive. The combination of our growth initiatives and investments in new product ranges produced positive effects. We managed to both increase customer satisfaction and strengthen employee engagement. The expansion project for our Hallsberg central ware-

house, which is aimed at increasing capacity and further improving our internal efficiency, has proceeded according to plan and is now entering its third and final year.

### Acquisitions

In 2018, Ahlsell Sweden made three acquisitions with total estimated annual sales of MSEK 306. The acquired businesses had a dilutive effect on the margin during the year.

In February 2019, another acquisition was completed: Fundi AB, a water & sewage wholesaler with 13 employees and annual sales of about MSEK 87.

### Customers

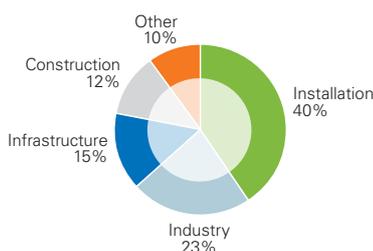
In Sweden just under 60% of sales were generated by large customers within installation, industry, facility management and construction, and services-related activities. Examples of large customers include Comfort, HBV, NCC, Maskinentreprenörerna and Ei i Norr. Small and medium-sized customers accounted for just over 40%.

Almost 70% of our customers in Sweden regularly buy from more than one product segment.

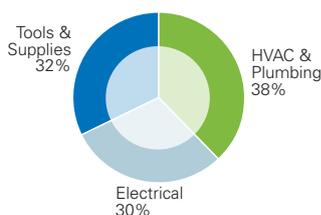
### Priorities for 2019

- Making further acquisitions, integrating completed acquisitions and realising synergies.
- Improving the customer interface further and strengthening sales through all sales channels.
- Increasing cross-selling and sales for private label products.
- Developing value-creating services, such as 'efficient construction site'.
- Improving cost efficiency and achieving savings of MSEK 90.
- Continuing skills development in leadership and sales.
- Continuing and completing the investment project in the central warehouse in Hallsberg.

Sales per customer segment



Sales per product segment



## SWEDEN



## The business in focus

# Everyone's a winner in efficient construction site logistics

The efficient construction site concept is Ahlseil's contribution to the development of greener, smarter and more profitable construction projects. The service includes precise deliveries, i.e. at the right time and to the right place, collective packaging, flexible stock solutions and a number of additional services.

The research speaks for itself. One thing it tells us is that efficient logistics can reduce construction costs by 20% and multiply work productivity. In case studies, it has been shown that the construction period has been shortened by 15–20%. Other studies show that the number of transport runs could be reduced by up to 80%. This is, of course, of great importance from a sustainability perspective.

The construction sector accounts for 20% of carbon dioxide emissions and, it currently appears that one-third of Sweden's heavy goods vehicles drive to and from construction sites.

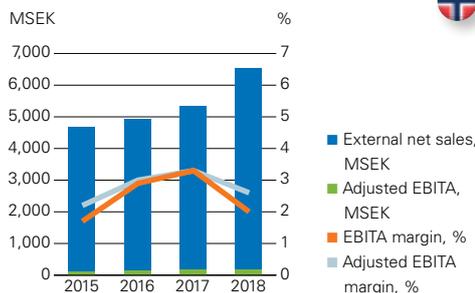
It is becoming increasingly obvious to Ahlseil's customers that there is great value in efficient construction site logistics. It is therefore no surprise that Ahlseil has won the logistics solution in several prestige projects in the Nordic region. These include the Karlatornet in Gothenburg, which, when completed, will be one of the tallest buildings in the Nordic region.

In Norway too, many customers appreciate the service and we are involved in the logistics solution in the construction of both the Munch and National Museum in Oslo.

# NORWAY



Sales and EBITA



### Quick facts

- Head of Operations: Rune Flengsrud
- Approximately 1,250 employees
- Central warehouse in Gardermoen
- 57 branches
- 49,000 warehouse articles

**Total sales growth 2018: 19%, of which organic 7%**

### Market description

In the Norwegian market, manufacturers of technical installation products sell about 70% through distributors like Ahlsell. The customer base is more fragmented than in Ahlsell's other markets, but the presence of purchasing partnerships contributes to the customer base being substantially concentrated.

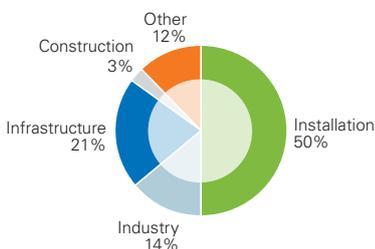
Ahlsell is the only distributor that has a significant presence in all three product segments. Our market position is number one or two in HVAC & Plumbing and three to five in the other product segments.

Examples of competitors: HVAC & Plumbing: Brødr. Dahl (St. Gobain). Electrical: Elektroskandia (Rexel), Onninen (Kesko) and Solar. Tools & Supplies: Tools (Momentum) and Würth.

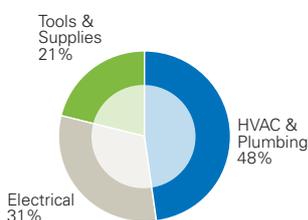
### Market development

The Norwegian economy developed well during the year. Investments and good export and consumption growth were the drivers behind the development.

Sales per customer segment



Sales per product segment



### Development for Ahlsell Norway

Ahlsell Norway was affected by the severe winter during the beginning of the year, which meant that the year started with slightly weaker sales growth. From Q2, growth has strengthened significantly, boosted by good market conditions, particularly in the industry and infrastructure sector, and by the Company's own investments and acquisitions. These have provided a significant contribution, helping to strengthen positions primarily in personal protective equipment (PPE).

The adjusted EBITA margin fell to 2.6% (3.3). The result includes restructuring costs of MSEK -37 aimed at further streamlining the operations.

The gross margin was weaker than in the previous year, which was attributable to strong organic growth with a lower margin, while logistics and transport efficiency declined during the second half of the year.

### Strategic initiatives

Two new branches were opened during 2018 and several branches were modernised to improve the customer offering and increase our presence. These initiatives in combination with the decentralised organisational model introduced in 2017, involving a stronger regional sales focus, brought increased employee loyalty and motivation, and higher customer satisfaction.

To strengthen market positions in the Electrical and Tools & Supplies product segments, several targeted sales initiatives were in progress during the year, which resulted in very strong growth, particularly in the Electrical segment. Several large contracts have been won and the market position has been strengthened in several customer segments.

The "Efficient construction site" concept was successfully launched, and we have won several large reference projects across Norway. The service is an excellent example of how the Ahlsell model, with a world-class broad product offering and logistics, can reduce customers' costs, increase their efficiency and reduce their carbon footprint.

### Acquisitions

In 2018, Ahlsell Norway made four acquisitions with total annual sales of MSEK 545.

The acquisition of Bekken & Strøm AS, one of Norway's largest retailers of workwear, protective equipment, work & safety footwear and profile clothing, contributed to Ahlsell now being a market leader in PPE. When the acquisition was closed in February, Bekken & Strøm had annual sales of approximately MSEK 415.

### Customers

In Norway, large customers in installation, infrastructure and industry accounted for almost 60% of sales. Examples of large customers include Värme og bad, Elnett, Rørkøp, Norsk Røralliance AS, Eidsiva Nett. The remaining sales, about 40%, were attributable to small and medium-sized customers.

In Norway, approximately 45% of customers regularly buy from more than one product segment.

### Priorities for 2019

- Increasing sales to customers within infrastructure, aquaculture, PPE and property services, and driving sales initiatives for private label products, cross-selling and sustainability.
- Making further acquisitions, integrating completed acquisitions and realising synergies.
- Improving cost efficiency, logistics management and achieving savings of MSEK 90.
- Continuing skills development in leadership and sales.
- Improving the customer interface further and strengthening sales through all sales channels.
- Focusing on building another strong product segment alongside HVAC & Plumbing.

## NORWAY



## The business in focus

# How AhlSELL deals with online price pressure

More and more small installers are being asked to do installation work with equipment they have not purchased themselves. Instead, the end customer has bought the product online. In such cases, it is particularly important that AhlSELL can show value creation for its customers all the way.

Are Pedersen, AhlSELL salesperson and customer contact for Alfa Installasjon, says: When a customer shops with us at AhlSELL they get so much more than just the product or service. They receive advice, high-quality products, a good billing and guarantee system and a competitive price. All this contributes to building a competitive advantage for the customer. For us, it goes without saying that customers should be able to shop with us in the way that suits them best. With online becoming increasingly important to our customers, it's also important that we're there with the same value-creating offer.

AhlSELL has a strong online presence. The first website was created back in 1995 and the webshop opened in 1997. E-commerce accounted for 29% of Norway's sales in 2018. The corresponding figure for the Group is 28%.

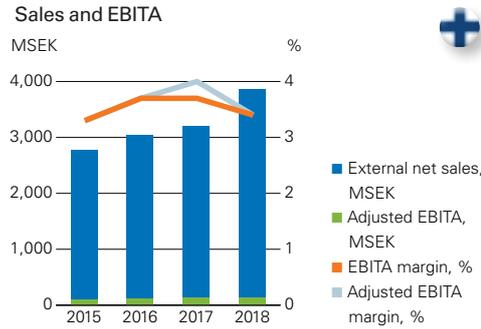
Jon Myrvang (picture above), electrician at Alfa Installasjon and customer of AhlSELL in Norway, says that it is important for professional installers to have peace of mind when they finish the work.

*"We must know that we can replace the product with the same product later if needed."*

When we meet Jon he has just installed 243 Orion fittings from SG Armature which he bought via AhlSELL.

"I appreciate using products that are durable and easy to assemble. At the same time, it's important to buy from suppliers and distributors that I know will be there in the future and that I can trust – like AhlSELL."

**FINLAND**



**Quick facts**

- Head of Operations: Mika Salokangas
- Approximately 600 employees
- Central warehouse in Hyvinkää
- 37 branches
- 60,000 warehouse articles

**Total sales growth 2018: 17%, of which organic 7%**

**Market size and market share**

In the Finnish market, manufacturers of technical installation products sell about 60% through distributors like Ahlsell. The Finnish market differs from Sweden and Norway in that the proportion of direct sales is higher. Historically, the market has also been characterised by a lower cost situation and lower gross margins.

Ahlsell's market position is number three to four in all product segments. Ahlsell's strongest position is in the HVAC & Plumbing product segment.

Examples of competitors: HVAC & Plumbing: Onninen (Kesko) and Dahl (St. Gobain). Electrical: SLO (Sonepar), Onninen (Kesko) and Rexel. Tools & Supplies: Würth, Etra and Tools (Momentum).

**Market development**

With the help of momentum from industry, economic activity has recovered after a few years of weaker development. This has also contributed to a high level of construction activity, despite fewer public initiatives. Strongest growth was noted in the Helsinki area.

**Development for Ahlsell Finland**

Ahlsell showed good sales development during the year. In total, Ahlsell achieved growth of 17%, of which 7% was organic.

**Strategic initiatives**

The Finnish organisation was restructured in 2017 to strengthen proximity to the customer and increase the regional sales focus, particularly in the fast-growing metropolitan regions. The investments have turned out well in 2018 and activity for all types of customers increased in and around Helsinki.

A number of sales initiatives targeting specific customer segments brought several new customers in industry, property management and construction.

After a few years of the One Ahlsell strategy, market efforts to strengthen the product range and improve the position within the Electrical and Tools & Supplies product segments have also produced effects. Several new contracts and customers were added during the year.

**Acquisitions**

In 2018, Ahlsell Finland acquired Kahipa Oy, with operations in HVAC & Plumbing and annual sales of MSEK 35. An agreement for another acquisition, PJ-Control Oy, with operations in the Electrical product segment and sales of MSEK 75, was signed during the year. The acquisition was closed in early 2019.

**Customers**

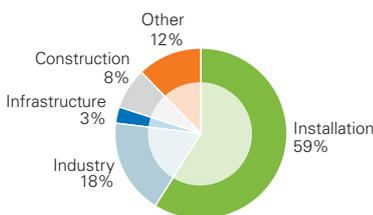
In Finland, small and medium-sized customers accounted for just over 50% of Ahlsell's sales. The remaining sales came from large customers including Outokumpu, Lehto Group, S-Gruppen, SSAB and Suomen Talo-tekniikka.

Approximately 30% of customers regularly buy from more than one product segment.

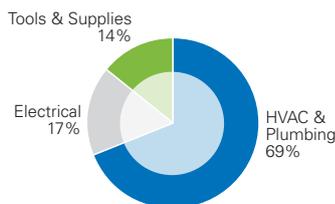
**Priorities for 2019**

- Customer-specific initiatives targeting attractive customer segments such as building and construction and property services.
- Increasing the proportion of sales for private label products.
- Making further acquisitions, integrating completed acquisitions and realising synergies.
- Working and delivering according to the new decentralised and result-oriented organisation that was established in 2018.
- Continuing skills development in leadership and sales.
- Focusing on regaining market shares within HVAC & Plumbing and building relevant market positions in Electrical and/or Tools & Supplies
- Improving the customer interface further and strengthening sales through all sales channels.
- Increasing the proportion of cross-selling, particularly from Tools & Supplies.

**Sales per customer segment**



**Sales per product segment**



## FINLAND



## The business in focus

# Increased efficiency in the purchasing process

AhlSELL has the market's widest range of products within plumbing, electricity, cooling, water & sewage, industry, construction, property, ventilation, insulation, tools, supplies and personal protection.

The wide range creates good prerequisites for cost-effective goods handling for both our customers and for us at AhlSELL. We mean that we, by offering our product range over an omni-channel enables a smooth purchasing process for the customer. To be able to shop most things needed at one distributor mean that customers save time and thus lower their costs.

A successful purchasing process should also result in a correct delivery. The right product should be delivered at the right time to the right place. At AhlSELL, we therefore put great emphasis to delivery precision. Our customers should feel confident that what they order comes in time. It may sound obvious, but a delivery that is not delivered in time costs the customers a lot of time and money.

Another positive advantage is that the customers get all purchases on one invoice, which further decreases the need for administration.

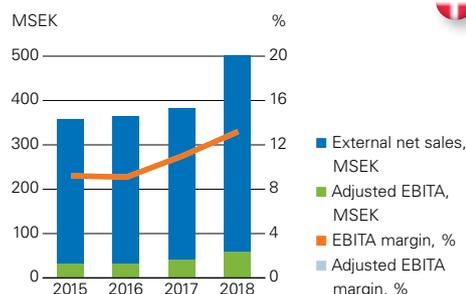
Vantaa Energy LTD is one of Finland's largest city-held energy companies and a loyal AhlSELL customer for more than ten years. By channelling all their purchases through AhlSELL in 2018, the company has achieved volume benefits, streamlined the supply chain and simplified administration (purchasing and billing).

*"I have looked for a win-win situation with a supplier where we can increase the efficiency of the supply chain together. So the new agreement with AhlSELL goes much further than just products. I see it more as a partnership. A major advantage is that AhlSELL has experience and knowledge of material handling processes, such as supplier-managed warehouses and modern RFID systems. It now feels like we'll get the help we need to improve our processes," says Matias Siponen, Business Controller at Vantaa Energy LTD.*

## DENMARK



### Sales and EBITA



### Quick facts

- Head of Operations: Erik Andersson
- Refrigeration and Do-It-Yourself (DIY) products
- Approximately 90 employees
- Four branches

**Total sales growth 2018: 16%, of which organic 10%**

### Ahlseil's operations.

Our operations in Denmark differ from our other markets as they are primarily focused on refrigeration products and the DIY (do-it-yourself) market. In DIY, we deliver to other companies that sell the products to end customers.

### Development for Ahlseil Denmark

Development for the Danish operations has been positive in 2018, with increased sales and earnings.

The Danish refrigeration operations have performed well during the year, driven by factors such as higher refrigerant prices, resulting in strong revenue growth and increased profitability. The DIY operations also showed positive development during the year, both in terms of sales and earnings.

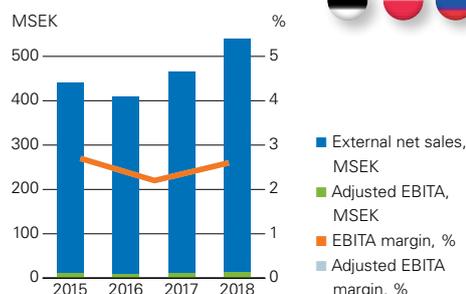
### Priorities for 2019

- Strengthening sales and earnings within existing operations.

## OTHER Estonia, Poland and Russia



### Sales and EBITA



### Quick facts

- Segment Manager: Johan Nilsson
- Mainly HVAC & Plumbing
- Approximately 240 employees
- 13 branches

**Total sales growth 2018: 13%, of which organic 9%**

### Ahlseil's operations

In Estonia, we are the market leader in HVAC & Plumbing and have eight branches.

In Poland, we have three branches in the HVAC & Plumbing product segment.

In Russia, we have two branches in which we mainly sell products in HVAC & Plumbing. Our operations are mainly derived from previous acquisitions.

### Development for Ahlseil Other

All countries of operation showed positive sales development during the year, with the strongest growth in Russia and Poland.

### Priorities for 2019

- Strengthening sales and earnings within existing operations.
- Selective expansion in Estonia.

# Annual Report and Consolidated Financial Statements

for the period 1 January to 31 December 2018

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# Directors' Report

According to the Swedish Annual Accounts Act, the annual report must contain a director's report which briefly describes the most important events during the year.

## Business review

At the end of the 2018 financial year, AhlSELL AB (publ) was the Parent Company of the AhlSELL Group. The AhlSELL Group, which reported net sales of just over SEK 31 billion in 2018, is one of the Nordic region's leading trading companies, offering professional users an extensive range of products and related services in the areas of HVAC & Plumbing, Electrical and Tools & Supplies.

The Group operates mainly in Sweden, Norway and Finland, which are AhlSELL's main markets and account for 97% of sales. Other markets include Denmark, Estonia, Russia and Poland.

The Group's operations are conducted primarily under the AhlSELL trademark. Operations are conducted locally and the AhlSELL Group's organisational model is designed to support this. The organisational structure is decentralised and based on the local market, with a large number of sales offices and branches. With many local entities in each country and clearly defined areas of responsibility, the Group has a strong base, enabling AhlSELL to maintain a high level of flexibility and proximity to customers. Coordination of purchasing, logistics, administration and IT brings economies of scale in the operations.

## Market development

Developments in 2018 continued to be favourable in all AhlSELL's main markets and in all product segments. GDP growth was good, while the Nordic market for installation products continued to grow. Economic conditions also contributed to the year's good development, bringing strong growth figures.

## Net sales and operating profit

The AhlSELL Group, whose development is influenced by macroeconomic conditions and willingness to invest in the construction sector and industry, showed strong sales growth and positive profitability development in 2018. All the Group's geographic market segments and product segments showed positive organic growth, while acquisitions contributed a further increase in sales in the main markets. The Group's net sales increased by 14% to

MSEK 31,291 (27,484). Organic growth, calculated as increase in sales, adjusted for difference in number of trading days, currency effects and acquisitions, was 7% (9).

Currency effects had a positive impact of 2% on net sales, corresponding to MSEK 488.

The gross margin was 26.5% (27.0), a slight decline from the previous year. EBITA was MSEK 2,520 (2,394), corresponding to an EBITA margin of 8.1% (8.7). Non-recurring expenses of MSEK 67 (11) attributable to the reorganisation of the Swedish and Norwegian operations had an adverse effect on earnings. EBITA adjusted for items affecting comparability was MSEK 2,587 (2,405).

Operating profit (EBIT) was MSEK 2,138 (2,043), corresponding to an operating margin of 6.8% (7.4).

## Acquisitions in 2018

### Acquisition of Proffsmagasinet Svenska AB

Proffsmagasinet Svenska AB (Proffsmagasinet) was acquired in January following approval from the Swedish Competition Authority. Proffsmagasinet is active in e-commerce in Sweden, Norway and Finland and offers about 17,000 items under well-known brands of professional hardware products, such as tools, gauges, laser instruments and personal protective equipment. The domain name Proffsmagasinet.se is used in Sweden, while Staypro.no is used in Norway and Staypro.fi in Finland. On the acquisition date, Proffsmagasinet had annual sales of approximately MSEK 260 and about 50 employees.

### Acquisition of HMK i Västerås AB

HMK i Västerås AB (HMK) was acquired in February. HMK was founded in 1996 and offers a broad range of well-known brands of workwear and protective equipment. The branch is located in Västerås and the customers are mainly professionals within construction, painting, car retailers and restaurants. On the acquisition date, HMK had annual sales of about MSEK 16 and eight employees.

### Acquisition of Bekken & Strøm AS

Bekken & Strøm AS was acquired in Feb-

ruary following approval from the Norwegian Competition Authority. Bekken & Strøm is one of Norway's largest retailers of workwear, protective equipment, work & safety footwear and profile clothing. The company's head office and central warehouse are located in Gjøvik, with branches in Oslo, Bergen, Trondheim, Kristiansand, Gjøvik, Sandefjord, Mo i Rana and Stryn. On the acquisition date, Bekken & Strøm had annual sales of about MSEK 415 and 160 employees.

### Acquisition of Sentrum Motor og Verktøy AS

Sentrum Motor og Verktøy AS (SMV) was acquired in May. SMV has a strong position in tools, personal protective equipment and aquaculture in Finnmark, with a broad customer base within construction, infrastructure and aquaculture. On the acquisition date, SMV had annual sales of approximately MSEK 40 and nine employees.

### Acquisition of Bygg & IndustriPartner Skaraborg AB

Bygg & IndustriPartner Skaraborg AB (Bygg & IndustriPartner) was acquired in May. Bygg & IndustriPartner has a branch in Skövde and offers local craftsmen and contractors within construction and industry a full range of tools and supplies. On the acquisition date, Bygg & IndustriPartner had annual sales of about MSEK 30 and seven employees.

### Acquisition of Kahipa Oy

Kahipa Oy (Kahipa) was acquired in July. Kahipa is a distributor of HVAC brackets and installation tools, offering its customers specialist competence in a strategically important niche market. The company has two branches in southern Finland and a broad customer base. On the acquisition date, Kahipa had annual sales of about MSEK 35 and eight employees.

### Acquisition of Bygg & Industrisalg AS

Bygg & Industrisalg AS (Bygg & Industrisalg) was acquired in September. Bygg & Industrisalg is Norwegian distributor of tools and personal protective equipment, with wide range of products for professional customers in the region around Sta-

vanger, in the south west of Norway. On the acquisition date, Bygg & Industrisalg had annual sales of approximately MSEK 45 and 13 employees.

#### **Acquisition of Øglænd System AS**

The sprinkler operations were acquired from Øglænd System AS (Øglænd) in December. Øglænd offers a comprehensive range of products for sprinkler systems, such as sprinkler heads, shut-off and alarm valves and sprinkler hoses. The acquisition strengthens Ahlseil's expertise and range as a distributor of sprinkler systems in the Norwegian market. On the acquisition date, Øglænd had annual sales of about MSEK 45 and eight employees.

#### **Divestment of Ahlseil Maskin AB**

In December, Ahlseil Sverige AB divested the subsidiary Ahlseil Maskin AB, a distributor of machine tools, heavy production equipment and machine services for the engineering industry. The company was not considered to be part of Ahlseil's core business. Ahlseil Maskin's annual sales are about MSEK 80 and the company has 26 employees.

#### **Agreement on the acquisition of PJ-Control Oy**

An agreement on the acquisition of PJ-Control Oy (PJC) was signed in December. PJC has a strong foothold in the Helsinki area and offers sales of electrical components for industrial automation, with customers mainly in the industrial segment, maintenance and machinery production suppliers. PJC has annual sales of approximately MSEK 75 and about 15 employees. The acquisition was closed on 16 January 2019.

#### **Significant events in 2018**

##### **Other**

In March 2015, the Finnish Competition Authority conducted an investigation of several companies in the HVAC sector in Finland, including Ahlseil Oy. In January 2018, the Authority announced that the investigation was proceeding.

The Board of Directors of Ahlseil AB decided to establish a bond programme of medium term notes (the "MTN Programme" with a loan framework of MSEK 5,000. Under the MTN programme, a first issue of an unsecured bond of MSEK 750 with a term of four years was carried out in May.

Back in 2015, Ahlseil announced that a substantial investment of MSEK 300 would be made in the central warehouse in Hallsberg to meet increased volumes and increase the level of automation. In 2018, it was decided to increase the investment by MSEK 150. The result will be a further increase in capacity, better utilisation of



the storage area and a more efficient production flow. The total ongoing investment in the central warehouse will therefore amount to approximately MSEK 450, with the property owner financing about MSEK 200 of the amount. Agreements with subcontractors have been signed and completion is scheduled for early 2020.

In September, the Ahlseil's first Capital Market Day was organised for institutional investors, analysts and financial media. A strategy for profitable growth was presented during the Capital Markets Day. The day included themes such as resilience and market exposure for each main market, profitability development, organic growth initiatives and a more in-depth acquisition strategy. The day was well-attended, with about 50 guests. Ahlseil reaffirmed its medium-term financial targets and comments on the outlook and efficiency-improving measures that were outlined when the results for the second quarter were presented.

A public offer for Ahlseil was announced in December. Quimper AB, a private limited liability company that is or will be indirectly invested in by CVC Funds, then announced it was making a public offer to the shareholders of Ahlseil AB to acquire all shares in Ahlseil at a price of SEK 55.00 per share.

As a result of the public offer, the Board of Directors appointed an independent bid committee shortly afterwards, consisting of Satu Huber (chair of the bid committee) Magdalena Gerger, Susanne Ehnååge and

Terje Venold.

In turn, the bid committee appointed Nordea Bank Abp, filial i Sverige, Advisory & ECM as financial adviser and Mannheimer Swartling Advokatbyrå AB as legal adviser.

#### **Net sales and earnings per segment Sweden**

External net sales for Ahlseil Sweden amounted to MSEK 20,221 (18,087). Organic growth was 8% (11). Profit (EBITA) amounted to MSEK 2,356 (2,213), with an EBITA margin of 11.7% (12.2). Items affecting comparability attributable to ViaCon restructuring had an adverse effect of MSEK 30 on earnings. Adjusted EBITA amounted to MSEK 2,386 (2,213). The adjusted EBITA margin was 11.8% (12.2). Operating profit (EBIT) was MSEK 2,093 (1,962).

The Swedish market has continued to be characterised by a strong economy and a high level of activity in the construction sector, despite a slowdown in building starts during the year. Good GDP, population and employment growth and low interest rates have driven the development. Ahlseil Sweden has benefited from the current market situation, and the positions are being strengthened through successful initiatives and acquisitions.

In 2018, Ahlseil Sweden made three acquisitions with total estimated annual sales of MSEK 306. In addition, one business with annual sales of about MSEK 80 was divested.

### Norway

External net sales for AhlSELL Norway amounted to MSEK 6,366 (5,349). Organic growth was 7% (8). Currency effects had a positive impact of 4% on sales, corresponding to MSEK 213. Profit (EBITA) amounted to MSEK 127 (177), with a margin of 2.0% (3.3). Items affecting comparability had a total impact of MSEK 37 on earnings and were attributable to restructuring in order to streamline the organisation. Adjusted EBITA amounted to MSEK 164 (177). The adjusted EBITA margin was 2.6% (3.3). Operating profit (EBIT) amounted to MSEK 62 (128).

AhlSELL Norway was affected by the severe winter during the beginning of the year, which led to weaker sales growth, notably in HVAC & Plumbing. From Q2, growth strengthened significantly, boosted by good market conditions, particularly in the industry and infrastructure sector, and by the Company's own investments and acquisitions.

In 2018, AhlSELL Norway made four acquisitions with total estimated annual sales of MSEK 545.

### Finland

External net sales for AhlSELL Finland amounted to MSEK 3,734 (3,201). Organic growth was 7% (4). Currency effects had a positive impact of 7% on sales, corresponding to MSEK 227. Profit (EBITA) amounted to MSEK 127 (117), with an EBITA margin of 3.4% (3.7). Adjusted EBITA, excluding items impacting comparability, was MSEK 127 (129). The adjusted EBITA margin was 3.4% (4.0). Operating profit (EBIT) amounted to MSEK 81 (71).

With the help of momentum from industry, economic activity has recovered after a few years of weaker development. This has also contributed to maintaining construction activity, despite fewer public initiatives. Overall, market conditions have worked in AhlSELL's favour, which together with our own initiatives and acquisitions has contributed to strong sales growth.

In 2018, AhlSELL Finland made one acquisition with estimated annual sales of MSEK 35. The acquisition of PJC, which sells electrical components for industrial automation and has estimated annual sales of MSEK 75, was completed in early 2019.

### Denmark

External net sales for AhlSELL Denmark amounted to MSEK 443 (382). Organic growth was 10% (4). Currency effects had a positive impact of 7% on sales, corresponding to MSEK 26. Profit (EBITA) amounted to MSEK 59 (42), with an EBITA margin of 13.2% (11.1). Operating profit (EBIT) amounted to MSEK 52 (36).

The development of the AhlSELL's Danish

operations, which focus on the DIY market and refrigeration products, has been positive with increased sales and earnings. The Danish refrigeration operations have performed well during the year, driven by factors such as higher refrigerant prices, resulting in strong revenue growth and increased profitability. The DIY operations also showed positive development during the year, both in terms of sales and earnings.

### Segment Other

External net sales for Other, comprising Russia, Estonia and Poland, amounted to MSEK 528 (465). Organic growth was 9% (10). Currency effects had a positive impact of 5% on sales, corresponding to MSEK 22. Profit (EBITA) amounted to MSEK 13 (12), with an EBITA margin of 2.5% (2.6). Operating profit (EBIT) was MSEK 13 (12).

All countries of operation showed positive sales development during the year, with the strongest growth in Russia and Poland.

### Net financial items

The Group's net financial items for the year amounted to MSEK -184 (-209). The average external interest expense was about 2.3% (2.4).

Currency effects due to revaluation of cash in foreign currency had an impact of MSEK 15 (-37) on net financial items, while revaluation of derivatives had an impact of MSEK -17 (28).

### Tax, profit for the year and earnings per share

Tax expense was MSEK 372 (406), corresponding to an effective tax rate of -19.1% (-22.1). The lower effective tax rate for the full year is mainly due to deferred tax income arising from a change to the tax rate in Sweden, which affected the effective tax rate by about 4 percentage points, corresponding to about MSEK 85. Profit before tax for the year was MSEK 1,954 (1,834). Net profit was MSEK 1,582 (1,428), corresponding to diluted earnings per share of SEK 3.68 (3.28).

### Seasonal variations

AhlSELL's sales are affected by seasonal variations to a certain extent. Sales are strongest in the second and fourth quarters. Sales are affected by the number of trading days in a quarter. The quarter in which Easter falls (Q1 or Q2) will have lower sales.

### Research and development

AhlSELL does not conduct any research, but continuously develops its operations and the IT platform in order to benefit from dig-

italisation and respond to changes in customers' purchasing behaviour.

Development activities include private label products, AhlSELL's e-commerce platform and investments in new customer groups, such as a construction and lighting initiative in which AhlSELL has produced a new range of products for specific customer requirements.

### Financial position and liquidity

#### Non-current assets

The carrying amount of intangible assets at 31 December 2018 was MSEK 14,547 (14,109). The value of intangible assets increased by MSEK 661 during the year as a result of acquisitions and declined as a result of amortisation of MSEK 382, mainly attributable to customer relationships. Intangible assets consist primarily of goodwill MSEK 7,767 (7,207), trademark MSEK 3,837 (3,837) and customer relationships MSEK 2,782 (2,929).

The carrying amount of property, plant and equipment at 31 December 2018 was MSEK 936 (853), an increase of MSEK 83 during the year.

#### Cash and cash equivalents

The Group's cash and cash equivalents at 31 December 2018 were MSEK 1,248 (1,295). In addition, there are unutilised credit facilities of SEK 3,214, of which 1,000 MSEK is intended to serve as a back-up to the Group's commercial paper programme.

#### Equity and liabilities

Net debt at 31 December 2018 was MSEK 6,684 (6,742). Net debt/adjusted EBITDA was 2.4 (2.6) times. The Group's equity was MSEK 9,976 (9,004), an increase of MSEK 972 during the year.

### Financing

AhlSELL's financing consists primarily of four credit facilities:

Two term loan facilities totalling MSEK 6,247 on 31 December 2018, with MSEK 1,497 due in November 2019 and MSEK 4,750 due in November 2021, and two revolving credit facilities totalling MSEK 3,250, of which MSEK 1,000 is intended as a back-up to AhlSELL's commercial paper programme.

Outstanding commercial papers amounted to MSEK 200 on 31 December 2018. The programme has a total value of MSEK 2,500.

At the reporting date, MSEK 36 of the revolving facilities was utilised for bank guarantees and letters of credit. During the year, AhlSELL signed an agreement for a bilateral loan of MSEK 400 and established an MTN program with a framework amount of MSEK 5,000. The first issue under the programme was MSEK 750 in June, maturing in June 2022.

### Cash flow and investments

Cash flow from operating activities before changes in working capital for the year was MSEK 2,157 (2,193). Cash flow from changes in working capital was MSEK -257 (-333).

Cash flow from investing activities, including acquisitions, was MSEK -1,051 (-541). Investments in property, plant and equipment and intangible assets amounted to MSEK -272 (-217). The increase is attributable to the investment in the central warehouse in Hallsberg.

Cash flow from financing activities during the year amounted to MSEK -897 (-1,235) and was mainly affected by a bond issue of MSEK 750, a dividend payment of MSEK 708 to shareholders and commercial paper repayments of MSEK 799 (net).

Operating cash flow for the year was MSEK 2,201 (1,991), an increase of MSEK 210 from the previous year.

Operating cash flow/EBITDA (Cash conversion) for the last twelve months was 81% (78).

### Employees

The number of employees at the end of the year was 5,724 (5,471) and the average number of employees during the year was 5,829 (5,106). Acquisitions increased the number of employees by 263. The proportion of female employees is 23% (21).

### Sustainability report

Environment and sustainability are an integral part of Ahsell's business. Compliance with legislation, permit require-

ments and other regulatory decisions is of paramount importance to Ahsell. Ahsell's activities at its logistics centre in Sweden are subject to statutory reporting with regard to the intermediate storage of used refrigerants. The licence is conditional on the submission of an annual environmental report to the relevant authorities. Permits are also held for handling explosive and flammable goods and for the transfer of particularly dangerous chemical products. Ahsell branches that store flammable liquids over 100 litres or indoor gas have the necessary permits. Ahsell also has a permit to store gas at a number of branches. Ahsell complies with the requirements of the Swedish Annual Accounts Act. In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, Ahsell has chosen to establish the statutory sustainability report as a separate report. The reviewed Sustainability Report appears on pages 14-16, 19-31, 46-50 (sustainability-related risks) and 116-120.

### Parent Company

At the end of the year, Ahsell AB (publ), corp. ID 556882-8916, was registered in Sweden and headquartered in Stockholm. The Parent Company's net sales for the year amounted to MSEK 70 (453). Profit/loss before tax was MSEK 0 (-1,240). The Parent Company's cash and cash equivalents were MSEK 2 (2) at the end of the period. The Parent Company's operations consisted of ownership of shares in subsidiaries and the provision of Group-wide ser-

vices during the financial year.

### Events after the reporting date

On 2 January 2019, Ahsell Oy completed the acquisition of PJ-Control Oy, a company specialising in electrical and industrial automation, with annual sales of approximately MSEK 75.

In January, Ahsell signed an agreement to acquire Fundi AB (Fundii), a Swedish wholesaler within water & sewage. The company has 13 employees and annual sales of approximately MSEK 87. The acquisition was closed on 2 February.

On 28 January 2019, the Board of Ahsell AB unanimously recommended that Ahsell shareholders accept Quimper's public offer.

On 13 February, Quimper AB declared the bid for Ahsell unconditional. The company had received 93.9% of the votes and announced that it would initiate compulsory redemption proceedings with regard to the remaining shares in Ahsell, and would seek to ensure that Ahsell shares were delisted from Nasdaq Stockholm. On 18 February, the Board decided to delist Ahsell and a delisting application was sent to Nasdaq Stockholm. At the same meeting, the Board approved an agreement on financing with Quimper AB and an EGM to be held on 25 March. The last day of trading for the Ahsell share was decided to March 6, 2019. See note 41.

### Outlook

Overall, good demand and continuing growth are expected for 2019, albeit at a somewhat lower level than in recent years.



# Drivers, risks and opportunities

All business operation is associated with risks and uncertainty factors. Changes in customer behaviour patterns and needs constantly present new challenges for Ahlsell, but also opportunities. In this section, we describe how we manage the important drivers, risks and opportunities that we consider most relevant to Ahlsell in 2019 and the next few years.

Risks and opportunities of operational and financial character		Risks and opportunities within ESG
Decentralisation	Customer base	Business ethics
Financial risks	Warehouses and logistics	Responsible sourcing
Acquisitions	Supplier base	Health and safety
Intangible assets	Product liability, warranties and disputes	Environment and climate
Informationssäkerhet	Working capital	Employees and working conditions
Information security	Tax	
Economy and market	Seasonality	

Drivers			
Sustainability	Outsourcing	Technical development/digitalisation	Urbanisation

The ability to identify, assess, manage and monitor drivers, risks and opportunities is central to Ahlsell's operations. Ahlsell has established frameworks for risk that include identification, analysis, categorisation and risk management – both in the long and short term.

The Head of Internal Control is responsible for the Group's overall risk process and reports to Group Management and the Board. The CEO and Heads of Operations are responsible for risk management and utilisation of business opportunities. The Sustainability Manager conducts regular analyses of the sustainability risks.

On the following pages our risks and opportunities are sorted in alphabetical order.

The financial impact of the risk and / or the possibility is marked with color where:

- Negligible impact
- Low impact
- Significant impact



## Drivers

### Sustainability

**Description** Requirements for sustainable business and more sustainable products are constantly increasing. We see this both as a natural trend and a business opportunity. Sharper laws and regulations on sustainability, environment and climate can both encourage or prevent the use of certain materials and products. There is a risk of not being able or allowed to sell our sub-range, which may reduce the value of these products.

**Management** AhlSELL strives to be the industry leader in terms of sustainability. Ongoing external analyses and risk and sustainability assessments are conducted within the organisation. Non-approved products are continuously phased out. As market leader with large purchasing volumes, AhlSELL can influence suppliers towards increasingly sustainable products.

### Outsourcing

**Description** Society is becoming more and more specialised, with companies increasingly focusing on their core business. This also applies to our customers, who want effective solutions for purchasing, warehousing, consulting, deliveries, payment and administration.

**Management** We work constantly to bring added value to the customer offering, with the aim of creating a better work situation and overall economy for the customer. For example, we facilitate the situation for large organisations by collecting purchases of items where the customer's purchasing volume is low, but the purchases are many in number.

### Technical development and digitalisation

**Description** New technology and digitalisation have a largely positive effect on our business. The amount of technical installations in buildings is increasing and the products are becoming increasingly complex. Digital purchasing processes mean that customers are increasingly given more options and improved price transparency in their purchases.

**Management** Digitalisation gives AhlSELL a competitive advantage, as we have a large and competent sales force able to help customers with technical information about the products. We have a strong e-commerce channel and are always close to the customer through our omni-channel. Our efficient and digital solutions for purchasing, warehousing, consulting, delivery, payment and administration contribute to a better overall economy for our customers. Internally, we constantly increase the level of automation in our central warehouses and streamline our processes.

### Urbanisation

**Description** Increasing numbers are moving to large towns and cities, which means that more homes, offices, hospitals, schools and other infrastructure need to be built. More and more people in a smaller number of concentrated areas mean that competition can increase regionally, e.g. in large and fast-growing regions. At the same time, competition in small towns and in rural areas is decreasing.

**Management** An increased building requirement is positive for AhlSELL, which has relatively large exposure to new construction and infrastructure. We meet urbanisation by strengthening our presence in growth regions and developing delivery methods that meet customers' needs. In many cases, short lead times and delivery precision are the reason that we win contracts.

## Risks and opportunities

### ● Acquisitions

**Description** Acquisitions are a central part of Ahlseil's strategy for profitable growth and represent a great opportunity for Ahlseil. However, the acquisition process can be subject to difficulties, such as identifying acquisition objects, financing the acquisition, integrating acquired businesses and achieving expected synergies.

**Description** A prerequisite for our business is that our employees and customers are satisfied and are able to work. Any deficiencies in safety procedures could result in loss of labour, and if our customers were harmed by the products we sell, compensation claims could arise. The trend towards increased safety and health is fundamentally positive for us. The fact that our customers demand products and services that make their work safer represents an opportunity.

### ● Business ethics

**Description** Upholding Ahlseil's reputation is key to the success of its business. Ahlseil's conduct in all situations, regardless of country or market, must be characterised by responsibility and respect for customers, suppliers and other business partners. Actual or suspected unethical business practices, such as corruption and bribery, or failure to comply with other ethical standards such as human rights, can harm Ahlseil – both in terms of reputation and financially..

**Management** Ahlseil has clear policies and guidelines for good business ethics. We ensure that we convince our business partners with purely commercial arguments. The goal is to develop long-term, stable business relationships in which Ahlseil is considered a responsible and professional partner. Business ethics training, adapted to different categories of personnel, takes place continuously. We have a whistleblowing function and any departure from good business ethics is handled promptly by the responsible manager and the Head of Internal Control.

### ● Customer base

**Description** Changed demand from large customers can affect Ahlseil both positively and negatively. Consolidation among customers could weaken our negotiating position, and vice versa.

**Management** Ahlseil has just over 100,000 active customers and the ten largest represent only about 6% of sales. By actively working for an increasingly diversified customer base, we constantly reduce our customer dependency.

### ● Decentralisation

**Description** Ahlseil has a decentralised structure, which means that decision-making takes place regionally and locally. This is an opportunity, but it also places high demands on the staff's skills, both with regard to the speed of decisions for optimal response to market ups and downs, and compliance with regulations. If we fail in the timely identification and addressing of problems, or in preventing legal contraventions by employees, this may involve liability for damages or loss of business.

**Management** Ahlseil has good transparency regarding the performance of the organisation and monitors sales on a daily basis – locally, regionally, nationally and at Group level. This means that deviations in demand can be quickly identified, which makes us resilient to cyclical changes. Our Code of Conduct applies to all employees within the Group and we encourage our employees to keep updated through the interactive game "The Code".

### ● Economy and market

**Description** Ahlseil's earnings are influenced by developments in the Nordic economies and demand may decline during an economic downturn. Similarly, demand may increase in an upturn. Demand for Ahlseil's products and services is dependent on market activity within RMI (renovation, maintenance and improvement), industry, infrastructure and construction

**Management** Ahlseil operates in several countries and with customers of varying sizes and in varying industries. This makes Ahlseil less cyclically sensitive. Historically, the various market segments have developed in different ways during a decline, with demand from the renovation market rising when new construction decreases.

## ● Employees and working conditions

**Description** Ahsell's success depends on the ability to recruit and retain qualified personnel. Shortcomings in employees' skills and commitment may have a direct impact on both the brand and results, which is why dedicated employees are high on the agenda at Ahsell. We conduct world-class logistics, which means that a large part of our order intake is delivered to our customers no later than the morning of the day after ordering. If our employees were to strike, this could affect Ahsell's delivery precision and therefore customer satisfaction.

**Management** We work actively to recruit the best employees in the working-age population, strengthening both the diversity and equality of the organisation through, for example, non-discriminatory nomination and recruitment processes. Within the framework of ISO 9001 and ISO 14001, we work in a structured way to ensure expertise in the organisation. We measure the commitment and loyalty of our employees by means of employee surveys. We have close cooperation with several unions, which reduces the risk of our employees striking. We also have good logistics planning and good cooperation with our freight forwarders, which reduces the risk of delivery delays. However, should delivery delays arise, we have good relationships with our 3,000 active suppliers and can either route the delivery directly from supplier to customer or choose another supplier for the delivery in question.

## ● Environment and climate

**Description** Ahsell is a distributor and normally has very low energy consumption. We buy in transport services, and as most products are delivered by truck, legislation related to climate change may indirectly lead to increased transport costs. Other legal requirements aimed at reducing climate impact may lead to premature depreciation of inventories, increased insurance premiums and more. In addition, our permit obligation means that costs may arise for the storage, handling and disposal of potentially hazardous waste and materials. We are also responsible for remediation of environmental pollution at properties, including our three central warehouses, regardless of whether it was Ahsell that caused the pollution or acted incorrectly. Climate change may involve changes to weather and wind in the Nordic region, with extreme weather events such as extreme drought, storms, heavy rainfall and floods becoming more common. This may affect demand and generate new needs in the market with regard to managing stormwater, sewage, power supply and so on

**Management** Ahsell takes climate change seriously and sees both risks and opportunities in current developments. We include sustainability and an environmental approach in everything we do. We work actively to reduce environmental impact from our operations, focusing on products, transport, energy use and waste. Within the framework of ISO 14001, we work towards continuous improvement. We also work closely with our suppliers to drive innovation towards increasingly environmentally friendly and efficient alternatives. We use green electricity where possible. For example, much of the electricity in the Finnish central warehouse comes from solar panels on the logistics centre roof. For outgoing transport, we work actively with our suppliers to reduce the fossil footprint. Extreme drought, more floods and blown-down power lines would in practice bring increased additional sales for Ahsell, as we provide products normally used for cooling, irrigation, pumps, stormwater wells, power lines and poles..

## ● Financial risks

**Description** Ahsell is exposed to a number of financial risks in the course of its operations and financing activities. These are refinancing, interest rate, currency, credit and liquidity risks. For example, high interest rates may have an adverse effect on Ahsell.

**Management** Ahsell's Financial policy describes how Ahsell's financial risks are to be managed. The policy stipulates that the loan portfolio for each currency must reflect the Company's forecast EBITDA or operating cash flow per currency. Ahsell does not normally enter into hedges linked to foreign currency purchases. However, the Group Treasurer and the CFO, have a mandate to do so if necessary. 20–50% of the Group's loan portfolio, including interest rate derivatives, must be at fixed interest rates. The Group's liquidity reserve must amount to at least 5% of the Group's annual net sales. If an individual facility has less than 1 year to maturity, refinancing arrangements must have started. The average maturity of the Group's facilities must be at least 1.5 years. Ahsell's credit policy provides guidelines to ensure sales are to customers with appropriate credit backgrounds and credit decisions are made by persons with the right authority. See note 32 for more information detailed information.

## ● Health and safety

**Description** A prerequisite for our business is that our employees and customers are satisfied and are able to work. Any deficiencies in safety procedures could result in loss of labour, and if our customers were harmed by the products we sell, compensation claims could arise. The trend towards increased safety and health is fundamentally positive for us. The fact that our customers demand products and services that make their work safer represents an opportunity.

**Description** A prerequisite for our business is that our employees and customers are satisfied and are able to work. Any deficiencies in safety procedures could result in loss of labour, and if our customers were harmed by the products we sell, compensation claims could arise. The trend towards increased safety and health is fundamentally positive for us. The fact that our customers demand products and services that make their work safer represents an opportunity.

## ● Information security

**Description** AhlSELL is exposed to the risk that customer data that we process may suffer from unauthorised access, be inappropriately distributed or used, either by employees or outsiders, or in some other way be lost, disclosed or processed in contravention of laws and regulations on data protection and personal data processing..

**Management** AhlSELL and its employees are strongly committed to protecting and processing data in accordance with laws, regulations and approved standards. The ITIL (Information Technology Infrastructure Library) framework is used for changes in business critical systems and incident management.

## ● Intangible assets

**Description** AhlSELL's strategy for profitable growth is about both organic and acquired growth. A high acquisition rate has resulted in a large proportion of the assets consisting of intangible assets, which are subject to impairment testing.

**Management** AhlSELL's intangible assets consist primarily of customer relationships obtained from acquired companies, the "AhlSELL" trademark and goodwill. AhlSELL's intangible assets are continuously reviewed and tested for impairment. An impairment loss is recognised as soon as there is an indication of impairment.

## ● IT security

**Description** Significant interruptions, errors or downtime in the main software and systems through technical errors or unlawful intrusions may adversely affect AhlSELL's ability to deliver products to its customers on time, or at all, and its ability to process and track customer orders and invoices, which have a negative impact on AhlSELL's sales.

**Management** AhlSELL continuously conducts maintenance and monitoring of the security of its IT systems. The security of the systems is tested regularly. AhlSELL aims for long-term partnerships and agreements with all external suppliers responsible for the administration and maintenance of all AhlSELL's central IT systems.

## ● Product liability, warranties and disputes

**Description** We always strive to offer quality products, but the fact remains that AhlSELL has product liability and may face compensation claims if/when products cause injury or damage to people or property. In addition, complaints and disputes can damage our brand and take up resources.

**Management** AhlSELL has control systems in place to follow up complaints and disputes that correspond to SEK 100,000 or more on a monthly basis. Not only AhlSELL, but also our suppliers are liable for sold products that are deficient. For our range of private label products, we have extensive controls and insurance in place.

## ● Responsible sourcing

**Description** AhlSELL operates in different countries and is therefore subject to local rules and laws. For example, there are constantly new safety regulations that encourage or prevent the use of certain materials and products. Also, our customers have increasingly higher requirements with regard to the products. Deficiencies in our control of products or suppliers, including in the area of human rights, would bring a risk of harm to AhlSELL's reputation and sales.

**Management** To identify suppliers that are able to comply with the Code of Conduct, the supplier's sustainability work is evaluated prior to signing an agreement. For example, AhlSELL engages in ethical sourcing of minerals. The results are monitored in various ways, such as on-site visits or updated evaluations. Suspected deviations from AhlSELL's Code of Conduct are dealt with immediately.

## ● Seasonality

**Description** AhlSELL's sales are affected by seasonal variations to a certain extent. Sales are strongest in the second and fourth quarters. The number of trading days in the quarter affects sales. In the same way, AhlSELL is affected by Easter. The Easter effect means a reduction in our sales during the trading days that fall in Easter week. Sales are negatively affected, as market activity decreases during these days. The Easter effect, which varies in strength from country to country, is strongest in Norway and weakest in Finland.

**Management** It is very likely that these seasonal variations will continue in the future and we plan activities in purchasing, sales and logistics in the most efficient way based on previous experience. AhlSELL estimated that the Easter effect for the Group corresponded to the loss of about one full trading day in Q2 2017 and in Q1 2018. We were able to plan for this in advance. .

## ● Supplier base

**Description** In the Nordic region, distributors represent about 70% of the total market for technical installation. If large suppliers were to choose to sell directly instead of through a distributor, this would be negative for AhlSELL. In addition, if our suppliers were to fail to deliver their products, either at all, or on commercially acceptable terms, this could represent a financial risk

**Management** AhlSELL has an established position as a leading distributor in the Nordic region and strives to offer suppliers the most cost-effective way of reaching the Nordic market, which is characterised by large areas and a widespread population. We have a very diversified supplier base, with about 3,000 active suppliers. The 10 largest account for about 24% of the cost of goods sold.

## ● Tax

**Description** The AhlSELL Group is taxed in the jurisdictions where operations are conducted and where there are subsidiaries. Our interpretation and assessment of the tax situation may be subject to tax audits and potential tax adjustment notices.

**Management** AhlSELL has both local functions and a supporting Group function to enable correct management of taxes. AhlSELL always engages the services of third parties for complex tax matters.

## ● Warehouses and logistics

**Description** AhlSELL is dependent on a number of warehouse and distribution facilities, including the central warehouse in Hallsberg (Sweden), Gardemoen (Norway) and Hyvinkää (Finland). If these were to suffer damage or closed, or if for some reason we did not have sufficient distribution capacity, this could adversely affect our delivery capacity. As we use a limited number of transport companies, few contracts have a great significance with regard to price of transport. Negotiating new transport contracts can take time and bring less favourable results than the present ones

**Management** AhlSELL works continuously on emergency preparedness, maintenance and inspection of the central warehouses and the distribution chain to ensure efficiency and capacity. We believe that it is an advantage to be a long-term and significant customer of a small number of transport companies, as we are often prioritised as a key customer.

## ● Working capital

**Description** In a distribution business, working capital is of the utmost importance. Inventories represent a significant proportion of AhlSELL's current assets and may be subject to impairment. With regard to our trade receivables, it is important for us to maintain good customer knowledge and to continuously check creditworthiness. It is also important for us to have good control of our trade payables, so that we manage monetary flows in an optimal way.

**Management** AhlSELL conducts regular analyses of the inventory turnover rate, content and legal compliance to ensure that we have the right items in stock and good opportunities to sell our products. As about 98% of our sales are on credit, it is important that we have good customer knowledge. And we do. Over the last 15 years, customer losses in Sweden have accounted for less than 0.8% of sales

# The Ahlseil share

Ahlseil's unique business model has generated stable cash flows and profitable growth over time. This was also the case in 2018, when Ahlseil was a listed company on Nasdaq Stockholm.

## REASONS TO INVEST

- Leading positions in markets with attractive and structural growth dynamic.
- Economies of scale and unique added value for customers make Ahlseil stand out both operationally and in terms of profitability.
- Broad and fragmented customer base with a favourable mix towards small and medium-sized customers.
- A robust and resilient business model that generates a strong cash flow.
- Capital-efficient business with low investment needs.
- Significant continuing growth potential, as a result of strong market development and organic strategic initiatives, such as cross selling and private labels.
- Consistent and long history of successful acquisitions, and an extensive active acquisition pipeline.
- Highly experienced organisation with a management team with a good track record.

## Return and market capitalisation

Ahlseil's shares were admitted to trading on Nasdaq Stockholm's Large Cap list on 28 October 2016 at a listing price of SEK 46. In 2018, the price of Ahlseil's share declined by 1.3% to SEK 52.10 (+13.0% in 2016 and +1.3% in 2017). Ahlseil's market capitalisation at the end of 2018 was MSEK 22,731 (23,037).

## Trading

Ahlseil's share was the 60<sup>th</sup> (44<sup>th</sup>) most traded share during the year. Total trading in Ahlseil shares on Nasdaq Stockholm during the year was SEK 14.0 (20.3) billion, corresponding to average daily turnover of MSEK 56 (81).

Nasdaq Stockholm accounted for 45.3% (49.5) of Ahlseil's total trading in 2018. Just over 43.0% (42.8) of the total trading was conducted on the open market, while the remainder was outside the public market, e.g. through over-the-counter trading and dark pools.

In total, 43.0% (28.8) of Ahlseil's shares were traded in public markets and the remaining 57.0% (71.2) were traded outside public markets.

## Incentive programmes

Ahlseil has a share-savings programme and a warrants programme. In 2017, 7,000,000 shares were repurchased for

a value corresponding to MSEK 369 to hedge the Group's long-term share-savings programme.

## Dividend policy and dividend

With scope for strategic flexibility, Ahlseil will pay a dividend equivalent to 40-60% of net profit (profit after tax).

In 2018, a dividend of SEK 1.65 (0.35) per share was paid to shareholders, corresponding to 50% of earnings per share. The total dividend paid amounted to MSEK 708 (153).

On January 24, 2019, Ahlseil's Board of Directors proposed to the Annual General Meeting a dividend of SEK 1.84 per share, corresponding 50% of earnings per share for the financial year 2018. Due to changed ownership, the proposal for profit allocation has changed, hence the previously proposed dividend will not be paid.

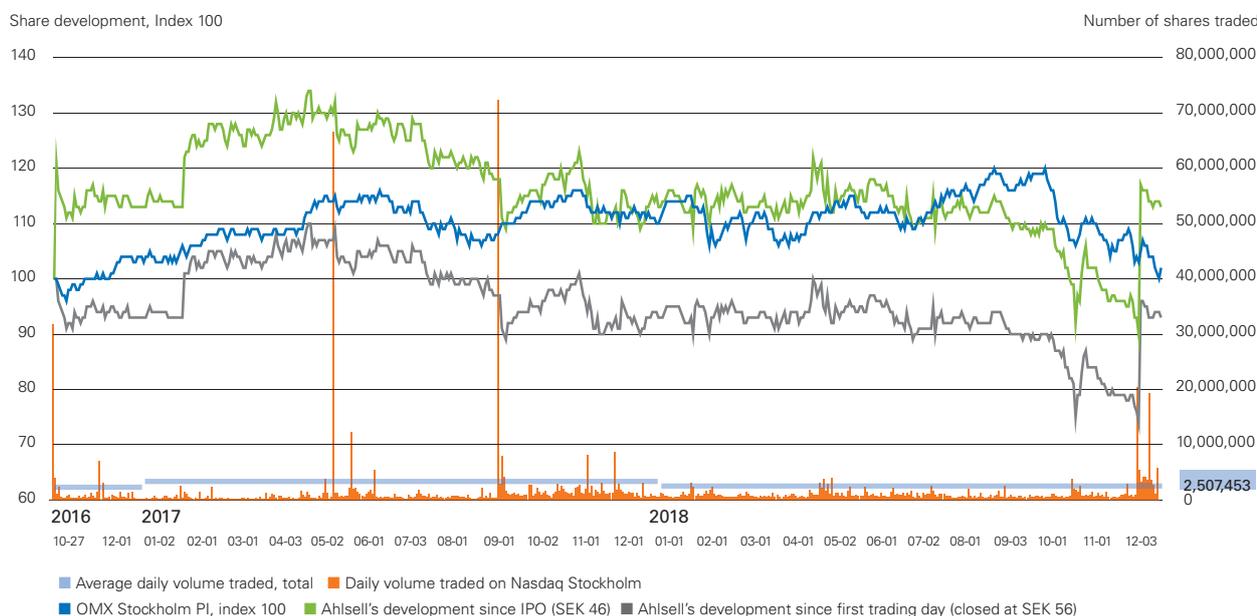
## Application for delisting

In December, Quimper AB presented a public offer of SEK 55 per share and on 13 February 2019 the bid was declared unconditional.

At the request of Quimper, on 20 February, the Board decided to apply for delisting of the Company's shares from Nasdaq Stockholm.

The last day of trading in Ahlseil's shares was set at 6 March.

## The Ahlseil share



## Ownership structure

At the end of 2018, Ahsell had 12,299 (15,143) shareholders. The ten largest shareholders, sorted by capital, registered directly or as an owner group with Euroclear Sweden, held 56% (53) of the capital. At the end of the year, Swedish investors held 31% (32) of the capital, with the remainder held by foreign investors.

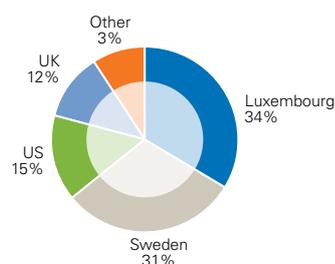
Fifteen largest owners	Number	% of capital and votes
1 CVC/Keravel SARL	109,578,323	25.1%
2 SEB Investment Management	21,700,745	5.0%
3 Norges Bank	21,004,907	4.8%
4 JP Chase NA (custodian)	18,763,806	4.3%
5 AMF – Försäkring and Fonder	15,563,072	3.6%
6 Alecta Pensionsförsäkring	12,260,000	2.8%
7 Handelsbanken Fonder	10,439,000	2.4%
8 Tredje AP-fonden	7,716,762	1.8%
<i>Ahsell AB</i>	<i>7,000,000</i>	<i>1.6%</i>
9 Swedbank Robur Fonder	5,087,654	1.2%
10 Lannebo Fonder	4,970,500	1.1%
11 JP Morgan Bank Luxembourg	4,072,922	0.9%
12 Folksam	3,981,319	0.9%
13 Länsförsäkringar	3,878,491	0.9%
14 Andra AP-fonden	3,820,102	0.9%
15 Danica Pension	2,178,019	0.5%
Other	184,286,565	42.2%
<b>Total number of shares</b>	<b>436,302,187</b>	<b>100%</b>

Owner categories	% of capital and votes
Foreign owners	69.5%
Financial companies	21.1%
Other Swedish legal entities	3.4%
Persons residing in Sweden	3.1%
Social security funds	1.8%
The Swedish State	0.5%
Uncategorised legal entities	0.4%
Interest organisations	0.4%
<b>Total</b>	<b>100%</b>

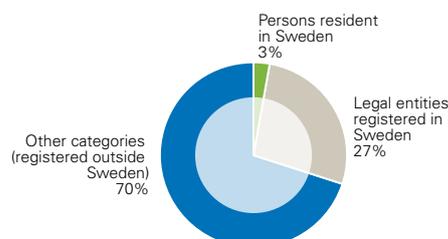
## Ownership structure

Holding	Number of shareholders	Holding of capital and votes, %
1 – 500	9,769	0.4
501 – 1,000	1,006	0.2
1,001 – 5,000	928	0.5
5,001 – 10,000	142	0.3
10,001 – 15,000	65	0.2
15,001 – 20,000	33	0.1
20,001 –	356	98.3
<b>Total</b>	<b>12,299</b>	<b>100.0%</b>

## Ownership by country (capital and votes)



## Ownership by category (capital and votes)



## Share data

ISIN code	SE0009155005
Nasdaq Stockholm ticker	AHLS

Performance measures	2016	2017	2018
Market cap at end of year, MSEK	22,688	23,037	22,731
Basic/diluted earnings per share, SEK	1.11/1.11	3.28/3.28	3.68
Dividend per share, SEK	0.35	1.65	0.0 <sup>1)</sup>
Dividend as % of earnings before dilution	40%	50%	-
Dividend yield, %	0.7%	3.1%	-
Operating cash flow per share, SEK	4.6	4.6	5.1
Equity per share, SEK	18.5	20.6	23.2
Share price at end of year, SEK	52.0	52.8	52.1
Highest share price during year, closing price, SEK	56.0	61.8	56.2
Lowest share price during year, closing price, SEK	51.0	50.0	41.0
Average share price, closing price, SEK	52.5	55.9	51.0
Number of ordinary shares at end of year	436,302,187	436,302,187	436,302,187
– of which shares held by Ahsell	0	7,000,000	7,000,000
Average number of shares after dilution at end of year	308,409,000	435,428,000	429,481,000
Par value of share, SEK	0.28	0.28	0.28
P/E	46.8	16.1	14.2

1) The Board's previous proposal to the AGM 2019 of a dividend of SEK 1.84 per share have been changed due to changed ownership. The board's new proposal is that all earnings are carried forward and no dividend will be paid.

## Contact for investor related questions

Karin Larsson  
Head of IR and External Communications  
karin.larsson@ahsell.se +46 8 685 5924

# Board of Directors



Kenneth Bengtsson



Peter Törnquist



Johan Nilsson



Magdalena Gerger



Satu Huber

<b>Position/since</b>	Chairman of the Board/2012	Board member/2012 Vice Chairman/2015	Board member/2015 President and CEO Ahlseil AB/2015	Board member/2016	Board member/2016
<b>Nationality/born</b>	Swedish/1961	Swedish/1953	Swedish/1960	Swedish/1964	Finnish/1958
<b>Education</b>	Economics at upper secondary level. Several education programmes within ICA Group.	M.Sc. (Business and Economics), Stockholm School of Economics, and MBA, IMD, Switzerland.	M.Sc. (Business and Economics), Lund University, and M.Sc. (Engineering), Lund Faculty of Engineering.	M.Sc. (Business and Economics) and MBA from Stockholm School of Economics - incl. MBA Exchange with McGill University, Montreal.	M.Sc. (Econ), Hanken School of Economics, Helsinki.
<b>Other positions</b>	Chairman of – Clas Ohlsson – Systembolaget – Ersta sjukhus – World Childhood Foundation – Lyko – Diaverum  Board member of – Synsam – Herenco.	Chairman of – Synsam – ÅR Packaging – Shd Green Energy – Virtual Stores AB – Carl Edmond AB.	–	CEO, Systembolaget.  Board member of – Investor AB – Svensk Handel.	CEO, Elo Mutual Pension Insurance Company.  Board member of – Arbetspensionsförsäkrarna TELA – Näringslivets forskningsinstitut (ETLA) – Näringslivets delegation (EVA) – Finans Finland (FA)  Nomination Committee member for: – Tieto – Valmet.
<b>Previous positions</b>	President and CEO and various positions in ICA Group over more than 30 years.	Various positions at CVC Capital Partner Nordic, including Managing Director and Chairman.  Managing Director, Nordic region and European Industrial sectors Lehman Brothers.  Senior Partner, Executive Committee member and Head of Europe Bain & Company.  Peter has also held directorships at DT Group, Post Danmark and Matas A/S.	CEO, Ahlseil Sweden since 2008.  Sales and Marketing Director Sanitec.  CEO, IFÖ Sanitär and IDO.	Board member of IKEA (Ingka Holding BV), Husqvarna AB and Svenska Spel.  Vice President, Global Fresh Dairy and Nordic Marketing & Innovation, Arla Foods.  Management Consultant, Futoria AB.  Division Head, Nescafé Market Director, UK & Ireland, ICI Paints.	Vice CEO, Elo Mutual Insurance Company.  CEO, Pensionsbolaget LokalTapiola.  CEO, Finansbranschens Centralförbund.  Various positions at Statskontoret, Merita Bank and Citibank in Helsinki and London.  Board member of YIT, Finnair, Metso and Boliden.
<b>Independent of Ahlseil and its management</b>	Yes	Yes	No, President and CEO, Ahlseil AB	Yes	Yes
<b>Independent of main owner</b>	Yes	No	Yes	Yes	Yes
<b>Holding at end of year, incl. related parties</b>	322,940 shares	20,000 shares	809,913 shares, 202,429 warrants and 73,000 call options.	4,000 shares	14,000 shares
<b>Board attendance</b>	15/15	13/13*	15/15	14/15	14/15
<b>Attendance at AGM</b>	Yes	Yes	Yes	Yes	Yes
<b>Remuneration Committee attendance</b>	3/4	4/4	–	4/4 Chairman	–
<b>Audit Committee attendance</b>	–	6/7 Chair	–	–	7/7

\* Total of 15 Board meetings were held during the year. Two of these meetings were attended only by Board members considered independent of CVC. This is because of Quimper's bid.

\*\* Susanne was elected at the AGM in May 2018.



<b>Gustaf Martin-Löf</b>	<b>Susanne Ehnbåge</b>	<b>Terje Venold</b>	<b>Søren Vestergaard-Poulsen</b>
Board member/2012	Board member/2018	Board member/2014	Board member/2012
Swedish/1977	Swedish/1979	Norwegian/1950	Danish/1969
B.A. (Hons) International Business Studies (finance and economics), European Business School, London	M.Sc. (Business and Economics), School of Business, Economics and Law, University of Gothenburg.	M.Sc. (Business and Economics), BI Norwegian Business School	M.Sc.(Econ), Copenhagen Business School.
Managing Director, CVC Capital Partners and Deputy MD, CVC Capital Partners' Swedish branch.  Board member of – Synsam – Etraveli.	CEO of Lindex AB.  Board member of HiQ AB and Börssällskapet.	Board and Audit Committee member, Sporveien AS.  Chairman of the Corporate Assembly and Nomination Committee, Norsk Hydro ASA.  Member of the Corporate Assembly, Equinor ASA.	Managing Partner, CVC Capital Partners.  Executive Board member, CVC Capital Partners.  Vice Chairman, Post Invest Europe.  Board member of – ÅR Packaging – CVC Capital Partners – Douglas Group – News Capital – Recordati S.p.A.
Board and Audit Committee member, Paroc Group.  Various senior roles at PWC Transaction Service.	Various positions in NetOnNet Group, including CEO of SIBA and COO of NetOnNet Group.	President and CEO, Veidekke.  Nomination Committee member at – Storebrand – Borregaard  Chairman of BI Norwegian Business School, and Norwegian Association for Share Promotion.  Member of Executive Board of NHO, Confederation of Norwegian Enterprise.	Vice Chairman of DT Group.  Chairman of Matas Group.  Vice Chairman of Danske Commodities and Douglas Group.  Board member of Paroc Group, BPost, Post Danmark.
Yes	Yes	Yes	Yes
No	Yes	Yes	No
–	–	94,702 shares	–
12/13*	10/11**	15/15	12/13*
Yes	Yes	Yes	Yes
–	–	–	–
6/7	–	–	–



**Glenn Edlund**

Board member and employee representative at Ahlsell AB since 2012. Glenn Edlund (b. 1954) is a specially trained pipe installation technician, and has also completed several sales courses and TCO's Board training for employee representatives. Glenn is Chairman of the Executive Committee, Central Union group, and owns 700 Ahlsell shares. Jeanette le Claire acts as Deputy for Glenn.



**Maria Herbertsson**

Board member and employee representative at Ahlsell AB since 2012. Deputy since 2007. Maria Herbertsson (b. 1979) has completed LO's Board training for employee representatives and several other LO courses, including Labour Law, and the Union of Commercial Employees' training for elected representatives. Maria works at Ahlsell Sweden's central warehouse in Hallsberg. At the time of publication of this annual report, the Deputy position was vacant.



**Anders Nilsson**

Board member and employee representative at Ahlsell AB since 2012. Anders Nilsson is a specialist construction products salesperson, a professional electrician and has also completed several sales course during his employment. Anders is Chairman of Unionen Gothenburg and Chairman of Unionen's Handels & Visita negotiating delegation. He owns 500 Ahlsell shares. Szilvia Nemes-Andersson acts as Deputy for Anders.

\* Total of 15 Board meetings were held during the year. Two of these meetings were attended only by Board members considered independent of CVC. This is because of Quimper's bid.

\*\* Susanne was elected at the AGM in May 2018.



# Group Management

**Kennet Göransson**  
Chief Financial Officer

**Rune Flengsrud**  
Head of Operations Norway

**Claes Seldeby**  
Head of Operations Sweden

**Mika Salokangas**  
Head of Operations Finland

Present position since/with Ahsell since	2014/2014	2015/2015	2016/2016	2006/2006
Nationality/born	Swedish/1963	Norwegian/1960	Swedish/1969	Finnish/1962
Education	M.Sc. (Business and Economics), Linköping University.	Engineering degree, NTNU in Gjøvik, Norway.	M.Sc. (Business and Economics), Lund University.	M.Sc. (Econ), Hanken School of Economics, Helsinki.
Other positions	–	–	Board member of - RGF Service and VVS- Informations Data in Stockholm - Sveriges Elgrossisters Serviceaktiebolag (Swedish Electrical Wholesalers Federation).	Chairman of – Örum – Elektrotekniska Handelsförbundet in Finland  Board member of – VVS-Tekniska handelsförbund – LVI-Numero.
Previous positions	CFO – Indutrade – Addtech – Bergman & Beving.	CEO and Senior Vice President Nordic and Baltics for Schneider Electric.  Several positions at Schneider Electric Norge.	President and CEO, FM Mattsson Mora Group.  CEO, Schneider Electric Sverige.  Chairman, Damixa.	Managerial positions at Saab-Auto, Cederroth and Wihuri.
Holding at end of year, incl. related parties	237,317 shares, 151,821 warrants and 57,000 call options.	152,845 shares, 121,457 warrants and 43,000 call options.	203,767 shares, 101,214 warrants and 57,000 call options.	893,712 shares, 121,457 warrants and 43,000 call options.



**Johan Nilsson**  
President and CEO Ahlsell AB  
Board member

**Anna Friberg Björklund**  
HR Director

**Karolina Hagberg Chinell**  
Chief Purchasing Officer

**Erik Andersson**  
Head of Business Support

2015/2008

2016/2016

2018/2018

2015/1989

Present position  
since/with  
Ahlsell since

Swedish/1960

Swedish/1964

Swedish/1972

Swedish/1968

Nationality/born

M.Sc. (Business and  
Economics), Lund University,  
and M.Sc. (Engineering), Lund  
Faculty of Engineering.

M.Sc. (Personnel, work and  
organisation), Stockholm  
University

M.Sc. (Business and  
Economics), Stockholm  
University

Economics degree, Linköping  
University.

Education

–

–

–

–

Other  
positions

CEO, Ahlsell Sweden since  
2008.

Human Resources Director,  
Svenska Spel.

Business Area Director for  
Purchasing and Category at  
COOP Sverige AB.

Various senior positions at  
Ahlsell Sweden, including CFO  
for many years.

Previous  
positions

Sales and Marketing Director,  
Sanitec.

Project manager at SEB and  
managerial positions at Pengar  
in Sweden.

Sales Director, Wasabröd/Barilla.  
Nordic Manager, Barilla.

Category Manager, ICA.

809,913 shares, 202,429  
warrants and 73,000 call  
options.

37,286 shares, 38,461 warrants  
and 38,000 call options.

9,100 shares

407,007 shares, 101,214  
warrants and 38,000 call  
options.

Holding at end  
of year, incl.  
related parties

# Corporate Governance Report

Ahlseil's corporate governance is aimed at sustainable value creation for shareholders through good internal control and a sound corporate culture. Good corporate governance leads to effective decision-making and increases our scope for developing the business. Clear definition of roles and responsibilities between management and control bodies, and transparency with regard to owners and capital markets provides a solid foundation for active and responsible ownership.



*"As I look back to last year, there is much to be proud of. Our 5,700 dedicated employees have contributed to the creation of additional customer value, which has enabled us to achieve growth in both sales and profit. With more than 100,000 customers spread across several countries, we have to accommodate different laws, rules and expectations. It is therefore our highest priority to ensure that we always act in accordance with the strictest ethical standards. I am convinced that a sound corporate culture combined with good corporate governance brings improved opportunities for further development of our business. Ahlseil has good internal control and effective decision-making by the right people in the right place in the organisation, which contributes to sustainable value creation for our shareholders and the Company's other stakeholders."*

Kenneth Bengtsson, Chairman of the Board

Ahlseil AB is a Swedish public limited company, corp. ID 556882-8916. Ahlseil has its registered office in Stockholm. Ahlseil was listed on Nasdaq Stockholm during the 2018 financial year. This corporate governance report is part of the Directors' Report and relates to both the Parent Company Ahlseil AB (publ) and the Group in 2018.

## External control instruments

The external control instruments that provide the framework for Ahlseil's corporate governance are the Swedish Companies Act, the Swedish Annual Accounts Act, other relevant laws, Nasdaq Stockholm's Rules for Issuers and the Swedish Corporate Governance Code (the Code). Ahlseil applies the Code, with no derogations.

## Internal control instruments

The most important internal control instruments are the Articles of Association adopted by the Annual General Meeting. These are followed by the rules of procedure for the Board and its committees, the CEO's instructions, business plans and budgets, and a number of policies, guidelines and procedures that are binding for the entire organisation.

All policies are reviewed annually by the Board, and the whole Group works

actively on implementing them. The Group's subsidiaries apply their country's relevant laws and regulations, but also ensure compliance with the Group's policy documents.

## Governance and organisational structure

Governance, management and control are divided among the shareholders at the Annual General Meeting, the Board and the CEO in accordance with the model below.

## Shareholders

The number of shares outstanding on 31 December 2018 was 436,302,187. After a repurchase of shares in November 2017 to hedge the Group's long-term share-savings programme, Ahlseil owns 7,000,000 shares. The par value of the share is SEK 0.28. All shares carry equal voting rights and entitlement to a share in the Company's profits and capital. There are no limitations concerning the shareholders' rights in the Articles of Association or, as far as the Company is aware, in shareholder agreements.

The number of shareholders on 31 December 2018 was 12,299. The largest owner at the end of the year was Keravel

S.a.r.l., which is indirectly owned by CVC European Equity Fund V and CVC European Equity Tandem Fund, with 25.1% of the number of shares and votes in Ahlseil. The proportion of Swedish-owned shares at the end of the year was 27%. Learn more about shareholders in the section The Ahlseil share.

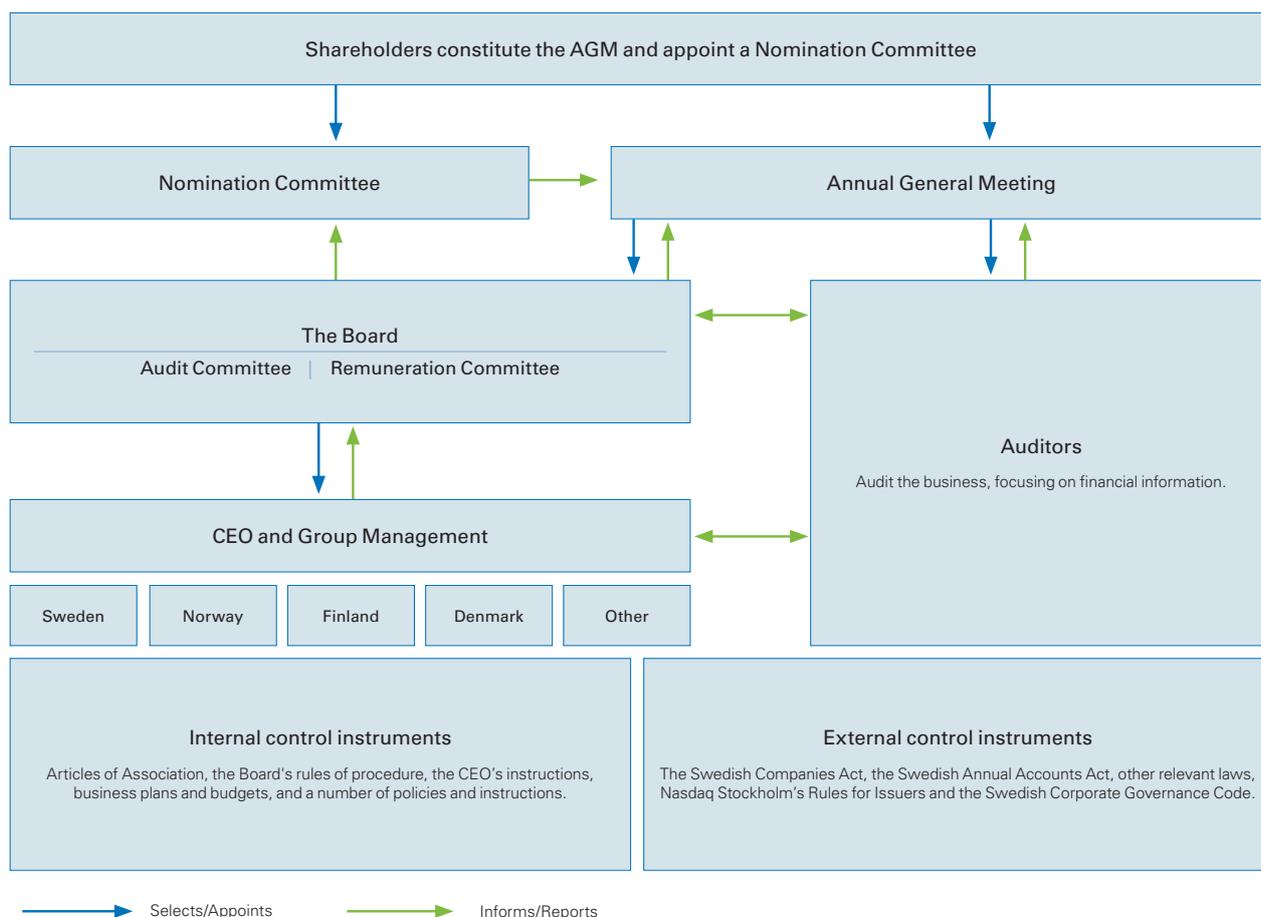
## Annual and General Meeting of Shareholders

The General Meeting of Shareholders is the Company's highest decision-making body at which the shareholders decide on the Company's Articles of Association and governance. The Annual General Meeting (AGM) must be held within six months of the end of the financial year.

Ahlseil's Articles of Association do not contain any specific provisions on the appointment and dismissal of Board members or amendments to the Articles of Association. They also do not contain any provisions that restrict shareholders' right to exercise their influence at the AGM.

In addition to the AGM, extraordinary general meetings may be convened on the initiative of the Board.

The Chairman of the Board, all Board members, the CEO, and at least one mem-



ber of the Nomination Committee and an auditor attend the Annual General Meeting. The Chairman, as many Board members as possible and the CEO attend extraordinary general meetings.

Notice of the Annual General Meeting or General Meeting of Shareholders, and related information, must be published in Post- och Inrikes Tidningar and on Ahlsell's website. When the notice of the meeting has been issued, information to this effect will appear in Svenska Dagbladet.

Minutes of the meeting, the address by the CEO and other documents are published on the Company's website, in accordance with the Code.

**Nomination Committee**

The main duties of the Nomination Committee are to present the AGM with proposals for a Chairman and other Board members elected by the Meeting, and proposals for remuneration and other benefits to each of the Board members. The Nomination Committee also makes recommendations on the appointment of auditors and their fees.

In its work on the composition of the Board, the Committee applies the Code's rule 4.1 on diversity policy. This means that the Committee strives to achieve an

appropriate Board composition characterised by diversity and a breadth of skills, experience, background and gender.

**Diversity policy**

When electing Board members, the aim is for the Board members collectively to possess the necessary knowledge and experience of the business and cultural conditions in the regions and market areas where the Group's main operations are conducted.

According to the Code, the Board should have a composition that is appropriate to the Company's business, development phase and other conditions, with members elected by the AGM exhibiting diversity and breadth of qualifications, experience and background. To fulfil this requirement, each Board member should have a broad set of qualities and competencies, and it is stated that diversity, e.g. of age, gender, ethnicity, education and professional background, is an important factor to consider. The Chairman of the Board informs the Nomination Committee of the necessary expertise and skills that Board members need to manage the Company's affairs with integrity and efficiency. The Chairman also reports on the annual evaluation of the Board's work.

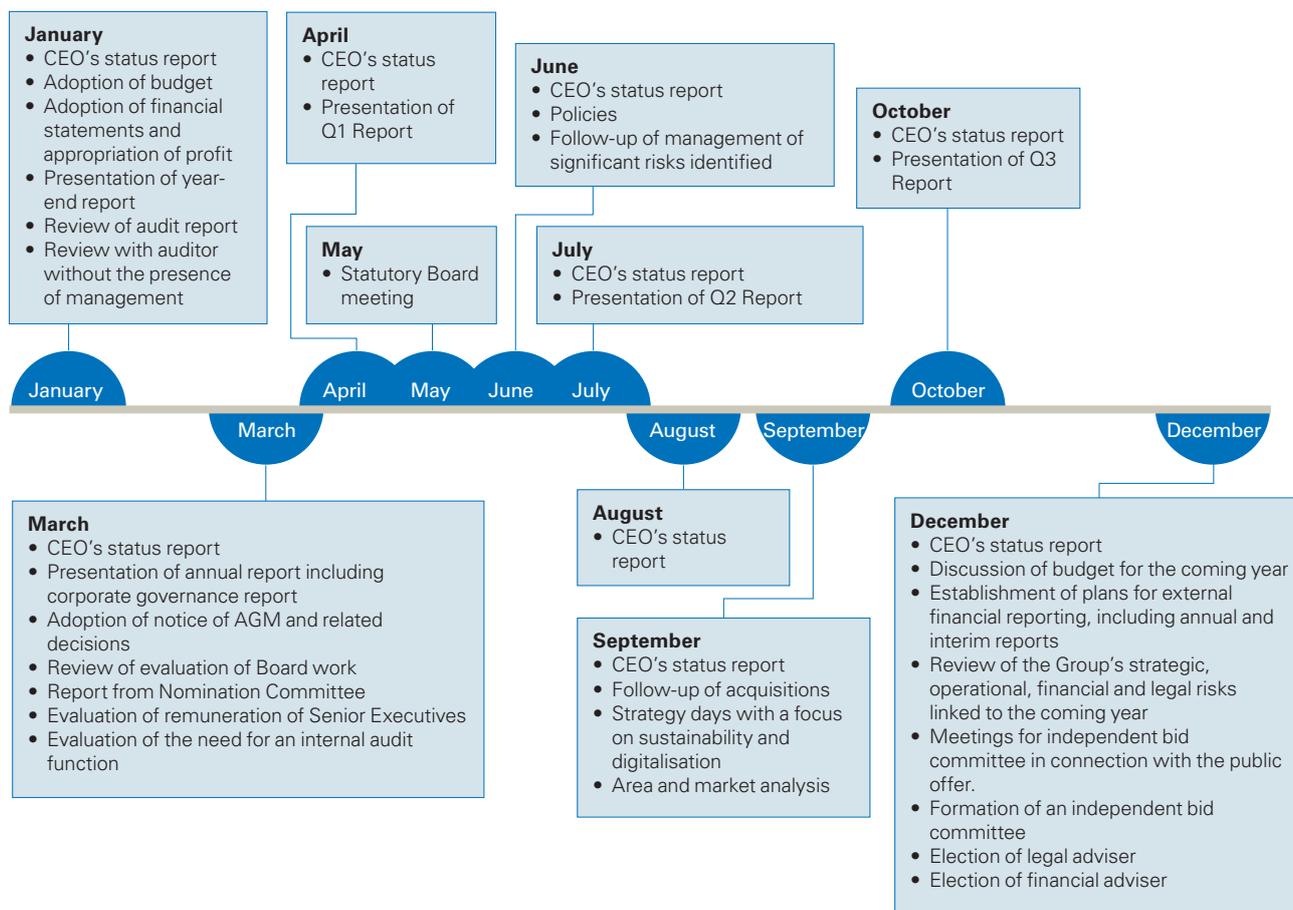
The Nomination Committee reports on its work and justifies its recommendations in accordance with the requirements of the Annual Accounts Act and the Code. The Committee also publishes an explanatory statement about its Board recommendations on the Company's website. At the AGM, the Nomination Committee provides a statement describing its work and presents and explains its proposals.

The Nomination Committee shall comprise four members representing the largest shareholders in the Company on the last banking day in August in the year before the AGM. In addition to these four members, the Chairman of the Board will be co-opted to the Nomination Committee and act as convener.

If a shareholder qualifies as one of the four largest shareholders, after the Nomination Committee has been appointed but two months before the AGM, that shareholder is entitled to serve on the Nomination Committee and the representative that no longer represents one of the four largest shareholders will leave the Committee.

The composition of the Nomination Committee must be announced at least six months before the AGM. All shareholders may contact the Nomination Committee to

## Work of the Board in 2018. Acquisitions were an agenda item at most meetings.



submit proposals for Board members. Contact details can be found on AhlSELL's website ([www.ahlsell.com](http://www.ahlsell.com)).

### Board

The Board of Directors shall comprise at least three and no more than ten members elected by the General Meeting without deputies. Board members, with the exception of employee representatives, are elected annually at the AGM for the period until the end of the next AGM.

The Board should include a mix of skills and expertise that are important to ensure AhlSELL is managed in a responsible and successful way. Such skills and expertise include knowledge of trade and distribution, financing and financial analysis, remuneration, corporate governance and regulatory matters.

### Work of the Board

The Board is accountable to the General Meeting of Shareholders and must protect the interests of all shareholders in accordance with the responsibilities placed on the Board by external and internal controls.

The Board's duties include setting overall objectives and strategies, busi-

ness plans and budgets, interim and year-end reports, and annual reports, and ensuring the quality of internal policy documents. The Board is also required to follow economic developments and ensure the quality of financial reporting. The Board must ensure that appropriate systems are in place to monitor and control the business and its compliance with internal guidelines, laws and regulations. The Board must ensure that the information communicated by the Company is transparent and reliable. The Board also appoints, evaluates and, if necessary, dismisses the CEO.

Each year, the Board adopts written rules of procedure regulating the division of duties and responsibilities between Board members, the Chairman and the CEO. The Board also adopts instructions for Board committees, instructions for the AhlSELL CEO, including instructions for financial reporting to the Board.

The Chairman leads the work of the Board and is responsible for ensuring that the Board carries out its duties effectively and in compliance with applicable laws and regulations. The Chairman is also responsible for preparing, and ensuring the Board always receives, the informa-

tion it requires to carry out its work effectively. The Chairman acts as the Board's representative in communication with the Company's shareholders.

The Chairman is also responsible for the evaluation of the Board's work and for presenting this to the Nomination Committee. The purpose of the evaluation is to gain an understanding of Board members' opinions on how the Board's work is conducted and what measures may be taken to make its work more efficient. This evaluation is therefore an important basis for the work of the Nomination Committee in preparing for the AGM.

### Board committees

AhlSELL's Board has established an Audit Committee and a Remuneration Committee. The members of the committees are appointed at the statutory Board meeting for a period of one year until the end of the next AGM. The committees deal with matters in their own areas of responsibility and submit proposals for decision by the Board. The minutes of the committees' meetings are available to the Board. The chair of each committee informs the Board of the work of the committee at the Board meetings.

**Audit Committee**

The Audit Committee shall comprise at least three members of the Board, with the majority being independent of the Company and its management. At least one of the members of the Audit Committee shall be independent of major shareholders. The members of the Committee shall have expertise and experience in accounting, auditing and/or risk management. The Audit Committee shall meet as often as required and its meetings shall be recorded in the minutes.

The Audit Committee is responsible for overseeing procedures for accounting, financial reporting, internal control and risk management. The Audit Committee also reviews and monitors the impartiality and independence of the auditors, other services provided by the Company's auditors, and assists the Company's Nomination Committee in the preparation of proposals for auditors to the AGM.

**Remuneration Committee**

The Remuneration Committee shall comprise at least three Board members, who shall be independent of the Company and its management. At least one of the members of the Remuneration Committee shall be independent of major shareholders. The Remuneration Committee shall meet as often as required and its meetings shall be recorded in the minutes.

The main duties of the Remuneration Committee are to prepare the Board's decisions in matters relating to salaries and other employment terms, pension benefits and bonus systems for the CEO and man-

agers reporting directly to the CEO, and also remuneration matters based on principles. The Remuneration Committee shall prepare proposals on guidelines for remuneration of the CEO and other members of AhlSELL's Group management for presentation to the Board. The guidelines are revised annually. The Remuneration Committee shall also oversee and assess the application of the remuneration guidelines adopted at the AGM.

**Remuneration of Senior Executives**

Guidelines for remuneration and other conditions of employment for the CEO and other members of AhlSELL's Group management are adopted each year at the AGM. Before the AGM, the Board presents recommended guidelines for remuneration of the CEO and Group management. Questions concerning remuneration of the CEO are then prepared by the Remuneration Committee and approved by the Board. Questions concerning remuneration of the CEO and other members of Group management are approved by the Board on the basis of the guidelines adopted by the AGM.

**Group management**

Group management comprises AhlSELL's President and CEO, CFO, HR Director, Chief Purchasing Officer, Head of Business Support and the Heads of Operations for the three largest segments. Group management holds monthly meetings to address current issues and discuss business development. Group management meets once a year to

review the Group's strategy.

The segments within the AhlSELL Group are managed through monthly reviews with the management team of each segment, with the CEO and CFO participating at the meetings. A member of senior management is also always represented in each subsidiary board. An annual business plan is prepared and followed up at subsidiary level at each country meeting.

**CEO (Chief Executive Officer)**

The CEO shall comply with external and internal governance instructions and oversee the day-to-day management of the business in line with the Board's policy documents and directions. The CEO shall also ensure that AhlSELL's accounts are in compliance with legislative and regulatory requirements and that the Company's funds are managed satisfactorily. Details of the division of duties and responsibilities between the Board and the CEO are set out in the CEO's instructions.

**Auditors**

The Company's statutory auditors are appointed by the AGM. The Company must have at least one and at most two auditors. Either an authorised public accountant or a registered audit company can be appointed to serve as auditors. The auditor shall examine AhlSELL's annual report and accounts, consolidated financial statements and the administration of the Company by the Board and the CEO. The auditor is required to produce an audit report at the end of each financial year for presentation to the AGM.

# Corporate Governance Year 2018

**Annual General Meeting 2018**

AhlSELL's Annual General Meeting was held on 3 May 2018 in Stockholm. The Annual General Meeting was attended by all Board members and Chairman of the Board, Kenneth Bengtsson, who also chaired the Meeting. The CEO, auditors and a member of the Nomination Committee also attended. The main decisions were as follows:

- The Meeting resolved to discharge Board members from liability for the 2017 financial year.
- The Meeting adopted the consolidated and Parent Company income statements and balance sheets.
- The Meeting adopted the appropriation of profits.
- The Meeting adopted Board fees and auditors' fees.
- The Meeting elected the Board and auditors.

- The Meeting authorised the Board to decide on acquisitions and transfers of the Company's own shares.
- The Meeting adopted guidelines for remuneration of senior executives.
- The Meeting adopted a long-term share savings programme and a call option programme.
- The Meeting adopted instructions for the Nomination Committee.

**Nomination Committee, 2019 AGM**

The Nomination Committee is appointed based on shareholders who are registered as the largest shareholders (grouped by owner) in the shareholder register held by Euroclear Sweden AB on the last banking day in August 2018, and who have indicated that they wish to serve on the Committee. The composition of the committee

was announced in a press release on AhlSELL's website on 10 October 2018.

**The Nomination Committee prior to the 2019 AGM consists of:**

- Tomas Ekman, CVC, Nomination Committee Chair
  - Peter Guve, AMF
  - Mikael Wiberg, Alelecta
  - Per Trygg, SEB Investment Management
  - Kenneth Bengtsson, Chairman of the Board of AhlSELL AB, co-opted
- See also "Events after the reporting date" on page 45.

**Work of the Board**

From the AGM on 3 May 2018, AhlSELL's Board consists of nine ordinary elected members and three employee representatives, with a deputy for each employee representative. Each of these Board members possess

skills and expertise that are of importance to AhlSELL.

AhlSELL's President and CEO Johan Nilsson is a Board member and CFO Kennet Göransson is co-opted to all meetings. The Company's General Counsel Carl-Gustaf Österberg is Board Secretary. Board members are presented in more detail on pages 54-55.

At the Annual General Meeting on 3 May 2018, Kenneth Bengtsson was appointed Chairman of the Board and Peter Törnquist Vice Chairman.

The AhlSELL Board of Directors held 15 meetings in 2018. Two of the meetings were per capsulam meetings. Two of the meetings were attended only by Board members considered independent of CVC. This is because of Quimper's bid for AhlSELL. The CEO's operational and financial status report is a standing agenda item at each Board meeting. The following key matters have also been dealt with:

- Appointment of new Committee members
- Approval of updated Group policies
- Decision on medium term note programme.
- Decision on long-term credit facilities.
- Decisions on acquisitions of nine operations with total sales of approximately MSEK 961.
- Decision on expanded investment in the Swedish central warehouse.

The Board of Directors met the external auditors without a management presence on one occasion in 2018.

#### **Independence of the Board**

The Code requires a majority of the elected Board members to be independent of the Company and its management. At least two of these must also be independent of the Company's major shareholders. AhlSELL considers that the present Board meets the independence requirements under the Code.

#### **Audit Committee**

In 2018, the Audit Committee held seven meetings and dealt with matters relating to quarterly financial statements and financial reporting, tax and internal control.

In 2018, the Audit Committee consisted of Peter Törnquist (chair), Gustaf Martin-Löf and Satu Huber. All members were re-elected at the statutory Board meeting on 3 May 2018. All members of the Audit Committee are independent of the Company and its management. Satu Huber is also independent of the Company's largest owner. AhlSELL considers that the present Audit Committee meets the competence requirements contained in the Swedish Companies Act.

#### **Remuneration Committee**

In 2018, the Remuneration Committee held four meetings and dealt with the conditions and outcomes related to variable remuneration of senior executives, and proposed incentive programmes.

In 2018, the Remuneration Committee consisted of Magdalena Gerger (chair), Kenneth Bengtsson and Peter Törnquist. All members are independent of the Company and its management. Kenneth Bengtsson and Magdalena Gerger are also independent of the Company's largest owner.

#### **Guidelines for remuneration of senior executives**

The guidelines for remuneration of senior executives adopted by the Annual General Meeting for the period up to the end of the next AGM are set out in the notes.

AhlSELL has the following long-term incentive programmes: two share-savings programmes for senior executives, including Group management and other key personnel, and a warrants programme for ten senior executives, including Group management. See note 3 for more information.

#### **Evaluation of the Board's work**

AhlSELL's Board conducts an annual evaluation of its work. The results of the evaluation are reported to the Board and the Nomination Committee.

#### **Group Management**

AhlSELL's management in 2018 consisted of the President and CEO, the Heads of Operations for Sweden, Norway and Finland and four staff functions. A presentation of Group Management can be found on pages 56-57.

#### **Evaluation of the CEO's work**

The Board of AhlSELL AB annually evaluates the CEO's work in relation to defined goals.

#### **Auditors**

The 2018 Annual General Meeting re-elected the audit company KPMG AB as the Company's auditor until the 2019 AGM, with authorised public accountant Joakim Thilstedt as chief auditor.

#### **The Board's internal control report**

Under the Swedish Companies Act, the Board is required to ensure that the Company's organisation is structured to enable adequate controls of accounting, management of funds and the Company's finances in general. The Code clarifies this and prescribes that the Board is responsible for internal control. The CEO and Group management are responsible for ensuring that the Group has good internal

controls and regularly report to the Audit Committee and the Board.

AhlSELL's operations managers are responsible for internal controls within their areas of operations and report any irregularities to the CEO and Group management. The Head of Internal Control acts as support for the development and monitoring of internal controls. The Board therefore concluded in 2018 that a separate internal audit function was not required.

AhlSELL uses the COSO model and its five areas to describe internal controls in a structured way. The five areas are control environment, risk management, control activities and monitoring, and information and communication. The descriptions in the corporate governance report focus primarily on the key elements of the Company's system for internal control over financial reporting. The processes for financial reporting are designed to ensure reliable external financial reporting in accordance with IFRS, applicable laws and regulations, and other requirements imposed on companies listed on the Nasdaq Stockholm.

This report has been prepared in accordance with the Swedish Annual Accounts Act and the Code.

#### **Control environment**

Corporate culture and a good control environment are created through shared values. A sound control environment is documented and supported in policies, guidelines and procedures. These form AhlSELL's internal control mechanisms.

During the year, AhlSELL worked on its values: accountability, openness and simplicity. These values permeate AhlSELL's organisation and policy documents. During the year, the Board produced a set of policy documents that provide a platform for AhlSELL's internal control and governance. The Board's rules of procedure, including instructions for its committees, and the CEO's instructions, including instructions on financial reporting, form the basis for AhlSELL's internal control over financial reporting. AhlSELL also has a set of Group-wide policies and instructions providing clear guidance on the business. AhlSELL's Financial Manual and AhlSELL's Treasury Policy are also important financial reporting documents.

#### **Risk management**

AhlSELL works continuously on risk identification and risk management. At Group level, there is an established and annual process of identifying, evaluating and managing risk. The risks are analysed and documented at risk workshops that are run in close partnership with heads of operations and managers. Risks that are



Ahlseil has taken a leading position in the market for personal protective equipment. The picture above shows footwear from the supplier Tradeport, which has several brands sold by Ahlseil.

considered critical to the business are managed through control activities with clear responsibility. Risk work is based on a recognised risk model and led by the Head of Internal Control. The annual risk work is presented to the Audit Committee and the Board at least annually, with continuous monitoring of significant risk areas.

#### **Control activities and monitoring**

A priority for Ahlseil's employees is to maintain Ahlseil's business-critical procedures and processes.

Controls and monitoring of financial reporting are performed at all levels. Ahlseil's finance organisation is decentralised. The companies in the Group's main segments all use the same financial system, and a Group-wide reporting system is used for reporting for all countries. All Group companies are analysed and consolidated on a monthly

basis. The reporting process requires all subsidiaries to ensure that reported information has been checked and is correct. This is done through Ahlseil's built-in reconciliation report in its consolidated financial statements. Meetings are held monthly with the Heads of Operations, the CEO and the CFO to review financial statements. The CEO and the CFO also attend the monthly management meetings in Sweden, Finland and Norway. Sales, gross margins and other financial measures are also reviewed on a daily or weekly basis. Ahlseil's auditors review the financial information and the interim financial statements for the third quarter. The auditors also examine a selection of internal controls and processes each year and report identified areas of improvement to the Audit Committee, Group management and management of each

subsidiary. The chief auditor also attends most Audit Committee meetings. In addition, the auditor meets the Board once a year without the presence of Group management or other representatives of the Company.

#### **Information and communication**

Ahlseil's policy documents are communicated primarily via a Group-wide intranet. Ahlseil's operations managers are responsible for ensuring that information is communicated in their areas of operation. SharePoint is one method of communication within the Group's finance organisation. Ahlseil's finance functions convene each year to share knowledge and experience. Ahlseil's external communications are managed by the Head of IR and External Communications based on a communication policy established by the Board.

# Proposed appropriation of profits

The following funds are at the disposal of the Annual General Meeting	SEK	3,815,651,397
The Board and CEO recommend: that the remaining profits be carried forward	SEK	3,815,651,397
	SEK	3,815,651,397

For information on the Company's earnings and financial status in general, please refer to the following income statements, balance sheets, cash flow statements and notes to the accounts.

# Financial Statements



# Consolidated income statement

MSEK	Note	2018	2017
Net sales	2	31,291	27,484
Cost of goods sold		-23,010	-20,062
<b>Gross profit</b>		<b>8,281</b>	<b>7,423</b>
Selling expenses		-5,688	-4,962
Administration expenses		-522	-455
Other operating income	4	68	38
Other operating expenses		-1	0
<b>Operating profit</b>	2,3,5,6,7,8	<b>2,138</b>	<b>2,043</b>
Finance income	9	33	47
Finance costs	10	-217	-256
<b>Net financial items</b>		<b>-184</b>	<b>-209</b>
<b>Profit before tax</b>		<b>1,954</b>	<b>1,834</b>
Income tax	11	-372	-406
<b>Profit/loss for the year</b>		<b>1,582</b>	<b>1,428</b>
Profit for the year attributable to owners of the parent company		1,582	1,428
Non-controlling interests		-	-
Basic earnings per share, SEK	28	3.68	3.28
Diluted earnings per share, SEK	28	3.68	3.28

# Consolidated statement of income and other comprehensive income

MSEK	Note	2018	2017
<b>Profit/loss for the year</b>		<b>1,582</b>	<b>1,428</b>
<b>Other comprehensive income</b>			
<i>Items that will be reclassified to profit or loss</i>			
Translation differences for the year	28	114	-11
Change in hedging reserve for the year	28	-10	-10
Tax attributable to items that will be reclassified to profit or loss	28	10	-6
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of defined-benefit pension plans		0	-4
Tax attributable to items that will not be reclassified to profit or loss		0	3
<b>Other comprehensive income for the year</b>		<b>114</b>	<b>-29</b>
<b>Comprehensive income for the year</b>		<b>1,696</b>	<b>1,399</b>
Comprehensive income for the year attributable to owners of the parent company			
		1,696	1,399
Non-controlling interests			
		-	-

# Consolidated cash flow statement

MSEK	Note	2018	2017
<b>OPERATING ACTIVITIES</b>			
Profit before tax		1,954	1,834
Adjustment for non-cash items	35	596	563
		<b>2,550</b>	<b>2,397</b>
Tax paid		-393	-203
<b>Cash flow from operating activities before changes in working capital</b>		<b>2,157</b>	<b>2,193</b>
<b>CASH FLOW FROM CHANGES IN WORKING CAPITAL</b>			
Change in inventories		1	-489
Change in operating receivables		-180	-547
Change in operating liabilities		-79	703
<b>Cash flow from operating activities</b>		<b>1,899</b>	<b>1,861</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of operations	36	-763	-346
Disposal of operations	38	24	-
Acquisition of intangible assets		-59	-39
Acquisition of property, plant and equipment		-213	-178
Sale of property, plant and equipment		20	6
Change in financial assets		-60	16
<b>Cash flow from investing activities</b>		<b>-1,051</b>	<b>-541</b>
<b>FINANCING ACTIVITIES</b>			
Repurchase of shares		-	-369
Dividend paid		-708	-153
Issued call options		1	-
Proceeds from borrowings		1,625	999
Repayment of borrowings		-1,815	-1,712
<b>Cash flow from financing activities</b>		<b>-897</b>	<b>-1,235</b>
<b>Cash flow for the year</b>		<b>-49</b>	<b>86</b>
Cash and cash equivalents at beginning of year		1,295	1,209
Exchange differences		2	0
<b>Cash and cash equivalents at end of year</b>	32	<b>1,248</b>	<b>1,295</b>

## Reconciliation of liabilities in financing activities

MSEK	31/12/2017	Cash flow		Non-cash effect			Amortisation of capitalised bank charges	31/12/2018
		Borrowings/repayment	Acquisitions	Revaluation	New leases			
Borrowing	7,718	-190	40	30	-	-	7,597	
Capitalised bank charges	-75	-3	-	-	-	23	-55	
Lease liability	329	-	-	-	11	-	340	
	<b>7,972</b>	<b>-193</b>	<b>40</b>	<b>30</b>	<b>11</b>	<b>23</b>	<b>7,882</b>	

MSEK	31/12/2016	Cash flow		Non-cash effect			Amortisation of capitalised bank charges	31/12/2017
		Borrowings/repayment	Acquisitions	Revaluation	New leases			
Borrowing	8,422	-712	12	-5	-	-	7,718	
Capitalised bank charges	-96	-1	-	-	-	22	-75	
Lease liability	320	-	-	-	10	-	329	
	<b>8,645</b>	<b>-713</b>	<b>12</b>	<b>-5</b>	<b>10</b>	<b>22</b>	<b>7,972</b>	

# Consolidated balance sheet

MSEK	Note	2018	2017
<b>ASSETS</b>			
NON-CURRENT ASSETS			
<i>Intangible assets</i>			
Customer relationships	13	2,782	2,929
Trademark	14	3,837	3,837
Other intangible assets	15	160	136
Goodwill	16	7,767	7,207
<b>Total intangible assets</b>		<b>14,547</b>	<b>14,109</b>
<i>Property, plant and equipment</i>			
Land and buildings	17	242	244
Plant and machinery	18	191	155
Equipment, tools and fixtures & fittings	19	502	451
Construction in progress and advances for property, plant and equipment		2	2
<b>Total property, plant and equipment</b>		<b>936</b>	<b>853</b>
<i>Financial assets</i>			
Financial investments	20	3	3
Other non-current receivables	24	67	7
<b>Total financial assets</b>		<b>70</b>	<b>10</b>
Deferred tax asset	23	10	8
<b>Total non-current assets</b>		<b>15,564</b>	<b>14,980</b>
CURRENT ASSETS			
<i>Inventories</i>			
Merchandise	25	4,132	3,888
<b>Total inventories</b>		<b>4,132</b>	<b>3,888</b>
<i>Current receivables</i>			
Trade receivables	26	3,720	3,491
Derivative instruments	32	14	0
Other receivables		26	43
Prepayments and accrued income	27	1,281	1,178
<b>Total current receivables</b>		<b>5,042</b>	<b>4,712</b>
<i>Cash and cash equivalents</i>	32	1,248	1,295
<b>Total current assets</b>		<b>10,422</b>	<b>9,894</b>
<b>TOTAL ASSETS</b>		<b>25,986</b>	<b>24,874</b>

## Consolidated balance sheet, cont'd

MSEK	Note	2018	2017
<b>EQUITY AND LIABILITIES</b>			
EQUITY			
	28		
Share capital		123	123
Other paid-in capital		7,781	7,739
Reserves		37	-77
Retained earnings, including profit for the year		2,035	1,218
<b>Total equity</b>		<b>9,976</b>	<b>9,004</b>
NON-CURRENT LIABILITIES			
Liabilities to credit institutions	32	6,356	7,920
Provisions for pensions	29	51	53
Other non-current provisions	30	14	3
Deferred tax liabilities	23	1,515	1,494
Derivative instruments	32	24	14
Other non-current liabilities		21	29
<b>Total non-current liabilities</b>		<b>7,982</b>	<b>9,512</b>
CURRENT LIABILITIES			
Liabilities to credit institutions	32	1,526	51
Advances from customers		4	8
Trade payables		5,298	5,218
Current tax liabilities		148	148
Derivative instruments	32	58	0
Other current provisions	30	53	10
Other non-interest-bearing current liabilities		324	341
Accruals and deferred income	31	618	582
<b>Total current liabilities</b>		<b>8,028</b>	<b>6,358</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>25,986</b>	<b>24,874</b>

Information about the Group's pledged assets and contingent liabilities can be found in note 33.

# Consolidated statement of changes in equity

MSEK	Note	Share capital	Other paid-in capital	Reserves	Retained earnings, incl. net profit	Total equity
<b>Opening balance, 1 January 2017</b>		<b>123</b>	<b>7,702</b>	<b>-49</b>	<b>313</b>	<b>8,089</b>
Comprehensive income for the year						
Profit/loss for the year		-	-	-	1,428	1,428
Other comprehensive income for the year	28	-	-	-28	-1	-29
<b>Comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-28</b>	<b>1,427</b>	<b>1,399</b>
Long-term share-savings programme						
Dividend		-	37	-	-	37
Repurchase of own shares	28	-	-	-	-153	-153
Repurchase of own shares	28	-	-	-	-369	-369
<b>Total shareholder transactions</b>		<b>-</b>	<b>37</b>	<b>-</b>	<b>-522</b>	<b>-485</b>
<b>Closing balance, 31 December 2017</b>		<b>123</b>	<b>7,739</b>	<b>-77</b>	<b>1,218</b>	<b>9,004</b>
<b>Opening balance, 1 January 2018</b>		<b>123</b>	<b>7,739</b>	<b>-77</b>	<b>1,218</b>	<b>9,004</b>
Comprehensive income for the year						
Profit/loss for the year		-	-	-	1,582	1,582
Other comprehensive income for the year	28	-	-	114	0	114
<b>Comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>114</b>	<b>1,582</b>	<b>1,696</b>
Long-term share-savings programme						
Dividend		-	41	-	-	41
Equity swap for securing long-term share-savings programme		-	-	-	-708	-708
Equity swap for securing long-term share-savings programme		-	-	-	-57	-57
Issued call options	28	-	-	-	1	1
<b>Total shareholder transactions</b>		<b>-</b>	<b>41</b>	<b>-</b>	<b>-765</b>	<b>-724</b>
<b>Closing balance, 31 December 2018</b>		<b>123</b>	<b>7,781</b>	<b>37</b>	<b>2,035</b>	<b>9,976</b>

See also note 28 Equity.

# Parent Company income statement

MSEK	Note	2018	2017
Net sales		70	453
<b>Gross profit</b>		<b>70</b>	<b>453</b>
Administration expenses		-131	-133
<b>Operating profit/loss</b>		<b>-61</b>	<b>320</b>
PROFIT FROM FINANCIAL ITEMS			
Interest and similar income	9	13	592
Interest and similar expense	10	-217	-1,982
<b>Profit/loss after financial items</b>		<b>-266</b>	<b>-1,070</b>
Appropriations		265	-170
<b>Profit/loss before tax</b>		<b>0</b>	<b>-1,240</b>
Tax on profit/loss for the year	11	-1	-112
<b>Profit/loss for the year</b>		<b>-1</b>	<b>-1,353</b>

# Parent Company statement of income and other comprehensive income

MSEK	Note	2018	2017
<b>Profit/loss for the year</b>		<b>-1</b>	<b>-1,353</b>
<b>Items that will be reclassified to profit or loss</b>			
Translation differences for the year		-1	-
Change in hedging reserve for the year		-10	-10
Tax attributable to items that will be reclassified to profit or loss		3	2
<b>Other comprehensive income for the year</b>		<b>-9</b>	<b>-8</b>
<b>Comprehensive income for the year</b>		<b>-10</b>	<b>-1,361</b>
Comprehensive income for the year attributable to owners of the parent company		-10	-1,361

See also note 28 Equity.

# Parent Company cash flow statement

MSEK	Note	2018	2017
<b>OPERATING ACTIVITIES</b>			
Profit after financial items		-266	-1,070
Adjustment for non-cash items	35	101	1,832
		<b>-164</b>	<b>762</b>
Tax paid		-1	-77
<b>Cash flow from operating activities before changes in working capital</b>		<b>-165</b>	<b>684</b>
<b>CASH FLOW FROM CHANGES IN WORKING CAPITAL</b>			
Change in operating receivables		-10	2
Change in operating liabilities		-7	17
<b>Cash flow from operating activities</b>		<b>-182</b>	<b>704</b>
<b>INVESTING ACTIVITIES</b>			
Changes interest-bearing liabilities		1,079	999
<b>Cash flow from investing activities</b>		<b>1,079</b>	<b>999</b>
<b>FINANCING ACTIVITIES</b>			
Shareholder contributions paid		-	-479
Repurchase of shares		-	-369
Dividend paid		-708	-153
Issued call options		1	-
Proceeds from borrowings		1,625	999
Repayment of borrowings		-1,815	-1,700
<b>Cash flow from financing activities</b>		<b>-897</b>	<b>-1,701</b>
<b>Cash flow for the year</b>		<b>0</b>	<b>2</b>
Cash and cash equivalents at beginning of year		2	0
<b>Cash and cash equivalents at end of year</b>		<b>2</b>	<b>2</b>

## Reconciliation of liabilities in financing activities

MSEK	31/12/2017	Cash flow		Non-cash effect		31/12/2018
		Borrowings/ repayment	Revaluation	Amortisation of capitalised bank charges		
Borrowing	7,717	-149	30	-		7,598
Capitalised bank charges	-75	-3	-	23		-55
	<b>7,641</b>	<b>-153</b>	<b>30</b>	<b>23</b>		<b>7,542</b>

MSEK	31/12/2016	Cash flow		Non-cash effect		31/12/2017
		Borrowings/ repayment	Revaluation	Amortisation of capitalised bank charges		
Borrowing	8,422	-700	-5	-		7,717
Capitalised bank charges	-96	-1	-	22		-75
	<b>8,326</b>	<b>-701</b>	<b>-5</b>	<b>22</b>		<b>7,641</b>

# Parent Company balance sheet

MSEK	Note	2018	2017
<b>ASSETS</b>			
NON-CURRENT ASSETS			
<i>Intangible assets</i>			
Capitalised expenditure		1	2
<b>Total intangible assets</b>		<b>1</b>	<b>2</b>
<i>Property, plant and equipment</i>			
Equipment, tools and fixtures & fittings		0	0
<b>Total property, plant and equipment</b>		<b>0</b>	<b>0</b>
<i>Financial assets</i>			
Shares in subsidiaries	21	13,795	1,658
Receivables from Group companies	22	474	11,791
Financial investments		1	1
<b>Total financial assets</b>		<b>14,270</b>	<b>13,449</b>
Deferred tax asset		5	3
<b>Total non-current assets</b>		<b>14,277</b>	<b>13,455</b>
CURRENT ASSETS			
<i>Current receivables</i>			
Receivables from Group companies		267	–
Other receivables		14	4
Prepayments and accrued income		1	2
<b>Total current receivables</b>		<b>282</b>	<b>6</b>
<i>Cash and bank balances</i>			
		2	2
<b>Total current assets</b>		<b>284</b>	<b>7</b>
<b>TOTAL ASSETS</b>		<b>14,561</b>	<b>13,462</b>

## Parent Company balance sheet, cont'd

MSEK	Note	2018	2017
<b>EQUITY AND LIABILITIES</b>			
EQUITY			
<i>Restricted equity</i>			
Share capital (436,302,187 shares)		123	123
<i>Unrestricted equity</i>			
Share premium reserve		7,837	7,837
Retained earnings		-4,020	-1,277
Profit/loss for the year		-1	-1,353
<b>Total equity</b>		<b>3,939</b>	<b>5,330</b>
<b>Untaxed reserves</b>		<b>357</b>	<b>282</b>
NON-CURRENT LIABILITIES			
Liabilities to credit institutions	32	6,068	7,641
Liabilities to Group companies		2,538	-
Derivative instruments	32	24	14
<b>Total non-current liabilities</b>		<b>8,631</b>	<b>7,655</b>
CURRENT LIABILITIES			
Liabilities to credit institutions	32	1,474	-
Trade payables		2	7
Current tax liabilities		25	109
Derivative instruments	32	58	0
Liabilities to Group companies		2	2
Other non-interest-bearing current liabilities		1	6
Prepayments and accrued income	31	73	71
<b>Total current liabilities</b>		<b>1,634</b>	<b>195</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,561</b>	<b>13,462</b>

# Parent Company statement of changes in equity

MSEK	Restricted equity	Unrestricted equity		Total equity
	Share capital	Share premium reserve	Retained earnings/net profit	
<b>Opening balance, 1 January 2017</b>	<b>123</b>	<b>7,837</b>	<b>-785</b>	<b>7,175</b>
Profit/loss for the year	-	-	-1,353	-1,353
Other comprehensive income for the year	-	-	-8	-8
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-1,361</b>	<b>-1,361</b>
Long-term share-savings programme	-	-	37	37
Dividend	-	-	-153	-153
Repurchase of own shares	-	-	-369	-369
<b>Total shareholder transactions</b>	<b>-</b>	<b>-</b>	<b>-484</b>	<b>-484</b>
<b>Closing balance, 31 December 2017</b>	<b>123</b>	<b>7,837</b>	<b>-2,630</b>	<b>5,330</b>
<b>Opening balance, 1 January 2018</b>	<b>123</b>	<b>7,837</b>	<b>-2,630</b>	<b>5,330</b>
Profit/loss for the year	-	-	-1	-1
Other comprehensive income for the year	-	-	-9	-9
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-10</b>	<b>-10</b>
Long-term share-savings programme	-	-	41	41
Merger result	-	-	-657	-657
Dividend	-	-	-708	-708
Equity swap for securing long-term share-savings programme	-	-	-57	-57
Issued call options	-	-	1	1
<b>Total shareholder transactions</b>	<b>-</b>	<b>-</b>	<b>-1,381</b>	<b>-1,381</b>
<b>Closing balance, 31 December 2018</b>	<b>123</b>	<b>7,837</b>	<b>-4,021</b>	<b>3,939</b>

# Notes

## NOTE 1 General information and accounting policies

### GENERAL INFORMATION

AhlSELL AB (publ) (Parent Company) and subsidiaries (together referred to as the Group) are the Nordic region's leading distributor of installation products, tools and supplies for installers, construction companies, facility managers, industrial and power companies and the public sector. AhlSELL's offering covers over a million products and solutions. The Group offers professional users an extensive range of products and related services in the areas of HVAC & Plumbing, Electrical and Tools & Supplies.

The Parent Company is a limited liability company registered in Stockholm. The address of the head office is Rosterigränd 12, Stockholm.

The annual accounts and the consolidated financial statements were approved and authorised for issue by the Board and CEO on 14 March 2019. The consolidated and Parent Company income statements and balance sheets will be presented for adoption at the Annual General Meeting.

The figures that are reported have been rounded in some cases, which means that tables and calculations do not always add up exactly.

### STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparing these annual accounts and consolidated financial statements are set out below.

### BASIS OF PREPARATION

The consolidated financial statements for the AhlSELL AB (publ) Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups has been applied. Assets and liabilities are measured at historical cost or amortised cost. Available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss are measured at fair value. Accounting policies applied by the Parent Company are shown below.

Preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas that involve a significant degree of estimation, that are complex, or are areas where assumptions and estimates are of considerable importance to the consolidated financial statements are set out in note 40.

Non-current assets and liabilities are essentially amounts that are expected to be recovered or paid more than twelve months after the reporting date. Current assets and liabilities are essentially amounts that are expected to be recovered or paid within twelve months of the reporting date.

### INFORMATION ABOUT IFRS STANDARDS OR INTERPRETATIONS THAT CAME INTO EFFECT IN 2018.

The Group applies IFRS 15 and IFRS 9 with effect from 1 January 2018. Other IFRS amendments effective for annual periods beginning on or after 1 January 2018 have not had any effect on the Group's financial statements.

### IFRS 9 Financial instruments

IFRS 9 establishes principles for recognition and measurement of financial assets, financial liabilities and certain contracts regarding the purchase and sale of non-financial instruments. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

#### Classification of financial assets and liabilities

##### Financial assets

IFRS 9 contains three principal classification categories for financial assets: 'at amortised cost', 'at fair value through other comprehensive income' and 'at fair value through profit or loss'. Classification of financial

assets under IFRS 9 is generally based on the entity's business model for managing financial assets and the financial assets' contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of investments held to maturity, loan and receivables, and available-for-sale financial assets. The new financial asset categories introduced under IFRS 9 have not had any significant impact on accounting for trade receivables, loan receivables, investments in securities and shares managed on the basis of fair value.

### Financial liabilities

IFRS 9 generally retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities.

The introduction of IFRS 9 has not had a material effect on the Group's accounting policies for financial liabilities and derivative instruments.

### Impairment of financial assets and contract assets

IFRS 9 replaces the "incurred loss model" with an "expected credit loss model". The new impairment model is applied to financial assets measured at amortized cost or at fair value through other comprehensive income apart from investments in equity instruments (shares and participations) and contract assets.

Under IFRS 9, expected credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that are possible within 12 months after the reporting date);
- or full lifetime expected credit losses (expected credit losses that result from all possible events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is recognised for a financial instrument if the credit risk of that instrument has increased significantly since initial recognition. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses. However, a loss allowance for full lifetime expected credit losses is always recognised for trade receivables and contract assets that do not constitute a financing transaction. The Group has also chosen to apply this model for trade receivables and contract assets with a significant financing component. Based on the loss allowance method under IFRS 9, the Group has not had to recognise any further impairment losses.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a single standard for determining the amount and timing of revenue recognition. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

### Sale of goods

Under previous rules, revenue from the sale of goods is recognised when delivery has occurred, which is the point in time when the customer accepts the goods, and the risks and rewards pass to the customer. Revenue is recognised at this time, provided income and expenses can be measured reliably, it is likely that the economic benefits associated with the transaction will flow to the Company and there is no continuing involvement with the goods.

Under IFRS 15, revenue is recognised when the customer obtains control of the goods, which is considered to be the point in time when the risk is transferred. The introduction of IFRS 15 has therefore not had a significant effect on the Group's accounting policies as, even before the introduction of IFRS 15, revenue was already recognised at the same time as the risk is transferred to the buyer.

### INFORMATION ABOUT IFRS STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE

The Group applies IFRS 16 Leases from 1 January 2019.

### IFRS 16 Leases

The Group will apply IFRS 16 Leases from 1 January 2019. IFRS 16 provides a single lessee accounting model for lessees. A lessee recognises a right-of-use asset, which represents the right to use the underlying asset, and a lease liability, which represents an obligation to make lease payments. There are exceptions for short-term leases and leases with low-value assets. Reporting for lessors is similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 Leases supersedes existing IFRSs related to accounting for leases, such as IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

### Leases where the Group is lessee

The Group will report new assets and lease liabilities for leases related to warehouses and factory facilities. The costs for these leases will change, as the Group will apply depreciation for right-of-use assets and recognise interest expenses for lease liabilities.

The Group previously recognised operating lease costs on a straight-line basis over the lease term and recognised assets (prepaid lease payments) and liabilities (accrued lease liabilities) only to the extent that there was a difference between actual lease payments and the reported cost. In addition, the Group will no longer report provisions for operating leases that are considered to be loss contracts. Instead, the Group will include payments under the lease contract in the lease liability. No significant effect is expected for the Group's finance leases.

Based on the available information, the Group calculates that it will report additional lease liabilities of SEK 2.4 billion and right-of-use assets of approximately SEK 2.5 billion (after adjustment for prepaid lease payments at 31 December 2018) on transition to IFRS 16.

### Transition and practical expedients

The Group plans to apply the modified retrospective approach. Right-of-use assets attributable to previous operating leases will mainly be reported at depreciated value from commencement of the lease and to a lesser extent at the value of the liability at 1 January 2019, plus advance payments reported in the balance sheet at 31 December 2018.

The Group plans to apply the practical expedient that allows the previous definition of what constitutes a lease to be "inherited" on transition. This means that it will apply IFRS 16 to all contracts that commenced before 1 January 2019 and were identified as leases under IAS 17 and IFRIC 4.

Low-value leases (assets with a value, in new condition, of about SEK 50,000, mainly printers/copiers and coffee machines) will not be included in the lease liability but will continue to be recognised as an expense on a straight-line basis over the lease term. Short-term leases, i.e. leases with a maximum term of 12 months, are not considered to be significant in the Group.

No other published amendments to accounting standards for application in the future are expected to have any significant effect on the Group's financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

### (a) Subsidiaries

Subsidiaries are companies over which AhlSELL AB (publ) has control. Control exists when AhlSELL AB (publ) has power over the investee, has exposure or rights to variable returns from its involvement and has the ability to affect those returns through its power over the investee. When assessing whether control exists, consideration is given to potential voting shares and whether de facto control exists.

Subsidiaries are accounted for by applying the acquisition method. The method means that acquisition of a subsidiary is treated as a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis determines the acquisition-date fair value of the identifiable assets acquired and liabilities assumed and any non-controlling interest. Transaction costs, apart from transaction costs attributable to the issue of equity or debt instruments, are recognised directly in the income statement as administration expenses.

For business combinations where the sum of the fair value of the consideration transferred, any non-controlling interest and fair value of any previously held equity (in a step acquisition) exceeds the fair value of

identifiable acquired assets and assumed liabilities that are recognised separately, the difference is recognised as goodwill. If the difference is negative, it is recognised directly in profit or loss.

The consideration transferred in connection with the business combination does not include payments for the settlement of pre-existing relationships. Such settlement amounts are recognised in the income statement.

Any contingent consideration is recognised at the acquisition-date fair value. If the contingent consideration is classified as an equity instrument, the original amount is not remeasured and settlement is recognised in equity. Otherwise, contingent consideration is remeasured at each reporting date, with any changes recognised in profit or loss.

### (b) Non-controlling interests

Non-controlling interests (NCI) arise in cases where the acquisition does not include 100% of the subsidiary. There are two options for recognising non-controlling interests: to measure the NCI either at its proportionate share of net assets or to measure the NCI at fair value, which means that the NCI has a share of goodwill. The accounting policy choices for NCI measurement are available on a transaction by transaction basis.

For step acquisitions, goodwill is measured on the date that control is obtained. Any previously held interest is measured at fair value, with changes recognised in profit or loss.

For divestments that result in a loss of control, but a continuing interest, the remaining interest is remeasured at fair value, with any change recognised in profit or loss.

### (c) Transactions eliminated on consolidation

Intra-Group transactions and balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction indicates evidence of impairment of the transferred asset. The subsidiaries' accounting policies have been changed where necessary to ensure consistency with Group policies.

## SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. An operating segment's performance is monitored by the Company's chief operating decision maker in order to assess its performance and allocate resources to it. The chief operating decision maker is the President and CEO. The AhlSELL AB (publ) Group's operating segments are primarily determined by geographic areas, which comprise individual countries and groups of comparable countries. See note 2 for further information about classification and presentation of operating segments.

## FOREIGN CURRENCY TRANSLATION

### (a) Functional and presentation currencies

Items in the individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in SEK (Swedish kronor), which is the Parent Company's functional and presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency monetary assets and liabilities using the closing rate are recognised in profit or loss. The exception is when transactions relate to qualifying cash flow hedges and qualifying net investment hedges, in which case gains or losses are recognised in other comprehensive income.

**(c) Group companies**

The results and financial position of all Group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the Group's presentation currency as follows:

- a) assets and liabilities of each foreign operation are translated at the closing rate;
- b) income and expenses of each foreign operation are translated at the average exchange rate, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- c) all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of net investments in foreign operations and borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold, either fully or in part, the associated exchange differences in other comprehensive income are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities in the operation's functional currency.

**INTANGIBLE ASSETS****(a) Goodwill**

The difference between the cost of acquisition and the fair value of the acquired identifiable assets at the date of the transaction is recognised as goodwill. Goodwill arising from the acquisition of subsidiaries is reported as an intangible asset. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment. Any gain or loss on the disposal of an entity includes the remaining carrying amount of the goodwill relating to the entity.

If negative goodwill arises (the acquisition cost falls below the net value of assets acquired and liabilities/contingent liabilities assumed), the whole amount is immediately reported in the income statement under Other operating income.

Goodwill is allocated to cash-generating units for impairment testing.

**(b) Customer relationships, licences, leases and similar rights**

Customer relationships and other intangible assets (mainly licences, software and leases) have a finite useful life and are recognised at cost less accumulated amortisation. The straight-line method of amortisation is used to allocate the expense over their expected useful lives of 3-20 years.

**(c) Trademarks**

The useful life is considered indefinite as this is a well-established trademark that the Group intends to retain and develop. Trademarks are tested for impairment annually and are carried at cost less accumulated impairment losses.

**(d) Capitalised development expenses**

Capitalised development expenses are reported as intangible assets in the balance sheet if they are directly associated with the development of identifiable products controlled by the Group, have probable economic benefits for more than one year and exceed the expenses.

Capitalised development expenses have a finite useful life and are recognised at cost less accumulated amortisation. Amortisation is applied on a straight-line basis to distribute the costs of capitalised development expenses over the estimated useful life of 3-7 years.

Research expenses are recognised as they arise.

In the case of acquisitions, assets are transferred at gross value for administrative reasons. However, an estimate of value and useful life is made.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost less depreciation and impairment losses. The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale are included in the cost of acquisition.

Assets can consist of different components and each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. In order for subsequent costs to be included in cost, the expenditure must relate to the replacement of identified components or parts thereof. If this is the case, these costs are capitalised. The residual value of a replaced component or part thereof is disposed of and recognised as an expense at the time of replacement. Repairs are recognised as an expense as incurred.

Land is not depreciated. Other assets are depreciated, in order to reduce their historical cost or written-down value to the estimated residual value, on a straight-line basis over their estimated useful lives as follows:

- Buildings	20-50 years
- Machinery	3-10 years
- Equipment, fixtures & fittings	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount, calculated in accordance with IAS 36.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the income statement under Other operating income or Other operating expenses.

In the case of acquisitions, assets are transferred at gross value for administrative reasons. However, an estimate of value and useful life is made.

**IMPAIRMENT**

Items of property, plant and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is measured. The recoverable amount is calculated annually for goodwill, other intangible assets with indefinite useful lives and intangible assets not yet ready for use. If an asset does not generate independent cash inflows and its fair value less costs to sell cannot be used, it is tested for impairment as part of the cash-generating unit to which it belongs, i.e. the smallest identifiable group of assets which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is recognised when the recoverable amount of an asset or a cash-generating unit is less than its carrying amount. An impairment loss is recognised as an expense in the income statement. Impairment losses recognised for a cash-generating unit (group of units) are initially allocated to goodwill. They are then proportionately allocated to the other assets of the unit (group of units). The recoverable amount is the higher of fair value less costs to sell and value in use. In measuring value in use, future cash flows are discounted using a discount rate that reflects the risk-free rate of interest and the risks specific to the asset.

Impairment of assets accounted for under IAS 36 is reversed if there is an indication that the impairment no longer exists and there has been a change in the assumptions on which the calculation of recoverable amount was based. However, goodwill impairment is never reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation where applicable, had no impairment loss been recognised.

**FINANCIAL INSTRUMENTS****Financial assets**

The Group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost. Prior to the end of 2017, financial assets were classified as financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables. With effect from 2018, all financial assets are classified in categories that correspond to those that applied in 2017, which means that no changes in the basis of measurement have arisen. Management determines the classification of the instrument on initial recognition. The Group has financial instruments in the following categories:

**(a) Financial assets at fair value through profit or loss**

Financial assets measured at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly to be sold in the short term. Derivatives are always classified as held for trading, to the extent that they are not instruments that are hedged.

**(b) Financial assets at amortised cost**

Financial assets at amortised cost consist of holdings of receivables and other debt instruments which under the Group's business model are held for collection of contractual cash flows that are solely payments of principal and interest. This category includes cash and cash equivalents, and trade and other receivables. They are reported under current assets unless the settlement date is more than 12 months after the reporting date, in which case they are classified as non-current assets. Trade and other receivables were previously classified as loans and receivables.

**(c) Financial assets at fair value through other comprehensive income**

The category for financial assets at fair value through OCI includes holdings of equity instruments for which this category was chosen at initial recognition and holdings of debt instruments fulfilling the same cash flow requirement as financial assets at amortised cost but having a business model that means they are also realised through disposal. They are reported under non-current assets if management does not intend to dispose of them within 12 months of the reporting date.

Purchases and sales of financial assets are recognised on the trade date, i.e. the date on which the Group commits itself to purchase or sell the asset. Trade receivables and issued debt instruments are recognised when issued. On initial recognition, financial instruments are measured at fair value plus transaction costs. This applies to all financial assets not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are initially recognised at fair value, while related transaction costs are recognised in profit or loss. Trade receivables without a significant financing component are measured at the transaction price. Financial assets are derecognised when the right to receive cash flows from the instrument has expired or been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

Gains or losses arising from fair value changes in the category financial assets at fair value through profit or loss are recognised under Finance income or Finance costs in the period in which they occur. Dividend income from securities in the category financial assets at fair value through profit or loss is recognised under Finance income when the Group's right to receive payment is established.

Amortised cost is calculated using the effective interest method. Trade receivables and other current receivables for which discounting does not have a significant effect are recognised without discounting.

When holdings in equity instruments classified as at fair value through OCI are sold, there is no reclassification to the income statement; instead, cumulative fair value changes are transferred from a fair value reserve within equity directly to retained earnings. Dividends on these instruments are recognised under Finance income in the income statement when the Group's right to receive payment is established. Interest on holdings of debt instruments in the category at fair value through OCI, measured using the effective interest rate method, is recognised under Finance income in the income statement.

If the market for a financial instrument is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques including the use of information about recent arm's length transactions, reference to fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. This makes as much use of market information and as little use of company-specific information as possible.

Expected credit losses are calculated for financial assets at amortised cost and holdings of debt instruments at fair value through OCI. Impairment of trade receivables is described below.

**Financial liabilities**

Borrowings are initially recognised at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS**

A financial asset or liability is recognised in the balance sheet when the company becomes a party to the instrument's contractual terms. Trade receivables are recognised in the balance sheet when an invoice has been sent. A liability is recognised when the counterparty has performed and there is a contractual obligation to pay, even if an invoice has not yet been received. Trade payables are recognised on receipt of the invoice.

A financial asset is derecognised when the rights to receive benefits have been realised, expired or the Company loses control over them. The same applies to a component of a financial asset. Financial liabilities are derecognised in the balance sheet when the contractual obligation has been discharged or extinguished in some other way. The same applies to a component of a financial liability.

A financial asset and a financial liability may be offset and the net amount recognised in the balance sheet only when the company has a legally enforceable right to set off the recognised amounts; and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Derivative instruments and hedging activities**

Derivative instruments are recognised in the balance sheet on the contract date and are measured at fair value both initially and in connection with subsequent revaluations. The method of recognising resulting gains or losses depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, on the nature of the item being hedged. The Group identifies certain derivatives as either: (i) hedges of fair value of a recognised liability (fair value hedge); (ii) hedges of a cash flow risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge); or (iii) hedges of a net investment in foreign operations (hedge of net investment).

Information about fair value for different derivative instruments used for hedging purposes is given in Note 32. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months. This applies regardless of whether or not hedge accounting is used. Derivatives held for trading are always classified as current assets or liabilities.

**Cash flow hedges**

The effective portion of the changes in the fair value of a derivative that is designated as a cash flow hedge and which qualifies for cash flow hedge accounting is recognised in Other comprehensive income. Any gains or losses attributable to the ineffective portion are recognised directly in the income statement under finance income or finance costs.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. Any gains or losses attributable to the effective portion of an interest rate swap that hedges variable interest rate borrowings are recognised in the income statement as finance costs. Any gains or losses attributable to the ineffective portion are reported under finance income or finance costs.

When a hedging instrument expires or is sold or no longer qualifies for hedge accounting and any cumulative gain or loss on the hedging instrument is recognised in equity, the gain/loss is retained in equity until the forecast transaction occurs and is finally recognised in the income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred directly to the income statement as finance income or expense.

**Derivatives at fair value through profit or loss**

Changes in the fair value of derivative instruments that do not use hedge accounting are recognised directly in the income statement as finance income or expense.

**Hedging of net investments in foreign operations**

The Group has operations in several countries. In the consolidated balance sheet, investments in foreign operations are recognised as net assets in subsidiaries. Some measures have been taken to reduce the currency risks associated with these investments. This was done through borrowings in the same currency as the net investments. These loans are translated at the closing rate at the reporting date. The effective part of the period's exchange rate fluctuations from hedging instruments is reported in Other comprehensive income to meet and fully or partially match the translation differences that are reported for the net assets in the foreign operations which are currency-hedged. The cumulative changes are recognised in a separate component of equity (translation reserve). Translation differences from net investments and hedging instruments are reversed and reported in the income statement when a foreign operation is sold. When hedging is ineffective, the ineffective portion is recognised directly in profit or loss.

**Equity swaps**

The Group has entered into equity swaps in order to hedge the payment it needs to make for future delivery of shares under the share savings programme. The swaps are settled net in cash, which means that if, on settlement, AhlSELL's share price is higher than the share price in the equity swap agreement, i.e. the share price at the inception of the agreement, the counterparty pays the difference to AhlSELL. If the share price is lower, AhlSELL pays the difference to the counterparty. During the agreement period, AhlSELL pays interest on the swap amount and receives any dividend paid on the number of shares specified in the agreement. At inception, the agreement has no value and no payment is made. In subsequent accounts, it is recognised at fair value through profit or loss. The agreement is considered to relate to decisions on the financing of future payments, and affects future payment flows associated with acquisition of shares, which does not come under accounting for equity-settled share-based payments, and the changes in value are therefore reported under net financial items.

**INVENTORIES**

Inventories are measured at the lower of cost and net realisable value. Cost is determined on the basis of weighted average prices including take-home costs. Borrowing costs are not included. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**TRADE RECEIVABLES**

Trade receivables are initially recognised at fair value and subsequently at the amounts expected to be paid, i.e. cost of acquisition less any provision for depreciation. Trade receivables are considered to be of short duration and are not discounted and are stated at their nominal value. Impairment of trade receivables is reported in operating expenses.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash, deposits held with banks and other short-term investments with maturities of three months or less from the date of purchase. Overdraft facilities are also available. Utilised overdraft facilities are reported in the balance sheet as borrowing under Current liabilities.

**EQUITY****Share capital**

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares are recognised, net of tax, in equity as a deduction from the proceeds of the issue.

**TRADE PAYABLES**

Trade payables are initially recognised at fair value. Trade payables are considered to be of short duration and are not discounted and are stated at their nominal value.

**INCOME TAX**

Income tax consists of current tax and deferred tax. Income tax is recognised in the income statement except when the underlying transaction is recognised directly in Other comprehensive income, in which case the related tax effect is also recognised in Other comprehensive income. Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the current year, and is calculated using tax rates enacted or substantially enacted by the reporting date, and any adjustments relating to prior periods.

Deferred tax is recognised in full, using the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or announced by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets in deductible temporary differences and in loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**EMPLOYEE BENEFITS****(a) Pension obligations**

Group companies operate various pension plans. The plans are normally financed through payments to insurance companies or funds managed by asset managers in accordance with periodic actuarial calculations. The Group has both defined-benefit and defined-contribution pension plans.

The liability recognised in the balance sheet in respect to defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, including mortgage bonds, or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Revaluation of defined-benefit pension plans arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income, including payroll tax and related deferred tax.

Past-service costs are recognised immediately in the income statement.

When there is a difference between how pension costs are determined in legal entities and the Group, a provision or receivable for payroll taxes is recognised based on this difference. The present value of the provision or receivable is not determined.

The pension obligations for some white-collar employees are secured by an insurance policy provided by Alecta. In accordance with Statement UFR 10 issued by the Swedish Financial Reporting Board, this is a multi-employer defined benefit pension plan. For the 2018 financial year, the company did not have access to sufficient information to enable it to report this plan as a defined benefit plan. The pension obligation is therefore recognised as a defined contribution plan. The same conditions apply to the AFP plan in Norway, which is thus also recognised as a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no additional payment obligations once the contributions have been paid. The contributions are recognised as staff costs in the period that the services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments will flow to the Group.

**(b) Termination benefits**

Employees receive termination benefits before normal retirement age or when they voluntarily accept termination in exchange for such benefits. The Company recognises termination benefits when it is demonstrably committed to terminating the employment of employees before the normal retirement date or providing termination benefits as a result of an offer made to encourage voluntary layoff. The Company is demonstrably committed to a termination when it has a detailed formal plan for the termination. When compensation is offered as an incentive for voluntary resignation, a cost is recognised if it is probable that the offer will be accepted and it is possible to reliably estimate the number of employees that will accept the offer. Termination benefits that fall due more than 12 months after the reporting date are discounted at present value.

**(c) Profit share and bonus plans**

The Group reports a liability and a cost for bonuses and profit share plans, based on a formula that takes into account the gains that are related to the Parent Company's shareholders after certain adjustments. A provision is reported for the expected cost of the profit-share and bonus payments when the Group has a present obligation (legal or constructive) to make such payments for services received from employees and the obligations can be reliably estimated.

**(d) Share-savings programme**

The Group has two share-savings programmes that allow participants who invest in savings shares to receive AhlSELL shares under certain conditions. The programme is an equity-settled programme, which means that it will be settled in shares. The amount is recognised as a personnel cost, distributed over the vesting period, with a corresponding amount recognised directly in equity. The cost is based on fair value per share right at the start of the programme.

The holding of shares is conditional on continued employment during the vesting period, continued holding of purchased savings shares and the degree of fulfilment of three different performance conditions. Each of the performance conditions applies to one-third of the programme and consists of specified levels of sales growth, EBITA margin and total shareholder return (TSR). The two previous conditions are performance conditions that are not market conditions. They do not affect the initial valuation of the shares. At each reporting date, an assessment is made of the number of share rights expected to be earned taking into account these conditions, which affects the reported cost for the period. The TSR condition constitutes a market condition, which is included in the initial valuation of the relevant share rights. During the vesting period, no assessment or adjustment of the reported cost of the expected or confirmed outcome for this condition is made; the total number of share rights that are conditional on the TSR form the basis for the reported cost, regardless of the outcome.

Social security contributions will have to be paid on the benefits that the participants may earn. Personnel costs and liabilities are reported for social security contributions during the vesting period. The principles are the same as for accounting for the share-savings programme, with the difference that the fair value of the share rights on each reporting date is the basis for the reporting. When the programme has been settled, the accumulated reported cost is the amount that the Group will pay for social security contributions.

**PROVISIONS**

A provision is recognised in the balance sheet when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes with their associated probabilities.

Provisions for restructuring costs and legal claims are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is more probable than not that an outflow of resources will be required to settle the obligation, and when the amount has been measured with reliability. Provision for restructuring includes costs for termination of leasing agreements and severance pay. There are no provisions for future operating losses.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering

the class of obligations as a whole. A provision is recognised even if the probability of an outflow for a special item in this group of obligations is low.

Provisions are valued at the present value of the amount expected to be required to clear the existing commitment. In this case, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the provision. The increase in provisions resulting from the passage of time is recognised as interest expense.

**REVENUE RECOGNITION**

Revenue is valued on the basis of the compensation specified in the agreement with the customer. AhlSELL's main source of revenue is the sale of goods to professional customers through stores or wholesale.

**(a) Sale of goods**

Sales of goods are recognized as revenue when a Group company has supplied products to a customer and the significant risks and rewards associated with the product have been transferred to the customer and it is reasonable to assume that the equivalent charge will be paid. Invoice is drawn up at this time and is usually due to normal conditions in the industry. Net sales are reported net of VAT and discounts. When selling goods, normal guarantees and other terms and conditions are provided under normal conditions in the industry. Returns do not amount to any significant amounts.

The products are often sold with volume discounts. Volume discounts are assessed on the basis of expected annual volumes and are recognized as revenue in line with earnings and at the same time reduce net sales.

**(b) Interest income**

Interest income is recognised on a time proportion basis using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

**(c) Dividend income**

Dividend income is recognised when the right to receive payment is established.

**LEASES**

Leases, where the lessor substantially retains the risks and rewards of ownership, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

Leased non-current assets, where the Group has substantially all the financial risks and rewards of ownership, are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of fair value and the present value of the minimum lease payments.

Finance lease payments are apportioned between the repayment of the liability and the finance costs for the liability. Corresponding payment obligations, net of finance costs, are included in Other non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Non-current assets held under finance lease agreements are depreciated over the shorter of the useful life of the asset or lease period.

**BORROWING COSTS**

Borrowing costs that are attributable to the construction of qualifying assets are capitalised as part of the cost of the qualifying asset. A qualifying asset is an asset that necessarily takes a significant length of time to prepare for its intended use.

**DIVIDENDS**

Dividends to the Parent Company's shareholders are recognised as a liability in the Group's financial statements for the period in which the dividend was established at the general shareholders' meeting/annual general meeting by the Parent Company's shareholders.

Dividends expected to be paid by subsidiaries are reported when the Parent Company has the sole right to decide on the amount to be paid as dividends and the Parent Company has decided on the amount to be paid as dividends before publishing its financial statements.

## STATEMENT OF CASH FLOWS

The statement of cash flows has been prepared in accordance with IAS 7, using the indirect method. In addition to the statement of cash flows in accordance with IAS 7, an operating statement shows the cash flows from the operating activities, i.e. cash flows generated by the operations and investments made in existing activities. These cash flows therefore exclude financial transactions, such as interest paid and received, borrowings and repayments, payments attributable to investments in/disposal of operations and tax payments.

## EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to Parent Company shareholders by the weighted average number of shares outstanding. As the equity swaps used to hedge the share-savings programme are settled net in cash and recognised as a financial instrument at fair value through profit or loss, not as if shares were repurchased, no adjustment is made to the number of shares due to the agreement.

Diluted earnings per share is calculated by dividing profit for the year attributable to Parent Company shareholders by the number of basic shares adjusted to include dilutive potential ordinary shares. The rights under the share savings programme, which under certain conditions allow the programme participants to receive shares in the future, are potential ordinary shares. The share rights are considered dilutive to the extent that the share savings programme's conditions are fulfilled at the reporting date, regardless of the expected outcome during the remainder of the vesting period. In addition, the number of dilutive potential ordinary shares is reduced by the number of shares that could have been hypothetically purchased during the year by the amount that the participants "pay" the Group in the form of the value of future services under the programme, measured as residual costs to be reported in accordance with the principles described under Employee benefits, share savings programme.

## ACCOUNTING POLICIES – PARENT COMPANY

The Parent Company has prepared its Annual Report in conformity with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. In addition, the Swedish Financial Reporting Board's statements concerning public limited liability companies also apply. RFR 2 requires the Parent Company, as a legal entity, to prepare its annual financial statements in compliance with all the IFRS and IFRIC interpretations endorsed by the EU, to the extent possible within the framework of the Swedish Annual Accounts Act and the Swedish Act on Safeguarding of Pension Obligations, and taking into account the relationship between tax expense (income) and accounting profit. The recommendation also specifies exceptions from and additions to the IFRSs.

### Differences between the Group's and the Parent Company's accounting policies

Differences between the Group's and the Parent Company's accounting policies are described below.

#### Presentation

The Parent Company's income statement and balance sheet have been prepared in accordance with the format described in the Swedish Annual Accounts Act.

#### Subsidiaries

Investments in subsidiaries are recognised in the Parent Company using the cost method, including transactions costs, less any impairment.

#### Taxes

Untaxed reserves are recognised inclusive of deferred tax liability in the Parent Company, while in the consolidated financial statements, untaxed reserves are divided into deferred tax liability and equity.

#### Group contribution

Group contributions are recognised as appropriations. A Group contribution paid to a subsidiary is recognised as an expense and reduces the Parent Company's earnings for the period, while a Group contribution received is recognised as revenue and increases the Parent Company's earnings for the period.

## NOTE 2 Segment reporting

Ahsell manages its business on a geographic basis corresponding to the countries in which it has operations. The Ahsell Group uses the following segments: Sweden, Norway, Finland, Denmark, Other (Estonia, Russia, Poland) and Central and Eliminations. This is a natural grouping of segments as business is conducted locally and Ahsell's organisation is structured to provide the best support for local sales. Segment results are reported as EBITA and operating profit/loss. Finance income and finance costs are not broken down by segment. Consequently, the financial assets and liabilities are not broken down by segment. Goods and services are priced at market rates across the various segments. The Ahsell trademark has not been broken down by country but is reported as a central asset.

### SWEDEN

Ahsell's history began on 1 March 1877, when partners John Bernström and Jakob Tornblad registered John Bernström & Co to sell machinery, pumps, oil and agricultural equipment. The foundation of today's Group was laid in 1922 when Bernström & Co merged with R Ahsell & Co to form Ahsell and Bernström with a stronger focus on HVAC and plumbing. The company has been in business for 140 years and is the leading trading company in Sweden in the areas of installation products, tools and machinery. The operations in Sweden include the Group's product areas: HVAC & Plumbing, Electrical and Tools & Supplies. The Swedish market accounted for 65% (66) of the Group's external net sales in 2018. Sales in Sweden totalled MSEK 20,221 (18,272). At year-end, Ahsell had about 135 business units in Sweden.

### NORWAY

Ahsell established its operations in Norway in 1990 through acquisitions in the HVAC & Plumbing product area. The operations have since expanded through more acquisitions and today cover the products areas of HVAC & Plumbing, Electrical and Tools & Supplies. In 2018, Norwegian operations accounted for 20% (19) of the Group's external net sales. Sales in Norway amounted to MSEK 6,366 (5,356). At year-end, Ahsell had 57 business units in Norway.

### FINLAND

Ahsell established its operations in Finland in 1990 through acquisitions in the HVAC & Plumbing (cooling products) area. They expanded in 1999 through more acquisitions in the Heating & Plumbing segment. The Tools & Supplies product area was introduced in Finland in 2006 through the acquisition of Kojaltek. The Electrical product area was introduced in 2007 through the acquisition of Sähkötarvike Oy. The operations today cover HVAC & Plumbing, Tools & Supplies and Electrical. At year-end, Ahsell had 36 business units in the Finland segment. The Finnish market accounted for 12% (12) of the Group's external net sales. Sales in Finland totalled MSEK 3,734 (3,206).

### DENMARK

Ahsell has had a presence in Denmark since 1990 when the HVAC & Plumbing (refrigeration) operation was acquired. Since then, further acquisitions have been made in the HVAC & Plumbing area. The operations in Denmark currently comprise HVAC & Plumbing only. In 2018, the segment accounted for 1% (1) of the Group's external net sales. Sales in Denmark totalled MSEK 443 (405). At year-end, Ahsell had 4 business units in the Denmark segment.

### OTHER

Other comprises Estonia, Russia and Poland. The operations are primarily HVAC & Plumbing, but also Electrical and Tools & Supplies. In 2018, the segment accounted for 2% (2) of the Group's external net sales. Sales for the segment totalled MSEK 528 (465). At year-end, Ahsell had 12 business units in the segment.

### CENTRAL

Central comprises costs for personnel in Ahsell AB (30 employees) where the Group staff functions are located, and finance income, finance costs, and tax not distributed by segment.

### ELIMINATIONS

The eliminations comprise eliminations of internal sales and operational transactions.

2018	Sweden	Norway	Finland	Denmark	Other <sup>1</sup>	Central	Eliminations	Total
<b>Revenue</b>								
Revenue from external customers <sup>3</sup>	20,221	6,366	3,734	443	528	–	–	31,291
Revenue from internal customers	214	5	12	41	3	–	-274	–
<b>Total sales</b>	<b>20,435</b>	<b>6,370</b>	<b>3,746</b>	<b>484</b>	<b>530</b>	<b>–</b>	<b>-274</b>	<b>31,291</b>
<b>Gross profit</b>	<b>5,783</b>	<b>1,551</b>	<b>670</b>	<b>181</b>	<b>95</b>	<b>–</b>	<b>–</b>	<b>8,281</b>
EBITA <sup>2</sup>	2,356	127	127	59	13	-162	–	2,520
<i>EBITA adjusted for items affecting comparability<sup>4</sup></i>	2,386	164	127	59	13	-162	–	2,587
Operating profit	2,093	62	81	52	13	-163	–	2,138
Finance income	–	–	–	–	–	33	–	33
Finance costs	–	–	–	–	–	-217	–	-217
Income tax	–	–	–	–	–	-372	–	-372
<b>Profit for the year</b>								<b>1,582</b>
Other comprehensive income	–	–	–	–	–	–	–	114
<b>Comprehensive income for the year</b>								<b>1,696</b>

2017	Sweden	Norway	Finland	Denmark	Other <sup>1</sup>	Central	Eliminations	Total
<b>Revenue</b>								
Revenue from external customers <sup>3</sup>	18,087	5,349	3,201	382	465	–	–	27,484
Revenue from internal customers	185	7	6	23	–	–	-221	–
<b>Total sales</b>	<b>18,272</b>	<b>5,356</b>	<b>3,206</b>	<b>405</b>	<b>465</b>	<b>–</b>	<b>-221</b>	<b>27,484</b>
<b>Gross profit</b>	<b>5,220</b>	<b>1,368</b>	<b>601</b>	<b>150</b>	<b>84</b>	<b>–</b>	<b>–</b>	<b>7,423</b>
EBITA <sup>2</sup>	2,213	177	117	42	12	-169	–	2,394
<i>EBITA adjusted for items affecting comparability<sup>4</sup></i>	2,213	177	129	42	12	-169	–	2,405
Operating profit	1,962	128	74	36	12	-170	–	2,043
Finance income	–	–	–	–	–	47	–	47
Finance costs	–	–	–	–	–	-256	–	-256
Income tax	–	–	–	–	–	-406	–	-406
<b>Profit for the year</b>								<b>1,428</b>
Other comprehensive income	–	–	–	–	–	–	–	-29
<b>Comprehensive income for the year</b>								<b>1,399</b>

2018	Sweden	Norway	Finland	Denmark	Other <sup>1</sup>	Central	Eliminations	Total
<b>Other disclosures</b>								
Assets	13,444	3,967	2,786	414	323	3,771	-61	24,643
Unallocated assets	–	–	–	–	–	1,343	–	1,343
<b>Total assets</b>	<b>13,444</b>	<b>3,967</b>	<b>2,786</b>	<b>414</b>	<b>323</b>	<b>5,114</b>	<b>-61</b>	<b>25,986</b>
Liabilities	4,012	1,370	764	54	102	121	-61	6,363
Unallocated liabilities and equity	–	–	–	–	–	19,624	–	19,624
<b>Total liabilities and equity</b>	<b>4,012</b>	<b>1,370</b>	<b>764</b>	<b>54</b>	<b>102</b>	<b>19,744</b>	<b>-61</b>	<b>25,986</b>
Investments in property, plant and equipment and intangible assets	187	44	31	7	3	0	–	272
Depreciation and impairment	-393	-87	-87	-10	-5	-1	–	-584
Amortisation of intangible assets	-263	-65	-47	-6	0	-1	–	-382
Impairment of intangible assets	–	–	–	–	–	–	–	–
Depreciation of property, plant and equipment	-130	-22	-41	-4	-5	0	–	-202
Impairment of property, plant and equipment	–	–	–	–	–	–	–	–
Significant costs and revenue not corresponding to payments	-42	21	-30	-2	0	65	–	12

## NOTE 2 – cont'd

2017	Sweden	Norway	Finland	Denmark	Other <sup>1</sup>	Central	Eliminations	Total
<b>Other disclosures</b>								
Assets	13,074	3,437	2,629	379	314	3,774	-45	23,561
Unallocated assets	-	-	-	-	-	1,313	-	1,313
<b>Total assets</b>	<b>13,074</b>	<b>3,437</b>	<b>2,629</b>	<b>379</b>	<b>314</b>	<b>5,087</b>	<b>-45</b>	<b>24,874</b>
Liabilities	3,996	1,332	658	57	88	128	-45	6,214
Unallocated liabilities and equity	-	-	-	-	-	18,659	-	18,659
<b>Total liabilities and equity</b>	<b>3,996</b>	<b>1,332</b>	<b>658</b>	<b>57</b>	<b>88</b>	<b>18,788</b>	<b>-45</b>	<b>24,874</b>
Investments in property, plant and equipment and intangible assets	151	36	26	2	1	1	-	217
Depreciation and impairment	-356	-67	-81	-10	-4	-1	-	-519
Amortisation of intangible assets	-251	-50	-44	-6	0	-1	-	-351
Impairment of intangible assets	-	-	-	-	-	-	-	-
Depreciation of property, plant and equipment	-105	-18	-37	-4	-4	0	-	-168
Impairment of property, plant and equipment	-	-	-	-	-	-	-	-
Significant costs and revenue not corresponding to payments	-31	-9	-28	-1	0	113	-	44

**EXTERNAL SALES PER PRODUCT AREA**

2018	Sweden	Norway	Finland	Denmark	Other <sup>1</sup>	Central	Eliminations	Total
HVAC & Plumbing	7,595	3,081	2,581	443	450	-	-	14,149
Electrical	6,066	1,978	617	-	34	-	-	8,695
Tools & Supplies	6,561	1,307	536	-	44	-	-	8,447
<b>Total external sales</b>	<b>20,221</b>	<b>6,366</b>	<b>3,734</b>	<b>443</b>	<b>528</b>	<b>-</b>	<b>-</b>	<b>31,291</b>

2017	Sweden	Norway	Finland	Denmark	Other <sup>1</sup>	Central	Eliminations	Total
HVAC & Plumbing	6,686	2,996	2,168	382	396	-	-	12,627
Electrical	5,855	1,571	569	-	28	-	-	8,023
Tools & Supplies	5,547	782	464	-	41	-	-	6,834
<b>Total external sales</b>	<b>18,087</b>	<b>5,349</b>	<b>3,201</b>	<b>382</b>	<b>465</b>	<b>-</b>	<b>-</b>	<b>27,484</b>

AhlSELL's operations are based on our product areas being essentially supplied through jointly-controlled distribution and sales channels in each geographic area. This means that the assets used in each product area are the same, in all essentials, for all product groups in each geographic area (such as storage facilities and distribution equipment). It is therefore not possible to define the use of the assets and related investments in a meaningful way for each product area.

<sup>1</sup> Estonia, Russia and Poland

<sup>2</sup> EBITA = Operating profit/loss excluding amortisation and impairment of intangible assets

<sup>3</sup> No single customer accounts for more than 10% of the Group's total revenue

<sup>4</sup> See also note 37

**NOTE 3** Employees**AVERAGE NUMBER OF EMPLOYEES**

	2018		2017	
	Number	male	Number	male
<i>Parent Company</i>	30	63%	25	64%
<i>Group</i>				
Sweden	3,636	75%	3,152	78%
Norway	1,255	79%	1,044	83%
Finland	598	84%	576	82%
Denmark	90	73%	90	74%
Estonia	150	69%	134	85%
Russia	51	53%	55	51%
Poland	37	73%	43	81%
China	12	67%	12	67%
<b>Total, Group</b>	<b>5,829</b>	<b>77%</b>	<b>5,106</b>	<b>79%</b>

**GENDER DISTRIBUTION IN SENIOR MANAGEMENT AT YEAR-END****Gender distribution in Senior management**

	Female %	
	2018	2017
<i>Parent Company</i>		
Board	33%	33%
Other senior executives	40%	20%
<b>Total, Group</b>		
Boards	20%	19%
Other senior executives and CEO, 8 (8) individuals	25%	13%

**SALARIES, EMPLOYEE BENEFITS AND SOCIAL SECURITY CONTRIBUTIONS**

	2018		2017	
	Salaries and benefits	Social security contributions	Salaries and benefits	Social security contributions
<b>MSEK</b>				
<i>Parent Company</i>	45	30	48	25
<i>(of which pension costs)</i>	–	12	–	8
<i>Subsidiaries</i>	2,589	900	2,291	800
<i>(of which pension costs)</i>	–	241	–	209
<b>Total, Group</b>	<b>2,633</b>	<b>930</b>	<b>2,338</b>	<b>824</b>
<i>(of which pension costs)</i>	–	253	–	218
<i>(of which defined benefit plans)</i>		1		1
<i>(of which defined contribution plans)</i>		252		217

**SALARIES AND OTHER EMPLOYEE BENEFITS FOR BOARD/SENIOR EXECUTIVES AND OTHER EMPLOYEES**

	2018		2017	
	Board/senior executives	Other employees	Board/senior executives	Other employees
<b>MSEK</b>				
Total, Parent Company	23	22	27	20
<i>(of which bonus)</i>	2	–	6	1
Total, subsidiaries	11	2,577	10	2,279
<i>(of which bonus)</i>	1	19	3	24
<b>Total, Group</b>	<b>33</b>	<b>2,599</b>	<b>39</b>	<b>2,299</b>
<i>(of which bonus)</i>	3	19	9	24

**REMUNERATION OF SENIOR EXECUTIVES OF THE GROUP**

The Chairman and Board members receive fees in accordance with the decision of the Annual General Meeting. Employee representatives do not receive Board fees. Remuneration of the Group President (Johan Nilsson) and other senior executives consists of basic salary, variable remuneration, other benefits and pensions, etc. Other senior executives refers to the 7 (7) people who along with the Group President constitute the Group management and 6 Board members who are paid fees.

Basic salary and variable remuneration must be in proportion to the responsibility and authority of the executive concerned. The maximum variable remuneration of the CEO is 70% (70) of basic salary. The maximum variable remuneration of other senior executives is 25-60% (25-60) of basic salary. Variable remuneration is based on performance in relation to individual targets. Pensions and other benefits of the Group President and other senior executives are paid as part of the total remuneration package.

**Planning and decision process**

The, of the Board of Directors, appointed Remuneration Committee which prepares proposals regarding remuneration to the CEO to the Board of Directors for decision. At the proposal of the CEO, the Remuneration Committee decides on a framework for remuneration to other members of Group Management. The Board is informed of the Remuneration Committee's decision.

## NOTE 3 – cont'd

## REMUNERATION AND OTHER BENEFITS

2018	Basic salary/ Board fee	Variable remuneration	Other benefits	Pension cost	Total
Kenneth Bengtsson, Chairman, AhlSELL AB (publ)	1.1	–	–	–	1.1
Johan Nilsson, CEO of AhlSELL AB (publ), Group President	7.6	0.7	0.2	2.3	10.8
Peter Törnquist, Vice Chairman, AhlSELL AB (publ)	0.8	–	–	–	0.8
Terje Venold, Board member, AhlSELL AB (publ)	0.4	–	–	–	0.4
Magdalena Gerger, Board member, AhlSELL AB (publ)	0.5	–	–	–	0.5
Satu Huber, Board member, AhlSELL AB (publ)	0.5	–	–	–	0.5
Charlotta Sund, Board member, AhlSELL AB (publ) (to May 2018)	0.2	–	–	–	0.2
Susanne Ehnåge, Board member, AhlSELL AB (publ) (from May 2018)	0.3	–	–	–	0.3
Gustaf Martin-Löf, Board member, AhlSELL AB (publ)	–	–	–	–	–
Søren Vestergaard-Poulsen, Board member, AhlSELL AB (publ)	–	–	–	–	–
Other senior executives (7 individuals)	19.5	1.7	1.0	4.3	26.5
<b>Total</b>	<b>30.9</b>	<b>2.4</b>	<b>1.2</b>	<b>6.6</b>	<b>41.1</b>

For the financial year 2018, variable remuneration refers to a bonus charged as a cost and paid out in 2019. Other benefits refers to company cars and fuel. In addition, calculated non-cash expenses for the incentive programmes in accordance with IFRS 2, including social security contributions, are MSEK 4.7 (3.6) for the CEO and MSEK 15.0 (13.1) for other senior executives.

2017	Basic salary/ Board fee	Variable remuneration	Other benefits	Pension cost	Total
Kenneth Bengtsson, Chairman, AhlSELL AB (publ)	1.1	–	–	–	1.1
Johan Nilsson, CEO of AhlSELL AB (publ), Group President	7.4	3.3	0.1	2.2	13.0
Peter Törnquist, Vice Chairman, AhlSELL AB (publ)	0.8	–	–	–	0.8
Terje Venold, Board member, AhlSELL AB (publ)	0.4	–	–	–	0.4
Magdalena Gerger, Board member, AhlSELL AB (publ)	0.5	–	–	–	0.5
Satu Huber, Board member, AhlSELL AB (publ)	0.5	–	–	–	0.5
Charlotta Sund, Board member, AhlSELL AB (publ)	0.3	–	–	–	0.3
Gustaf Martin-Löf, Board member, AhlSELL AB (publ)	–	–	–	–	–
Søren Vestergaard-Poulsen, Board member, AhlSELL AB (publ)	–	–	–	–	–
Other senior executives (7 individuals)	18.5	5.2	0.9	4.5	29.1
<b>Total</b>	<b>29.5</b>	<b>8.5</b>	<b>1.0</b>	<b>6.7</b>	<b>45.7</b>

For the financial year 2017, variable remuneration refers to a bonus charged as a cost and paid out in 2018. Other benefits refers to company cars and fuel. In addition, calculated non-cash expenses for the incentive programmes in accordance with IFRS 2, including social security contributions, are MSEK 3.6 (0.6) for the CEO and MSEK 13.1 (2.3) for other senior executives.

**BONUS**

The CEO's bonus is determined by the Board of Directors. Other bonuses are determined by the CEO.

**PENSION**

The CEO has a defined-contribution pension plan whereby the Company pays a premium of 30% of pensionable salary. The CEO is entitled to retire at the age of 62. 60% of the full-time basic salary is paid out upon retirement from the age of 62. Pension benefits are paid according to agreement after the age of 65.

The retirement age for other senior executives varies between 60 and 67.

All retirement benefits are vested, i.e. not conditional on future employment.

**TERMINATION RULES**

The CEO has a termination period of 18 months if employment is terminated by the Company. If employment is terminated by the CEO, the termination period is 6 months. Other senior executives who are in office at the reporting date have a period of notice of 6-18 months if employment is terminated by the Company and 3-6 months if employment is terminated by the executive. Three of the other senior executives have termination benefits amounting to 12-18 monthly salaries, which expire if the employee is terminated without notice. The termination benefits cannot be longer than the period of notice issued by the Company. The other executives receive no severance pay.

**LONG-TERM INCENTIVE PROGRAMMES****Share savings and warrants programme 2016**

An Extraordinary General Meeting of the shareholders of AhlSELL on 16 October 2016 adopted the introduction of two long-term incentive programmes.

- A share-savings programme for senior executives, including Group management and certain other key personnel.
- A warrants programme for ten senior executives, including Group management.

The purpose of the incentive programmes is to encourage a broad shareholding among the Company's key employees, to recruit and retain qualified and talented employees, to strengthen the link between the goals of key employees and the Company and to raise motivation. The programmes have a structure that aims to create a balance between, on the one hand, key employees' risk exposure through requirements for personal investment, and on the other hand employees' opportunity to obtain performance-related allocation of shares and/or the option to subscribe for new shares.

The share savings and warrants programme means that key employees invest a total of approximately MSEK 150 of their own resources. The highest individual investment was approximately MSEK 10. As AhlSELL did not participate in the financing of individual investments, this involves a significant financial commitment for the key employees. In addition, the key employees' payment during the programme is linked to the long-term development of AhlSELL and its share, and the employees and Company's shareholders therefore have corresponding goals. The Board's overall assessment is that incentive programmes are well suited to achievement of their purpose.

**NOTE 3** – cont'd**Share savings programme 2016**

The share savings programme comprises about 90 individuals with a total of 2.5 million savings shares (see definition below).

Participation in the share savings programme requires a minimum number of shares in AhlSELL to have been acquired or held. Participants who hold such shares ("Savings shares") until the end of the programme's qualifying periods (the day after the 2019 full-year report and the day after the 2020 full-year report) and continue to be employed by AhlSELL during each qualifying period above may receive up to three shares for each Savings share, based on a number of defined performance requirements during the vesting period 2018-2020 ("Performance shares"). Delivery of the first earned Performance shares will take place after the year-end report is issued in January 2020.

There are three performance requirements, earned by up to one-third of a Performance share per year for each of the three qualifying periods. Vesting according to one performance requirement is independent of vesting according to the other performance criteria, which means that vesting according to a performance requirement in one year does not affect vesting according to this requirement in subsequent years or vesting in the same or subsequent years according to the other performance requirements.

Performance requirements take into account the Company's financial targets and are based on (i) sales growth in 2018, 2019 and 2020, (ii) average adjusted EBITA margin for the periods 2016-2018, 2017-2019 and 2018-2020 and (iii) total return on the AhlSELL share minus the return on the SIX Return Index for 2018, 2019 and 2020.

AhlSELL has repurchased shares to limit exposure to the share savings programme. A total of 7 million shares have been repurchased, which corresponds to AhlSELL's estimated exposure to the share savings programme. AhlSELL's maximum exposure under the share savings programme amounts to a value corresponding to 7.6 million shares. There are also additional social security contributions at 24%.

Based on the assumptions<sup>1</sup> that AhlSELL uses to calculate the cost of the share savings programme, the cost of all performance requirements being fully met is approximately MSEK 333.

**2016 Warrants programme**

At an extraordinary general meeting held on 16 October 2016, it was decided to issue warrants for transfer to ten senior executives including members of Group management. The issue comprised a maximum of 1.5 million warrants, of which 999,995 remain and 500,005 have subsequently been cancelled. Each warrant entitles the holder to subscribe for one share in the Company. Participants have the opportunity to acquire the warrants at market value. If the maximum number of warrants is exercised to subscribe for new shares, this will mean dilution corresponding to a maximum of 0.2% of the total number of shares in the Company.

The warrants may be exercised in the period beginning 28 October 2019 and ending 28 October 2020. The price of subscription for one share by exercising a warrant was set at SEK 55.20 (120% of the price of the shares when the Company was listed on Nasdaq Stockholm, i.e. SEK 46). If on the warrant exercise date the AhlSELL share price is more than 170% of the share price when the Company was listed on Nasdaq Stockholm (SEK 78.20, the ceiling), the number of shares issuable upon exercise of each warrant shall be reduced so that the total value per warrant on the exercise date does not exceed the difference between the ceiling and the exercise price. The Company reserves the right to repurchase warrants under certain circumstances if the employees' employment in the Company is terminated or the participants wish to transfer the warrants.

**Share savings and call option programme 2018**

At the Annual General Meeting on 3 May 2018, AhlSELL's shareholders approved the Board's proposal for a further two incentive programmes.

- A share-savings programme for senior executives, including Group management and certain other key personnel.
- A call option programme for ten senior executives, including Group management.

The purpose of the incentive programmes is to encourage a broad share-holding among AhlSELL's key employees, to recruit and retain qualified and talented employees, to increase the long-term alignment between

key employees' goals and AhlSELL's goals and to raise motivation. In accordance with previous long-term incentive programmes, these two programmes will give participants a Group-wide focus on increased growth, operating margin and total return on the AhlSELL share.

The share savings and call option programmes mean that key employees invested a total of approximately MSEK 15 of their own resources. The highest individual investment was approximately MSEK 1. As AhlSELL did not participate in the financing of individual investments, this involves a significant financial commitment for the key employees. In addition, the key employees' payment during the programme is linked to the long-term development of AhlSELL and its share, and the employees and Company's shareholders therefore have corresponding goals. The Board's overall assessment is that incentive programmes are well suited to achievement of their purpose.

**Share savings programme 2018**

The share savings programme comprises about 90 individuals with a total of 0.3 million savings shares (see definition below).

Participation in the share savings programme requires a minimum number of shares in AhlSELL (savings shares) to have been acquired or held. Participants who hold Savings shares until the end of the programme in June 2021 and continue to be employed by AhlSELL during this period may receive up to three shares for each Savings Share without consideration ("Performance Shares"). The number of Performance shares that can be received will be determined on the basis of the achievement of a number of performance requirements during the vesting period July 2018 – June 2021.

There are three performance requirements, earned by up to one-third of a Performance share per year for each of the three qualifying periods. Vesting according to one performance requirement is independent of vesting according to the other performance criteria, which means that vesting according to a performance requirement in one year does not affect vesting according to this requirement in subsequent years or vesting in the same or subsequent years according to the other performance requirements.

The performance requirements take into consideration the Company's financial targets and are based on (i) sales growth for the following July-June periods: 2018/2019, 2019/2020 and 2020/2021, (ii) average adjusted EBITA margin for the following July-June periods: 2016/2017 - 2018/2019, 2017/2018 - 2019/2020 and 2018/2019 - 2020/2021, and (iii) total return on the AhlSELL share minus the return on the SIX Return Index for the following July-June periods: 2018/2019, 2019/2020 and 2020/2021.

AhlSELL has entered into an equity swap agreement with a third-party (bank) to secure the incentive programme. Under agreement, the third party acquires and transfers shares to the participants in its own name in order to fulfil the Company's obligation to deliver shares and to cover social security contributions in connection with earnings in the incentive programme. At 31 December 2018, the number of hedged shares amounted to 1,075,000 with an average cost of SEK 53.47.

Based on the assumptions<sup>2</sup> that AhlSELL uses to calculate the cost of the share savings programme, the cost of all performance requirements being fully met is approximately MSEK 50.

**2018 Call option programme**

The annual general meeting on 3 May 2018 adopted a long-term call option programme for ten senior executives including members of Group management. A total of 409,000 call options were acquired under the call option programme, which corresponds to approximately 0.1% of the total number of shares in the Company. Each call option entitles the holder to acquire one share in the Company. Participants have the opportunity to acquire the call options at market value.

The call options may be exercised in the period 1 June 2021 to 31 May 2022. The price of a share acquired by exercising a call option was set at SEK 63.10, corresponding to 120% of the average volume-weighted price of the AhlSELL share on Nasdaq Stockholm in the period 4 May 2018 to 18 May 2018 (SEK 52.58). If, on exercise of the call options, AhlSELL's share price is more than 170% of the average volume-weighted price of the AhlSELL share on Nasdaq Stockholm in the period 4 May 2018 to 18 May 2018, i.e. SEK 89.38 (the ceiling), the number of shares that each call option entitles the holder to acquire shall be reduced so that

**NOTE 3** – cont'd

the total value of each call option on the exercise date does not exceed the difference between the ceiling and the exercise price. The Company reserves the right to repurchase call options under certain circumstances if the employees' employment in the Company is terminated or the participants wish to transfer the options.

The cost recognised for the Group's share savings programme for 2018 was MSEK 55 (51), MSEK 41 (37) of which was reversed to equity and MSEK 14 (14) was reserved for social security contributions. The cost for the year is approximately 27% (29) of the estimated total cost.

<sup>1</sup> Key assumptions include expected dividends, a reduction factor of 0.33 for stock market related performance requirements, annual staff turnover of 5%, annual share price development of +10%, and an assumption of average social security contributions of 24%, which takes into account the mix of where the programme's participants are required to pay tax.

<sup>2</sup> Key assumptions include expected dividends, a reduction factor of 0.5 for stock market related performance requirements, annual staff turnover of 5%, annual share price development of +10%, and an assumption of average social security contributions of 24%, which takes into account the mix of where the programme's participants are required to pay tax.

**NOTE 4** Other operating income**OTHER OPERATING INCOME**

Group, MSEK	2018	2017
Sale of non-current assets	13	-
Income from leases	2	6
Gas provisions	5	5
Invoice charges received	9	12
Supplier support received	1	3
Remeasurement of contingent consideration	23	-
Other	15	13
<b>Total other operating income</b>	<b>68</b>	<b>38</b>

**NOTE 5** Depreciation, amortisation and impairment of assets**BY TYPE OF ASSET**

Group, MSEK	2018	2017
Customer relationships	-344	-323
Other intangible assets	-38	-28
<b>Sub-total intangible assets</b>	<b>-382</b>	<b>-351</b>
Land and buildings	-13	-13
Plant and machinery	-34	-33
Equipment, tools and fixtures & fittings	-154	-122
<b>Sub-total property, plant and equipment</b>	<b>-201</b>	<b>-168</b>
<b>Total depreciation, amortisation and impairment</b>	<b>-584</b>	<b>-519</b>

No impairment losses were recognised in 2018 or 2017.

Depreciation is based on the cost and estimated useful lives of the assets. These are stated under Accounting Policies.

**TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT PER FUNCTION**

Group, MSEK	2018	2017
Cost of goods sold	-42	-33
Selling expenses	-460	-408
Administration expenses	-82	-79
	<b>-584</b>	<b>-519</b>

Amortisation and impairment of intangible assets is attributable to selling costs of MSEK 377 (346), and cost of goods sold of MSEK 5 (5).

**NOTE 6** Operating leases

Group, MSEK	2018	2017
Lease payments for the financial year	-649	-556
Future minimum lease payment for non-cancellable leases are due as follows:		
Within one year	-621	-506
Two to five years	-1,534	-1,298
After five years	-1,058	-1,066
<b>Total operating leases</b>	<b>-3,213</b>	<b>-2,870</b>

The above lease payments include lease costs for central storage facilities in Sweden and Norway, with contracts through 2035 and 2030 respectively.

Lease objects include numerous items, such as storage premises, offices, other buildings and equipment, IT hardware, office equipment, etc.

**NOTE 7** Auditors' fees and remuneration

Group, MSEK	2018	2017
KPMG		
Audit services	-5	-6
Tax advisory services	-2	-4
Other services	0	-1
<b>Total fees</b>	<b>-8</b>	<b>-10</b>

Other auditing services were purchased by the Group at a cost of MSEK 1 (0).

Audit services comprise the statutory examination of the annual financial statements and accounting records, administration of the business by the Board of Directors and the CEO and audits carried out under agreement or contract. This includes other procedures required to be carried out by the company's auditors and advice or other assistance relating to observations made during the audit or performance of such other procedures.

Other services comprise advice on accounting related matters, on sales and acquisitions of operations and advice on processes and internal audits.

**NOTE 8** Expenses by nature

Group, MSEK	2018	2017
Merchandise	-21,878	-19,110
Employee benefit costs	-3,564	-3,163
Depreciation	-584	-519
Transport costs	-1,150	-995
Costs for premises	-849	-724
Other expenses	-1,197	-969
<b>Total operating expenses</b>	<b>-29,221</b>	<b>-25,480</b>

**NOTE 9** Finance income

Group, MSEK	2018	2017
Interest income	18	19
Fair value changes due to remeasurement of derivatives	-	28
Exchange differences	15	-
<b>Total finance income</b>	<b>33</b>	<b>47</b>

*Changes in fair value by measurement category*

Financial assets that are measured at amortised cost	18	19
Financial liabilities that are measured at amortised cost	15	28
<b>Total finance income</b>	<b>33</b>	<b>47</b>

Parent, MSEK	2018	2017
Interest income, Group companies	13	559
Interest income	-	1
Fair value changes due to remeasurement of derivatives	-	32
<b>Total finance income</b>	<b>13</b>	<b>592</b>

*Changes in fair value by measurement category*

Financial assets that are measured at amortised cost	13	560
Financial liabilities that are measured at amortised cost	-	32
<b>Total finance income</b>	<b>13</b>	<b>592</b>

**NOTE 10** Finance costs

Group, MSEK	2018	2017
Interest expenses	-174	-196
Fair value adjustment, additional consideration	-6	-4
Interest expense, pension obligations	-1	-1
Exchange differences	-	-37
Fair value changes due to remeasurement of derivatives	-17	-
Other bank costs	-20	-19
<b>Total finance costs</b>	<b>-217</b>	<b>-256</b>

*Changes in fair value by measurement category*

Financial liabilities that are measured at fair value	-23	-4
Financial assets that are measured at amortised cost	-174	-232
<b>Total finance costs for financial instruments</b>	<b>-197</b>	<b>-237</b>

Parent, MSEK	2018	2017
Interest expenses, Group companies	-14	-1
Interest expenses	-153	-174
Exchange differences	-21	-42
Fair value changes due to remeasurement of derivatives	-17	-
Other bank costs	-12	-12
Profit/loss from investments in Group companies	-	-1,753
<b>Total finance costs</b>	<b>-217</b>	<b>-1,982</b>

*Changes in fair value by measurement category*

Financial liabilities that are measured at fair value	-17	-
Financial assets that are measured at amortised cost	-189	-217
<b>Total finance costs for financial instruments</b>	<b>-205</b>	<b>-217</b>

**NOTE 11** Income tax

Group, MSEK	2018	2017
Current tax	-393	-352
Deferred tax	21	-54
<b>Total income tax</b>	<b>-372</b>	<b>-406</b>

**RECONCILIATION OF EFFECTIVE TAX**

Group	2018		2017	
	%	Amount	%	Amount
Profit before tax		1,954		1,834
Tax according to Parent's applicable tax rate	-22.0%	-430	-22.0%	-403
Effect of different tax rates for foreign subsidiaries		4		-5
Other non-deductible expenses		-19		-18
Tax on dividend from foreign subsidiaries		-7		-
Capitalisation of previously unused loss carryforwards		-		19
Tax-free income		-		1
Changed tax rate in Sweden and Norway		83		-2
Other		-4		1
<b>Recognised effective tax</b>	<b>-19.1%</b>	<b>-372</b>	<b>-22.1%</b>	<b>-406</b>
Current income tax rate in Sweden		-22.0%		-22.0%
Effective tax rate		-19.1%		-22.1%

Deferred and current tax have not been taken into account for the profit/loss in Estonia as the tax consequences do not arise until dividends have been paid to the shareholders (AhlSELL Sverige AB). In 2018, AhlSELL Sverige AB received dividend from Estonia, which resulted in a tax expense of MSEK 7.

The Norwegian and Finnish Tax Authorities are currently investigating whether the Group's Norwegian and Finnish companies are entitled to deduct the full amount of tax for interest on loans from Swedish Group companies. This is not expected to have any significant impact on the tax expense for the Group as a whole as equivalent adjustments for taxable interest income should be permitted in Sweden.

Parent, MSEK	2018	2017
Current tax	-1	-112
Deferred tax	-	-
<b>Total income tax</b>	<b>-1</b>	<b>-112</b>

**RECONCILIATION OF EFFECTIVE TAX**

Parent	2018		2017	
	%	Amount	%	Amount
Profit before tax		0		-1,240
Tax according to Parent's applicable tax rate	-22.0%	0	-22.0%	273
Tax-free dividend		-		365
Non-deductible impairment of shares in subsidiaries		-		-750
Other		-1		0
<b>Recognised effective tax</b>	<b>199.8%</b>	<b>-1</b>	<b>9.1%</b>	<b>-112</b>
Current income tax rate in Sweden		-22.0%		-22.0%
Effective tax rate		199.8%		9.1%

**NOTE 12** Operating cash flow

In addition to the cash flow statement that is prepared in accordance with IAS 7, the Group prepares a cash flow that is based on the business activities, excluding financial transactions and taxes, and acquisition and divestment of operations. This cash flow is used by the management team to monitor business performance.

MSEK	Note	2018	2017
<b>Operating profit</b>		<b>2,138</b>	<b>2,043</b>
Adjustments for non-cash items	35	572	493
<b>Operating cash flow before changes in working capital</b>		<b>2,710</b>	<b>2,535</b>
<b>Operating cash flow from changes in working capital</b>			
Change in inventories		1	-489
Change in operating receivables		-180	-547
Change in operating liabilities		-79	703
<b>Operating cash flow before investments</b>		<b>2,453</b>	<b>2,203</b>
Acquisition of intangible assets		-59	-39
Acquisition of property, plant and equipment		-213	-178
Sale of property, plant and equipment		20	6
<b>Cash flow from operating investments</b>		<b>-252</b>	<b>-211</b>
<b>Operating cash flow</b>		<b>2,201</b>	<b>1,991</b>

**CASH FLOW RECONCILIATION**

The consolidated operative cash flow statement is based on the operating profit, which means there are no tax payments or incoming and outgoing financial payments in the operating cash flow before investments. These receipts and payments must be taken into account in order to report cash flows from the operating activities according to IAS 7 Cash Flow Statement. The table below shows the reconciliation between operating cash flows before investments and cash flows from operating activities according to IAS 7.

Cash flow from operating investments includes the type of investments and sales which are attributable to the ongoing operations, while the cash flow from investing activities in the cash flow statement according to IAS 7 also includes investments and divestment of operations and financial assets. The table below shows the reconciliation between cash flows from operating investments and cash flows from investing activities.

The cash flow from financing activities must also be taken into account in order to see cash flows for the year according to IAS 7 Cash Flow Statement, as shown in the table below. This cash flow is not included in the Group's operating cash flow.

MSEK	2018	2017
<b>Operating cash flow before investments</b>	<b>2,453</b>	<b>2,203</b>
Finance income (according to the income statement)	33	47
Finance costs (according to the income statement)	-217	-256
Income tax paid (according to statement of cash flows)	-393	-203
Difference in adjustment for non-cash items	23	70
<b>Cash flow from operating activities</b>	<b>1,899</b>	<b>1,861</b>
<b>Cash flow from operating investments</b>	<b>-252</b>	<b>-211</b>
Acquisition of operations	-763	-346
Disposal of operations	24	-
Changes in financial assets	-60	16
<b>Cash flow from investing activities</b>	<b>-1,051</b>	<b>-541</b>
<b>Cash flow from financing activities</b>	<b>-897</b>	<b>-1,235</b>
<b>Cash flow for the year</b>	<b>-49</b>	<b>86</b>

**NOTE 13** Customer relationships

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
Opening cost	4,659	4,662
Acquisition of subsidiaries	165	14
Translation differences for the year	49	-17
<b>Closing accumulated cost</b>	<b>4,873</b>	<b>4,659</b>
<b>Accumulated depreciation</b>		
Opening amortisation	-1,730	-1,413
Amortisation for the year	-344	-323
Translation differences for the year	-16	6
<b>Closing accumulated depreciation</b>	<b>-2,090</b>	<b>-1,730</b>
<b>Carrying amount at end of period</b>	<b>2,782</b>	<b>2,929</b>

The entire carrying amount relates to assets acquired.

About SEK 1.8 billion of the carrying amount of customer relationships has a remaining amortisation period of 13 years. The rest of the amount attributable to customer relationships has a remaining amortisation period of approximately 4.5 years.

**NOTE 14** Trademark

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
Opening cost	3,837	3,837
Acquisition of subsidiaries	-	-
<b>Carrying amount at end of period</b>	<b>3,837</b>	<b>3,837</b>

The entire carrying amount relates to assets acquired.

**IMPAIRMENT TESTING - TRADEMARK**

The AhlSELL and PreVEX trademarks are considered to have an indefinite useful life. The useful lives are considered to be indefinite as it is a question of a well-established trademarks that the Group intends to retain and develop. The cost of the AhlSELL trademark (acquisition date 9 May 2012) and the PreVEX trademark (1 August 2016) was determined using the relief-from-royalty method and at the end of the year the carrying amount was MSEK 3,837.

Impairment testing is carried out annually. The assessment is performed using the 1.5% royalty rate set at the time of acquisition and estimated future sales growth. Management has assessed the budgeted sales for the next five years based on past performance and expected future market growth. A 2% (2) growth rate has been used to extrapolate sales growth beyond the budget period. This amount is discounted using a 10.5% (10.5) current cost of capital before tax for the Group. The results of the impairment test performed in 2018 show that no impairment is necessary at this time.

**NOTE 15** Other intangible assets

2018	Capitalised expenditure	Licences	Total
<b>Group, MSEK</b>			
<b>Accumulated cost</b>			
Opening cost	218	97	315
Acquisition of subsidiaries	6	-	6
Additions	51	4	56
Sales and disposals	-20	-4	-24
Translation differences for the year	-	0	0
<b>Closing accumulated cost</b>	<b>256</b>	<b>98</b>	<b>354</b>
<b>Accumulated amortisation</b>			
Opening amortisation	-99	-80	-179
Sales and disposals	20	4	24
Amortisation for the year	-30	-8	-38
Translation differences for the year	-	0	0
<b>Closing accumulated amortisation</b>	<b>-109</b>	<b>-84</b>	<b>-193</b>
<b>Carrying amount at end of period</b>	<b>147</b>	<b>13</b>	<b>160</b>
<b>2017</b>			
<b>Group, MSEK</b>			
<b>Accumulated cost</b>			
Opening cost	220	92	312
Acquisition of subsidiaries	1	-	1
Additions	36	3	39
Reclassifications	-	2	2
Sales and disposals	-38	0	-38
Translation differences for the year	0	-1	-1
<b>Closing accumulated cost</b>	<b>218</b>	<b>97</b>	<b>315</b>
<b>Accumulated amortisation</b>			
Opening amortisation	-116	-73	-189
Sales and disposals	38	-	38
Amortisation for the year	-21	-7	-28
Translation differences for the year	0	0	0
<b>Closing accumulated amortisation</b>	<b>-99</b>	<b>-80</b>	<b>-179</b>
<b>Carrying amount at end of period</b>	<b>119</b>	<b>17</b>	<b>136</b>

Capitalised expenditure and licences relate to the Group's IT systems, for example, AhlSELL's order, warehouse and purchasing systems.

The entire carrying amount relates to assets acquired.

Capitalised expenditure relates to external consultancy fees.

**NOTE 16** Goodwill

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
Opening cost	7,207	7,028
Acquisition of subsidiaries	490	207
Translation differences for the year	71	-28
<b>Closing accumulated cost</b>	<b>7,767</b>	<b>7,207</b>
<b>Carrying amount at end of period</b>	<b>7,767</b>	<b>7,207</b>

**GOODWILL IMPAIRMENT TESTING**

Goodwill is allocated to the Group's cash-generating units (CGU) designated by country of operation.

Goodwill by cash generating unit is summarised below:

	2018	2017
Sweden	5,272	5,024
Norway	1,345	1,105
Finland	1,020	952
Denmark	130	125
	<b>7,767</b>	<b>7,207</b>

The recoverable amount of the CGU has been determined based on value-in-use calculations. Value in use is calculated using pre-tax cash flow projections based on the business plans of the geographic regions covering a five-year period and which have been approved by corporate management.

Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The rate of growth does not exceed the long-term growth rate of the industry in which the CGUs operate. The discounted cash flows are compared with capital employed in each geographic area.

Key assumptions used for value-in-use measurements:

- Budgeted operating margin
- Growth rate used to extrapolate cash flows beyond the budget period
- Discount rate applied to the cash flow projections

These assumptions have been used for the analysis of each CGU in each geographic area.

Management has determined the operating margin based on past performance and expected future market growth. In order to budget future market development, internal and external data has been used. A 2% (2) growth rate has been used to extrapolate cash flow beyond the budget period. Furthermore, an average pre-tax discount rate in local currency has been used for these calculations. The discount rate has been adjusted to reflect specific risks. The pre-tax discount rate used is 10.5% (10.5).

Management believes that, for all the geographic areas, no reasonable possible changes in any of the key assumptions applied would have such significant effects as to individually cause the carrying amount to exceed the recoverable amount.

**NOTE 17** Land and buildings

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
At beginning of year	424	417
Additions	3	1
Sales and disposals	-12	-5
Translation differences for the year	18	11
<b>Closing accumulated cost</b>	<b>434</b>	<b>424</b>
<b>Accumulated depreciation</b>		
At beginning of year	-180	-167
Sales and disposals	9	5
Depreciation for the year	-13	-13
Translation differences for the year	-8	-5
<b>Closing accumulated depreciation</b>	<b>-192</b>	<b>-180</b>
<b>Carrying amount at end of period</b>	<b>242</b>	<b>244</b>
<b>Buildings held under finance leases are included at the following amounts:</b>		
Cost	254	244
Accumulated depreciation	-131	-117
<b>Carrying amount</b>	<b>123</b>	<b>127</b>

The central storage facility in Finland (Hyvinge) is held under a finance lease agreement. The agreement is valid through 2031.

<b>Total minimum lease payments and their present value</b>		
Total minimum lease payments	281	284
Present value of minimum lease payments	172	173
<b>Total minimum lease payments</b>		
Within one year	22	20
Between 2-5 years	86	81
After 5 years	173	183
	<b>281</b>	<b>284</b>
<b>Present value of minimum lease payments</b>		
Within one year	9	8
Between 2-5 years	42	38
After 5 years	121	127
	<b>172</b>	<b>173</b>

Payments for assets held under finance leases for the year totalled MSEK 23 (18). MSEK 11 (10) was interest expense and MSEK 12 (8) repayment of liabilities. Depreciation of assets held under finance leases amounted to MSEK 9 (9). Total expenses for assets held under finance leases were MSEK 20 (19).

**NOTE 18** Plant and machinery

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
At beginning of year	458	455
Acquisition of subsidiaries	4	-
Additions	66	19
Sales and disposals	-28	-14
Translation differences for the year	8	-2
<b>Closing accumulated cost</b>	<b>507</b>	<b>458</b>
<b>Accumulated depreciation</b>		
At beginning of year	-302	-285
Acquisition of subsidiaries	-3	-
Sales and disposals	28	14
Depreciation for the year	-34	-33
Translation differences for the year	-6	2
<b>Closing accumulated depreciation</b>	<b>-316</b>	<b>-302</b>
<b>Carrying amount at end of period</b>	<b>191</b>	<b>155</b>

**NOTE 19** Equipment, tools, fixtures and fittings

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
At beginning of year	1,473	1,278
Acquisition of subsidiaries	13	17
Additions	219	229
Sales and disposals	-84	-47
Reclassifications	-2	-3
Translation differences for the year	18	-1
<b>Closing accumulated cost</b>	<b>1,636</b>	<b>1,473</b>
<b>Accumulated depreciation</b>		
At beginning of year	-1,022	-923
Acquisition of subsidiaries	-6	-9
Sales and disposals	60	30
Reclassifications	2	1
Depreciation for the year	-154	-122
Translation differences for the year	-14	1
<b>Closing accumulated depreciation</b>	<b>-1,134</b>	<b>-1,022</b>
<b>Carrying amount at end of period</b>	<b>502</b>	<b>451</b>
<b>Equipment held under finance leases is included at the following amounts:</b>		
Cost	620	560
Accumulated depreciation	-445	-396
<b>Carrying amount at end of period</b>	<b>175</b>	<b>163</b>

Equipment held under finance leases consists primarily of cars leased in Sweden and Finland.

Group, MSEK	2018	2017
<b>Total minimum lease payments and their present value</b>		
Total minimum lease payments	171	159
Present value of minimum lease payments	168	156
<b>Total minimum lease payments</b>		
Within one year	43	43
Between 2-5 years	128	116
After 5 years	–	–
	<b>171</b>	<b>159</b>
<b>Present value of minimum lease payments</b>		
Within one year	41	42
Between 2-5 years	127	114
After 5 years	–	–
	<b>168</b>	<b>156</b>

Payments for assets held under finance leases for the year totalled MSEK 50 (36). MSEK 2 (2) was interest expense and MSEK 48 (34) repayment of liabilities. Depreciation of assets held under finance leases amounted to MSEK 45 (39). Total costs of equipment held under finance leases were MSEK 47 (42).

## NOTE 20 Financial investments

### SHARES AND PARTICIPATING INTERESTS CLASSIFIED AS NON-CURRENT ASSETS

Group, MSEK	2018	2017
Opening carrying amount	3	3
Translation differences	0	0
<b>Closing carrying amount</b>	<b>3</b>	<b>3</b>

The above financial investments are included in the category "Financial assets that are measured at fair value".

## NOTE 21 Shares in subsidiaries

Parent, MSEK	2018	2017
<b>Accumulated cost</b>		
At beginning of year	1,658	3,032
Shareholder contributions	–	479
Merger	12,137	-96
Intra-group restructuring	–	-1,757
<b>Carrying amount at end of period</b>	<b>13,795</b>	<b>1,658</b>

The above shares in subsidiaries relate to ownership of AhlSELL Sverige AB (corp. ID 556012-9206) and AhlSELL Förvaltning AB (corp. ID 559077-0797). The carrying amount for AhlSELL Sverige AB is MSEK 13,795 and for AhlSELL Förvaltning AB MSEK 0.

Norrmalm 2 AB and Nybrojarl New 1 AB (publ) were merged into the Parent Company during the year.

A merger between AhlSELL AB (publ) and AhlSELL Förvaltning AB was initiated in 2018 and completed in February 2019.

## NOTE 21 – cont'd

## INVESTMENT IN GROUP COMPANIES (INDIRECT OWNERSHIP)

Companies at 31 Dec 2018	Corp. ID	Head office/Country	Share of capital <sup>1)</sup>
AhlSELL Sverige AB	556012-9206	Stockholm	100
Flex Scandinavia AB	556209-4085	Hammarö	100
Verktygshuset i Kiruna AB	556578-4971	Kiruna	100
Prevex AB	556199-3899	Gothenburg	100
Bygg & IndustriPartner Skaraborg AB	556764-4454	Skövde	100
G-ESS Yrkeskläder AB	556296-6845	Huddinge	100
Svensk Industri & Kommunservice AB	556517-1252	Gothenburg	100
Jobline i Umeå AB	556160-6947	Umeå	100
Enexia AB	556906-7076	Knivsta	100
Prepipe Construction AB	559004-7204	Lammhult	100
Sprinkler Nordic AB	556763-9405	Knivsta	100
SAFE Workwear Sweden AB	556543-1375	Strängnäs	100
Proffsmagasinet Svenska AB	556728-3857	Stockholm	100
HMK i Västerås AB	556783-2216	Västerås	100
AhlSELL Norge AS	910 478 656	Stavanger (N)	100
Bergens Rørhandel AS	988,454,214	Stavanger (N)	100
Stavanger Rørhandel AS	888,454,152	Stavanger (N)	100
Proffklær Haugesund AS	991 248 722	Haugesund (N)	100
Bekken & Strøm AS	993,465,852	Gjøvik (N)	100
Sentrum Motor og Verktøy AS	831,850,892	Alta	100
Bygg & Industrisalg AS	893,382,992	Sandnes	100
AhlSELL Oy	1819153-8	Helsinki (SF)	100
Aninkaisten Tapetti ja Väri Oy	0197404-2	Helsinki (SF)	100
Jenger Oy	0138019-9	Punkalaidun (SF)	100
Kahipa Oy	0775069-9	Karkkila (SF)	100
Kannaketekniikka Oy	0857996-9	Tampere (SF)	100
AhlSELL Åland Ab	2080009-9	Jomala (SF)	100
AhlSELL Danmark ApS	19,541,142	Brøndby (DK)	100
TP- Tempcold Ltd	0000094018	Warsaw (PL)	100
ZAO AhlSELL Spb	7813090758	St Petersburg (RU)	100
AS FEB	10109270	Tallinn (EST)	100
Jenger Eesti OÜ	10197630	Järva (EST)	100

<sup>1)</sup> Refers to share of capital, which also corresponds with the share of votes for the total number of shares.

## NOTE 22 Receivables from Group companies

Parent, MSEK	2018	2017
<b>Accumulated cost</b>		
At beginning of year	11,791	12,845
Settled receivables	-11,316	-1,054
<b>Carrying amount at end of period</b>	<b>474</b>	<b>11,791</b>

MSEK 474 (11,791) of the above relates to receivables from subsidiaries.

**NOTE 23** Deferred income tax

## GROUP

**RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES**

Group, MSEK	2018			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loss carryforwards	130	–	130	153	–	153
Intangible assets	–	-1,335	-1,335	–	-1,445	-1,445
Provisions/accrued	18	–	18	13	–	13
Financial assets and liabilities	10	–	10	9	–	9
Current receivables and inventories	9	–	9	9	–	9
Machinery and equipment	28	-35	-7	29	-35	-6
Land and buildings	–	-2	-2	–	-3	-3
Untaxed reserves	–	-336	-336	–	-220	-220
Other	8	–	8	5	–	5
<b>Total</b>	<b>203</b>	<b>-1,708</b>	<b>-1,505</b>	<b>217</b>	<b>-1,703</b>	<b>-1,486</b>
Offsetting of assets/liabilities	-193	193	–	-209	209	–
<b>Total in balance sheet</b>	<b>10</b>	<b>-1,515</b>	<b>-1,505</b>	<b>8</b>	<b>-1,494</b>	<b>-1,486</b>

The loss carryforwards are primarily attributable to AhlSELL's operations in Norway. In Norway, future profits are expected to be sufficient to enable the tax loss carryforwards to be used within the next few years. The Group does not have a defined maturity structure for its loss carryforwards.

**CHANGES IN DEFERRED TAX ASSET FOR TEMPORARY DIFFERENCES AND LOSS CARRYFORWARDS**

2018 MSEK	At beginning of year	Recognised in income statement	Recognised in OCI	Translation differences	Acquired/divested companies	Balance at end of year
Loss carryforwards	153	-24	–	2	–	130
Intangible assets	-1,445	150	–	-3	-38	-1,335
Provisions/accrued	13	5	–	0	–	18
Financial assets and liabilities	9	0	–	0	–	10
Current receivables and inventories	9	0	–	0	–	9
Machinery and equipment	-6	0	–	0	–	-7
Land and buildings	-3	2	–	-1	–	-2
Untaxed reserves	-220	-112	–	–	-3	-336
Other	5	0	2	0	1	8
<b>Total change</b>	<b>-1,486</b>	<b>21</b>	<b>2</b>	<b>-3</b>	<b>-40</b>	<b>-1,505</b>

2017 MSEK	At beginning of year	Recognised in income statement	Recognised in OCI	Translation differences	Reclassified as as- sets held for sale	Balance at end of year
Loss carryforwards	162	-1	–	-7	–	153
Intangible assets	-1,510	66	–	2	-3	-1,445
Provisions/accrued	7	3	3	1	–	13
Financial assets and liabilities	9	0	3	-3	–	9
Current receivables and inventories	13	-4	–	1	–	9
Machinery and equipment	-6	0	–	0	–	-6
Land and buildings	-3	1	–	-1	–	-3
Untaxed reserves	-98	-116	–	–	-6	-220
Other	8	-3	–	0	–	5
<b>Total change</b>	<b>-1,420</b>	<b>-54</b>	<b>5</b>	<b>-8</b>	<b>-10</b>	<b>-1,486</b>

AhlSELL Sverige AB has a subsidiary in Estonia. In Estonia, income tax is not paid on earnings until they are paid to the shareholders. If any earned but unpaid gains are allocated to the Parent Company, the Estonian government can claim up to 21% tax, the equivalent of MSEK 45 (47) on 31 December 2018.

**NOTE 24** Other non-current receivables

Group, MSEK	2018	2017
<b>Accumulated cost</b>		
At beginning of year	7	4
Additions	62	1
Reclassifications	-	16
Settlements	-2	-15
Translation differences for the year	0	0
<b>Closing accumulated cost</b>	<b>67</b>	<b>7</b>
<b>Carrying amount at end of period</b>	<b>67</b>	<b>7</b>
of which interest-bearing	2	4

**NOTE 25** Inventories

There is no significant difference between the carrying amount and fair value of inventories. No adjustment has been made to any items of inventory as a result of an increase in the value of net sales.

The cost of inventories recognised as expense is included in Cost of goods sold and amounts to MSEK -21,878 (-19,110).

During this period, inventories of finished goods have been written down by MSEK -85 (-84).

**NOTE 26** Trade receivables

Group, MSEK	2018	2017
Trade receivables, gross	3,751	3,525
Allowance for expected losses	-31	-34
<b>Total trade receivables</b>	<b>3,720</b>	<b>3,491</b>

Provisions (now referred to as allowances) for losses on trade receivables and reversals of such provisions are reported under Selling expenses in the Income statement. The allowance is based on customer creditworthiness.

**ALLOWANCE FOR LOSSES**

Group, MSEK	2018	2017
Allowance at beginning of year	-34	-39
Allowance for expected losses	-24	-29
Incurred losses	28	34
Translation differences	-1	0
<b>Allowance at end of year</b>	<b>-31</b>	<b>-34</b>

The net cost of established and recovered customer losses during the year was MSEK 25 (33).

**CONCENTRATION OF CREDIT RISK**

The credit risk for trade receivables is not concentrated within any particular geographic region as the Group has a wide spread of customers in the Nordic region, Russia the Baltic region and Poland. The concentration of credit risk remains the same as in previous years.

**CREDIT RISK EXPOSURE**

Group	Percent of total number of customers	Percent of portfolio
<b>At 31 Dec 2018</b>		
Exposure < MSEK 1.5	99.7%	60.4%
Exposure MSEK 1.5 - 10.0	0.3%	25.7%
Exposure > MSEK 10.0	0.0%	13.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Group	Percent of total number of customers	Percent of portfolio
<b>At 31 Dec 2017</b>		
Exposure < MSEK 1.5	99.7%	62.4%
Exposure MSEK 1.5 - 10.0	0.3%	23.2%
Exposure > MSEK 10.0	0.0%	14.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**AGE ANALYSIS OF TRADE RECEIVABLES**

Group, MSEK	2018	2017
Not overdue	3,145	3,078
0 - 30 days	513	362
31 - 60 days	32	42
61 - 90 days	13	10
> 91 days	17	0
<b>Total</b>	<b>3,720</b>	<b>3,491</b>

**NOTE 27** Prepayments and accrued income

Group, MSEK	2018	2017
Prepaid rents	89	97
Accrued supplier bonus	854	822
Accrued income for delivered but non-invoiced goods	215	196
Other items	123	63
<b>Total prepayments and accrued income</b>	<b>1,281</b>	<b>1,178</b>

Parent, MSEK	2018	2017
Other items	1	2
<b>Total prepayments and accrued income</b>	<b>1</b>	<b>2</b>

**NOTE 28** Equity/Earnings per share**GROUP**

On 31 December, equity amounted to MSEK 9,976 (9,004).

**RESERVES**

MSEK	Hedging reserve	Translation reserve	Total
<b>Opening balance, 1 January 2017</b>	<b>-3</b>	<b>-47</b>	<b>-49</b>
Translation differences for the year	-	-16	-16
Hedging of currency risk in foreign operations	-	5	5
Cash flow hedges recognised directly in OCI	-10	-	-10
Tax attributable to items recognised in OCI	2	-8	-6
<b>Closing balance, 31 December 2017</b>	<b>-11</b>	<b>-66</b>	<b>-77</b>
<b>Opening balance, 1 January 2018</b>	<b>-11</b>	<b>-66</b>	<b>-77</b>
Translation differences for the year	-	145	145
Hedging of currency risk in foreign operations	-	-30	-30
Cash flow hedges recognised directly in OCI	-10	-	-10
Tax attributable to items recognised in OCI	2	8	10
<b>Closing balance, 31 December 2018</b>	<b>-19</b>	<b>56</b>	<b>37</b>

The translation reserve comprises all exchange differences arising on translation of foreign operations reported in a currency other than the Group's presentation currency. Hedging of currency risk in foreign operations includes hedging of net assets in local currency in Norway and Finland.

The hedging reserve comprises the change in value of the interest rate swaps accounted for as hedges.

**EARNINGS PER SHARE**

	2018	2017
<b>Earnings per share</b>		
Profit attributable to owners of the parent company (MSEK)	1,582	1,428
Weighted average number of ordinary shares outstanding (millions)	429.3	435.4
<b>Earnings per share, SEK</b>	<b>3.68</b>	<b>3.28</b>

**DILUTED EARNINGS PER SHARE**

The AhlSELL Group's long-term incentive programmes could potentially lead to future dilution of the number of shares. The share savings programme could result in a maximum dilution of 1.9% of the total number of shares in the Company. If the maximum number of warrants or call options are exercised to subscribe for new shares, this will mean dilution corresponding to a maximum of 0.3% of the total number of shares in the Company. As of 31 December 2018, there is a dilutive effect for the share savings programme, but no dilutive effect for the warrants programme. There is no other dilution associated with ordinary shares.

	2018	2017
Weighted average number of diluted ordinary shares outstanding (millions)	429.9	435.4
<b>Diluted earnings per share, SEK</b>	<b>3.68</b>	<b>3.28</b>

**PARENT****RESTRICTED AND UNRESTRICTED EQUITY****Restricted reserves**

Restricted reserves may not be reduced by distribution of dividends.

**Unrestricted equity****Share premium reserve**

Where shares are issued at a premium, i.e. for an amount in excess of their par value, an amount equivalent to the premium must be credited to the share premium reserve.

**Retained earnings**

The sum of the previous year's earnings after any dividend payout. Retained earnings, net profit for the year and the share premium reserve together constitute total unrestricted equity, in other words the amount available for distribution to shareholders.

Total equity in AhlSELL AB (publ) was MSEK 3,939 (5,330) on the reporting date, MSEK 123 (123) of which was restricted equity.

**Number of shares**

The number of shares outstanding at the beginning of the year was 429,302,187, with a par value of SEK 0.28. The number of shares at the end of the year was 429,302,187 with a par value of SEK 0.28. During the year, the average number of shares was 429,302,187.

**CHANGE IN NUMBER OF SHARES**

	Number of shares
Number of registered shares, 1 January 2017	436,302,187
Repurchased shares held by AhlSELL AB (publ)	-7,000,000
<b>Number of shares outstanding, 31 December 2017</b>	<b>429,302,187</b>
Number of registered shares, 1 January 2018	429,302,187
<b>Number of shares outstanding, 31 December 2018</b>	<b>429,302,187</b>

The shares are issued in accordance with the Swedish Companies Act (2005:551) and shareholders' rights associated with the shares may only be amended according to the procedures prescribed in the Act.

**Capital management**

Capital is defined as total equity, which corresponds to what is reported as equity in the consolidated balance sheet. AhlSELL's goal is for the Group over time to have net debt in relation to adjusted EBITDA in the range of 2.0-3.0 times.

Net debt is measured in relation to adjusted EBITDA (Net debt/Adjusted EBITDA). At 31 December 2018, net debt/EBITDA was 2.4 (2.6).

There are external requirements in the bank loan agreements, for further information, see note 32.

**PROPOSED APPROPRIATION OF PROFITS**

	2018	2017
The following amounts are at the disposal of the Annual General Meeting:	SEK 3,815,651,397	5,206,572,773
The Board and the CEO propose a dividend to shareholders of SEK 0 per share (1.65).	SEK -	708,348,609
the remaining profits be carried forward	SEK 3,815,651,397	4,498,224,164
	<b>SEK 3,815,651,397</b>	<b>5,206,572,773</b>

## NOTE 29 Provisions for pensions

The Group has defined-benefit pension plans for Sweden and Finland. This type of pension guarantees the employee a pension equal to a certain percentage of final salary. The Group also provides defined-contribution pension plans in these countries and in Norway, Denmark, Estonia, Russia and Poland. Defined contribution plans represent a percentage of the employee's salary and are included in the income statement.

Group, MSEK	2018	2017
Present value of funded obligations	24	29
Fair value of plan assets	-19	-24
The amount of the surplus in the plan is restricted by an asset ceiling	4	4
<b>Total of wholly or partly funded obligations</b>	<b>9</b>	<b>9</b>
Present value of unfunded obligations	42	44
<b>Net debt in the balance sheet</b>	<b>51</b>	<b>53</b>
Amounts recognised in the balance sheet		
- liabilities	51	53

The amounts in the balance sheet are distributed across the various geographic areas as follows:

	Sweden	Finland
Present value of funded obligations	24	-
Fair value of plan assets	-19	-
The amount of the surplus in the plan is restricted by an asset ceiling	4	-
Present value of unfunded obligations	34	8
<b>Net debt in the balance sheet</b>	<b>43</b>	<b>8</b>

Group, MSEK	2018	2017
Interest expense	-1	-2
Interest income	0	1
<b>Cost of defined benefit plans</b>	<b>-1</b>	<b>-1</b>
Cost of defined contribution plans	-252	-217
Payroll tax	-37	-33
<b>Total cost of post-employment benefits</b>	<b>-290</b>	<b>-251</b>
The cost of defined benefit pension plans is recognised in the following lines of the Income Statement		
Finance costs	-1	-1
	<b>-1</b>	<b>-1</b>
Cost recognised in Other comprehensive income		
Remeasurements:		
- Actuarial gains/losses	0	-4
- Difference between actual and calculated return on plan assets	0	0
	<b>0</b>	<b>-4</b>

The current value of the defined benefit obligation has changed as follows during the year

Group, MSEK	2018	2017
<b>Current value of defined benefit obligations at beginning of year</b>	<b>72</b>	<b>74</b>
Interest expense	1	2
Payment of benefits	-7	-8
Actuarial gains (minus) and losses (plus)	0	4
Exchange differences on foreign plans	0	0
<b>Current value of defined benefit obligations at end of year</b>	<b>66</b>	<b>72</b>

The fair value of the plan assets has changed as following during the year:

Group, MSEK	2018	2017
<b>Fair value of plan assets at beginning of year</b>	<b>24</b>	<b>28</b>
Interest income	0	1
Difference between actual and calculated return	0	0
Pension payments	-5	-6
<b>Fair value of plan assets at end of year</b>	<b>19</b>	<b>24</b>

The actual return on plan assets was MSEK 1 (1).

Group	2018	2017
The plan assets are classified in the following categories as a percentage of total plan assets:		
Shares	32%	38%
Interest-bearing securities	44%	39%
Property	11%	11%
Other	14%	12%

Group, MSEK	2018	2017	2016	2015	2014
<b>Historical information</b>					
Present value of defined benefit obligations (including payroll tax)	66	72	74	76	104
Fair value adjustment, plan assets	-19	-24	-28	-34	-24
The amount of the surplus in the plan is restricted by an asset ceiling	4	4	4	6	-
Surplus (minus)/Deficit (plus)	51	53	50	49	80
Experience-based adjustments to plan assets	0	0	1	0	1

Experience adjustments on defined benefit obligations amount to MSEK 0 (-6).

### ASSUMPTIONS USED FOR VALUATIONS

2018	Sweden	Finland
Discount rate %	1.9%	1.3%
Mortality table	DUS14	
2017	Sweden	Finland
Discount rate %	1.9%	1.0%
Mortality table	DUS14	

The Group expects to make MSEK 2 (2) in payments in 2019 relating to defined benefit plans.

Given the size of the pension debt, no sensitivity analysis has been performed.

The retirement benefit and family pension obligation for employees in Sweden is covered by an insurance policy with Alecta. In accordance with Statement UFR 10 issued by the Swedish Financial Reporting Board, this is a multi-employer defined benefit pension plan. As the Company did not have access to sufficient information to enable it to report this plan as a defined benefit plan for this financial year, an ITP pension plan, insured through Alecta, will be reported as a defined contribution plan. The same conditions apply to the AFP plan in Norway, which is thus also recognised as a defined contribution scheme.

The year's ITP pension insurance contributions through Alecta amount to MSEK 116 (102). Alecta's surplus may be distributed to the policyholders and/or the insured parties. At the end of 2018, Alecta's surplus, in the form of a collective consolidation level, was 142% (154%). The collective funding ratio is the market value of Alecta's assets as a % of its insurance obligations calculated by reference to Alecta's actuarial assumptions. This is not consistent with IAS 19. Information about the collective consolidation level for the AFP plan in Norway is not available.

### NOTE 30 Other provisions

Group, MSEK	2018	2017
Balance at beginning of year	13	23
New/extended provisions	81	30
Provisions used	-25	-40
Translation differences	-1	-1
<b>Balance at end of year</b>	<b>67</b>	<b>13</b>
<b>Other provisions</b>		
Restructuring	64	11
Warranty commitments	3	2
<b>Total other provisions</b>	<b>67</b>	<b>13</b>
<b>The provisions consist of:</b>		
Non-current portion	14	3
Current portion	53	10
<b>Total provisions</b>	<b>67</b>	<b>13</b>

New provisions in 2018 are primarily related to provisions for restructuring in Norway and restructuring of the Viacon VA operations in Sweden.

Provisions used are primarily related to the reversal of provisions related to staff under notice with pay in the Swedish operations.

### NOTE 31 Accruals and deferred income

Group, MSEK	2018	2017
Accrued interest	32	33
Accrued holiday pay	345	333
Accrued salary bonuses	20	36
Accrued social security contributions	110	98
Other items	112	83
<b>Total accruals and deferred income</b>	<b>618</b>	<b>582</b>

Parent, MSEK	2018	2017
Accrued interest	32	33
Accrued holiday pay	6	5
Accrued salary bonuses	3	6
Accrued social security contributions	10	10
Other items	22	17
<b>Total accruals and deferred income</b>	<b>73</b>	<b>71</b>

### NOTE 32 Financial instruments and financial risk management

#### GROUP

The Group's financing agreements consist of syndicated loan facilities, a bilateral loan, a commercial paper programme and an MTN programme that the Group established during the year. The programme has a total frame size of MSEK 5,000. Further information about the financing can be found under refinancing risk.

The Group's financial assets consist of derivative instruments, non-current receivables, trade receivables, shares and cash and cash equivalents.

The Group's financial liabilities consist mainly of loans arranged to finance operations, trade payables, derivative instruments and additional consideration.

Financial assets and liabilities give rise to different types of risks, which are primarily managed using various derivative instruments.

The Group uses derivative instruments mainly for the purpose of:

- Converting variable rate loans to a fixed rate.
- Reducing the Group's exposure to foreign currency risk.

Five derivative instruments are qualifying for hedge accounting at 31 December 2017. These instruments are always used to hedge an underlying exposure and not for speculative purposes.

#### FINANCIAL RISK MANAGEMENT

The Group's financial policy for financial risk management was formulated by the Board and provides a framework of guidelines and rules in the form of a risk mandate for financial activities. The overall aim of the finance function is to ensure that the financial risks are optimised to a risk level that gives the shareholders a good return, within the framework of the risk mandate provided by the Board.

Risk management is handled by the Group finance in accordance with policies approved by the Board. The Group's finance department works closely with the Group's operating units to identify, evaluate and hedge financial risks. The Board defines written policies for overall risk management and for specific areas, such as currency risk, interest rate risk, refinancing risk, use of derivatives and investment of excess liquidity.

International business activities involve different types of risks on a daily basis. The risks fall into two main categories: financial and commercial risks. In turn, financial risks can be divided into five main areas:

*Refinancing risk:* Is the risk that maturing loans cannot be refinanced at maturity, or that existing loans are terminated.

*Interest rate risk:* Is the risk that Group earnings will be adversely affected by changes in the interest rate level.

*Currency risk:* Is divided into transaction exposure and translation exposure.

*Transaction exposure:* Is the risk that Group earnings will be adversely affected as a result of negative exchange rate fluctuations.

*Translation exposure in foreign net assets:* There is a risk of negative equity effects when the assets and liabilities of foreign subsidiary companies are translated into Swedish kronor.

*Credit risk:* Is the risk of financial loss to the Group as a result of a counterparty failing to meet its contractual obligations.

*Liquidity risk:* Is the risk that the Group does not have enough funds to meet day-to-day expenses and commitments.

## NOTE 32 – cont'd

## REFINANCING RISK

Ahsell's refinancing risk is related to the financial obligations the Group has agreed with banks and other lenders. The Financial policy states that if an individual facility has less than 1 year to maturity, refinancing arrangements must have started, and the average maturity of the Group's facilities shall be at least 1.5 years. At the end of the year, the average maturity was about 2.5 years.

The financing agreements that Ahsell has entered into include two term loan facilities and two revolving facilities. The term loan facilities were fully utilised and amounted to MSEK 6,247 (6,717) at 31 December 2018, with MSEK 1,497 (1,467) due in November 2019 and MSEK 4,750 (5,250) due in November 2021. MSEK 500 of the term loan due in November 2021 was repaid during the year. In connection with the repayment, a bilateral loan agreement of MSEK 400 was entered into, maturing in October 2020.

In addition to these facilities, there are two revolving facilities totalling MSEK 3,250, of which MSEK 1 000 serves as a back-up facility for the Group's commercial paper programme.

The revolving facilities mature in November 2021, and MSEK 0 (0) had been utilised at the reporting date. In addition, MSEK 36 (35) had been used for bank guarantees and letters of credit at the reporting date. All facilities are at variable rates in SEK, EUR and NOK. Further information is given under Interest rate risk. The Group is obliged to maintain certain quarterly financial obligations, covenants, which are linked to this financing. The covenants that Ahsell must fulfil are:

- Consolidated EBITDA in relation to interest payments
- Total net debt in relation to consolidated EBITDA

There are specific definitions for each component and some non-recurring items are excluded from EBITDA. At 31 December 2018, the covenants had been met.

During the year, the Group established an MTN programme with a framework nominal amount of MSEK 5,000. The first issue under the programme, MSEK 750, was implemented in June 2018 and matures in June 2022. In the previous year, the Group established a commercial paper programme with a framework amount of MSEK 2,500, of which MSEK 200 was outstanding at 31 December 2018.

Ahsell's financing risk also depends on the Group's ability to refinance maturing loans, or pay maturing loans from its existing financial resources. The chart below shows the maturity analysis for Ahsell's financing.

At year-end, the Group's borrowings, with any associated statutory limits, were as follows:

## BORROWING

MSEK	2018		2017	
	Total borrowing	Total credit	Total borrowing	Total credit
Term loans <sup>1)</sup>	6,247	–	6,717	–
Revolving facility <sup>2)</sup>	–	3,250	–	3,250
Bilateral loans <sup>3)</sup>	400	–	–	–
Commercial papers <sup>3)</sup>	200	–	999	–
MTN <sup>3)</sup>	750	–	–	–
<b>Total*</b>	<b>7,597</b>	<b>3,250</b>	<b>7,717</b>	<b>3,250</b>

\* The difference from the amounts in the balance sheet is due to capitalisation of arrangement fees for loans.

<sup>1)</sup> Have variable interest rates and are in EUR, SEK and NOK.

<sup>2)</sup> In addition to borrowing, the revolving facility is available as overdraft facilities in SEK, NOK, DKK and EUR with variable rates, bank guarantees etc. At the end of the year, MSEK 36 (35) was utilised. MSEK 1,000 serves as a back-up facility for the Group's commercial paper programme, with the outstanding amount at the end of the year being MSEK 200 (999).

<sup>3)</sup> With variable interest rate in SEK.

## THE GROUP'S LOAN MATURITY STRUCTURE, LIABILITIES TO CREDIT INSTITUTIONS

Maturity MSEK	2018	2017
2019	1,497	1,467
2020	400	–
2021	4,950	6,249
2022	750	–
>2022	–	–
<b>Total*</b>	<b>7,597</b>	<b>7,717</b>

\* The commercial paper programme has a revolving backup facility that matures in 2021 and the outstanding amount of MSEK 200 (999) is therefore reported as non-current.

The specification of lease assets and the current values of finance leases are presented in Note 19 Equipment, tools, fixtures and fittings and Note 17 Land and buildings. Information about the Group's operating leases is provided in note 6.

## MATURITY ANALYSIS OF LEASE PAYMENTS

MSEK	2018	2017
Within 1 year	50	51
Maturity date, 1-5 years after the reporting date	169	152
Maturity date, later than five years	121	127
<b>Total</b>	<b>340</b>	<b>329</b>

## TOTAL MATURITY ANALYSIS

MSEK	2018	2017
Within one year	1,526	51
Maturity date, 1-5 years after the reporting date	6,235	7,793
Maturity date, later than five years	121	127
<b>Total</b>	<b>7,882</b>	<b>7,971</b>

## INTEREST RATE RISK

Interest rate risk for Ahsell is the risk of adverse movements in the interest rate resulting in an increase in the cost of borrowing for Ahsell. Interest rate risk can be offset by tying up loans and using various kinds of financial derivatives, e.g. fixed interest swaps, rate ceilings and interest rate floors. Interest rate risk is managed at Group level by Group finance based on the instruments decided on by the Board. The financial policy states that 20-50% of the Group's loans, including interest hedges, must be at fixed interest rates. Four fixed-interest swaps totalling MSEK 3,300 (3,300) mature on 1 October 2021 and a further fixed-interest swap of MNOK 180 (180) matures at the end of October 2019. In addition to the fixed-interest swaps there is a zero percent floor of MSEK 3,300 where, in the case of negative STIBOR, the Group receives the difference between 3 months STIBOR and 0%. The main floating rates are STIBOR, EURIBOR and NIBOR.

Given the same borrowings, hedges, zero percent floor in loans and the same fixed rate interest periods as at the end of the year, a change in the market rate by 100 basis points (1 percentage point) would change the interest expenses by about MSEK 29 (29). Excluding the zero percent floor in loans, the corresponding change would be about MSEK 41 (42) and excluding hedges, about MSEK 49 (48). Excluding hedges and the zero percent floor in loans, interest expenses would change by about MSEK 76 (77).

## NOTE 32 – cont'd

## LIABILITIES TO CREDIT INSTITUTIONS AND FIXED INTEREST PERIOD, BY CURRENCY BEFORE FIXED-INTEREST SWAPS, MSEK

Currency	2018			2017		
	Liabilities to credit institutions	Share, %	Fixed interest period, days	Liabilities to credit institutions	Share, %	Fixed interest period, days
SEK	6,645	88%	10	6,774.1	89%	11
EUR	522	7%	2	500.4	7%	2
NOK	375	5%	2	366.8	5%	2
<b>Total</b>	<b>7,542</b>	<b>100%</b>	<b>9</b>	<b>7,641.3</b>	<b>100%</b>	<b>10</b>

Effective interest on the reporting date was	2018			2017		
	SEK	EUR	NOK	SEK	EUR	NOK
Loans	1.64%	1.25%	2.36%	1.47%	1.25%	2.06%
Lease liabilities	1.08%	5.64%	-	0.99%	5.67%	-

## LIABILITIES TO CREDIT INSTITUTIONS AND FIXED INTEREST PERIOD, BY CURRENCY AFTER FIXED-INTEREST SWAPS, MSEK

Currency	2018			2017		
	Liabilities to credit institutions	Share, %	Fixed interest period, days	Liabilities to credit institutions	Share, %	Fixed interest period, days
SEK	6,645	88%	504	6,774	89%	670
EUR	522	7%	2	500	7%	2
NOK	375	5%	136	367	5%	315
<b>Total*</b>	<b>7,542</b>	<b>100%</b>	<b>451</b>	<b>7,641</b>	<b>100%</b>	<b>609</b>

Effective interest on the reporting date was	2018			2017		
	SEK	EUR	NOK	SEK	EUR	NOK
Loans, including derivatives	1.87%	1.25%	2.40%	1.71%	1.25%	2.23%
Lease liabilities	1.08%	5.64%	-	0.99%	5.67%	-

\* Effective interest rate excluding amortisation of capitalised setup fees for bank loans

## CURRENCY RISK

AhlSell's transaction exposure is concentrated on the import of goods and borrowings in foreign currencies. The financial policy specifies that future cash flows can be hedged up to twelve (12) months in advance. Transaction exposure from imports is limited. There was no hedging activity on 31 December 2018 with regard to the import of goods. As a rule, cash flow hedging activities are limited.

The fact that the Group has loans in foreign currencies means it has an exposure, see above liabilities to credit institutions broken down by currency. The financial policy states that the distribution of loans per currency should reflect EBITDA per currency in the Group.

Based on income and expenses in foreign currencies for 2018, a five percentage point change in the Swedish krona against other currencies, excluding currency hedges, impacts operating income by about MSEK 10 annually. As Group uses equity hedges (see note 28), exchange rate changes do not affect net financial items when converting foreign currency loans. Group companies have cash in currency other than their reporting currency, which, in the event of changing exchange rate, leads to remeasurement effects in net financial items. The exposure changes from day to day and the Group has entered into currency swaps to reduce the impact of currency movements.

The Group has a number of holdings in overseas operations, whose net assets are exposed to translation risk. See the chart below.

## EXPOSED FOREIGN NET ASSETS BY COUNTRY, MSEK

Group Currency (country)	2018			2017		
	Net assets	Hedged	Net	Net assets	Hedged	Net
EUR (Finland and Estonia)	1,741	-522	1,219	1,644	-500	1,144
DKK (Denmark)	379	-	379	360	-	360
NOK (Norway)	2,446	-375	2,071	2,383	-367	2,016
PLN (Poland)	8	-	8	13	-	13
RUB (Russia)	-77	-	-77	-65	-	-65
<b>Total</b>	<b>4,497</b>	<b>-897</b>	<b>3,599</b>	<b>4,335</b>	<b>-867</b>	<b>3,467</b>

AhlSell has chosen to hedge net assets in Norway and Finland, to the extent that there are external loans in the Parent Company in the corresponding currency. For other countries no hedge accounting is applied.

## NOTE 32 – cont'd

**FAIR VALUE****Fair value measurement**

The fair values of financial instruments that are not traded in an active market are determined by using different valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer price quotes for similar instruments are used to estimate the fair value of non-current liabilities. Other techniques, such as estimated discounted cash flows, are used to determine the fair value of remaining financial instruments. The fair value of fixed-interest swaps, currency swaps and equity swaps is based on the valuation of intermediary credit institutions, the reasonableness of which is tested.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

With regard to external borrowing, there is no material difference between the carrying amount and fair value, as the Group's borrowings have variable interest rates. Nor does the Group have any other financial assets or liabilities off the balance sheet.

**CARRYING AMOUNT OF FINANCIAL INSTRUMENTS**

MSEK	Carrying amount 2018	Fair value 2018			
		Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>					
Other non-current-receivables	67	–	67	–	67
Financial investments	3	–	3	–	3
Currency swaps	14	–	14	–	14
Fixed interest swaps	0	–	0	–	0
	<b>85</b>				<b>85</b>
<b>Financial assets at amortised cost</b>					
Trade receivables	3,720				
Cash and cash equivalents	1,248				
	<b>4,968</b>				
<b>Financial liabilities at fair value</b>					
Currency swaps	0	–	0	–	0
Equity swaps	57	–	57	–	57
Fixed interest swaps	24	–	24	–	24
Contingent consideration	31	–	–	31	31
	<b>113</b>				<b>113</b>
<b>Financial liabilities at amortised cost</b>					
Bank loans	7,882				
Trade payables	5,298				
	<b>13,180</b>				

**FINANCIAL ASSETS**

MSEK	Carrying amount 2017
<b>Financial assets held for trading measured at fair value</b>	
Currency swaps	0
<b>Total</b>	<b>0</b>
<b>Loans and receivables</b>	
Other non-current receivables	7
Trade receivables	3,491
Cash and cash equivalents	1,295
<b>Total</b>	<b>4,793</b>
<b>Available-for-sale financial assets</b>	
Financial investments	3
<b>Total</b>	<b>3</b>

**FINANCIAL LIABILITIES**

MSEK	Carrying amount 2017
<b>Financial liabilities held for trading measured at fair value</b>	
Currency swaps	0
Fixed interest swaps	14
<b>Total</b>	<b>14</b>
<b>Other financial liabilities</b>	
Liabilities to credit institutions	7,971
Other non-current liabilities	29
Trade payables	5,218
<b>Total</b>	<b>13,218</b>

Level 2 has been used to determine the fair values of derivative instruments measured at fair value.

Level 3 has been used to determine the fair values of other non-current liabilities, which refer to an unpaid additional purchase consideration.

**CHANGE FOR THE YEAR WHERE LEVEL 3 USED TO DETERMINE FAIR VALUE**

MSEK	2018	2017
Opening balance	29	25
Consideration for the year's acquisitions	18	–
Fair value adjustment	-17	4
<b>Closing balance</b>	<b>31</b>	<b>29</b>

The differences between the fair value and carrying amount for financial assets and liabilities are marginal.

It has not been possible to reliably determine the fair value of financial investments, which are unlisted, and they have therefore been measured at cost less impairment.

## NOTE 32 – cont'd

## CASH AND CASH EQUIVALENTS

MSEK	2018	2017
<i>The following components are included in cash and cash equivalents</i>		
Cash and bank balances	1,248	1,295
Short-term investments, comparable to cash and cash equivalents	–	–
<b>Total cash and cash equivalents</b>	<b>1,248</b>	<b>1,295</b>

Short-term investments have been classified as cash and cash equivalents based on the fact that:

- They are subject to an insignificant risk of changes in value
- They can be readily converted into cash
- They have a short maturity

## Credit risk

Credit risk arises through cash and cash equivalents, derivative instruments and deposits with banks and financial institutions and through credit exposures to customers, including outstanding receivables.

AhlSELL's credit policy provides guidelines to ensure sales are to customers with appropriate credit backgrounds and credit decisions are made by persons with the right authority. Credit assessments of all of AhlSELL's customers are conducted by credit departments at country level. Each country's credit department reviews and assesses compliance with credit policies. AhlSELL's business system incorporates support functions that help them to keep track of who has the right to grant what, by carrying out a continuous review of authorisations and approvals. Individual risk limits are determined on the basis of internal or external credit assessments in compliance with the limits that have been set. Credit limit utilisation is reviewed at regular intervals.

AhlSELL's maximum credit risk exposure is the carrying amount of the Company's financial assets. AhlSELL's total credit risk is also monitored through a database application that enables the analysis of the total accounts receivable balance down to the lowest level. Also see Note 26 Trade receivables.

## Liquidity risk

Sound management of liquidity risk involves maintaining sufficient cash and cash equivalents and saleable securities, the availability of funding through an adequate amount of committed credit facility and the ability to close market positions. Due to the dynamic nature of the underlying business, the Group's finance department aims to maintain flexibility in funding by keeping committed credit lines available. The financial policy states that the Group's liquidity reserve must amount to at least 5% of the Group's annual net sales. See tables below regarding the liquidity reserve and maturity structure of the Group's trade payables, and tables above for maturity structure on loans and interest terms.

## LIQUIDITY RESERVE

Group, MSEK	2018	2017
<i>The following components are included in the liquidity reserve</i>		
Cash and bank balances	1,248	1,295
Short-term investments, comparable to cash and cash equivalents	–	–
Unused revolving credit facilities*	3,014	2,215
<b>Total cash and cash equivalents</b>	<b>4,262</b>	<b>3,510</b>

\* The revolving back-up facility for the commercial paper programme is not included in the liquidity reserve as long as the commercial paper amount does not fall below the facility's total of MSEK 1,000

## MATURITY STRUCTURE TRADE PAYABLES

Group, MSEK	2018	2017
Not overdue	4,033	4,094
Within one month	1,241	1,103
Longer than one month but no longer than three months	16	7
Longer than three months	8	15
<b>Total</b>	<b>5,298</b>	<b>5,218</b>

## PARENT COMPANY

AhlSELL AB (publ) handles the Group's external borrowing. The Company's financing agreements consist of syndicated loan facilities, a bilateral loan, a commercial paper programme and an MTN programme that the Company established during the year. The programme has a frame size of MSEK 5,000.

The syndicated loan facilities consist of two term loan facilities which were fully utilised at 31 December 2018 and amounted to MSEK 6,246 (6,717), of which MSEK 1,497 (1,467) is due in November 2019 and MSEK 4,750 (5,250) in November 2021. MSEK 500 of the term loan expiring in November 2021 was repaid during the year. In connection with the repayment, a bilateral loan agreement of MSEK 400 was entered into, maturing in October 2020. In addition to these facilities, there are two revolving facilities totalling MSEK 3,250, of which MSEK 1 000 serves as a back-up facility for the Group's commercial paper programme. The revolving facilities mature in November 2021, and MSEK 0 (0) had been utilised at the reporting date.

In addition, MSEK 36 (35) had been used for bank guarantees and letters of credit at the reporting date. All facilities are at variable rates in SEK, EUR and NOK.

The Group is obliged to maintain certain quarterly financial obligations, covenants, which are linked to this financing. The covenants that AhlSELL must fulfil are:

- Consolidated EBITDA in relation to interest payments
- Total net debt in relation to consolidated EBITDA

There are specific definitions for each component and some non-recurring items are excluded from EBITDA. At 31 December 2018, the covenants had been met.

During the year, the Parent Company established an MTN programme with a frame work amount of MSEK 5,000. The first issue under the programme, MSEK 750, was implemented in June 2018 and matures in June 2022. In the previous year, the Group established a commercial paper programme with a framework amount of MSEK 2,500, of which MSEK 200 was outstanding at 31 December 2018.

The Parent Company is exposed to the same refinancing and interest rate risk as the Group, see above for a further description. The Parent Company is also exposed to the corresponding currency risk where external borrowing is concerned.

At year-end, the Parent Company AB (publ) had borrowings, with any associated statutory limits, as follows:

## BORROWING

MSEK	2018		2017	
	Total borrowing	Total credit	Total borrowing	Total credit
Term loans <sup>1)</sup>	6,247	–	6,717	–
Revolving facility <sup>2)</sup>	–	3,250	–	3,250
Bilateral loans <sup>3)</sup>	400	–	–	–
Commercial papers <sup>3)</sup>	200	–	999	–
MTN <sup>3)</sup>	750	–	–	–
<b>Total</b>	<b>7,597</b>	<b>3,250</b>	<b>7,717</b>	<b>3,250</b>

<sup>1)</sup> Have variable interest rates and are in EUR, SEK and NOK.

<sup>2)</sup> In addition to borrowing, the revolving facility is available as overdraft facilities in SEK, NOK, DKK and EUR with variable rates, bank guarantees etc. At the end of the year, MSEK 36 (35) was utilised. MSEK 1,000 serves as a back-up facility for the Group's commercial paper programme, with the outstanding amount at the end of the year being MSEK 200 (999).

<sup>3)</sup> With variable interest rate in SEK.

**NOTE 32** – cont'd**THE PARENT COMPANY'S LOAN MATURITY STRUCTURE, LIABILITIES TO CREDIT INSTITUTIONS**

Maturity MSEK	2018	2017
2019	1,497	–
2020	400	1,467
2021	4,950	–
2022	750	6,249
>2022	–	–
<b>Total*</b>	<b>7,597</b>	<b>7,717</b>

\* The difference from the amounts in the balance sheet is due to capitalisation of arrangement fees for loans.

AhlSELL AB (publ) has financial assets and financial liabilities to Group companies. See note 22 and note 38 Related party disclosures.

**FOREIGN EXCHANGE RATES USED IN THE FINANCIAL REPORTING**

Currency	2018		2017	
	Average rate	Closing rate	Average rate	Closing rate
EUR	10.257	10.275	9.633	9.850
NOK	1.069	1.024	1.033	1.001
DKK	1.376	1.376	1.295	1.323
PLN	2.408	2.390	2.263	2.361
RUB	0.139	0.129	0.146	0.143

**NOTE 33** Contingent liabilities and pledged assets

Group, MSEK	2018	2017
Contingent liabilities	None	None
<b>Pledged assets</b>		
Property mortgages	5	5
<b>Total pledged assets</b>	<b>5</b>	<b>5</b>

**NOTE 34** Interest received/paid

Group, MSEK	2018	2017
Interest received	18	17
Interest paid	-144	-152

**NOTE 35** Adjustments for non-cash items

Group, MSEK	2018	2017
Depreciation, amortisation and impairment of assets	584	519
Capitalised and accrued interest	-1	9
Unrealised exchange differences	-32	62
Fair value changes due to revaluation of interest rate and exchange rate derivatives	17	-28
Amortisation and impairment of capitalised finance charges	23	22
Proceeds from sale of non-current assets	-9	-3
Proceeds from sale of subsidiaries	-1	–
Provisions for pensions	-2	3
Other provisions	55	-10
Remeasurement of contingent consideration	-23	–
Other non-cash items	-16	-11
<b>Total</b>	<b>596</b>	<b>563</b>

Parent, MSEK	2018	2017
Accrued interest	-1	9
Unrealised exchange differences	21	42
Profit/loss from investments in Group companies	–	1,753
Fair value changes due to revaluation of interest rate and exchange rate derivatives	17	-32
Costs of share savings programme	41	37
Amortisation and impairment of capitalised finance charges	23	22
<b>Total</b>	<b>101</b>	<b>1,832</b>

**NON-OPERATING CASH FLOW ITEMS**

Group, MSEK	2018	2017
Depreciation, amortisation and impairment of assets	584	519
Proceeds from sale of non-current assets	-9	-3
Proceeds from sale of subsidiaries	-1	–
Provisions for pensions	-2	3
Other provisions	55	-10
Remeasurement of contingent consideration	-23	–
Costs of share savings programme*	41	37
Financial leases*	-73	-54
<b>Total</b>	<b>572</b>	<b>493</b>

\* Included in Other non-cash items above

## NOTE 36 Business combinations

### BUSINESS COMBINATIONS IN 2018

Proffsmagasinet Svenska AB was acquired in January. Proffsmagasinet is active in e-commerce in Sweden, Norway and Finland. The Company offers about 17,000 items under well-known brands within professional hardware products, such as tools, gauges, laser instruments and personal protective equipment. The company has annual sales of MSEK 260. A significant part of AhlSELL's sales are conducted through e-commerce and the acquisition reinforces AhlSELL's already strong position.

In February, HMK i Västerås AB was acquired. The company has estimated annual sales of MSEK 16 and eight employees. The company strengthens AhlSELL's position in workwear and personal protection in Västerås and its surroundings.

In February, Bekken & Strøm was also acquired in Norway. Bekken & Strøm is one of Norway's largest retailers of workwear, protective equipment, work & safety footwear and profile clothing. The company has about 160 employees and annual sales of MSEK 415. The acquisition makes AhlSELL a market leader in personal protective equipment in Norway.

In May, Sentrum Motor och Verktøy AS (SMV) was acquired with annual sales of MSEK 40 and nine employees. SMV has a strong position in tools, personal protective equipment and aquaculture in the region of Finnmark in northern Norway.

Bygg & IndustriPartner Skaraborg AB (Bygg & IndustriPartner), with annual sales of MSEK 30 and seven employees, was also acquired in May. Bygg & IndustriPartner offers local craftsmen and contractors within construction and industry a full range of tools and supplies. The acquisition strengthens AhlSELL's position in Tools & Supplies in Skaraborg.

In June, AhlSELL signed an agreement to acquire Kahipa Oy, with annual sales of MSEK 35. Kahipa Oy is a Finnish distributor of HVAC & Plumbing fastenings and installation tools. Kahipa has seven employees and two stores in southern Finland.

Bygg & Industrisalg AS (Bygg & Industrisalg), a Norwegian distributor of tools and personal protective equipment, was acquired in September. The registered office is in Sandnes, and the company has 13 employees and annual sales of MSEK 45. The acquisition strengthens AhlSELL's personal protective equipment presence in the region around Stavanger.

In November, AhlSELL acquired the sprinkler operations from Øglænd System (Øglænd). Øglænd offers a comprehensive range of products for sprinkler systems, such as sprinkler heads, shut-off and alarm valves and sprinkler hoses. The company has annual sales of MSEK 45.

Group, MSEK Company	Country	Date of acquisition	Share of capital
Proffsmagasinet Svenska AB	Sweden	16/01/2018	100%
HMK i Västerås AB	Sweden	01/02/2018	100%
Bekken & Strøm AS	Norway	02/02/2018	100%
Sentrum Motor og Verktøy AS	Norway	02/05/2018	100%
Bygg & IndustriPartner Skaraborg AB	Sweden	31/05/2018	100%
Kahipa Oy	Finland	02/07/2018	100%
Bygg & Industrisalg AS	Norway	03/09/2018	100%
Øglænd System AS (assets and liabilities)	Norway	01/11/2018	100%

In addition to the above, three acquisitions have also been made after the reporting date, see note 41.

### PURCHASE PRICE PER SEGMENT

Sweden	-299
Norway	-481
Finland	-48
Denmark	-
Other	-
<b>Total purchase price</b>	<b>-828</b>

The following is information on acquired net assets and goodwill:

Assets and liabilities included in the acquisitions:	Carrying amount before acquisition	Fair value adjustment	Carrying amount, consolidated
Cash and cash equivalents	47	-	47
Customer relationships	-	165	165
Capitalised expenditure	6	-	6
Property, plant and equipment	8	-	8
Inventories	234	-5	229
Assets	114	-	114
Liabilities	-190	-	-190
Deferred tax liabilities, net	-2	-38	-40
<b>Net assets</b>	<b>217</b>	<b>122</b>	<b>339</b>
<b>Net assets acquired</b>			<b>339</b>
Goodwill on consolidation			490
Consideration paid			-828
Unpaid additional consideration			18
Less cash and cash equivalents in acquired companies			47
<b>Effect on the Group's cash and cash equivalents</b>			<b>-763</b>

As the acquisitions, separately, are immaterial for the Group, as a whole, the net assets and goodwill acquired are shown on an aggregated level.

The total consideration for Proffsmagasinet Svenska AB comprised a base and additional contingent consideration. In the purchase price allocation, the additional consideration was valued at MSEK 9, which is dependent on the company's earnings development and is calculated based on the most likely outcome. The additional consideration is due for payment in 1.5 year. The outcome will be in the range of MSEK 0-13 on the settlement date, depending on fulfilment of the conditions.

The total consideration for Kahipa Oy comprised a base and additional contingent consideration. In the purchase price allocation, the additional consideration was valued at MSEK 9, which is dependent on the company's earnings development and is calculated based on the most likely outcome. The additional consideration is due for payment in 1 year. The outcome will be in the range of MSEK 0-9 on the settlement date, depending on fulfilment of the conditions.

The goodwill that arose with the acquisitions is attributable to the synergies that are expected to arise.

As the acquired operations are integrated into AhlSELL's existing operations after the acquisition, it is not possible to make disclosures about how much the acquired companies have contributed to consolidated sales and earnings.

If all acquisitions during 2018 had been made on 1 January, sales would have been approximately MSEK 175 higher and EBITA would have been about MSEK 17 higher.

AhlSELL considers the analysis of the acquired net assets to be provisional, and subsequent fair value adjustments may therefore be made.

Revalued contingent considerations of MSEK 23 were recognised as other operating income in segment Sweden during the year. The revaluation is attributable to the contingent consideration in connection with the acquisition of PreveX, where some of the calculated synergy effects have been late in coming and are expected to materialise after the measurement point for the additional purchase consideration.

## NOTE 36 – cont'd

## BUSINESS COMBINATIONS IN THE PREVIOUS YEAR

Group, MSEK Company	Country	Date of acquisition	Share of capital
G-ESS Yrkeskläder AB	Sweden	28/02/2017	100%
C.J. Järn & Maskin AB	Sweden	02/05/2017	100%
Svensk Industri & Kommunservice AB	Sweden	01/06/2017	100%
Lenson Elektro AS	Norway	02/10/2017	100%
ViaCon VA (assets and liabilities)	Sweden	01/11/2017	100%
Gehås AB (assets and liabilities)	Sweden	01/12/2017	100%
Infästningsspecialisten Göteborg AB	Sweden	04/12/2017	100%
Sprinkler Nordic AB, Enexia AB, Prepipe Construction AB	Sweden	28/12/2017	100%
Enexia Oy	Finland	28/12/2017	100%
Jobline i Umeå AB	Sweden	29/12/2017	100%
SAFE Workwear Sweden AB	Sweden	29/12/2017	100%

## PURCHASE PRICE PER SEGMENT

Sweden	-321
Norway	-8
Finland	-38
Denmark	-
Other	-
<b>Total purchase price</b>	<b>-368</b>

The following is information on acquired net assets and goodwill:

Assets and liabilities included in the acquisitions:	Carrying amount before acquisition	Fair value adjustment	Carrying amount, consolidated
Cash and cash equivalents	22	-	22
Customer relationships	-	14	14
Capitalised expenditure	1	-	1
Property, plant and equipment	8	-	8
Inventories	137	-5	132
Assets	89	-	89
Liabilities	-96	-	-96
Deferred tax liabilities, net	-6	-3	-10
<b>Net assets</b>	<b>155</b>	<b>6</b>	<b>161</b>
<b>Net assets acquired</b>			<b>161</b>
Goodwill on consolidation			207
Consideration paid			-368
Unpaid additional consideration			-
Less cash and cash equivalents in acquired companies			22
<b>Effect on the Group's cash and cash equivalents</b>			<b>-346</b>

As the acquisitions are immaterial for the Group as a whole, the net assets and goodwill acquired are shown on an aggregated level.

The goodwill that arose with the acquisitions is attributable to the synergies that are expected to arise.

As the acquired operations are integrated into Ahlseil's existing operations immediately after the acquisition, it is not possible to make disclosures about how much the acquired companies have contributed to consolidated sales and earnings.

If all acquisitions during 2017 had been made on 1 January, sales would have been approximately MSEK 555 higher and EBITA would have been about MSEK 35 higher.

The purchase price allocations for all acquisitions completed in 2017 are final and only marginal changes have been made based on what was previously presented.

## NOTE 37 Items affecting comparability

To achieve better comparability between years, EBITA is presented in the interim report net of items affecting comparability. Items affecting comparability are large non-recurring items that have an effect on EBITA and therefore on comparability. The threshold for what qualifies as an item affecting comparability has been raised from the previous year. For an item of income or expense to be classified as affecting comparability, the guideline is that its amount is at least 1% of the Group's profit for the year.

Group, MSEK

## ITEMS AFFECTING COMPARABILITY IN 2018

Type of cost/revenue	Segment	Amount
Costs attributable to Viacon VA restructuring	Sweden	-30
Costs attributable to restructuring	Norway	-37
<b>Total items affecting comparability</b>		<b>-67</b>

## ITEMS AFFECTING COMPARABILITY IN 2017

Type of cost/revenue	Segment	Amount
Costs attributable to restructuring	Finland	-11
<b>Total items affecting comparability</b>		<b>-11</b>

## NOTE 38 Divestment of operations

## DISPOSALS 2018

The Swedish subsidiary Ahlseil Maskin AB was divested during the year.

Group, MSEK

## Disposal of assets and liabilities

Property, plant and equipment	0
Inventories	32
Assets	19
Deferred tax liabilities, net	0
Liabilities	-29
Ahlseil Sweden AB's borrowings were repaid on divestment	-18
Cash and cash equivalents in divested operations	4
Consideration received	9
<b>Effect on cash and cash equivalents</b>	<b>24</b>

## DISPOSALS 2017

There were no disposals in 2017.

**NOTE 39** Related party disclosures**GROUP**

AhlSELL AB (publ), corp. ID 556882-8916 (registered in Sweden, headquartered in Stockholm) was listed on Nasdaq Stockholm as of 28 October 2016 to 6 March 2019. See note 41.

Information about personnel expenses and remuneration of senior executives can be found in note 3 Personnel.

**PARENT**

AhlSELL AB (publ) has non-current receivables from other Group companies of MSEK 474 (11,791), see note 22. The Company also has MSEK 267 (0) in current receivables from subsidiaries. The Company has non-current liabilities to subsidiaries of MSEK 2,538 (0) and current liabilities to subsidiaries of MSEK 2 (2).

The Company has a related party relationship with its subsidiaries. See note 21.

**NOTE 40** Significant accounting estimates and judgements

The Group's estimates and judgements are reviewed periodically and are based on historical experience and other factors, including expectations of future events considered reasonable under the prevailing circumstances.

**SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented below.

**CUSTOMER RELATIONSHIPS**

A number of parameters have been used to determine the value of customer relationships. These include WACC, assumptions about growth, loss of existing customers and discount rates. Changes to these parameters would have an impact on the size of the customer relationships.

**IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS**

Each year, the Group assesses whether or not a potential impairment exists for goodwill and trademarks, in accordance with the accounting policies above. The recoverable amount for cash-generating units has been determined by calculating their value-in-use. Recoverable amounts for trademarks have been determined under the relief-from-royalty method. Certain estimates have to be made for these calculations. See Note 14 and Note 16).

With regard to goodwill, the Group believes that a reasonable change in the key assumptions used in the calculation of recoverable amounts for goodwill, for example, gross margins and discount rates, would not cause the total carrying amount of goodwill attributable to each geographic area to exceed the goodwill's recoverable amount for each geographic area.

With regard to trademarks with an indefinite useful life (AhlSELL and Prevex), the Group believes that a reasonable change in the key assumptions used in the calculation of the recoverable amount, for example, future sales growth, royalty rates and discount rates, would not cause the carrying amount for the AhlSELL and Prevex trademarks to exceed the recoverable amount.

**INCOME TAXES**

The Group is required to pay tax in each country. Significant judgement is required in determining the total provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises the liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax provisions in the period to which such determination is made.

Deferred income tax is calculated on the basis of the temporary differences between the carrying amount of assets and liabilities and their taxable amount and on loss carryforwards. There are mainly two types of assumptions and estimates that affect the recognised deferred tax. These are assumptions and estimates that are used to establish the carrying amounts of assets and liabilities, as well as those relating to future taxable profits. At year-end, MSEK 130 (153) was recognised as deferred tax assets attributable to estimated loss carryforwards, based on the assumptions of future taxable profits. A final decision on the losses claimed by the Group companies is required from the Swedish Tax Agency for the recognised loss carryforwards. Critical estimates and assumptions are also undertaken in respect of the reporting of provisions and contingent liabilities relating to tax risks.

**NOTE 41** Events after the reporting period**ACQUISITIONS**

In December, AhlSELL entered into an agreement to acquire PJ-Control Oy in Finland. The company, which sells electrical components in industrial automation, has annual sales of approximately MSEK 75 and 15 employees. Closing was in early January. According to the preliminary purchase price allocation, the intangible surplus values amount to MSEK 22.

Fundi AB (Fundi), a Swedish wholesaler within water & sewage, was acquired in February. The company has 13 employees and annual sales of approximately MSEK 87. Fundi offers small and medium-sized customers in Gothenburg a quality water & sewage range and the company also has a branch in Varberg, established some years ago. The transaction was closed in early February. According to the preliminary purchase price allocation, intangible surplus values are about MSEK 50.

**PUBLIC TAKE OVER BID**

Quimper AB, a private limited liability company that is or will be indirectly invested by CVC Funds, on December 11, 2018 announced one public offer to the shareholders of AhlSELL AB (publ) to acquire all shares in AhlSELL at a price of SEK 55.00 per share. As a result of the public offering, the Board of Directors appointed an independent body bid committee consisting of board members Satu Huber (Chair of the bid committee), Magdalena Gerger, Susanne Ehnbåge and Terje Venold. On January 28, 2019, the Board of Directors unanimously recommended the shareholders of AhlSELL AB to accept Quimper's public offer. On February 13, 2019, Quimper AB announced the offer as unconditional, as they represented 93.9% of the total number of shares and votes in AhlSELL. February 18, AhlSELL's Board of Directors, at the request of Quimper, applied for delisting of the company's shares from Nasdaq Stockholm. Last day for trading in the shares on Nasdaq Stockholm were March 6, 2019. On the same day, the 18 February, the Board called for an extraordinary general meeting on March 25, 2019, including the agenda point: election of the board. Costs related to the offer will charge the first quarter of 2019.

Due to the ownership change that follows from Quimper AB's completion of the bid to the shareholders in AhlSELL AB, AhlSELL has repaid term loan A and B and the revolving facilities that existed at year-end and entered into a financing agreement with Quimper. AhlSELL has also gained access to a new revolving facility of MSEK 2,250.

# Signatures

The Board and CEO herewith confirm that the Parent Company's annual financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with international financial reporting standards as defined in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The Parent Company and consolidated annual financial statements provide a true and fair view of the financial performance and position of the Parent Company and the Group.

The Board of Directors' report for the Parent Company and Group provides a true and fair overview of the development of the operations, financial position and performance of the Parent Company and Group, and describes material risks and uncertainties faced by the Parent Company and Group companies.

The Board has authorised the Parent Company's annual financial statements and the consolidated annual financial statements for issue on 14 March 2019. The consolidated and Parent Company income statements and balance sheets will be presented for approval at the Annual General Meeting on 09 May 2019.

Stockholm March 14, 2019

Kenneth Bengtsson  
*Chairman*

Johan Nilsson  
*President & CEO and Board member*

Peter Törnquist  
*Vice Chairman*

Gustaf Martin-Löf  
*Board member*

Satu Huber  
*Board member*

Magdalena Gerger  
*Board member*

Sören Vestergaard-Poulsen  
*Board member*

Terje Venold  
*Board member*

Susanne Ehnåge  
*Board member*

Maria Herbertsson  
*Employee representative*

Glenn Edlund  
*Employee representative*

Anders Nilsson  
*Employee representative*

Our audit report was submitted on March 14, 2019

KPMG AB

Joakim Thilstedt  
*Authorised Public Accountant*

# Audit Report

To the General Meeting of AhlSELL AB (publ.), Corp. ID 556882-8916

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of AhlSELL AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 41-51 and 58-110 in this document.

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

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

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

### Basis for opinions

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

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

### Key audit matters

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

#### Valuation of goodwill and other intangible assets in the form of customer relationships and brand (group)

See disclosure 13, 14, 16 and 40 and accounting principles on page 80 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

The carrying value of intangible assets in the form of goodwill, brand and customer relationships in the consolidated accounts at December 31, 2018 amounted to SEK 14 387 million, which is approximately 55% of total assets. Goodwill and other intangible assets with indefinite useful lives are required to be tested annually for impairment. Other intangible assets are tested where there is an impairment trigger. An impairment test comprise both complexity and are dependent on judgements.

The impairment test shall according to IFRS be performed in accordance with a certain method where management needs to make judgements of future, internal as well as external, conditions and plans. Examples of such judgements include forecasts of future cash flows and which discount rate to be used in order to reflect the time value of money as well as the specific risks the operation face.

#### Response in the audit

We have reviewed and assessed whether the impairment tests have been prepared in accordance with the method prescribed by IFRS.

We have further evaluated the future cash flow forecasts and their underlying assumptions including long-time growth rates as well as the discount rates used. We have had reviews with management including evaluating historical accuracy of forecasts.

We considered management's sensitivity analysis showing the impact of a reasonable change in assumptions to determine whether impairment was required.

Furthermore, we have considered the completeness of the disclosures made relating to the impairment tests in the annual accounts and assessed if they are in accordance with the assumptions used by management and that they, in all material aspects, are in accordance with the disclosures required by IFRS.

### Information other 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 1-40, 115-121 and 123-129. 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.

### Responsibility of the Board of Directors and the Managing Director

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

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

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

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a

guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

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

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### 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 AhlSELL AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

### Basis for opinions

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

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

### 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.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

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

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

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

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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Ahlsell AB (publ) by the general meeting of the shareholders on the 3 May 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2012.

Stockholm March 14, 2019

KPMG AB

Joakim Thilstedt  
Authorised Public Accountant

# Sustainability – Key figures and notes

for the period 1 January to 31 December 2018

## Key figures sustainability

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# Key figures sustainability

<b>Value creation for all stakeholders, MSEK</b>	<b>Note</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Target</b>
Shareholders: Dividend + Reinvested value (+ Shareholder loan 2016)		974	1,428	1,582	40–60% of profit
Capital providers: Interest to lenders		840	196	174	
Service providers: premises, travel etc.		2,832	3,176	3,731	
Suppliers: Cost of goods sold		17,086	19,110	21,878	
Employees: Salaries and benefits		2,324	2,556	2,870	
Organisations: Charitable purposes and fees		6	6	6	
Society: Taxes and employer contributions		544	1,012	1,050	
Total sales		24,606	27,484	31,291	Grow 2–3% faster than market
<b>Reduce environmental impact</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>	
Carbon footprint in CO <sub>2</sub> e tonnes per MSEK	4	1.49	1.42	1.16	Reduce by 20% in four years (base year 2016)
Carbon footprint in CO <sub>2</sub> e, absolute figures	4	36,663	37,877	35,319	
Direct energy consumption, MWh	4	n/a	65,233	66,977	
Total CO <sub>2</sub> e, GRI Scope 1	4	n/a	n/a	1,829	
Total CO <sub>2</sub> e, GRI Scope 2	4	n/a	n/a	8,327	
Total CO <sub>2</sub> e, GRI Scope 3	4	n/a	n/a	25,163	
Recycling rate in branches		n/a	56	46	Reduce environmental impact from waste by 20% in four years (base year 2016)
Recycling rate in central warehouses		90	88	90	Reduce environmental impact from waste by 20% in four years (base year 2016)
Number of own addresses with charging posts		n/a	22	40	
Number of own addresses with solar panels		n/a	1	2	
Number of our private label products that are environmentally classified		n/a	n/a	3,500	
<b>Employees, health and safety</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>	
Good employee work attendance, %		96	96	96	
Work-related accidents, number		60	53	61	
Total staff turnover, %		7	10	10	
Employees with collective agreements, %		99	99	99	
Employees who have had performance reviews, %		n/a	77	79	
Women in the workforce at end of year, %	6	20	21	23	
Women in managerial positions, %	6	n/a	n/a	18	
Employee survey, satisfaction		n/a	68	69	
Employee survey, loyalty		n/a	82	82	
Leadership index, %		n/a	71	75	
<b>Partnerships, responsible sourcing and ethical behaviour</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>	
EcoVadis rating and points	2	n/a	Silver, 54	Silver, 58	
Number of new sustainable products and services		>10	>10	>10	At least 10 per year
Employees who have completed the Code	7	n/a	10%	37%	100% by 2020
Suppliers that fulfil Ahlseil's Code of Conduct	7	33%	48%	76%	All
Evaluated suppliers, % of purchased value		20%	34%	44%	50% within four years (base year 2016)
Continuous improvements in logistics centres, number of proposals for improvement		1,520	1,538	1,480	
Continuous improvements in logistics centres, proposals implemented, %		70%	54%	62%	

## NOTE 1 Compliance

The Sustainability Report has been prepared in accordance with the Swedish Annual Accounts Act and contains such information as is necessary in order to gain an understanding of Ahlseil's sustainable development and results. Information about Ahlseil's material topics, risks and opportunities, policies and guidelines and results is presented in the publication. Ahlseil strives to show exemplary, reliable citizenship, which means that we follow both industry guidelines and laws in our countries of operation. It also means that Ahlseil does not engage in aggressive tax planning, and that we are careful to pay the correct tax in our countries of operation.

Information on environmental and social aspects has been partly integrated into the annual report to provide a more complete picture of Ahlseil and the business. "Sustainability in everything we do" is part of the strategy, and for this reason both financial and non-financial data is reported in the annual report. The main sources of comprehensive and accurate information about Ahlseil in the area of sustainability are this annual report and the website.

## NOTE 2 Initiatives

Since the 2016 annual report, Ahlseil has reported in accordance with, or inspired by, the GRI Standards. Global Reporting Initiatives (GRI) guidelines include an internationally recognised set of indicators for economic, environmental and social aspects. In the 2018 annual report, Ahlseil reports according to the GRI Standards 2016, which means that the report provides a complete and comparable picture of operations and stakeholders' material topics.

Ahlseil has signed the United Nations Global Compact voluntary initiative. By approving the UN Global Compact, we undertake to follow the ten principles on human rights, labour rights, the environment and anti-corruption. Ahlseil reports according to the "comprehensive" option. Ahlseil's Code of Conduct is an important tool in implementing the UN Global Compact. It describes how we should act and what requirements we set for our suppliers. The Code of Conduct is published on our website and is based on the UN Global Compact, the UN's Universal Declaration on Human Rights and related UN conventions, the ILO Core Conventions and the OECD Guidelines.

EcoVadis - EcoVadis is a platform that collects sustainability data and which is used for the purpose of reviewing its suppliers. At Ahlseil, we report data to EcoVadis and achieved silver (58 points) in 2018 with underlying data reported in 2017.

TCFD – In June 2017, Task Force on Climate-related Financial Disclosures (TCFD) presented its recommendations on reporting climate-related information. TCFD's framework provides information on:

- 1) how the climate issue is dealt with by the organisation's governing bodies (the board and management group),
- 2) what the organisation's strategy is on climate change and the transition to a low carbon society,
- 3) the organisation's climate risks and opportunities, and
- 4) what metrics and goals the organisation uses.

At the end of 2018, Ahlseil does not officially support TCFD's recommendations, but we intend to make a decision about this in the years that follow.

Carbon Disclosure Project (CDP) – The CDP is an organisation that encourages companies to measure, report and reduce their impact on the environment. At the end of 2018, Ahlseil has not yet undertaken to officially support CDP, but work is in progress in the organisation to investigate if and when this may become relevant.

Ahlseil has chosen not to pay for inclusion in rankings or lists, regardless of the size of the requested fee, and intends to uphold this principle. An independent and quantitative survey of 6,874 listed companies conducted by Arabesque S-ray showed Ahlseil to be in the top 10% in the world in terms of compliance with the UN Global Compact and ESG (Environment, Social and Governance).

## NOTE 3 Scope

The annual report, including the sustainability report, covers the 2018 financial year, unless otherwise stated. Ahlseil's sustainability strategy was adopted in 2017. The base year for all calculations relating to the environment, energy and suppliers is 2016 and the target must be met by 2020. Measurement figures for employees and HR have been implemented on an ongoing basis and do not have a target year, apart from the proportion of employees who have participated in the training game The Code.

Ahlseil has chosen to report values that are considered material, which means that we report sustainability data for our three main markets of Sweden, Norway and Finland, which together represent 97% of our net sales. In some calculations, we have opted to treat these three main markets as one region. For example, with regard to employees.

Operations acquired during the year are also covered by this sustainability report, which may result in certain changes in reported results between the years. Operations divested during the year are not covered.

The sustainability report and the report on the Group's governance are integrated into the annual report. In accordance with Chapter 6, Section

11 of the Swedish Annual Accounts Act, Ahlseil has chosen to establish the statutory sustainability report as a separate report. The reviewed Sustainability Report appears on pages 14-16, 19-31, 46-50 (sustainability-related risks) and 116-120.

## NOTE 4 Data collection and responsibility

Data is collected partly through a new system for the Group, namely Position Green, the financial system, the payroll system and manually. Previously reported values are not normally corrected retrospectively, but if this is done, it only happens in cases where the calculation method has changed. Responsibility for reporting sustainability data lies with the respective head of operations and/or company manager in each country.

### Value creation for all stakeholders

- Data for calculations of value creation come from the financial reporting system.

### Reducing environmental impacts

- Since the end of 2018, our three main markets of Sweden, Norway and Finland, which together represent 97% of our net sales, report their environmental data in the Position Green system.
- Reporting of greenhouse gases is based on data collected from operations in our main markets of Sweden, Norway, Finland and subsidiaries that are not included in the system with net sales of more than MSEK 250 (Bekken & Ström and Prevx).
- In the 2016 measurements, segment Other was also included in the calculation, as estimates were made based on net sales in relation to the Group's net sales. As these markets are not defined as main markets, we have chosen not to report for them.
- Greenhouse gas reporting is conducted in accordance with the GHG protocol (ghgprotocol.org).
- Conversion factors to carbon dioxide equivalents have been taken from Swedish Environmental Emissions Data (SMED), Swedenergy, Entellos, Energia, Stockholm Exergi, Preem, Pelletsförbundet and JATO.
- Scope 1 includes work machines (diesel), oil heating, pellet heating. Scope 2 includes district heating, district cooling and electricity. Scope 3 includes freight transport that we have at our disposal and business travel (company/private car, air travel)
- For the conversion of kWh, Nordic residual mix 2017 has been used and retrieved from the Swedish Energy Markets Inspectorate.
- Freight transport emissions are calculated using NTMcalc.
- Ahlseil reported a direct energy consumption of 42,688 MWh in the 2017 annual report. In this calculation, heating was not included. The reporting for 2017 has subsequently been changed to include both electricity consumption and heating (new figure 65,233).

### Employees, health and safety

- Information on the number of employees, age distribution and gender distribution comes from the financial reporting system.
- Information about the type of employment, full-time & part-time and permanent & temporary, comes from the payroll system.
- In the calculations above, we have chosen to only include our operations in Europe, in order to obtain a fair overall regional picture.
- Information on employees' work attendance, work-related accidents, staff turnover, proportion of employees with collective agreements, proportion of employees who have had performance reviews, proportion of women in managerial positions, employee survey, satisfaction, loyalty and leadership index are manually collected and compiled for our main markets.
- In the calculations for regular performance and career development reviews, we report according to GRI 404-3, with omission in terms of distribution by category of employment and gender. The reason for the omission is that we do not have system support to gather this information and that the manual handling of data cannot be secured for external publishing. In 2019, a new employee information system will be implemented. This new system will be able to give us reliable information in this topic.

### Partnerships, responsible sourcing and ethical behaviour

- The target figure "at least 10 new sustainable products and services offered to our customers per year" is measured monthly in Sweden and quarterly at Group level.
- The proportion of employees who have completed the game the Code is measured monthly. In Sweden, our LMS (Learning Management System; Ahlseil Business School) is used for collecting data which is then submitted to Position Green. In Norway and Finland, manual measurement is used, which is then transferred to Position Green.
- The target words "All our suppliers fulfil our Code of Conduct" and "evaluated suppliers" are monitored on an ongoing basis, partly in connection with new agreements and in follow-ups.
- Constant improvements at the logistics centres are monitored with the help of an improvement manager who is responsible for receiving, following up and implementing proposals on an ongoing basis.

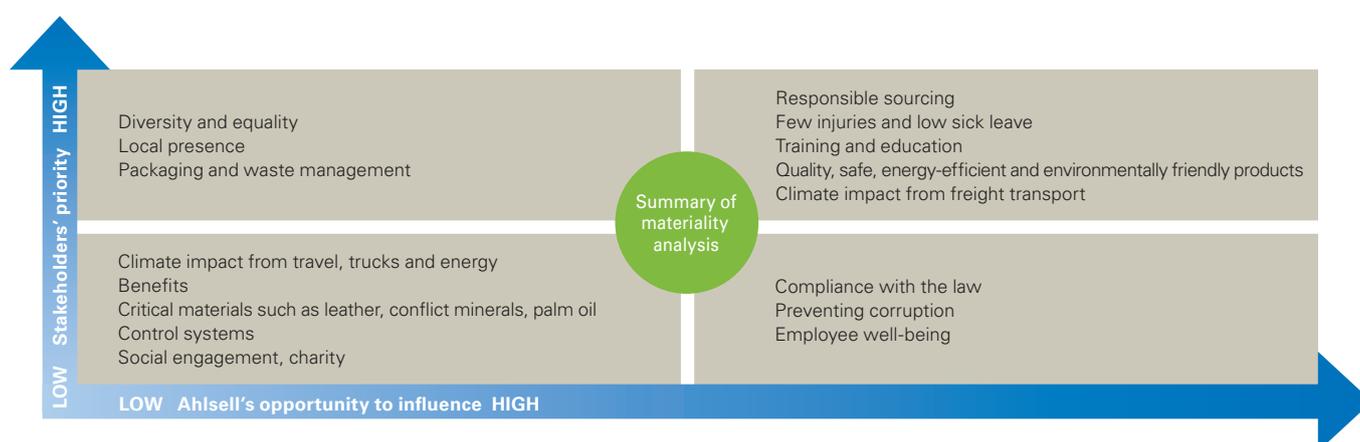
## NOTE 5 Stakeholder dialogue and materiality analysis

Ahlseil has thousands of different stakeholders and we have defined our most important ones as the groups that are most affected by our operations and/or affect our operations. We have therefore defined six stakeholder groups: suppliers, employees, customers, shareholders and capital providers, society and organisations. Learn more about ongoing dialogues with our stakeholders and their most important focus areas on page 21.

In 2016, Ahlseil conducted an extensive materiality analysis with stakeholders such as customers, suppliers, owners and others. The analysis was carried out through workshops, questionnaires and interviews. The purpose of the analysis was to identify sustainability areas that are relevant and areas where Ahlseil can also make the most positive impact.

Group management continuously reviews the key figures that are considered material to our stakeholders. Topics from customers, suppliers, investors, employees, journalists, students and others provide a solid basis for continuous analysis and improvement. About 70% of Ahlseil employees work in sales, which means that our customers are never far from an employee to share their views with.

Based on ongoing dialogues with stakeholders and the results of the questionnaire, available on the website, it is Ahlseil's assessment that the analysis is still relevant. Ahlseil plans to carry out a new comprehensive stakeholder and materiality analysis during the period 2019–2020.



## NOTE 6 Employees

In 2018, the average number of employees was 5,829. The number of employees at the end of the year was 5,724. In our calculations below, we have chosen not to include our purchasing function in China in order

to enable regional collection of data, i.e. our data covers the region of Europe. The purchasing function in China had an average of 12 employees during the year.

### Average number of employees, excl. China, men and women, total in Group and by segment

	Total	Sweden	Norway	Finland	Denmark	Other (Estonia, Poland, Russia)
Total no of employees	5,817	3,636	1,255	598	90	238
Of which men	4,458	2,745	987	502	66	158
Of which women	1,359	891	268	96	24	80
Women,%	23%	25%	21%	16%	27%	34%

The proportion of female managers was 18% at the end of the year. The calculation covers our main markets.

### Number of employees by category, excl. China, at end of year

	Number	%
Administration	386	7%
Sales	3,844	67%
Logistics	1,303	23%
Purchasing	191	3%
Total	5,724	100%

### Average number of employees, excl. China, by gender and age group

	Women, number	Men, number	Total	Women by age category	Men by age category	Proportion of women	Proportion of men
Under 30 years of age	260	571	831	31%	69%	19%	13%
30-40 years of age	302	871	1,173	26%	74%	22%	20%
40-50 years of age	410	1,219	1,629	25%	75%	30%	27%
50-60 years of age	303	1,314	1,617	19%	81%	22%	29%
Over 60 years of age	84	483	567	15%	85%	6%	11%
Total	1,359	4,458	5,817	23%	77%	100%	100%

**Distribution of average number of employees, excl. China, by gender and length of service**

	Women, number	Men, number	Total	Women by length of service	Men by length of service	Proportion of women	Proportion of men
Under 30 years	736	1,950	2,686	27%	73%	54%	44%
30-40 years	189	732	921	21%	79%	14%	16%
40-50 years	161	590	751	21%	79%	12%	13%
50-60 years	183	777	960	19%	81%	13%	17%
Over 60 years	90	409	499	18%	82%	7%	9%
<b>Total</b>	<b>1,359</b>	<b>4,458</b>	<b>5,817</b>	<b>23%</b>	<b>77%</b>	<b>100%</b>	<b>100%</b>

**Distribution of average number of employees, excl. China, by permanent and temporary, and by gender**

	Women, number	Men, number	Total	Women by form of employment	Men by form of employment	Proportion of women	Proportion of men
Permanent	1,096	3,841	4,937	22%	78%	81%	86%
Temporary	51	71	122	42%	58%	4%	2%
Uncategorised	212	546	758	28%	72%	16%	12%
<b>Total</b>	<b>1,359</b>	<b>4,458</b>	<b>5,817</b>	<b>23%</b>	<b>77%</b>	<b>100%</b>	<b>100%</b>

Data collected for our three main markets, Sweden, Norway and Finland, with the exception of certain acquisitions not yet included in the figures. "Uncategorised" therefore covers Denmark, Other and acquisitions not yet integrated.

**Distribution of average number of employees, excl. China, by full-time and part-time, and by gender**

	Women, number	Men, number	Total	Women by form of employment	Men by form of employment	Proportion of women	Proportion of men
Full time	1,036	3,805	4,841	21%	79%	76%	85%
Part time	111	107	218	51%	49%	8%	2%
Uncategorised	212	546	758	28%	72%	16%	12%
<b>Total</b>	<b>1,359</b>	<b>4,458</b>	<b>5,817</b>	<b>23%</b>	<b>77%</b>	<b>100%</b>	<b>100%</b>

Data collected for our three main markets, Sweden, Norway and Finland, with the exception of certain acquisitions not yet included in the figures. "Uncategorised" therefore covers Denmark, Other and acquisitions not yet integrated.

**NOTE 7 Code of Conduct and The Code**

Our Code of Conduct applies to all employees in the AhlSELL Group and all business partners. Our Code of Conduct is used in our evaluations of business partners.

The Code of Conduct does not replace legislation and AhlSELL must always comply with legal requirements and regulations in the countries in which we operate. The same requirements apply to our business partners.

If there is a conflict between the Code of Conduct and the law, the law shall prevail. However, if the Code of Conduct sets a higher standard than existing legislation, the Code of Conduct shall apply.

AhlSELL's CEO has overall responsibility for implementation and compliance with AhlSELL's Code of Conduct. The Head of Operations are responsible for implementation and compliance in each country and segment. It is the responsibility of employees to ensure that they understand and comply with the content of the Code of Conduct and related documents. Managers are also responsible for ensuring that each employee is updated on current policies during the annual employee interviews.

We continuously monitor whether our operations comply with our obligations under the Code of Conduct. The Code of Conduct is also the part of the introduction programme for new employees.

If any stakeholder, either internal or external, considers that AhlSELL is not acting in accordance with the Code of Conduct or that AhlSELL's business partners do not meet the terms of the Code of Conduct, we encourage them to contact the Head of Internal Control at AhlSELL by using the web form under whistleblowing at [www.ahlsell.com](http://www.ahlsell.com).

To make it easier to understand and follow the Code of Conduct, we have developed "The Code". This is a digital training game that increases understanding of the problematic situations that may arise in employment. Employees are required to respond to real dilemmas within e.g. work environment, bribery and competition issues. All employees must have completed the game by 2020. At the end of December 2018, about 2,150 AhlSELLers had played the game. (37% of the average number of employees in 2018).

	Number	% of average employees
Total	2,149	37
- of which Sweden	1,776	49

**NOTE 8 Auditor's Limited Assurance Report**

AhlSELL's sustainability report has been prepared in accordance with GRI Standards, Core level. The annual report has been reviewed and approved by the Company's Group management and Board. KPMG AB has undertaken a limited assurance review of the sustainability information.

# GRI-index

	GRI Standards	Page reference and/or comments
	<b>General information (GRI Standard 2016)</b>	
102-1	Name of the organisation	78
102-2	Activities, brands, products and services	9-10, 13, 27
102-3	Location of headquarters	78
102-4	Location of operations	42
102-5	Ownership and legal form	58
102-6	Markets served	42
102-7	Scale of the organisation	42 and 44
102-8	Information on employees and other workers	28-33 and sustainability note 6
102-9	Supply chain	13
102-10	Significant changes to the organisation and its supply chain	13, 21, 26-27
102-11	Precautionary principle or approach	24
102-12	External initiatives	Sustainability note 2
102-13	Membership of associations	21
102-14	Statement from senior decision makers	4-5 and 58
102-16	Values, principles standards and norms of behaviour	23, 29 and 31
102-18	Governance structure	22-23 and 54-63
102-40	List of stakeholder groups	20-21
102-41	Collective bargaining agreements	23
102-42	Identifying and selecting stakeholders	20-21 and sustainability note 5
102-43	Approach to stakeholder engagement	21 and sustainability note 5
102-44	Key topics and concerns raised	21 and sustainability note 5
102-45	Entities included in the consolidated financial statements	The report covers the entire Group, unless otherwise stated
102-46	Defining report content and topic boundaries	Sustainability note 3
102-47	List of material topics	21 and sustainability note 5
102-48	Restatements of information	Sustainability note 3
102-49	Changes in reporting in key topics	Sustainability note 5
102-50	Reporting period	1 Januari 2018 - 31 December 2018
102-51	Date of most recent report	16 March 2018
102-52	Reporting cycle	Calendar year
102-53	Contact point for questions regarding the report	karin.larsson@ahlsell.se
102-54	Claims of reporting in accordance with the GRI Standards	Yes, see sustainability note 8
102-55	GRI index	120-121
102-56	External assurance	122
	<b>Anti-corruption (GRI Standard 2016)</b>	
103-1	Explanation of the material topic and its boundary	23, 31, 48 and sustainability note 5 and 7
103-2	Sustainability Governance	23, 31, 48 och hållbarhetsnot 7
103-3	Evaluation of the governance	23, 26 och hållbarhetsnot 7

	GRI Standards	Page reference and/or comments
205 – Own indicator	Communication and training about anti-corruption policies and procedures	Sustainability note 7
205-3	Confirmed incidents of corruption and actions taken	26
	<b>Energy use (GRI Standard 2016)</b>	
103-1	Explanation of the material topic and its boundary	Sustainability note 3-5
103-2	Sustainability Governance	22-24 and 50
103-3	Evaluation of the governance	23
302 – Own indicator	Energy consumption within the organisation	116
	<b>Emissions (GRI Standard 2016)</b>	
103-1	Explanation of the material topic and its boundary	Sustainability note 3-5
103-2	Sustainability Governance	22-24 and 50
103-3	Evaluation of the governance	23-24
305-1	Direct (Scope 1) GHG emissions	19, 24, 116 and sustainability note 3-4
305-2	Direct (Scope 2) GHG emissions	19, 24, 116 and sustainability note 3-4
305-3	Direct (Scope 3) GHG emissions	19, 24, 116 and sustainability note 3-4
305-4	Tonnes CO2 emissions/MSEK net sales	19, 24 and sustainability note 4
	<b>Waste</b>	
103-1	Explanation of the material topic and its boundary	Sustainability note 3-5
103-2	Sustainability Governance	22-24 and 50
103-3	Evaluation of the governance	23-24 and 116
306 – Own indicator	Recycling rate	24
	<b>Supplier environmental assessment</b>	
103-1	Explanation of the material topic and its boundary	Sustainability note 3-5
103-2	Sustainability Governance	23
103-3	Evaluation of the governance	23, 26 and 116
308 – Own indicator	New suppliers that were screened using environmental criteria	26
	<b>Occupational health and safety</b>	
103-1	Explanation of the material topic and its boundary	Sustainability note 3-5
103-2	Sustainability Governance	28, 31
103-3	Evaluation of the governance	19, 23 and 28
403 – Own indicator	Health presence in percent	28-29 and 116
403 – Own indicator	Number of work-related accidents	28-116
	<b>Training and education (GRI Standard 2016)</b>	
103-1	Explanation of the material topic and its boundary	Sustainability note 3-5
103-2	Sustainability Governance	31 and 116
103-3	Evaluation of the governance	23 and 31
404-3 – with deviation	Percentage of employees receiving regular performance and career development reviews	30, 116 and sustainability note 4

## **Auditor's Limited Assurance Report on AhlSELL ABs Sustainability Report and statement regarding the Statutory Sustainability Report**

To AhlSELL AB, Corp. id. 556882-8916

### **Introduction**

We have been engaged by the Board of Directors and Chief Executive Officer of AhlSELL AB to undertake a limited assurance engagement of AhlSELL ABs Sustainability Report for the year 2018. AhlSELL AB has defined the scope of the Sustainability Report, which also constitutes the Statutory Sustainability Report, on page 2 in this document.

### **Responsibilities of the Board and Group Management**

The Board of Directors and the Group Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 119 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report. Our assignment is limited to the historical information that is presented and does not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of financial information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR:s accounting standard RevR12 The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 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.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of AhlSELL AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence obtained is sufficient and appropriate to provide a basis for our conclusions below.

### **Conclusions**

Based on the limited assurance procedures performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and the Group Management. A Statutory Sustainability Report has been prepared.

Stockholm, March 14, 2019

KPMG AB

Joakim Thilstedt  
Authorised Public Accountant

Torbjörn Westman  
Specialist Member, FAR

# Glossary

<b>Active customers</b>	Customers who regularly shop at AhlSELL.	<b>Omni-channel</b>	AhlSELL offers its customers the opportunity to shop through several sales channels, referred to as omni-channel. Also called multichannel.
<b>Active suppliers</b>	Suppliers from which AhlSELL buys goods for at least SEK 150,000 per year.	<b>One-stop shop</b>	For AhlSELL, the concept means that customers can find everything they need with us. A distributor who is always close by and provides what the customer is looking for.
<b>B2B</b>	Abbreviation of Business to Business, which refers to transactions between companies.	<b>On-site solution</b>	A sales solution that includes, but is not limited to, vending machines, temporary sales outlets at the customer's premises and unmanned stores.
<b>The Code</b>	The name of the interactive game used for training in AhlSELL's Code of Conduct.	<b>Pop-up store</b>	A temporary store, built using containers, at an attractive venue that may change.
<b>CRM system</b>	Abbreviation of Customer Relationship Management.	<b>PPE</b>	Abbreviation of personal protective equipment.
<b>Cross-selling</b>	Means that the same customer buys products from different product segments.	<b>Private label product</b>	A product manufactured by a third party and sold under a retailer's brand name.
<b>DIY</b>	Do-it-yourself. Products used by people doing their own decorating or repairs.	<b>RFID</b>	Abbreviation of Radio-frequency identification.
<b>EDI</b>	Abbreviation of Electronic Data Interchange, which is an electronic communication method for automatic transfers of order data.	<b>RMI</b>	Abbreviation of renovation, maintenance and improvement.
<b>ERP</b>	Abbreviation of Enterprise Resource Planning – a business system that encompasses several functions, such as purchasing, planning and sales.	<b>RTM</b>	Abbreviation of rolling twelve months.
<b>GDP</b>	Abbreviation of gross domestic product.	<b>Runners</b>	Support persons who help make our customers' everyday life easier by dealing with tasks such as unpacking goods.
<b>GRI</b>	Abbreviation of Global Reporting Initiative.	<b>SEK and MSEK</b>	Swedish kronor and millions of Swedish kronor.
<b>HVAC &amp; Plumbing</b>	Abbreviation of heating, ventilation and air-conditioning.	<b>SKUs</b>	Abbreviation of Stock-Keeping Units, referring to items stored in AhlSELL's central warehouses in Hallsberg, Gardemoen or Hyvinkää.
<b>KPI</b>	Key Performance Indicator, another term for performance measure.	<b>SME customers</b>	Abbreviation of small and medium-sized enterprise customers.
<b>Main markets</b>	For AhlSELL, refers to Sweden, Norway and Finland.	<b>UN</b>	Abbreviation of United Nations.
<b>Multi-segment buyer</b>	To be a multi-segment buyer, customers must be active and buy at least 5% of their purchases from their second-largest product segment.		
<b>OEM</b>	Abbreviation of Original Equipment Manufacturer – the company that manufactures the product.		

# Definitions of performance measures

Performance measures	Description	Reason for use
<b>Adjusted EBITA</b>	EBITA excluding items affecting comparability.	Adjusted EBITA excludes items affecting comparability and AhlSELL therefore considers it a useful measure of profit generated by operating activities.
<b>Adjusted EBITA margin, %</b>	EBITA excluding items affecting comparability as a percentage of net sales.	Adjusted EBITA margin excludes items affecting comparability and AhlSELL therefore considers it a useful measure of profit generated by operating activities.
<b>Adjusted EBITDA</b>	EBITDA excluding items affecting comparability.	Adjusted EBITDA excludes items affecting comparability and AhlSELL therefore considers it a useful measure of profit generated by operating activities..
<b>Average operating capital</b>	Average operating capital, calculated as the average of the opening balance, closing balance and the quarters in between.	This measure shows the average operating capital tied up in operations, including intangible assets.
<b>Average operating capital (excluding intangible assets)</b>	Average operating capital (excluding intangible assets) calculated as the average of the opening balance, closing balance and the quarters in between.	This measure shows the average operating capital tied up in operations, excluding intangible assets.
<b>Average working capital</b>	Average working capital, calculated as the average of the opening balance, closing balance and the quarters in between.	This measure indicates how much working capital is tied up in operations on average and can be set in relation to net sales in order to assess the efficiency of tied-up working capital.
<b>Debt/equity ratio</b>	Net debt in relation to equity.	AhlSELL considers that this KPI shows financial risk and provides management with a useful tool for monitoring Group debt.
<b>EBIT margin, %</b>	Operating profit (EBIT) as a percentage of net sales.	Used to monitor value creation.
<b>EBITA</b>	Operating profit/loss excluding amortisation and impairment of intangible assets.	Provides an overall picture of profit generated by operating activities.
<b>EBITA margin, %</b>	EBITA as a percentage of total net sales.	AhlSELL considers EBITA margin useful in monitoring value creation, together with sales growth and working capital.
<b>EBITDA</b>	Operating profit/loss excluding amortisation/ depreciation and impairment of assets.	EBITDA and EBITA together provide an overall picture of profit generated by operating activities.
<b>Equity/assets ratio</b>	Equity as a percentage of total assets.	Provides management with information about the percentage of assets funded by equity.
<b>External net debt/Adjusted EBITDA</b>	External net debt in relation to adjusted EBITDA	This helps to show financial risk and provides management with a useful measure in monitoring the level of the Group's debt.

<b>Performance measures</b>	<b>Description</b>	<b>Reason for use</b>
<b>Net debt</b>	Non-current and current interest-bearing liabilities less non-current and current interest-bearing assets.	A measure used to show the Group's total debt.
<b>Number of employees at end of period</b>	Number of persons who received a salary, converted to full-time, in the last month of the period.	Provides management with information about the number of full-time employees in the Group.
<b>Operating capital</b>	Property, plant and equipment, goodwill and other intangible assets, deferred tax assets and working capital less deferred tax liabilities, provisions (non-current and current) and other non-current liabilities. The figure represents an average for each period based on quarterly data.	This measure shows the capital tied up in operations, including intangible assets.
<b>Operating capital (excluding intangible assets)</b>	Operating capital less goodwill and other intangible assets, and related deferred tax. The figure represents an average for each period based on quarterly data.	This measure shows the capital tied up in operations, excluding intangible assets.
<b>Operating cash flow</b>	Cash flow based on business operations, excluding financial transactions, taxes and acquisitions and divestments of operations.	Used by management to monitor cash flow generated by operating activities.
<b>Operating cash flow/EBITDA (cash conversion)</b>	Operating cash flow in relation to EBITDA.	Cash conversion is used by management to assess the efficiency of tied-up working capital.
<b>Organic growth</b>	Sales growth excluding the difference in the number of days worked, exchange rate fluctuations and acquisitions.	Used by management to analyse underlying sales growth driven by volume, price and product mix changes for comparable business units across different periods.
<b>Return on equity</b>	Profit after tax for the period as a percentage of average equity.	From a shareholder perspective, shows the return on capital invested in the company by shareholders.
<b>Return on operating capital</b>	Operating profit as a percentage of average operating capital.	This measure shows the return on capital tied up in operations, including intangible assets.
<b>Return on operating capital (excluding intangible assets)</b>	EBITA as a percentage of average operating capital (excluding intangible assets).	This measure shows the return on operating capital tied up in operations (excluding intangible assets).
<b>Return on working capital</b>	EBITA as a percentage of average working capital.	This measure shows the return on working capital tied up in operations.
<b>Working capital</b>	Inventories, trade receivables and other operating receivables less trade payables and other current liabilities (excluding interest). The figure represents an average for each period based on quarterly data.	This measure indicates how much working capital is tied up in operations and can be set in relation to net sales in order to assess the efficiency of tied-up working capital.

# Performance measures

MSEK unless otherwise stated	2018	2017	2016
<b>Sales measures</b>			
Net sales	31,291	27,484	24,606
Growth, %	14%	12%	9%
Organic growth, %	7%	9%	7%
<b>Income measures</b>			
Operating profit (EBIT)	2,138	2,043	1,719
EBITA	2,520	2,394	2,058
Adjusted EBITA	2,587	2,405	2,131
EBITDA	2,721	2,562	2,215
Adjusted EBITDA	2,788	2,573	2,287
<b>Margin measures</b>			
EBIT margin, %	6.8%	7.4%	7.0%
EBITA margin, %	8.1%	8.7%	8.4%
Adjusted EBITA margin, %	8.3%	8.8%	8.7%
<b>Cash flow measures</b>			
Cash flow for the period	-49	86	-1,155
Operating cash flow	2,201	1,991	2,000
Operating cash flow/EBITDA (cash conversion)	81%	78%	90%
<b>Capital structure</b>			
Cash	1,248	1,295	1,209
Net debt	6,684	6,742	7,486
Net debt/Adjusted EBITDA	2.4	2.6	3.3
Debt/equity ratio, times	0.7	0.7	0.9
Working capital (average)	3,125	2,429	2,189
Working capital at end of period	2,947	2,483	2,042
Operating capital (average)	17,088	15,890	15,529
Operating capital, excluding intangible assets (average)	3,983	3,277	3,058
Equity/assets ratio, %	38%	36%	34%
<b>Returns</b>			
Return on operating capital, %	13%	13%	11%
Return on operating capital (excluding intangible assets), %	63%	73%	67%
Return on equity, %	17%	17%	15%
Return on working capital %	81%	99%	94%
<b>The share<sup>1</sup></b>			
Number of shares outstanding at end of period (thousands)	436,302	436,302	436,302
Number of shares outstanding, net after repurchase (thousands)	429,302	429,302	436,302
Weighted average number of basic shares outstanding, net after repurchase (thousands)	429,302	435,415	308,409
Weighted average number of diluted shares outstanding, net after repurchase (thousands)	429,871	435,428	308,409
Basic earnings per share, SEK	3.68	3.28	1.11
Diluted earnings per share, SEK	3.68	3.28	1.11
<b>Other</b>			
Number of employees at end of period	5,724	5,471	5,090
Average number of employees	5,829	5,106	4,791

1) Historically, the number of shares has been adjusted so that the number of diluted shares equals the number of shares following a split.

# Alternative performance measures

Organic growth, EBITA, Adjusted EBITA, EBITA margin and Adjusted EBITA margin are alternative performance measures, for which detailed calculations are presented below. The APMs are used by management to monitor business performance.

**01/01/2018 – 31/12/2018**

## ORGANIC GROWTH

%	Group	Sweden	Norway	Finland	Denmark	Other
Growth, %	14%	12%	19%	17%	16%	13%
Proforma, %	-5%	-5%	-9%	-2%	0%	0%
Currency, %	-2%	0%	-4%	-7%	-7%	-5%
Difference in number of trading days, %	0%	0%	1%	0%	1%	0%
<b>Organic growth, %</b>	<b>7%</b>	<b>8%</b>	<b>7%</b>	<b>7%</b>	<b>10%</b>	<b>9%</b>

## EBITA/ADJUSTED EBITA

MSEK	Group	Sweden	Norway	Finland	Denmark	Other	Central
EBIT	2,138	2,093	62	81	52	13	-163
Amortisation and impairment of intangible assets	382	263	65	47	6	0	1
<b>Profit (EBITA), MSEK</b>	<b>2,520</b>	<b>2,356</b>	<b>127</b>	<b>127</b>	<b>59</b>	<b>13</b>	<b>-162</b>
Items affecting comparability <sup>1</sup>	67	30	37	–	–	–	–
<b>Adjusted EBITA, MSEK</b>	<b>2,587</b>	<b>2,386</b>	<b>164</b>	<b>127</b>	<b>59</b>	<b>13</b>	<b>-162</b>

## EBITA MARGIN/ADJUSTED EBITA MARGIN

%	Group	Sweden	Norway	Finland	Denmark	Other
EBIT margin, %	6.8%	10.4%	1.0%	2.2%	11.8%	2.5%
Amortisation and impairment of intangible assets, %	1.2%	1.3%	1.0%	1.2%	1.4%	0.0%
<b>Profit (EBITA) margin, %</b>	<b>8.1%</b>	<b>11.7%</b>	<b>2.0%</b>	<b>3.4%</b>	<b>13.2%</b>	<b>2.5%</b>
Items affecting comparability <sup>1</sup> , %	0.1%	0.1%	0.6%	–	–	–
<b>Adjusted EBITA margin, %</b>	<b>8.3%</b>	<b>11.8%</b>	<b>2.6%</b>	<b>3.4%</b>	<b>13.2%</b>	<b>2.5%</b>

<sup>1</sup> See also note 37

# Multi-year overview

The multi-year overview below shows how the underlying operations have developed over the years. As the Group has changed owners during this period of time, it has had different parent companies during the years below. In certain years, there have been parent companies at a higher level and administration costs for these are not included in the table below.

## Overview 2010–2018

	2018	2017	2016	2015	2014	2013	2012 <sup>1)</sup>	2011 <sup>2)</sup>	2010 <sup>2)</sup>
Net sales, MSEK	31,291	27,484	24,606	22,586	21,779	20,435	20,639	20,434	19,256
Gross profit	8,281	7,423	6,690	6,209	5,993	5,633	5,410	5,305	4,923
EBITDA <sup>4)</sup>	2,721	2,562	2,215	1,990	1,893	1,900	1,736	1,734	1,352
Profit (EBITA) <sup>5)</sup>	2,520	2,394	2,058	1,837	1,757	1,782	1,619	1,626	1,250
<i>EBITA margin, %</i>	8.1	8.7	8.4	8.1	8.1	8.7	7.8	8.0	6.5
EBIT	2,138	2,043	1,719	1,505	1,428	1,467	1,295	1,295	871
Items affecting comparability	-67	-11	-72	-41	-7	-15	-	-	-
Adjusted EBITA	2,587	2,405	2,131	1,878	1,764	1,796	1,619	1,626	1,250
<i>Adjusted EBITA margin, %</i>	8.3	8.8	8.7	8.3	8.1	8.8	7.8	8.0	6.5
Amortisation and impairment of intangible assets	-382	-351	-340	-332	-329	-315	-323	-331	-379
Depreciation and impairment of property, plant and equipment	-201	-168	-156	-153	-136	-118	-117	-108	-102
Operating cash flow	2,201	1,991	2,000	1,838	1,708	2,122	1,584	1,247	1,296
Operating cash flow/EBITDA, %	81	78	90	92	90	112	91	72	96
Average number of employees	5,817	5,106	4,791	4,632	4,586	4,256	4,368	4,301	4,206

## Overview 2000-2009

	2009 <sup>2)</sup>	2008 <sup>2)</sup>	2007 <sup>2)</sup>	2006 <sup>3)</sup>	2005 <sup>3)</sup>	2004 <sup>3)</sup>	2003 <sup>3)</sup>	2002 <sup>3)</sup>	2001 <sup>3)</sup>	2000 <sup>3)</sup>
Net sales, MSEK	18,985	21,979	21,474	18,958	16,245	11,119	9,883	10,069	8,589	7,411
Gross profit	4,731	5,418	5,139	4,647	3,944	2,714	2,282	2,251	1,862	1,604
EBITDA <sup>4)</sup>	1,201	1,406	1,341	1,438	1,059	676	537	487	490	469
Profit (EBITA) <sup>5)</sup>	1,087	1,285	1,222	1,329	966	594	453	398	364	401
<i>EBITA margin, %</i>	5.7	5.8	5.7	7.0	5.9	5.3	4.6	4.0	4.2	5.4
EBIT	740	907	790	1,307	952	441	311	222	243	279
Items affecting comparability	-102	-187	-	-	-	-	-	-	-	-
Adjusted EBITA	1,189	1,472	1,222	1,329	966	594	453	398	364	401
<i>Adjusted EBITA margin, %</i>	6.3	6.7	5.7	7.0	5.9	5.3	4.6	4.0	4.2	5.4
Amortisation and impairment of intangible assets	-347	-378	-432	-22	-13	-154	-143	-176	-121	-122
Depreciation and impairment of property, plant and equipment	-114	-122	-119	-109	-93	-82	-83	-89	-126	-68
Operating cash flow	1,657	1,669	1,229	1,203	-	-	-	-	-	-
Operating cash flow/EBITDA, %	138	119	92	84	-	-	-	-	-	-
Average number of employees	4,341	4,897	4,726	4,460	3,978	3,145	2,944	3,057	2,446	2,070

1) figures refer to the consolidation of Nybrojarl New 1 AB (556715-7812) Group; figures for 2012 are reported in Nybrojarl New 1 AB's separate financial statements for 2013.

2) figures refer to the consolidation of Ahlseil AB (publ)/Nybrojarl New 2 AB (556715-7820) Group. Latvia was included in discontinued operations during the period 2007-2009. The figures for Latvia are not included in the table above.

3) Figures refer to the consolidation of Ahlseil Holding AB (556578-4732) Group. 2006 and 2005, in accordance with IFRS; 2000-2004, in accordance with the recommendations of the Swedish Accounting Standards Board; 2006 and 2005, in accordance with separate financial statements.

4) EBITA = Operating profit/loss excluding amortisation/depreciation and impairment of intangible assets and property, plant and equipment

5) EBITA = Operating profit/loss excluding amortisation and impairment of intangible assets

# Calendar

## Important dates

Date	Event/Report
25 March	Extraordinary General Meeting
9 May*	Annual General Meeting

## EXTRAORDINARY GENERAL MEETING

At the request of Quimper AB, shareholders of AhlSELL are invited to an Extraordinary General Meeting on Monday 25 March 2019 at 14.00 CET at Roschier Advokatbyrå's offices, Brunkebergstorg 2, Stockholm, Sweden.

## ANNUAL GENERAL MEETING 2019

AhlSELL's Annual General Meeting will be held on Thursday 9 May 2019 in Stockholm. The notice convening the AGM is given as an advertisement in Post- och Inrikes Tidningar and as a publication on the Company's website. When notice of the meeting has been given, information to this effect will be announced in Svenska Dagbladet.

Documents to be presented at the Annual General Meeting are available on the Company's website for at least three weeks preceding the Annual General Meeting.

\* Dates and events may be subject to changes, post decisions at the EGM on March 25, 2019

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