

ADMINISTRATION REPORT

1 APRIL 2017 - 31 MARCH 2018

The Board of Directors and the CEO of Addtech AB, company ID number 556302-9726, hereby submit the annual accounts and consolidated financial statements for the 2017/2018 financial year. Comparisons in parentheses refer to the corresponding period of the previous year unless stated otherwise. Pages 22-31 and 35-96 constitute to Addtech's Annual Report and Consolidated Financial Statements, pages 22-31 and 38-40 constitute to Addtech's Sustainability Report and pages 43-51 constitute to Addtech's Corporate Governance Report. All page-numbers refers to the printed Annual Report that can be downloaded from this web.

THE OPERATIONS

Addtech is a Swedish listed technology trading group that provides technological and economic value added in the link between manufacturers and customers. Addtech operates in selected niches in the market for advanced technology products and solutions. Its customers primarily operate in the manufacturing industry and infrastructure. Addtech has around 120 independent subsidiaries that operate under their own brands and about 2,300 employees. The Group's sales amount to over SEK 8 billion and half consist of sales of standard products and half consist of sales of customised products and solutions. Addtech creates optimal conditions for the profitability and growth of subsidiaries. The Addtech share is listed on Nasdaq Stockholm since 2001.

MARKET TREND

From a geographical perspective, our highest rate of growth was in Denmark, followed by Sweden, Finland and Norway. Our business volume outside the Nordic region expanded considerably over the year, through both strong organic growth and acquisitions. With regard to demand in our various customer segments, we increased sales of production components to manufacturers of, for example, special vehicles, machinery, electronics, wind power and marine vessels. Demand from customers was stable in medical technology and oil & gas, but was lower from customers in the telecom segment. Demand for aftermarket products for the manufacturing industry continued to increase, while the pace of investment in the forest and process industry was relatively stable overall. Sales of infrastructure products to power grid companies in the Nordic region were stable overall. Demand for electricity-related products from construction and installation customers continued to grow strongly.

THE YEAR IN BRIEF

At Addtech, 2017/2018 was a strong year, characterised by high activity, a favourable business climate and stable to rising demand in most of our markets. We can announce with pride that once again, we exceeded our financial targets. Sales surpassed SEK 8 billion, with growth of 12 percent, including 5 percent organic growth. Our profit growth, measured as EBITA, was 17 percent and our focused work on continuous development – while keeping costs under control – delivered a higher operating margin. Return on working capital (P/WC) amounted to 53 percent. We maintained a high pace of acquisitions and ended our business year with a total of eleven completed acquisitions that contribute to annual sales of around SEK 700 million.

At the end of the financial year it was announced that Niklas Stenberg had been appointed to serve as the new president and CEO of Addtech and will assume the position in conjunction with the Annual General Meeting on 30 August 2018.

PERFORMANCE BY QUARTER

- **First quarter.** The first quarter of the year showed good growth with a retained operating margin, even compared with a strong quarter last year. The increase in organic net sales of 4 percent provided good earnings growth, while the acquisition we made contributed as expected. Addtech recorded robust demand and the economy in our markets continued to be favourable. Sales of production components to manufacturing companies improved and the biggest increase in demand came from manufacturers of special vehicles, in segments such as forklift trucks, mining, forestry and contracting. Business conditions were also favourable in other customer segments such as machinery manufacturing, medical technology and electronics. The market for products aimed at customers in telecom, as well as in oil and gas, however, continued to be weak. Nordic electricity grid companies saw a slight additional increase in infrastructure investments, from an already high level. In this market demand from customers in power transmission increased, while demand from customers in power distribution remained stable at a high level. The market for electricity-related products in building and installation was favourable. Sales of products to the industrial aftermarket, for example, the mechanical, forest and process industries increased somewhat, while demand from the ship supply market was very buoyant. Three acquisitions were made during the quarter.
- **Second quarter.** The market was very strong during the second quarter and the Group recorded an organic increase of 9 percent in sales and an improved operating margin. Our Components and Industrial Process business areas improved their earnings and operating margins as a result of organic growth and acquisitions. Energy and Power Solutions also experienced growth and continued to deliver high operating margins. The overall demand for our products and solutions was at a high level in most markets. From a geographical perspective, the highest rate of growth was in Finland, while the business situation also improved from an already high level in both Denmark and Sweden. Demand was generally stable in Norway and business outside the Nordic region was still good. Sales of production components to manufacturing companies continued to increase, especially in customer segments such as special vehicles, wind power and marine vessels. Demand was also firm from customers in machine manufacturing, medical technology and electronics, while it was slightly weaker in telecom and oil & gas. Demand for aftermarket products for the production and process industries was positive, with higher sales to the sawmill, paper & pulp and machine manufacturing sectors. Demand from Nordic electricity grid companies, on both the transmission and distribution sides, remained stable at a high level. Sales of electricity-related products in the areas of construction and installation developed positively.
- **Third quarter.** The third quarter was again characterised by favourable conditions for business, and stronger demand in most of our geographical markets and most customer segments. Our level of activity was high, with a strong increase in sales, both organically and via acquisitions. We posted profit growth of 19 percent for the quarter, which was in line with the increase we recorded earlier in the year. The operating margin also continued to strengthen, relative to the preceding year. The Components Business Area delivered an outstanding quarter, via both organic growth and several new acquisitions. In the Energy Business Area, our experience is that the markets are relatively stable, but the quarter showed weaker results due to lower sales and increased competition. Industrial Process and Power Solutions continued to report strong and stable sales and profit growth. Five acquisitions were made during the quarter.
- **Fourth quarter.** The fourth quarter was again characterised by favourable conditions for business, and robust demand in most of our geographical markets and most customer segments. Sales rose by 9 percent, mainly driven by our acquisitions, and we recorded profit growth of 15 percent. As a result, our operating margin was again up on that of the preceding year. Overall, the acquisitions made contributed in line with expectations. Components again delivered a good quarter, via both organic growth and several new acquisitions. Energy reported weaker growth relative to a very strong quarter in the previous year, but maintained a high operating margin. Industrial Process is benefiting from generally favourable market conditions, and delivered good profit growth. Power Solutions is performing at a stable level overall in view of the disposal carried out earlier in the financial year. From a geographical perspective, our highest rate of growth was in Denmark, followed by Sweden, Finland and Norway. Our business volume outside the Nordic region expanded considerably over the year, through both strong organic growth and acquisitions. Three acquisitions were made during the quarter.

