

Sectra contributes to a healthier and safer society



SECTRA

Knowledge and passion

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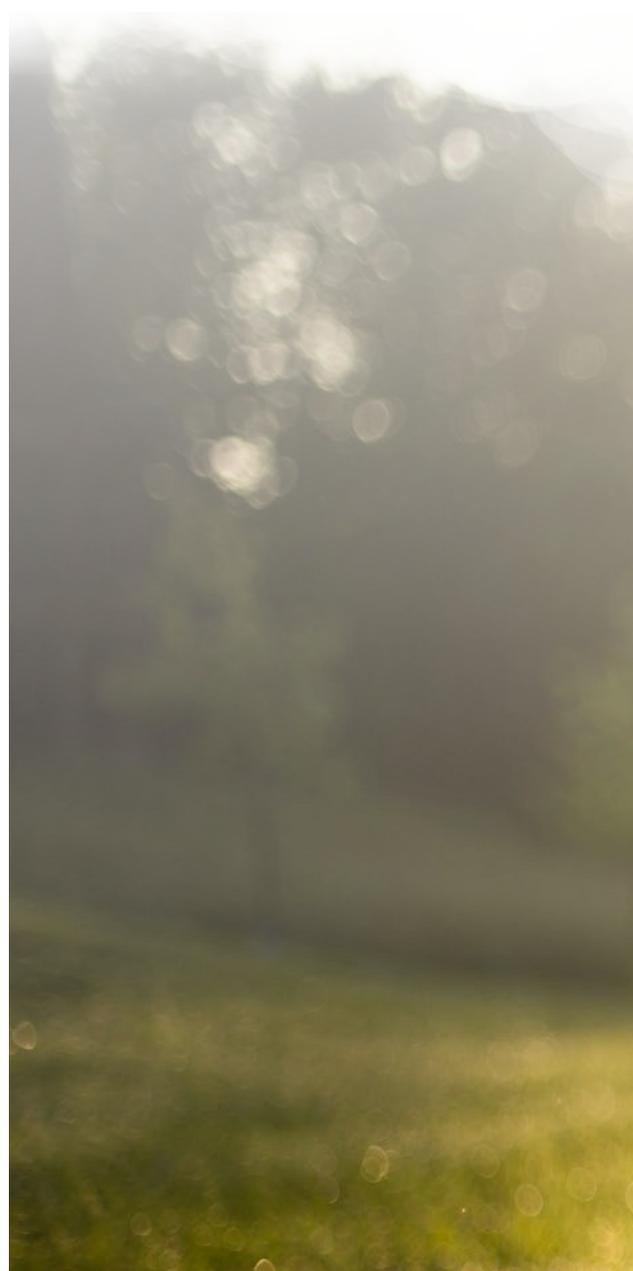
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This is Sectra's Annual and Sustainability Report for 2019/2020. The formal Annual Report is on pages 56–99.

The Sustainability Report [●] comprises the Parent Company's and the Group's statutory sustainability report pursuant to Chapter 6, Section 11 of the Swedish Annual Accounts Act.

The principles for corporate governance and diversity are described in Sectra's Corporate Governance Report, available at investor.sectra.com/governance.

Our customers make society work

Sectra offers solutions for medical IT and cybersecurity. We help hospitals all over the world improve their efficiency so that they can provide better healthcare to patients. We help critical social functions safeguard their ability to supply electricity, water and heating. We help government officials, blue-light emergency services, diplomats and defense forces communicate without the risk of eavesdropping or access violations. This is how we create conditions for a healthier and safer society.



This is Sectra

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

What we do

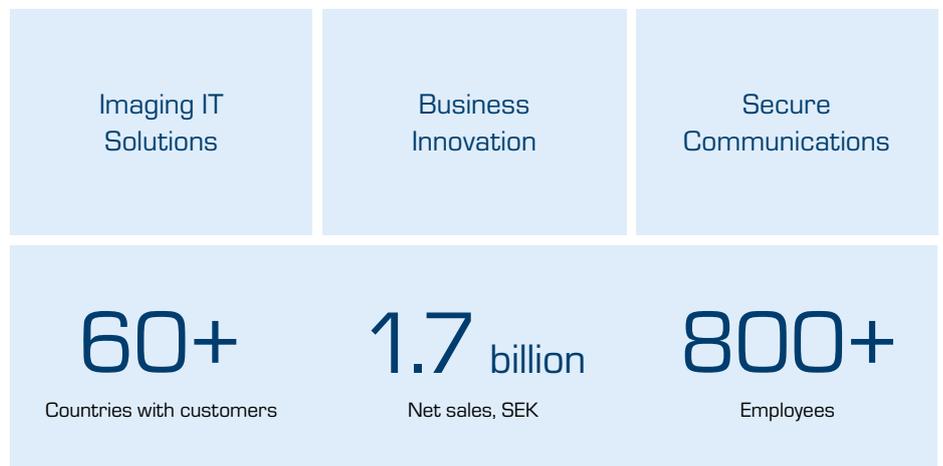
Sectra offers products and services in the medical IT and cybersecurity sectors. We are seeing growing synergies between these areas, since healthcare is increasingly becoming a target for organized cybercrime.

Why we exist—global social trends

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

- The aging population of the industrialized world. This entails a major challenge for healthcare. In order to take care of more patients, particularly more elderly patients, healthcare must become more efficient.
- A greater degree of digitalization throughout society, including in healthcare and critical social functions. Digitalization contributes to efficiency enhancements and simplifies companies' and people's everyday lives, but also leads to society becoming more vulnerable.

Our operating areas



Why invest in Sectra

Our vision—to contribute to a healthier and safer society



7 good reasons to invest in Sectra

International niche markets with healthy growth

IT for healthcare, cybersecurity and critical infrastructure are rapidly evolving markets. This creates major growth opportunities for companies such as Sectra.

Stability, profitability and long-term growth

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

Strong, customer-focused corporate culture

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

Strong brand with multinational reach

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

Innovation

We maintain a high pace of innovation and continuously invest in new and ongoing development of products and services. We also have a self-financed portfolio of exciting projects with the potential to add significant value for customers and for Sectra.

Sustainable business model

Contributing to a better world is the foundation of Sectra's operations and business model. Helping our customers improve the efficiency and quality of patient care and increase cybersecurity in critical social functions is our most significant contribution to a more sustainable society.

Long-standing owners and dedicated management

Our principal owners, who have been involved in the company since the 1980s, are dedicated to the long-term development of the company, and all members of management are shareholders in Sectra.

173.3

Dividend/redemption program, SEK million

+30.4%

Share price trend

+31.8%

Total return on the share

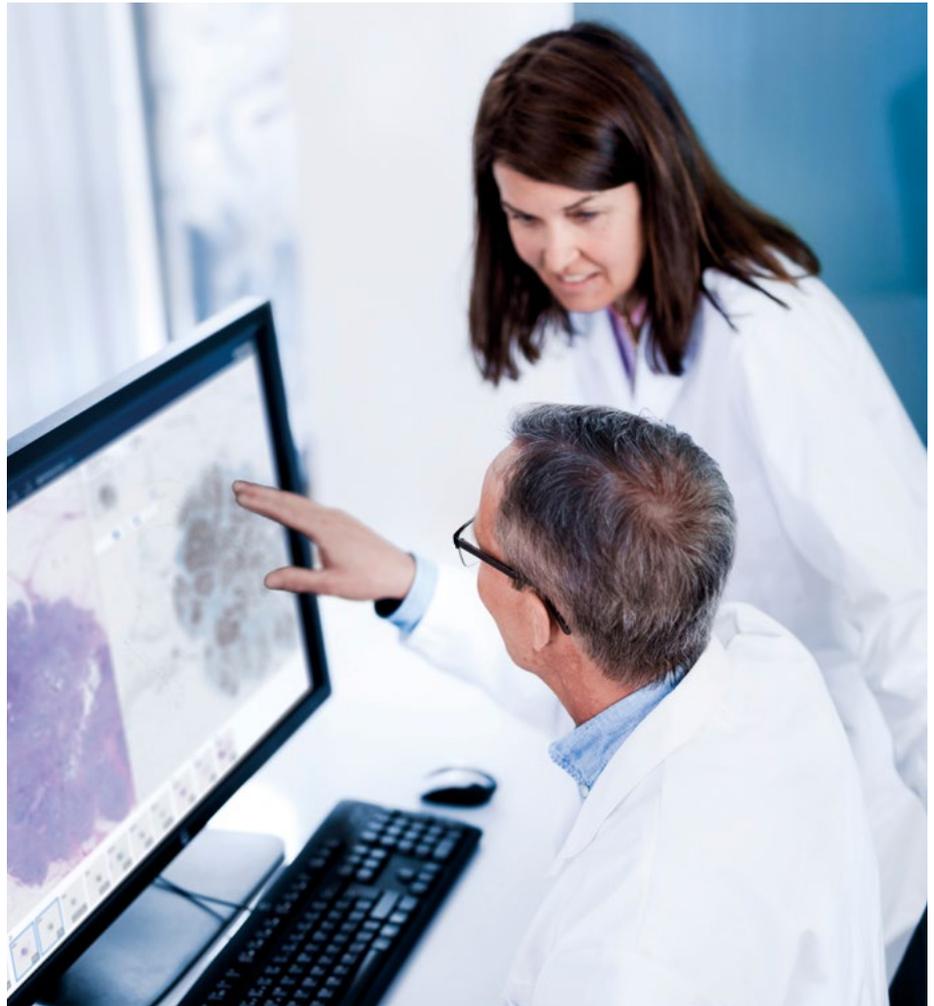
Value we created for our shareholders 2019/2020

The year in brief

Imaging IT Solutions

- We are at the top of customer satisfaction surveys in Canada and the US—seventh consecutive year in the US, which is Sectra's fastest growing market.
- Increased demand for our offering in digital pathology, which was also approved for primary diagnostics and remote reading in the US.
- New partnership for easier and safer introduction of artificial intelligence (AI) into the healthcare sector creates conditions for better patient care.
- Operating profit for Imaging IT Solutions increased 23.6%, a result of many new customers putting Sectra's systems into operation.

To learn more, refer to pages 28–33.



Business Innovation

- New functionality for radiologists and orthopaedists simplifies time-consuming measurements and planning for joint replacement surgery.
- Sapienza University of Rome was one of many customers who used Sectra's cloud-based education portal to conduct remote medical training during the COVID-19 outbreak.

To learn more, refer to pages 34–37.

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Secure Communications

- Approval of Sectra’s quantum secure crypto in the Netherlands—protects national security and society’s most crucial functions.
- Acquisitions strengthened Sectra’s offering to government authorities and private enterprises, and established Secure Communications in the US.
- Capital Markets Day focused on growth potential in cybersecurity; view recorded presentations here:
» investor.sectra.com/cmd26sep

To learn more, refer to pages 42–45.



Business model, goals and strategies

- We grow by making our customers successful.
- All of the financial goals have been achieved.
- Top 3 among Sweden’s best employers 2019, in a survey by Universum.
- Sustainable corporate culture with focus on customer value and innovation—this benefits our shareholders over time.

To learn more, refer to pages 11–22.

Financial performance measures

1,661.1

Net sales
SEK million

295.3

Operating profit
SEK million

1,816.0

Order bookings
SEK million

7.69

Cash flow per share
SEK

6.18

Earnings per share
SEK

4.50

Share redemption
program per share SEK

For additional performance measures, refer to the five-year summary on page 48, and proposal for share redemption program refer to page 68.





CEO letter

“When our customers in the healthcare sector become more efficient in their daily work and can thus provide care for more people, or when society’s vulnerability decreases through the use of our data security solutions, then we have also succeeded. It is deeply satisfying that our long-term efforts in creating real value for customers, patients and society at large have enabled us to report the best earnings year in Sectra’s history.”
Torbjörn Kronander, President and CEO of Sectra

Delivering great value requires expertise, passion and teamwork

I continually see proof of the value we are creating for our customers, patients and society. We help protect energy production and distribution from cybercrime that—if successful—could have disastrous consequences. We protect highly confidential information for governments and authorities in many countries as well as for the EU and NATO. Our medical IT systems are used by healthcare providers across the globe, affecting care outcomes for a large number of patients. Approximately 100 million diagnostic imaging examinations a year are conducted using Sectra's systems. It's easy to look at just the numbers, but there are a great many people behind it: patients that we help. It makes me happy and proud to see that we enable all this every day, year round.

High customer satisfaction and quality are profitable

We actively maintain close, long-lasting relationships with our customers. Going to work is more enjoyable—for both our employees and myself—when we have satisfied customers. Satisfied customers also generate more business—business with profitability—which is confirmed by the fact that we reported our best year to date in terms of earnings and our performance measures exceeded Sectra's three financial goals. Our success and our growth are based on high levels of customer satisfaction, long-standing customer relationships, high-quality products and skilled, dedicated employees. These conditions form a stable foundation for our future development and profitability.

Gaining new customers costs more than nurturing and developing existing relationships.¹ Our costs are therefore higher in markets where we are growing by adding new customers. For us, this includes regions such as North America, where our targeted initiatives have resulted in a robust expansion of our customer base in Imaging IT Solutions. It has also resulted over the past five years in us transitioning from being a relatively unknown supplier to being one of the most sought after in our niche in the

US. Even though our market share in North America is small as yet, it is growing rapidly, and the US overtook Sweden as Sectra's largest market during the year.

Getting the right people on board is crucial

I am particularly proud of our employees. It is because of them and the fantastic work they have done that we have such a high level of customer satisfaction today. When customers are satisfied with us, we build trust, which in turn means they are willing and have the confidence to buy more from us. It also increases the likelihood that they will recommend Sectra to their colleagues and friends, which is the ultimate proof of customer satisfaction—and, moreover, is an effective sales and marketing strategy.

Sometimes, people ask me why I also interview every person we recruit to Sectra. The reason is that recruitment is central to a knowledge company like ours, since employees play such an important role in how our customers perceive us as a company. We put a great deal of energy into ensuring that we hire employees who are a match for our corporate culture and who are not afraid to take decisions and to act. We want highly driven individuals who can learn new things and want to improve the lives of others. We then rely on their judgement and on them seeing things with fresh eyes so that they can alert those of us in management when customers are not satisfied, and to tell us what we should do to become even better.

Medical IT

We help drive digitalization in the healthcare sector by broadening and deepening our portfolio in diagnostic imaging where we mainly prioritize illnesses affecting the elderly. We assume full responsibility for all our customers' medical imaging with a focus on the most image-intense departments: radiology, mammography, pathology and cardiology. One of our growth initiatives is digital pathology. The number of pathology customers in Europe is increasing, and after having obtained FDA clearance during the

year we can now concentrate on a broader launch of our digital pathology module for customers in the US. The ongoing digitalization in pathology is significant for the development of cancer diagnostics, creating better, safer healthcare for patients. At the same time, it leads to time-savings and a sharp decrease in the need for transporting tissue samples between hospitals.

In Imaging IT Solutions, we have been working on changing how we sell and are paid for software licenses. This led to the launch of a new subscription model in May 2020. By driving the transition to subscription-based models, we can offer our customers increased flexibility. This type of subscription is common on the consumer market, but we now see that healthcare providers also increasingly appreciate this type of delivery.

Our operations in Business Innovation are relatively small but represent exciting possibilities. In orthopaedics, for example, more customers are using our new product, Sectra Implant Movement Analysis, to decide whether or not a patient with an implant requires revision surgery. Each such surgery avoided provides great value for the patient and saves enormous amounts of money for the healthcare sector. Our orthopaedics products also provide us with competitive advantages in sales of systems for medical imaging. We also see that we are paving the way with our solutions for modern medical education and distance education—a need that has become of immediate interest in conjunction with COVID-19.

According to a study,² 73.8% of the students in the radiology department of the University of British Columbia developed a deeper understanding of human anatomy by using Sectra's products for medical education.



There is nothing more important I can devote myself to than ensuring we have the right crew on board. With the right personnel, things will go well even if we managers are not perfect. Which we aren't. With the wrong people, things will go poorly even if we have the best managers on the planet.

Torbjörn Kronander

Cybersecurity

Historically, a large part of our work in cybersecurity has dealt with extremely advanced security. There has been particular focus on mobile communications, and our Sectra Tiger series of secure mobile telephones. Because of the high level of quality and security approval, our customers are mainly found in defense and government agencies in the EU. Our operations are now being focused on secure mobile workplaces, where customers need to be able to work securely, outside of the office or at home as well. This is also an area where the COVID-19 pandemic has led to increased demand for our solutions.

For the past few years, we have also been focusing on IT security for critical infrastructure, especially energy production and distribution, which is another part of society that must be defended against attacks. We are also seeing increasing synergies between cybersecurity and medical IT, though from a low level.

How the pandemic affects us, and our customers

Sectra's customers play a key role in society, and this is also the case during the ongoing pandemic that is affecting the world. Accordingly, our highest priority is ensuring that their operations continue to function despite a dramatic increase in workload in certain cases.

To reduce the spread of COVID-19, many operations are being run from employees' home offices. For customers handling classified information, this places increased demand on data security from their home workspaces. In the field of healthcare, home workspaces—in pathology and radiology, for example—require that customers are supplementing existing installations with new functions specifically aimed at online collaboration. For Sectra, this has led to an upswing in demand for mobile crypto solutions and for IT systems that permit radiologists and pathologists to review and collaborate on cases remotely, and also for

solutions that enable education for medical students to continue remotely when universities are closed.

We are experiencing continued demand for our product offerings. In certain cases, however, customer prioritization of the most necessary measures at the moment has led to the postponement of planned projects or to purchasing departments putting ongoing procurements on hold. Though this entails delays in many projects, we also have projects that are progressing more rapidly than planned. In addition, the sharp downturn in elective healthcare in certain cases has led to a drastic loss of revenue for customers, primarily in privately run hospitals, which is something that also impacts their long-term ability to invest. Certain healthcare providers have temporarily suspended investments. This promotes greater uncertainty than normal, and means that currently it is difficult to predict what effects COVID-19 will have on Sectra going forward.

Despite the great tragedy society is currently experiencing owing to COVID-19, the long-term changes mean possibilities for enhancing efficiency and business development. Both we and our customers are acquiring know-how concerning new ways of working remotely, and much of this will lead to changed and more efficient approaches after COVID-19 as well. This is something that could ultimately create opportunities for an agile company like Sectra.

The future—more value for our customers

Our future is an exciting one. Technological developments are providing us opportunities to add new value for our customers, and we operate in industries where the underlying societal trends are driving growth. These trends mean that society must both solve the problems of healthcare for a continually aging population, and must be protected against cybercriminality that threatens its foundations and human survival. What happens with crypto when quantum computers become a functional reality? Can we use AI to learn what we should do for

a new patient from historical patient data, and what possibilities then open up? And how can we provide tools to improve the results for orthopaedic surgery, one of the most common surgical procedures for older people that is rapidly growing? How can we help healthcare personnel manage patients, providing them with the best possible treatment in a world where the rate at which medical knowledge doubles is measured in months instead of human lifetimes? These are areas where Sectra can help. But entirely new areas will also emerge, as well as problems where we can solve and translate our customers' needs into new products.

Our stable development and positive underlying cash flows and profitability give me every reason to remain optimistic. We have a number of exciting projects in the pipeline as well as completely new geographic markets that could eventually become significant. Our possibilities for growth are strong in all operating areas for the foreseeable future, even if COVID-19 will likely mean temporarily dampened demand in certain markets. With our work and investments in the field, and innovation that has the potential to increase customer value, we are creating value for our customers and are thus helping to make society healthier and safer. This customer value is the foundation of our success, and also determines how we successfully create shareholder value and returns for our owners.

Linköping, June 2020

Torbjörn Kronander
President and CEO of Sectra AB

A man with short, light brown hair is wearing a black headset with a microphone. He is looking off to the right with a focused expression. He is wearing a dark blue long-sleeved shirt. The background is a blurred office or call center environment with other people working at desks.

Sectra's value-generation model

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

The foundation for Sectra's sustainable value creation

Vision

To contribute to a healthier and safer society.

Mission statements and operating areas

Medical IT

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

Cybersecurity

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

Imaging IT Solutions

Business Innovation

Secure Communications

Corporate culture and values

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

Goals

Our ambition is for the benefit we create in a society with Sectra's offering to broadly exceed the price our customers pay. At the same time, the remuneration we receive must be sufficient for us to achieve our financial goals and thereby enable long-term growth. To accomplish this, we must have satisfied customers, motivated and innovative employees, and efficient processes.

Our success is monitored through our Group-wide financial goals and operational targets pertaining to these three areas:

- customers
- innovation and new business
- employees, culture and processes

In addition, there are also business-specific goals in each operating area and business unit. This ensures that our operations create value and contribute to sustainable business development.

Read more on page 22.

Group-wide strategies for value creation and sustainable business development

Customer value

- Customers and customer satisfaction are always assigned top priority to enable long-term growth.
- Close relationships with demanding customers ensure that Sectra's solutions meet market demands for quality, functionality, and usability.

Read more on page 14.

Corporate culture and employees

- A corporate culture that motivates and inspires the company's employees to solve customer problems, help their fellow human beings, and meet—and in many cases exceed—customer expectations.

Read more on page 16.

Innovation

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

Read more on page 20.

Geographic expansion

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

Read more on page 21.

Examples of the values we create for our stakeholders

Customers

- More efficient diagnosis and selection of treatment for patients.
- Increased productivity, high quality and security in the healthcare sector; particularly in use and management of medical images.
- Easier planning and monitoring of orthopaedic procedures.
- Virtual education that increases understanding of human anatomy and how it is affected by illness.
- Protection against eavesdropping, unauthorized data access and cyberattacks.

Patients

- Faster diagnosis and treatment, especially in areas related to illnesses among the elderly.
- More reliable diagnoses yield better care outcomes.
- Avoidance of unnecessary revision surgeries of orthopaedic implants.
- Increased access to specialists, regardless of where care is sought.
- Increased security regarding patient data.

Society and citizens

- Products and services that contribute to increased efficiency and quality in medical diagnostic imaging and patient care.
- Increased cybersecurity in critical social functions.
- Job opportunities and tax payments in the countries where we operate.
- Research results that could contribute to a healthier and safer society.

Distribution partners and suppliers

- Promote better, more effective patient care or increased cybersecurity by partnering with Sectra.
- Expanded business opportunities.
- Revenue and job opportunities.

Shareholders

- Return generated by the increased social benefit Sectra creates.
- Initiatives and investments in growing niche markets and growth areas that could contribute to returns over a long period.

Employees

- Possibilities for making society healthier and safer.
- Employment at a meaningful, equal-opportunity workplace with dedicated and competent colleagues.
- Different career paths and personal development.
- Competitive employment terms and benefits.
- Safe and healthy work environment.

Examples of values in 2019/2020

859

Total number of employments in 14 countries

12.4%

Percentage of sales re-invested in R&D for increased customer value

248.3

Purchase of goods for resale from suppliers, SEK million

> 150 million

Total number of patients whose diagnostic imaging information is stored in Sectra's systems

597.1

Salaries and other remuneration of the President and employees, SEK million

Strong customer focus yields long-term trust

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

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

Building this trust—like developing solutions that provide real value for our customers—requires a focus on understanding and supporting customers. All companies make mistakes sometimes. The difference is how often they happen and how companies respond.

In close partnership with demanding customers

Some of the most important parts of Sectra's values and how we act are built on the knowledge of our customers' day-to-day activities and our constant endeavor to stand by our customers. Developing products that create value for our customers and solve relevant problems requires our employees to understand our customers' day-to-day operations. For this reason, all employees regardless of role conduct several customer visits every year to keep these insights up to date. Working closely with our customers is also a part of our processes. This includes offering our customers the opportunity to comment on our ongoing product development. In addition, we partner closely with customers and research institutions on our long-term product development. This culture promotes employee motivation and dedication to solving customers' problems—and often even exceeding their expectations.

Customer satisfaction is top priority

A high degree of customer satisfaction is central to Sectra's identity as a company, and the impetus to create value for our customers unites us. Satisfied customers are also an effective sales and marketing strategy, since this is the ultimate proof that we have quality solutions delivered by excellent staff. We are convinced that if we prioritize customer satisfaction, we will also have satisfied employees. With satisfied customers and employees, the company will continue to be successful—which will also satisfy our owners. Moreover, a high degree of customer satisfaction means going to work is more enjoyable and attracting new employees is easier.



Sectra's customer-oriented culture is based on:

- Having a strong drive to always meet or exceed customer expectations.
- Continuously improving and innovating in high-tech fields.
- Offering solutions that benefit both individuals and society.
- Taking initiative and assuming responsibility—act and act smart.
- Collaborating with demanding customers and competent end-users to create solid solutions.
- Showing tolerance and respect for each other as individuals and friends.
- Spreading job satisfaction and humor.



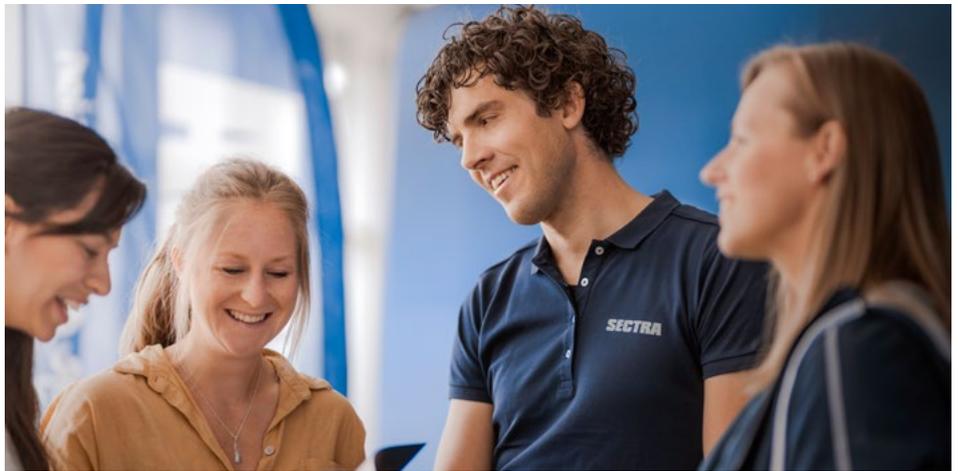
The knowledge to meet expectations.
The passion to exceed them.



Corporate culture for motivated and dedicated employees

Four prioritized activities:

- To recruit proactively and carefully.
- To guide decisions and conduct using a strong corporate culture.
- To create an environment where everyone, especially those working most closely with our customers, has the possibility of affecting the company's decisions.
- To create conditions for continued employee development.



"Hire for attitude and ability. Train for skill."

Our customers expect to meet especially driven staff who want to understand and help them. That is why we recruit new employees based on the candidates' attitude and characteristics, and on whether they are attracted by and fit in with the Sectra culture. In addition, we look for individuals who are willing and able to continually learn new things. We operate in a rapidly changing world where today's knowledge could be of limited value tomorrow. That is why the ability to re-learn and develop is important to us. In 2019/2020, Sectra increased its staff by 74 employees. All new employees were interviewed by, in addition to their immediate supervisor and colleagues, the CEO of the Group. This rigorous employment process reflects how important we consider recruiting the right people for the company to be.

Since 2018, Sectra has had a Global Search function that develops recruitment strategies and supports managers who are recruiting. Working closely with selected universities around the world is an important part of this strategy. In 2019, we took part in 18 job fairs at various universities and arranged

10 company evenings and other events for students.

An engaging corporate culture

Sectra's culture is our way of ensuring that we meet our customers' expectations. It guides our conduct, governs our priorities and creates shared values that bind us together.

Our culture permeates our recruitment, training and evaluations of employees. For many years, we have conducted "rookie training" for new employees. Over three days, we provide them with insight into what Sectra stands for, how we create value for our customers and how each individual contributes to creating that value. We also have similar training for managers, where the focus is on customer value, culture and conduct.

Sectra works strategically and proactively to maintain and develop this culture. The focus is on leadership, communication and education. In 2019, we strengthened communication and education prior to and at the start of employment. The purpose is to ensure that new employees understand how important Sectra's culture is for the

company's success, and what that entails for all employees. We have also strengthened the connection between our culture and the annual employee evaluations in conjunction with performance reviews. This work is being led by Lisa Everhill, who took on the role of Chief People and Brand Officer in May 2019 and has been part of Sectra's Group Management since 2013.

Equal-opportunity workplace

At Sectra, everyone is treated with equal respect, curiosity and attention regardless of how long they have been employed, the role they have, how old or what gender they are. We are deeply convinced that everyone working at Sectra is employed because they have an ability to create value for our customers. This ability is what we value and focus on.

Managers who challenge employees to be “the best they can”

The foremost task of managers at Sectra is to make it possible for our employees to meet customer expectations for both expertise and attitude, thereby delivering value. The foundation is an understanding of and a focus on customers in every decision we make. Our employees have a strong influence on the company, and a mandate to make intelligent decisions on their own.

Managers should lead and act in accordance with our culture, creating clarity by providing feedback as well as communicating goals, expectations and priorities. A new program was implemented in 2019/2020, Leadership at Sectra, aimed at creating understanding of how we manage staff. During the year, new dialogue templates for performance reviews were also developed to provide managers with even better support concerning job satisfaction, performance and long-term dreams and ambitions.

Possibilities for continued growth

Personal and intellectual development are important not only for employee job satisfaction, but for our customers as well. Through Sectra University, our educational organization, opportunities are created for

in-house and external continuing education for employees and staff of our partners as well as efficient onboarding in conjunction with a change of roles or new employment. Employees are encouraged to grow and develop as individuals in various ways. We encourage and support job rotation among departments, roles, companies and national organizations. This spreads the company’s combined expertise and promotes collaboration within the Group.

We also provide various career alternatives. In addition to managerial roles, employees who have expert knowledge in a specific area can be promoted to expert roles without staff responsibilities, or are nominated for Sectra’s annual seniority program. Each year, employees who are examples of the embodiment of Sectra’s culture, have a desire to work hard when needed and have expertise above and beyond the ordinary in a subject are nominated by colleagues and can then be appointed as seniors or fellows. In addition to the honor and gratification of the appointment, these employees receive expanded benefits and increased freedom to govern their work on their own.

”

My favorite part of working at Sectra is hands-down the culture and the people. You will have the opportunity to work with so many unique and bright minds, and that alone can teach you so much.

Brittany Santella, employee in the US



Future best people



Clara Siegbahn

April 24, 2020
Emelie Siegbahn
Global Search Manager



Edith Rålund

May 23, 2019
Markus Rålund
Global Business Lead, Pathology
and Cross Enterprise



Eira Dahlberg

October 25, 2019
Tobias Dahlberg
Software Engineer



Eva Neuhardt

October 14, 2019
Jeremy Neuhardt
Solutions Specialist



Frank Xander Tufano IV

July 02, 2019
Margaret Carles-Tufano
Application Specialist



Gunborg Ståhl

October 27, 2019
Josefine Ståhl
Product Owner



Hailey Elisabeth Mörlin

March 19, 2020
Linnea Roivas
Order Handler



Hayden Edward Wright

April 08, 2020
Chad Wright
Senior Support Engineer



Idun Lundgren

June 23, 2019
Marcus Lundgren
System Developer



Milo Åhman

May 31, 2019
David Åhman
Group Business Controller



Samuel Yngve Roland Andersson

June 16, 2019
Daniel Andersson
Senior Software Developer



Vanja Axelsson

November 26, 2019
Adna Axelsson
Service Delivery Manager

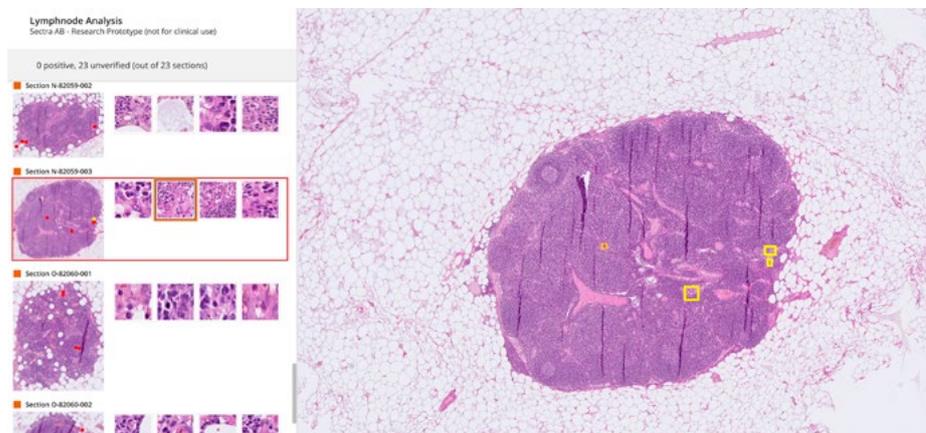
Combining parenthood with work—this is one way we create value for our employees and society at large.

Innovation for sustainable growth

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

Examples of R&D projects and product launches in 2019/2020

- Development of new functionality for processing medical data, including new modules for operational control, increased functionality for structured reporting and increased automation and assistance with the help of AI.
- Part of the Analytic Imaging Diagnostic Arena (AIDA), a national, Swedish research partnership in the field of AI for medical imaging diagnostics, in which Sectra has been a driving force alongside the Center for Medical Image Science and Visualization (CMIV) at Linköping University.
- Participation in a major Swedish research project in the field of orthopaedic surgery aimed at developing methods to achieve higher precision in orthopaedic preoperative planning and postoperative follow-up.
- Further development of Sectra's Implant Movement Analysis (IMA) service, which helps orthopaedists evaluate whether a prosthesis needs to be replaced. Prosthesis replacements are risky and costly. Avoiding unnecessary procedures is therefore of great importance, both financially and as regards patients' quality of life.



New, smarter approaches with AI

Many of Sectra's research projects deal with innovative tools for pathologists and radiologists in close interaction with AI support. Pictured is a prototype for locating cancer cells in lymph nodes more quickly and easily, in which the AI algorithm flags suspected areas.

Group R&D expenditures



10–15%

Percentage of consolidated sales that are invested in R&D every year

Patent portfolio

22

Patent families in the Group

Examples of research partners

- The Center for Medical Image Science and Visualization at Linköping University (SE)
- Hospital for Special Surgery (US)
- Karolinska Institute (SE)
- Radboud University Medical Center (NL)
- Utrecht University (NL)
- University of Leeds (UK)
- University Hospitals of Cleveland (US)
- The Center for Artificial Intelligence in Medicine and Imaging at Stanford University (US)

Multinational presence with the ambition of becoming market leader

Sectra believes that it is better to be big in a few countries than to be small in many. Our ambition is to be the largest or second largest supplier in selected segments, in the countries where sales are conducted under own management.

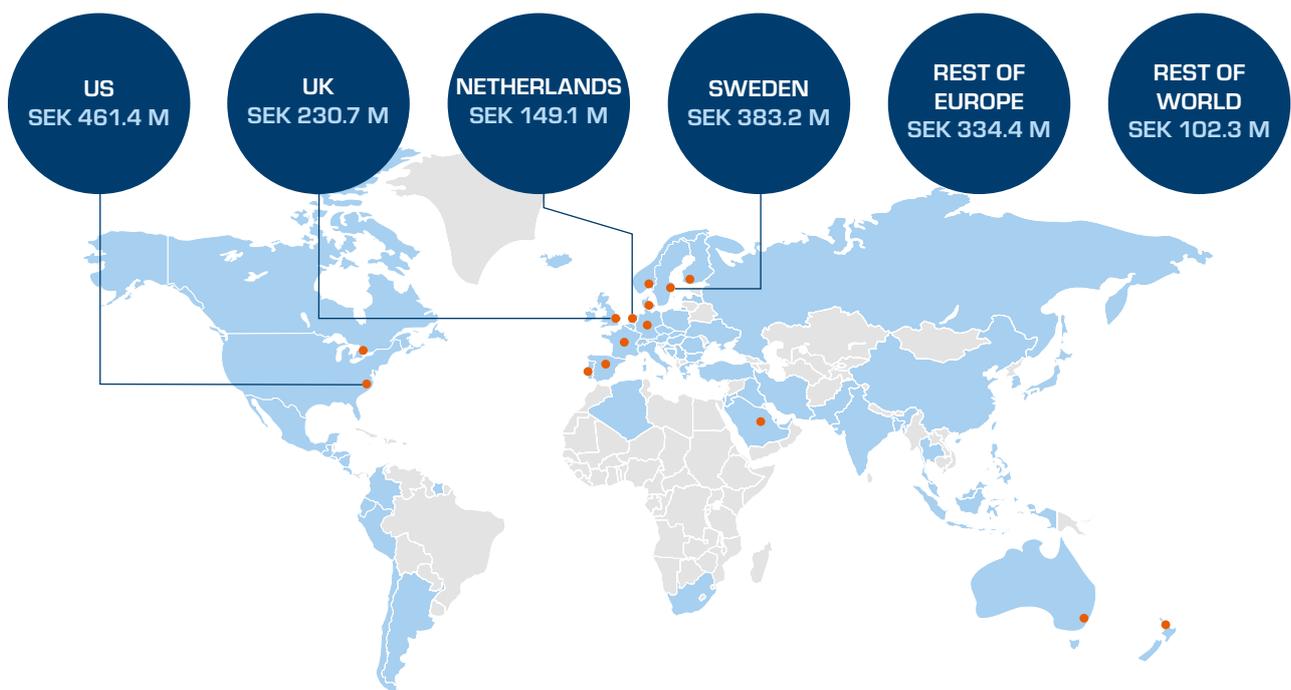
Prioritized activities for geographic expansion

- Continue to grow and become the leader in the segments and regions where the company conducts its own sales. Special effort in the US, where Sectra so far has a low market share, but is growing rapidly.
- Implement controlled growth initiatives, carried out by the Group itself and through partners, in a small number of carefully selected markets. Special efforts are ongoing in France and Canada, for example, which are the latest countries in which Sectra has established subsidiaries. In both countries, we have gained important reference customers, which is of great

value for continued development in these markets.

- Establish operations in additional countries, and sign agreements with new distribution partners in selected segments and markets. In the Medical Education business unit, for example, whose products are mainly sold through partners, new distributors are gradually being added and the unit's products are now represented in approximately 50 countries.

- Customers in more than 60 countries
- Direct sales in 19 countries
- Some 40 partners



■ Presence via own offices or partners ● Sectra companies
 ● Amounts refer to sales per geographic market in 2019/2020

Group-wide goals

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

Operational targets

Customers

The value we create for customers lays the foundation for long-term, sustainable success. The goal is to have a high level of customer satisfaction in the markets and customer segments where we operate as well as to significantly improve our customers' operations through our solutions. Our progress toward the goal of customer satisfaction is measured on an ongoing basis through internal evaluations based on the NPS methodology and through leading external evaluations in each area, such as KLAS for our medical IT systems.

Customer satisfaction: NPS \geq 20 in customer satisfaction measurements.

Outcome 2019/2020: 13 of 14 measured sub-areas achieved the goal with healthy margins.

Corporate culture, employees and processes

Our employees—and the corporate culture that shapes their conduct and decision-making—are our main competitive advantage. We therefore aim to ensure we have satisfied employees who perceive Sectra as an equal-opportunity workplace and feel that our corporate culture motivates and inspires them. This is also crucial to our ability to recruit and retain the right personnel. These targets are monitored through our annual employee survey. To ensure we have the right process for growing in an efficient manner, we also monitor our operating profit in relation to payroll expenses over time.

Employees: \geq 3.5 on a five-point scale for "gut feeling" when employees come to work.

Outcome 2019/2020: 4.2

Innovation and new business

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

Innovation: \geq 3.5 on a five-point scale for the statement that Sectra is innovative.

Outcome 2019/2020: 4.0

These represent a selection of our key performance measures, read more in the [Sustainability Report](#) on pages 62–67.

How the value we create contributes to the UN Sustainable Development Goals

Our work helps our customers contribute to a more sustainable society.



UN Goal 3—Good Health and Well-Being

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



UN Goal 9—Industry, Innovation and Infrastructure

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

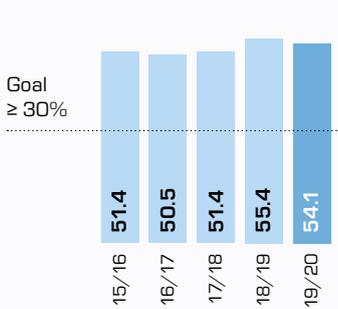


UN Goal 16—Peace, Justice and Strong Institutions

Within the secure communications product segment, Sectra helps politicians, authorities and the defense forces to ensure a functioning government. We also actively work to combat corruption and bribery and to comply with all laws and regulations in the areas where the company operates.

Financial goals

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

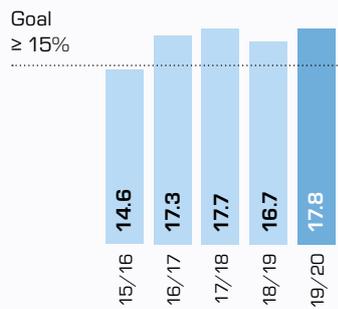


1. Stability

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

The equity/assets ratio exceeds the strategic goal. An increase in comprehensive income combined with a higher rate of capital turnover contributed to the increase in the equity/assets ratio in recent years.

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

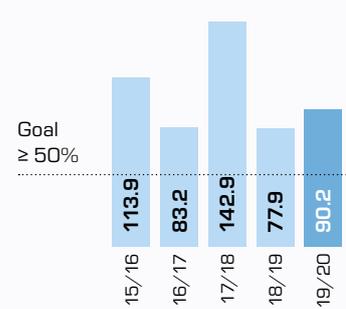


2. Profitability

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

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

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



3. Profit growth

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

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

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

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



Medical IT

To maintain a high quality of care despite today's population trend, the healthcare sector is being forced to accomplish more with the same or fewer resources. Healthcare for an aging population entails enormous challenges. Medical diagnostic imaging and training are crucial elements in meeting these challenges.

Imaging IT
Solutions

Business
Innovation

How Sectra contributes to better cancer diagnostics

Sectra has specialized in diagnostic imaging in four areas facing major challenges related to illness in an aging population—cancer care is one of them. The number of cancer cases is rising in pace with increasing lifespans, which is creating a growing demand for quicker and more efficient cancer care. Thanks to improved diagnostics and treatment methods, more patients are surviving their cancer diagnosis. This is placing greater pressure on diagnostic care, since patients who have concluded their treatment must undergo regular examinations to check that their cancer has not returned. This increases the need for diagnostic imaging.

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

More efficient work environment and tools for radiologists

Radiology plays a key role in diagnosing cancer. Sectra works to offer a consolidated workstation, where radiologists can efficiently review images, run the analyses needed and enter the results in a response to the referring physician along with other comments. All this can be accomplished without needing to open external applications or transfer information manually between different programs. AI-based tools that facilitate diagnostics and make the workflows more efficient are also available in the same workspace. The consolidated workspace increases security while the time it takes for the radiologists to make a diagnosis and communicate their results is shortened.

More efficient work environment and tools for pathologists

When the radiologist's results indicate the presence of cancerous tumor in a patient, a tissue sample is taken to allow the pathologist to definitively determine the type and stage of cancer. This information is critical to ensuring the right treatment is administered. Sectra can provide pathologists with a fully digital review environment and thereby replace microscope reviews. Using

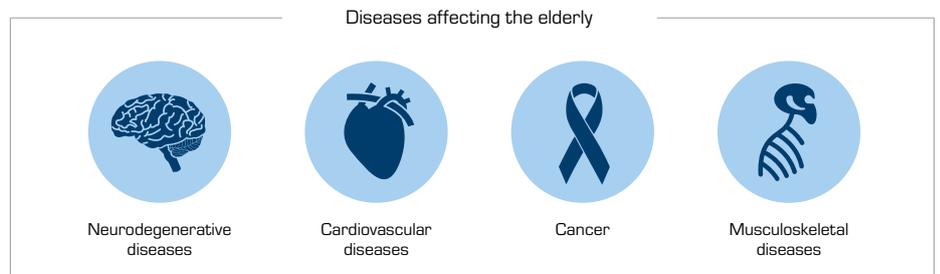
digital tools means that the images are easily accessible at the primary hospital as well as for any experts from other hospitals—or even other countries—who may be consulted. Digital tools also provide the reviewing pathologist with support for a faster assessment by making the analysis more personalized and facilitating application of AI-based tools.

Faster and easier communication of images and results

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

Integrated diagnostics

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



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

The healthcare market

An aging population shines a spotlight on diseases affecting the elderly

Social trends

Aging population

More than one in five people in Europe and North America are currently over the age of 60, a number that continues to rise.³ Elderly people primarily suffer from diseases such as cancer, cardiovascular diseases, neurological diseases and diseases of the musculoskeletal system. Thus, increased efficiency in diagnosing and monitoring the progression of these diseases are a high priority.

Medical advances

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

Fewer people to care for more

Improved living conditions are allowing people to live longer lives. At the same time, the number of children born in the world is decreasing.⁴ As a result of this change in the relationship between the number of young and elderly people, there will be fewer people to provide and care for the growing population of older people in the future.

Digitalization

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

Industry and technology trends

AI

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

Population health

The use of clinical patient data and medical images in combination with patients' socioeconomic factors such as demography, lifestyle and living situation to achieve better healthcare results while lowering costs. These can be used, for example, to predict the length of hospital visits or to prevent illnesses.

Customized care

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

Patient involvement

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

Customer challenges and needs

Resource collaboration

To accomplish more with the same or fewer resources, cooperation between various departments and players in the healthcare sector is increasing. In order to boost cost efficiency and competitiveness, growing numbers of mergers and acquisitions of healthcare providers are being carried out.

Patient integrity and cybersecurity

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

Consolidation of IT systems

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

Lower costs and increase focus on core operations

In certain markets, many healthcare providers are moving their IT systems for medical imaging to the cloud. The purpose is to lower costs, reduce the need for own expertise in IT and cybersecurity, and to make use of the advantages of cloud services in operation and collaboration.

Educating more people more efficiently

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

Growing need for remote work and healthcare solutions

Increased specialization, collaboration on resources and the fact that patients are moving between healthcare providers to a greater extent are increasing the demand for working and providing care remotely, with access to the same diagnostic tools found in hospitals.

Market size and growth rate

The costs of health and medical care are increasing. On the one hand, this means increased need for collaboration among players in the healthcare sector, on the other it is driving the consolidation of various IT systems. With our products and services, we will help our customers to grow and to consolidate their operations with a high degree of efficiency. Responding to customers' challenges requires IT solutions with a high level of availability and security that can facilitate diagnosis, planning and patient monitoring. This allows customers to increase their productivity, reduce their lead times and cut costs along the entire care chain.

Medical imaging IT

The global market for medical imaging IT systems amounted to USD 3.4 billion in 2019 and is expected to grow to USD 3.8 billion by 2024. The average growth rate between 2018 and 2024 is estimated at 2.3%.⁵

As a result of increased collaboration and consolidation, a growing number of healthcare providers are choosing instead to replace their radiology IT systems with consolidated solutions that can handle image management across entire enterprises and/or regions, known as enterprise imaging. The market has gained momentum in developed countries where of PACS for radiology and cardiology, vendor-neutral archive solutions and electronic medical record systems have achieved a high penetration level. Enterprise imaging for radiology and cardiology is expected to grow an average of more than 10% per year from 2018 to 2024.⁶

Growth is significantly higher in new segments, such as clinical decision support based on AI, advanced tools for analysis and diagnosis, and medical technology products that help physicians to adapt treatment and medication to the individual patient (companion diagnostics). This also applies to digital pathology, where the market is growing rapidly. We are a clear leader in the Swedish market for primary diagnostics in pathology. Sweden is a pioneer in this field,

having come the furthest by digitizing primary diagnostics in more than 50% of the country's pathology labs. With Sweden as a strong home market, Sectra is ready to help healthcare providers in other countries—such as the US, the UK and other markets where we are active—that are now ready to start digitizing primary diagnostics. There are 32 pathology labs in Sweden; the corresponding figure for the US is over 5,000, which provides great potential for growth in the field of digital pathology for primary diagnostics.

Orthopaedics

Hundreds of millions of people suffer from osteoarthritis, a disease that often leads to hip, knee and shoulder joint replacement surgery. According to the UN World Health Organization (WHO), the disease is one of the main global healthcare challenges, alongside cancer and stroke. The number of patients affected by the disease has doubled over only a few generations.⁷ In total, more than three million joint replacement surgeries are carried out annually⁸ worldwide, and this number is expected to rise sharply due to the aging population. In addition, more than eight million surgeries⁹ due to fractures caused by accidents, falls and activity-related injuries are performed globally every year. This creates significant market potential for IT systems and services that can streamline logistics and facilitate the planning and follow-up of orthopaedic procedures.

Medical education

A growing and aging population, combined with more treatment options, increases the need to train additional doctors and nurses. This is fueling demand for modern training systems and educational tools and materials in a wide range of subjects to streamline and improve medical education. The global market encompasses more than 2,500 educational institutions^{10,11} and hospitals offering basic and specialist training for doctors, nurses and veterinarians.

Short-term effects of the COVID-19 pandemic on the market

Customers have shown continued confidence in Sectra during the COVID-19 pandemic. We help to meet the increased need for secure, efficient solutions for medical imaging IT and training, for example, with products and services that permit remote working and studying. At the same time, many healthcare providers are postponing planned procurements of medical IT systems, and industry trade shows and other customer events are being canceled. This is expected to temporarily dampen the market for medical IT systems over the short to medium term.

> 3 million

Joint replacement surgeries carried out annually worldwide

2,500

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

Medical imaging IT solutions for radiology and cardiology¹²

3.4

The global market in 2019, USD billion

Operating area Imaging IT Solutions



614 employees

Product offering

Sectra Imaging IT Solutions offers medical IT systems and services that help customers care for more patients, while retaining or improving the level of quality. The offering includes:

- IT systems for efficient diagnostics, archiving, presentation and communication of all types of medical images and related patient information.
- IT systems for operational follow-up and radiation dose monitoring.
- Platform for safer and easier introduction of AI-based tools that improve diagnostics and workflows for users.
- Flexible delivery models that allow customers to choose, for example, between purchasing systems as traditional system installations, cloud services or services where Sectra is responsible for the operation of the system.
- Maintenance in the form of support, system monitoring and upgrades.
- Consulting services related to integration, system design, data migration and business development.
- Training for users and administrators.

Customers

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

Sales channels and geographic presence

Imaging IT Solutions has in-house sales organizations in 18 countries as well as partners in some 30 countries in Africa, Europe, the Middle East, North America, Oceania, Japan and South-East Asia. The largest markets are the Netherlands, Scandinavia, the UK and the US.

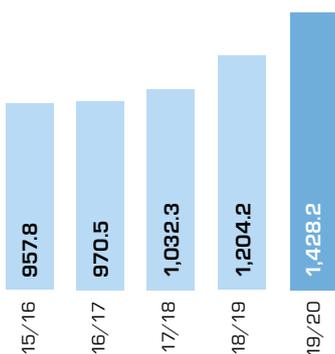
Competitors

Our foremost competitors in the area are Agfa, Change Healthcare, Fujifilm, GE Healthcare, INFINTT Healthcare, Intelrad, Philips (which acquired parts of Carestream Health's operations in 2019) and local players such as Visage Imaging and Visus. They also encompass major IT companies specializing in archiving, such as Hyland Software.

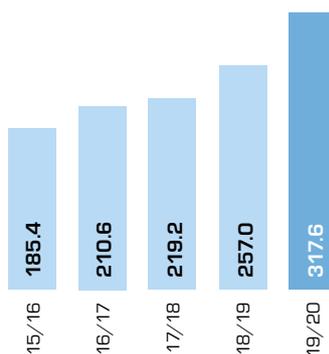
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 56.

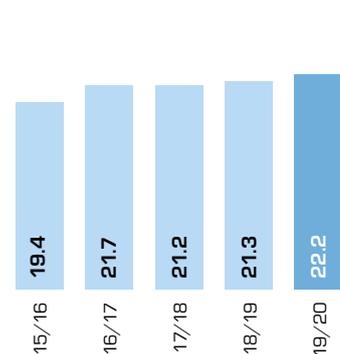
SALES, SEK MILLION



OPERATING PROFIT, SEK MILLION



OPERATING MARGIN, %



Where we are headed

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

Where we are now

Sectra is one of the world's leading providers of IT systems for managing medical images and patient information related to diagnostic imaging. We are approaching 2,000 installations of Sectra's IT systems, and our customers include some of the largest healthcare providers in the world. Operations are growing fastest in the US. Lengthy, comprehensive customer contracts promote long-term stability and a high proportion of recurring revenue. In order to meet customer needs, the operating area is implementing long-term growth initiatives in new product areas, such as digital pathology and cardiology, and expanding into additional geographic markets through the establishment of its own operations and through new distributors.

A market leader in customer satisfaction

We have long held a strong position in IT systems for managing radiology images. A focus on high customer satisfaction has resulted in several new prominent healthcare providers choosing Sectra's solutions, and existing customers extending and expanding their use of our products and services.

Sectra currently commands a market-leading position in the Netherlands, Norway, Portugal and Sweden, and a prominent position in the UK. We have also strengthened our position in Australia through an

extensive order from the country's largest public health system, the New South Wales Ministry of Health. Sectra is also the market leader in other countries in the niche of breast imaging. In some countries, we command such a large market share that our growth in certain product segments is limited. However, this is not the case in the US, where we hold a relatively small—albeit growing—market share.

Over the last few years, we have also started in-house sales organizations in two new countries: France and Canada. These establishments are significant from a long-term growth perspective, and they are trending positively with initial orders from customers.

From IT systems for radiology to enterprise imaging

A number of years ago, the operating area's customers were radiology clinics looking for IT support for their imaging systems. Today, customers are increasingly moving from using individual department systems to solutions that meet all healthcare imaging needs. Solutions that consolidate all image management are often called enterprise imaging solutions. Sectra's scalable solutions manage all types of medical images, but with a focus on collecting the most image-intensive departments—radiology, mammography, pathology and cardiology—in a single system. The product portfolio also includes services and products for sharing and communicating images, radiation dose registration for patients and follow-up and analysis of the customer's operations. This means that we can be a highly sought-after total supplier, which creates opportunities for complementary sales to existing customers. As more customers have taken the opportunity to expand their systems to include other areas beyond radiology, we have strengthened our position as an enterprise imaging IT provider and we are also able to expand our business in already well-established markets.

Focus on cancer diagnostics

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

In the spring of 2020, Sectra obtained a 510(k) approval from the US Food & Drug Administration (FDA). The approval applies to the Sectra Digital Pathology Module in combination with previously approved products from Leica Biosystems. Healthcare providers in the US can thus now use Sectra's digital pathology solution for primary diagnostics and remote reading. The FDA approval allows us to be well positioned within digital pathology in the US. To learn more about [how Sectra contributes to better cancer diagnostics](#), refer to page 25.

Increased focus on AI

AI that contributes to real value in healthcare is an underlying theme in several ongoing projects within our product development. This work is currently concentrated on solutions that can be used in everyday diagnostics, reducing repetitive and time-consuming tasks while improving and streamlining workflows. To provide the healthcare sector with faster access to innovation, customers are also offered the option of vendor-neutral integration of external AI applications. This is facilitated by the platform we are developing as part of our



”

I met many new and existing customers during the year. What strikes me, again and again, is that Sectra is performing a crucial task in the healthcare sector. By developing new tools and IT solutions, we can help our customers use new technology and innovations to provide better, more efficient care. Without this development, our customers won't be able to manage the increased demand facing them. Sectra is a long-term partner that can provide access to the most user-friendly and efficient diagnostic tools. That way, they can make the right diagnosis as efficiently as possible, giving more patients the best possible healthcare.

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

strategy of offering customers a complete solution.

Sectra also conducts several research projects within AI, which benefits the operating area. To learn more about this, refer to page 37.

Cloud-based services on the rise

More and more customers are demanding cloud services over local installations. For the last five years, Sectra has been preparing for a transition to service deliveries, which entails an entirely new delivery organization. Sectra's service offering is on the cutting edge, and several customers in Europe are already using our cloud services. Deliveries are on the increase, primarily in Scandinavia, the UK and the US. This delivery model offers cost and security benefits and enables customers to devote greater focus to their core business—delivering quick and efficient care. While cloud services will ultimately generate cost and operational benefits for Sectra, they initially entail cost increases connected to investments in hardware, development and organization.

The shift to a new subscription model has begun

As part of the transition to cloud services, we are also changing to a subscription-based payment model. As of 2020/2021 we will mainly offer our medical imaging IT systems under a subscription model rather than a licensing model, starting in the US. In other countries, this will be available as an option. Individual customers are already using a similar model, for example, in the Swedish market. The shift to subscription services means that more customers can easily make use of a greater portion of the functionality offered by Sectra's solutions and expand their operations in a more cost-efficient manner.

The subscription model means that instead of paying a higher license fee at the start of the contract and a lower rolling service fee, customers pay a more evenly distributed subscription fee every year based on functionality and utilization rate. Initially, this will have no effect on earnings, but on the other hand the new model will lead to a delay in the cash flow. Since there are long lead times in procurements, we do not expect new customer contracts based on this subscription model to have any noticeable effect until 2021 at the earliest.

Cybersecurity growing increasingly important in healthcare

Hospitals are attractive targets for organized cyberattacks, and this represents a serious threat to patient safety, people's lives and patient integrity as well as the efficiency of healthcare. No individual IT system is secure where cyberattacks are concerned, so hospitals require holistic thinking when it comes to prevention. Sectra's know-how in cybersecurity is becoming more frequently regarded as a competitive advantage, since customers are looking for a partner in the area and are placing greater requirements on medical IT systems in procurements.

The year in brief

Imaging IT Solutions is growing by adding new customers and through renewed and expanded contracts with existing customers. We have increased our market efforts and gradually strengthened our delivery capacity in selected regions, primarily in the US but also in growth markets such as Australia, Canada and France. We have also strengthened our expertise within new areas of technology that can contribute to further advantages for our customers, such as AI and cloud-based solutions.

Recognition for the industry's most satisfied customers

For the seventh consecutive year, one of Sectra's medical IT systems, Sectra PACS, topped the most important customer satisfaction survey in the industry—"Best in KLAS". With an increased number of customers using Sectra's VNA, we also ranked highest in a KLAS VNA report¹³, but outside the formal ranking because we still have too few customers. Sectra also received good reviews from customers in a new KLAS report on digital pathology.¹⁴ This recognition is considered to be an important door opener, above all to large and prominent healthcare providers.

» medical.sectra.com/klas

Sectra growing quickly in the US

Order bookings increased in the US market, which has now outgrown Sweden in terms of sales. New contracts were signed with several major reputable healthcare providers such as BJC HealthCare and Vanderbilt Health. In addition, several major deliveries were made to customers including Stanford Health Care, Kettering Health Network and Deaconess Health System.

We also received FDA clearance for our digital pathology module, representing a key step in this product segment. Prominent healthcare providers such as the Hospital for Special Surgery, which is expanding its imaging system from Sectra, and Mayo Clinic Department of Laboratory Medicine and Pathology have chosen to digitalize pathology using our products.

Stronger position in key markets

We are continuing to grow in markets where Sectra enjoys a prominent position. The SWASH healthcare consortium in the UK has extended its contract and new customers chose Sectra, among them Maastricht University Medical Center, Ziekenhuis Gelderse Vallei and the University Medical Center Groningen (all in the Netherlands) and Region Halland (Sweden). In Halland, the customer chose our IT service where we assume full responsibility for hosting and operation of their radiology imaging system and technology.

Successes in several Balkan countries

In the summer of 2019, Sectra initiated a partnership with a distributor to cover the markets in Bosnia-Herzegovina, Croatia and Serbia. Since then, the distributor has sold our solutions to four customers, one of which is the prestigious KBC Zagreb hospital.

Success in digital pathology

We have consolidated our position in digital pathology in the Netherlands, Scandinavia and the UK—the leading markets in the transition to digital technology. Customers

such as the prominent Radboud University Medical Center in Amsterdam have begun using Sectra's solution. In addition, the Swiss Geneva University Hospitals and the Zuyderland Medical Center in the Netherlands have ordered systems from Sectra. In Sweden, Region Skåne has chosen our solution. The latter is one of the world's largest clinical installations for digital pathology, with four hospitals and 14 scanners linked to a central system.

Safe and easy implementation of AI in cancer and diagnostic imaging

The UK consortium Northern Pathology Imaging Co-operative (NPIC) aims to be a world-leading center for AI research in cancer diagnostics. Sectra is contributing to this large-scale, three-year medical imaging project through its vendor-neutral platform for AI applications. We also initiated a partnership with the Utrecht Medical Center university hospital (UMC Utrecht) in the Netherlands, a world-leading hospital in AI for diagnostic imaging. Together, we want to facilitate the implementation and use of AI applications in diagnostic imaging for healthcare providers, using a technological infrastructure developed by UMC Utrecht.





Cardiologists in Canada are improving response times

Growth is a good thing in healthcare, but always a challenge. That's why a Canadian four-hospital community system on Lake Ontario's Bay of Quinte decided to extend its long-proven Sectra enterprise imaging solution to include echocardiography.

- Turnaround time for studies with crucial results has improved tenfold, says Meredith Crooks, RDS, Technical Director of the Echocardiography Lab at Quinte Health Care.

Read the full customer case at:

» medical.sectra.com/qhc

The way forward

The table below shows a number of activities being prioritized by the operating area in order to reach its long-term goal of being a leading provider of complete solutions for managing and communicating all types of medical images for diagnostic purposes.

Prioritized activities	Can yield a positive effect on earnings:
Maintain high customer satisfaction by continuously measuring and monitoring customer opinions about Sectra.	Short to long term
Develop partnerships with existing customers through which Sectra's existing products and services can contribute to further efficiency enhancements.	Short term
Grow within radiology, mammography, cardiology, and pathology and other areas of medical image management by adding new customers in regions where Sectra already has an established customer base. This includes a continued focus on the US, where Sectra has a very high level of customer satisfaction, but a relatively small market share.	Short term
Launch the new subscription-based payment model in the US to meet customer demand, provide increased access to new functionality and facilitate their expansion.	Short to long term
Operational efficiency and increased digitization of internal processes to increase the scalability of existing resources and to more efficiently support the customer's journey from first contact with Sectra to procurement and installation, and through the long-term relationship.	Medium to long term
Continued product development and strengthening of the product portfolio. Special focus on medical image management in diseases affecting the elderly, particularly cancer diagnostics and cardiology, and on more efficient decision support for physicians and healthcare personnel based on AI.	Medium to long term

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

For information on risks, refer to the [Sustainability Report](#) on page 62 and [Risks, risk management and sensitivity analysis](#), Note 30 on page 95.

Examples of the values we create for customers, patients and society

» Read more about these and other examples that show how we help our customers: medical.sectra.com/customerstories



Photo: Danderyd Hospital

Time saved: **27 hours/day**

Danderyd Hospital in Sweden uses the integrated chat functionality Sectra Instant Messenger (SIM). Total time saved with this functionality is estimated at approximately 27 hours a day among nurses, radiologists and administrative staff. This daily time savings is equivalent to approximately 4.7 full-time equivalents, representing significant time savings for Danderyd Hospital, which has a total of 47 SIM users.

High availability

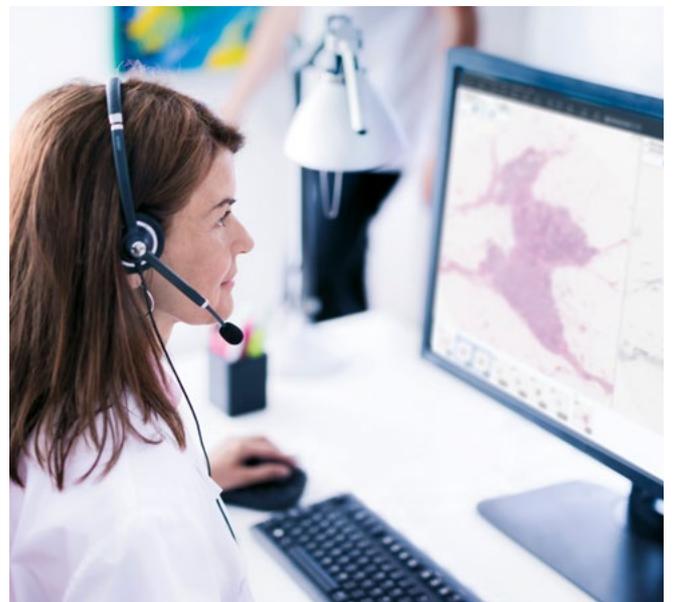
Medical imaging IT is a central element of many healthcare flows. Accordingly, a high level of system availability is directly linked to both quality of care and costs in healthcare. Through proactive work and continuous monitoring, our systems have an extremely high level of availability, which contributes to better care results and decreased costs for customers.

Collaboration saves lives

Collaboration between physicians in Umeå, Sweden and Vaasa, Finland is an example of how Sectra's network for sharing medical images is used to save patients' lives. Using the network, images are shared for rapid assessment of whether a stroke is treatable, which in such cases means that the patient is immediately transferred to a trauma center by air ambulance. Sectra's network is one of the world's largest for collaboration around and sharing of medical images. In the UK alone, where virtually all hospitals are connected to Sectra's service, more than 35 million medical images are shared every week.



Photo: University Hospital of Umeå



Working remotely with digital pathology

"In a country like Denmark, with far-reaching specialization, you're simply vulnerable in your occupation. If someone gets sick or leaves, you immediately have a problem. Telepathology makes you much more flexible in recruiting and training new pathologists. [...] I really see this as the solution to the vulnerability inherent in the current Danish system."

Head of the pathology lab at a large hospital in Denmark that is using Sectra's digital pathology solution.

Operating area Business Innovation



Operations

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

Customers

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

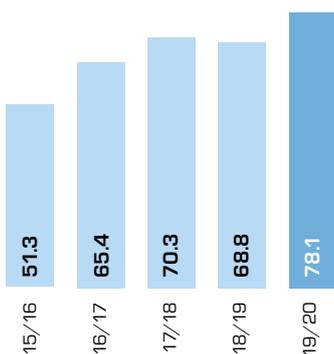
Sales channels

Sales take place through the in-house sales organization and distribution partners in Orthopaedics, as well as some 30 distribution partners in Medical Education. The business unit's solutions are also sold as part of Sectra Imaging IT Solutions' customer offerings.

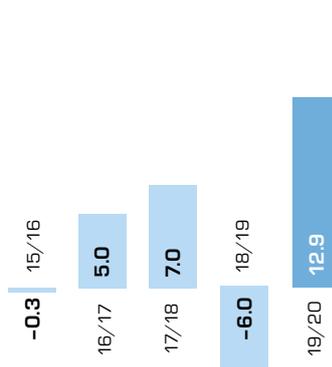
37 employees

Financial performance

SALES, SEK MILLION



OPERATING PROFIT, SEK MILLION



For comments on the company's financial performance, refer to the [Administration Report](#) on page 56.

The Group incubator

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

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

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

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

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

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

The year in brief

Partnership with healthcare results in new functions for both orthopaedists and radiologists

As a result of the close collaboration with the radiology department at the Hospital for Special Surgery in New York, new functions in Sectra's module for planning joint replacement surgeries in 3D were launched. The new functions simplify time-consuming measurements.

New General Manager for the Medical Education business unit

Johan Carlegrim took office as the new General Manager for the Medical Education business unit. He has worked at Sectra since 2012, in recent years as Product Manager for Sectra's solutions for medical image sharing and collaboration. Read more about his background on page 54.

New research studies published

Six scientific articles using our new measurement method, Sectra CT-based Micro-motion Analysis (CTMA), were published. The method is used in studies to assess how effectively orthopaedic implants help patients to regain function and to ultimately become, and stay, pain free. The method was developed in partnership with researchers at Karolinska Institute as part of the recently concluded Precise Image-based Implant Surgery (PRECIIS) research project.



Johan Carlegrim
General Manager
Medical Education
business unit



Gustaf Schwang
General Manager
Orthopaedics
business unit



Claes Lundström
Research Director
Medical Systems

Orthopaedics

Safer surgery using digital planning

The number of joint replacement surgeries is increasing sharply due to an aging population worldwide. This is a major global healthcare challenge; refer to the market overview on page 27. To meet the growing need for better, more efficient care, Sectra offers IT systems for image-based planning and follow-up of orthopaedic surgery—for example, hip, knee, spine and trauma surgery.

Using 2D and 3D medical images, measurement tools and a library of more than 90,000 implant templates and click guides, orthopaedic surgeons can diagnose, plan and monitor orthopaedic procedures with greater accuracy. For hospitals, increased precision during planning leads to reduced costs, since the operating time is shortened while the number of implants to be prepared before every surgery is reduced. For the patient, more efficient planning and shorter operating times reduce the risk of postoperative infections and other complications. We are also working on expanding our offering to radiologists who specialize in the musculoskeletal system. Several new tools developed in close partnership with healthcare were launched in this segment during the year.

Since 2018, Sectra's offering in orthopaedics has included Sectra Implant Movement

Analysis (IMA), a service for postoperative follow-up. The service helps orthopaedists determine if the pain experienced by some patients after an implant surgery is caused by a loose implant. This means that unnecessary and risky surgery can be avoided if it turns out the implant has not come loose. In Sweden, over 200 clinical examinations have so far been conducted using Sectra's service. The service was also launched in the Netherlands during the year.

Furthermore, our solutions also contribute to simplifying and streamlining the proof-of-concept process for new implants using the Sectra CTMA measurement method, which facilitates the measurement of movements between implants and bones using computer tomography.

Clinical studies are a part of the business unit's growth strategy. To disseminate knowledge and collect evidence for products and services, the work on initiating new studies has continued. Six new studies have been published, including one of the first clinical trials to use Sectra CTMA.

Sectra is currently the market leader in preoperative planning in Scandinavia and commands a strong market position in several other countries, including the Netherlands and the UK. We are also gaining ground in the US, where several new customers have chosen to include

the orthopaedics module when procuring Sectra's complete solution for medical image management. One example is the US healthcare provider BJC HealthCare.

The way forward

- Contribute to improved orthopaedic preoperative planning and reduce the amount of time spent in the operating room through the development and sale of software and cloud-based services for planning and follow-up.
- Focus on expanding the joint replacement surgery (hip, knee and shoulder) and trauma segments through direct sales and in cooperation with implant suppliers.
- Grow first in the regions and countries where the business unit has its own sales organization: the Netherlands, North America, the Nordic region and the UK.
- Introduce the new service for postoperative follow-up in the US market.
- Continue the work on clinical studies for follow-up of new implants and prepare for introducing the technology in the US.



We help customers avoid unnecessary suffering for patients

Approximately 10–15% of all hip or knee surgeries performed in Sweden are revision surgery.¹⁵ With the Sectra IMA service, we help orthopaedists decide whether patients experiencing pain after a joint replacement surgery need a revision surgery owing to an implant that has come loose. As yet unpublished data shows that, on average, orthopaedists change their diagnosis in one of every four cases sent for analysis using Sectra IMA. Since revision surgery are risky for the patients, the orthopaedists can save both unnecessary suffering and considerable costs.

Medical Education

Cloud-based training platforms for reality-based learning

There is great need for training more doctors and nurses, which puts demands on modern training systems. By interacting with medical images from actual patient cases, students and resident physicians gain a better understanding of anatomy, bodily functions and variations, and better knowledge about different cases. Sectra offers Sectra Education Portal, a cloud-based education portal that provides users with access to a large digital library of quality-assured medical cases and images that a number of the world's leading universities have contributed to. There is also the possibility of using own cases and sharing them with other customers. We also offer training terminals—Sectra's visualization table¹⁶, for example—that are adapted to training in the classroom or lecture hall. During the last few years, we have moved from only supplying visualization devices for a one-time fee to also selling services with a greater focus on content.

Use of this training platform continues to grow, and it is currently available for healthcare personnel, medical training programs and veterinarians at roughly 400 educational institutions and hospitals in some 50 countries. Sales mainly take place through a network of over 30 distribution partners in Europe, the Middle East, North America, South America, South-East Asia and China. Our presence in Russia and India has recently been strengthened through new partnerships.

The way forward

- Grow in key markets such as Europe, the Middle East and the US, where we are already established.
- Increase sales of current subscription models.
- Increase the utilization rate among existing customers, thereby increasing repeat sales.



When higher education institutions were closed owing to restrictions in conjunction with the COVID-19 pandemic, students could continue to receive high-quality interactive education via the portal. One of the customers that uses our education portal is Sapienza University of Rome.

Research

Sectra's research department conducts and participates in projects to produce clinical evidence for existing technology as well as to create new products—all in an effort to boost the company's long-term business value. Seven researchers work in the department, three of whom divide their time between Sectra and Linköping University.

Major focus on AI in ongoing research projects

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

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

as a national arena for research into AI for medical image analysis, with the aim of leveraging the full benefits of AI-based tools in the Swedish healthcare sector. Two of our researchers are also participating in the large-scale Swedish AI initiative Wallenberg AI, Autonomous Systems and Software Program (WASP). As a part of this initiative, one of Sectra's researchers will spend six months at Stanford University in the US. Sectra is contributing research in diagnostic imaging so that AI can move from the laboratory to providing real value in clinical practice. There is another partnership with Visual Sweden, which is on the way to becoming a world-leading hub for innovation in image analysis and visualization, with close cooperation between industry, academia and the healthcare sector.

In orthopaedic surgery, Sectra was part of the recently concluded PRECIIS project, which was intended to develop methods for greater precision in planning orthopaedic surgical procedures and improving follow-up. Sectra's solutions for analyzing orthopaedic implants are a direct result of this project.



Secure
Communications

Cybersecurity

The ability to safely and efficiently handle sensitive information is central to the stability and security of society. This is also a condition for the ability to maintain critical social functions and critical infrastructure. Sectra has extensive experience of protecting society's most critical communications through services and expertise in encryption and secure mobile communications.

How Sectra contributes to increased operational security in the energy sector

Modern society is dependent on the safe and reliable operation of its critical infrastructure, such as energy supply and the processing industry. The increasing rate of digitalization is resulting in ever-more complex IT and operational technology (OT) systems connected to internal and external networks. While this development contributes to improved efficiency, it also results in increased vulnerability.

Within the energy sector, which supplies society with electricity, heat and water, IT and OT systems for monitoring and controlling industrial processes are used in a wide range of applications. Interruptions to operating environments can cause significant disruptions, with major financial and societal consequences as a result. Our products and services help customers to increase their operational security, and thereby contribute to a less vulnerable society.

Raise the level of security using monitoring services

One important measure to improve cybersecurity is monitoring the behavior of various types of critical operational and processing systems. The majority of suppliers that offer solutions for such monitoring do so in the form of systems that are managed and operated by the energy companies themselves. Instead, Sectra offers services where the critical systems are monitored and the information is analyzed to detect whether network traffic on the monitored systems deviates from the normal traffic. Deviations may be due to cyberattacks, technical errors or human errors—and by detecting these immediately, they can be rectified before they have serious consequences.

React quickly to abnormal activity

If abnormal activity is detected in a monitored system, our emergency response personnel are notified along with the emergency response personnel at the monitored operation. Together, we form an incident team that takes the necessary emergency measures. A record of events and network traffic is highly useful when it comes to addressing the incident and in subsequent evaluation and improvement processes.

Secure communications in the event of a serious incident or crisis

Customers are provided with the Sectra Tiger/R smartphone or tablet security solution to allow them to encrypt their conversations or data transfers with us, for example, in the event of an incident. This allows the company to discuss the incident among themselves and with us without a risk of eavesdropping.

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

Increased security awareness through risk and security analysis

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

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

CIO of a Swedish energy company, October 2018

The security market

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

Social trends

Digitalization

A higher degree of digitalization and the Internet of Things (IoT) is contributing to efficiency enhancements in society and simplifying companies' and peoples' everyday lives. However, an increasingly complex IT environment also makes systems and information more vulnerable to human error, information leaks, unauthorized data access and cyberattacks.

Cyber threats on the rise

The world is facing a growing number of cyberattacks and security incidents that impact social functions.¹⁷ The purpose can be to cause operational sabotage, to blackmail or to access sensitive information from government authorities and companies. Such attacks and incidents can have major financial consequences and cause serious problems in crisis and war situations.

Hybrid warfare

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

Industry and technology trends

Increased collaboration

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

Stricter demands on secure information management

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

Paradigm shift in the crypto industry

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

Customer challenges and needs

Government authorities and defense organizations

Crypto products that protect sensitive information and support collaboration

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

Access to approved security products

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

Critical infrastructure

Business development

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

High level of security in critical IT and OT systems

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

Market potential

Secure mobile communications

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

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

As a result of an increase in security awareness and more stringent regulation in the form of directives and legislation, demand for secure solutions is also growing outside the traditional crypto segments. Authorities and companies that provide critical functions for society need to protect information, even when there is no formal legal requirement to do so. Examples of such areas include healthcare, blue-light emergency services and the energy sector.

Security for critical IT and OT systems in the energy sector

Cyberattacks perpetrated by qualified state-owned and -supported assailants continue to increase in both scope and level of sophistication.¹⁸ This increases the need of Sectra's services for critical infrastructure. Our focus is initially on the Nordic security market for IT and critical OT systems in the energy sector, where annual sales are estimated at nearly SEK 2 billion (EUR 200 million). Operations in the critical infrastructure product area are not subject to the same approval processes and export restrictions as crypto products. Sales of services in this area are thus not limited to Europe.



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

Operating area Secure Communications



87 employees

Product offering and customers

National security

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

Enterprise mobile security

- Secure smartphones and tablets with VPNs specifically designed for mobile use, for users who handle sensitive information.
- Healthcare and civil authorities such as blue-light services and emergency response authorities as well as industrial companies that handle sensitive information.

Security in critical infrastructure

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

Sales channels and geographic presence

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

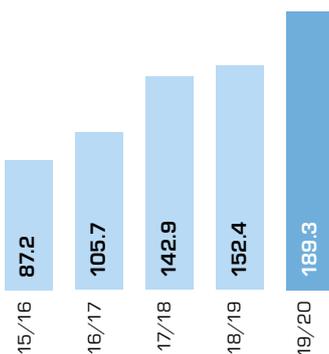
Competitors

Our main competitors in secure mobile communications and crypto development are companies such as Advenica, Bittium, Secunet, Technolution, Thales and Tutus. Our competitors in IT and OT security for critical infrastructure include Mnemonic, Nixu and Saab Combitech.

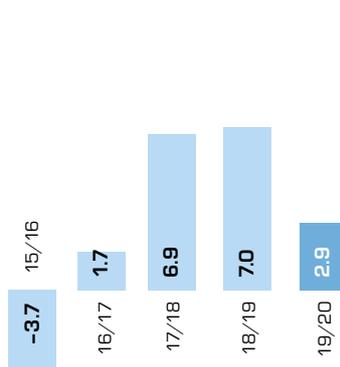
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 56.

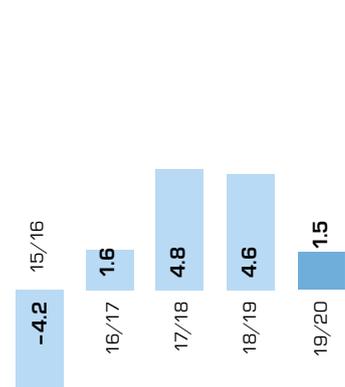
SALES, SEK MILLION



OPERATING PROFIT, SEK MILLION



OPERATING MARGIN, %



Where we are headed

The operating area's long-term goal is to be a leading provider of critical cybersecurity solutions for society's most important functions. We mainly focus on operations that handle sensitive security information, such as government authorities, defense departments, energy companies and the processing industry. Ensuring that these players can execute their tasks in a secure manner increases the potential for an open, safe and stable society.

Where we are now

Sectra has more than 40 years of experience in developing secure communication systems. Our solutions are used by customers in most European countries, and by the EU and NATO for encryption of both voice and data transfer. We have also identified two areas of growth:

- Cybersecurity for critical infrastructure.
- Enterprise mobile security for users who handle sensitive information but who are not required to use approved products, for example, in civil authorities.

We have received a positive response and initiated business, but are still in the investment and establishment phase in both of these areas.

Historically, the Secure Communications business model has largely been built on delivering products and projects, but there is a move underway to expand the share of operational and support services. Our growth strategy in 2019/2020 was also given a clearer focus on customer segments. Moreover, our ambition is to broaden our customer offering through partnerships.

National security—the linchpin of our operations

Sectra offers communication solutions that protect information essential to the security of a country. This customer segment is growing, and remains a central part of the operating area. Products are often developed

through project-based development, which can be fully or partially financed by the customer. The products are subject to requirements from independent security authorities to obtain the approvals required for classified information in each country and organization. Among other regions, our products are approved in the EU, NATO, the Netherlands and Sweden.

Information security in mobile communications

Over the last few years, our products for secure communication have been further developed, adding services and solutions that meet our customers' needs for mobile work. We are also focusing on expanding our operations into new customer segments for government authorities and private enterprises. Here, for example, we help the police and other blue-light emergency services with access to sensitive information in their field work—without threatening the integrity or confidentiality of the information. Sectra's solutions for tablets, smartphones and TETRA terminals (walkie-talkies) are based on our proprietary encryption technology

and VPN for mobile applications with strict security and accessibility requirements.

Critical infrastructure

In the critical infrastructure customer segment, for example, we support the efforts of the energy and water sector to deliver uninterrupted critical societal services. Using our monitoring services for critical operation systems, threats and risks can be identified before they have materialized and caused real damage. Our analysis services help these operations develop and change while maintaining security levels.

This is an area of growth that is still being built up, and we have focused primarily on growing in the Nordic region. In the Swedish market, Sectra has conducted security analyses for both major and more local players in the energy market, and our monitoring services are in operation at several energy companies. The new Protective Security Act that entered force in 2019 in Sweden has led to increased demand and greater awareness among energy companies. Over the long term, this legislation is expected to promote growth in the market.



The year in brief

The focus during the year was on activities to help ensure and boost growth in all customer segments and to broaden the operating area's offering. These activities included an acquisition that increases Sectra's possibilities for supporting the strategy of security-conscious organizations for secure mobile work via smartphones and tablets, regardless of which technological platform the mobile device is based on. Another key step toward continued expansion was to obtain security approval for newly developed products.

Additional sales of approved cryptography solutions to existing customers

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

Dutch security agency approved quantum-secure encryptor

In its latest evaluation of the encrypted Sectra Tiger/S mobile phone, the Dutch General Intelligence and Security Service judged that our product protected against "quantum attacks" and approved it for use

up to security level Geheim (SECRET). One of the major threats to future-proof confidentiality is the new type of advanced supercomputers, known as quantum computers.

Acquisition provides presence in the US market

The assets of the Swedish IT security company Columbitech AB, which specializes in software-based VPN, were acquired. This strengthens Sectra's total offering, and means that we gain presence and customers in the US market as well, in the segment for cybersecurity.

Energy companies choose Sectra's services to increase cybersecurity

Many companies in the energy sector ordered our analysis and monitoring services. Several security analyses were conducted for customers in Scandinavia. We also invested in development that will help increase our in-house capacity, and began preparations for internationalizing our offering.



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We help critical social functions to maintain their operations and share information with its security retained. This applies regardless of whether there is the possibility of meeting or being present at a regular workplace with regular tools. The pandemic that broke out in the late winter of 2020 clearly shows how important our work is. It makes me proud to see how our employees are doing their utmost to provide our services and products, even under difficult circumstances.

Simo Pykälistö
President of Secure Communications and
Executive Vice President of Sectra AB

Many European government authorities have chosen mobile encryption solutions from Sectra for key persons in order to maintain their operations during the COVID-19 pandemic.



The way forward

The table below shows a number of activities being prioritized by the operating area to achieve its long-term goal—being a leading provider of critical cybersecurity solutions for society’s most important functions.

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

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

For information on operating risks, refer to the [Sustainability Report](#) on page 62 and [Risks, risk management and sensitivity analysis](#), Note 30 on page 95.

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

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



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

1978

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

1993

Delivery of a medical imaging IT system to Mjölby health center, the first in Sweden to use digital radiology images.



1998

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

1980s

1985

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

1987

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

1990s



1989

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

1999

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

2000s

2013

Our digital image management system is named “Best in KLAS” for the first time for having the highest level of customer satisfaction in the US. As of today, we have won the prize seven years in a row, and the attention we have received has boosted our growth in the Imaging IT Solutions operating area.



2015

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

2016

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

2018

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

2020

Following formal FDA approval, healthcare providers in the US can now begin to use Sectra’s digital pathology solution for primary diagnostics and remote viewing.

2010s



2010

Launch of visualization technology for students and physicians.

“Given the fact that customer confidence is a critical success factor, we have always prioritized stable, long-term growth over rapid, high-risk expansion.”

2016

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

2019

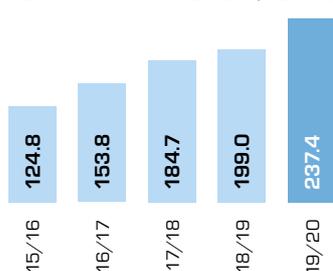
Sectra ranks among the top three companies in Universum’s annual survey of Sweden’s best employer.

2020s

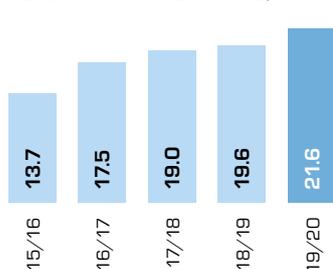
» Would you like to know more about our history? Visit investor.sectra.com/history

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

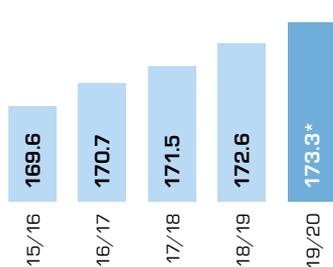
NET PROFIT FOR THE YEAR, SEK MILLION



RETURN ON TOTAL CAPITAL, %



REDEMPTION/DIVIDEND TO SHAREHOLDERS, SEK MILLION



* Board's proposal to the 2020 AGM

2019/2020

The US overtakes Sweden as Sectra's largest market

Long-term efforts in creating value for customers, patients and society at large resulted in the best earnings year in Sectra's history. All operating areas are growing. Geographically, operations in the US represented the single largest growth in sales, thus overtaking Sweden as our largest market.

2018/2019

Long-term customer contracts and increased synergies

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

2017/2018

Positive earnings trend and healthy order book

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

were divested, which had a nonrecurring positive effect on net financial items.

2016/2017

Stable performance by the Group despite unexpected currency effects

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

2015/2016

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

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

» Interested in the company's performance over the past ten years?

Visit investor.sectra.com/ten-year-summary

Strategic acquisitions and divestments

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

Sectra's six most recent acquisitions

Year	Company	Country	Operating area
2019	Assets in Columbitech AB, including the shares in Columbitech Inc.	Sweden/US	Secure Communications
2015	RxEye AB	Sweden	Imaging IT Solutions
2015	EXP Analytics Oy	Finland	Secure Communications
2015	it-mark ApS	Denmark	Imaging IT Solutions
2012	Product rights for radiation dose monitoring system	Sweden	Imaging IT Solutions
2012	Burnbank Systems Ltd.	UK	Imaging IT Solutions

Amounts in SEK thousand unless otherwise stated.						
For a definition of key figures, see Note 35 on page 96.						
		2019/2020	2018/2019	2017/2018	2016/2017	2015/2016
Sales, earnings and order bookings						
Net sales		1,661,138	1,413,522	1,209,181	1,125,109	1,080,857
Annual growth, %		17.5	16.9	7.5	4.1	12.4
Depreciation/amortization		-72,231	-46,809	-39,928	-33,830	-27,501
Impairment		-7,443	0	0	-12,313	0
Operating profit (EBIT)		295,348	235,541	214,349	194,986	157,989
Growth in operating profit per share over five years, %		90.2	77.9	142.9	83.2	113.9
Profit before tax (EBT)		303,037	248,792	231,155	201,146	153,965
Net profit for the year		237,354	198,979	184,706	153,782	124,795
Order bookings		1,815,956	2,132,839	1,492,529	1,177,658	1,321,968
Profitability						
Gross margin, %		22.6	20.0	21.0	21.4	17.2
Operating margin, %		17.8	16.7	17.7	17.3	14.6
Profit margin, %		18.2	17.6	19.1	17.9	14.2
Return on total capital, %		21.6	19.6	19.0	17.5	13.7
Return on capital employed, %		36.8	35.9	34.5	30.9	23.0
Return on equity, %		30.7	29.8	30.4	26.5	20.5
Value added, SEK million		1,110.5	912.3	798.5	737.5	679.8
Funding and capital employed						
Capital employed, SEK million		904.6	759.4	717.6	691.6	681.0
of which, goodwill		49.2	56.8	55.3	52.5	64.0
of which, other intangible and tangible assets		294.7	166.0	176.0	168.9	158.3
Liquidity ratio, multiple		1.7	1.7	1.6	1.7	1.8
Equity/assets ratio, %		54.1	55.4	51.4	50.5	51.4
Debt/equity ratio		0.11	0.04	0.09	0.13	0.12
Investments ⁴ , SEK million		78.5	34.9	23.0	17.5	108.7
Cash flow						
Cash flow from operating activities before changes in working capital ⁴		327,274	209,299	225,355	197,774	163,838
Operating cash flow ⁴		296,272	252,542	207,531	192,069	185,853
Cash flow from investing activities ⁴		-78,536	-34,875	-22,993	-17,492	-108,668
Cash flow from financing activities ⁴		-196,543	-168,933	-172,604	-146,084	-146,626
Cash flow for the year ⁴		21,193	48,734	11,934	28,493	-69,441
Employees						
No. of employees, average		780	706	645	616	587
No. of employees at the end of the period		820	746	674	638	625
Sales per employee, SEK million		2.0	1.9	1.8	1.8	1.8
Value added per employee, SEK million		1.4	1.2	1.2	1.2	1.2
The share						
Dividend/redemption per share ³ , SEK		4.50	4.50	4.50	4.50	4.50
Dividend yield, %		1.1	1.4	2.3	2.8	4.1
Earnings per share, SEK		6.18	5.21	4.86	4.07	3.33
Earnings per share after dilution ² , SEK		6.16	5.17	4.80	4.00	3.26
Cash flow per share ⁴ , SEK		7.69	6.58	5.44	5.07	4.96
Cash flow per share after dilution ^{2,4} , SEK		7.69	6.55	5.39	4.99	4.85
Equity per share, SEK		21.22	18.98	17.34	16.21	16.16
Equity per share after dilution ² , SEK		21.21	18.89	17.16	15.95	15.80
No. of shares at balance-sheet date ¹		38,506,020	38,352,871	38,119,669	37,890,085	37,503,335
Average no. of shares		38,416,683	38,197,403	38,012,454	37,772,864	37,483,975
Share price at balance-sheet date, SEK		420.0	322.0	194.2	162.5	110.75
P/E ratio, multiple		68.0	61.8	40.0	39.9	33.3

¹ Adjusted for stock splits and bonus issues.

² Dilution is based on issued convertible programs. Refer to Note 2 on page 81.

³ 2019/2020 refers to the share redemption program proposed by the Board of Directors.

⁴ The figures for 2015/2016 have not been adjusted in accordance with IAS 8 since this is not practically feasible.

Share value growth

The Sectra family is not only growing with new customers. There were 9,465 shareholders on the balance-sheet date, an increase of 17.8% over the fiscal year. The share price was SEK 420.00 on April 30, 2020, corresponding to a growth in value of 30.4% in 2019/2020.

Sectra's shareholder value is created through customer value and our contributions to a sustainable society. Investments in areas and innovation that have the potential to increase customer value have enabled stable and long-term returns for shareholders over time. On the balance-sheet date, Sectra's market capitalization totaled SEK 16.2 billion. Sectra is traded in the Mid Cap segment, but the value exceeds the lower limit for Nasdaq Stockholm's Large Cap segment by more than 50%.

Proposed share redemption program/dividend for 2020

The Board of Directors proposes that the 2020 Annual General Meeting resolve to transfer SEK 4.50 per share, SEK 173.3 million in total, to shareholders via the same type of redemption process that has been used for the past nine years. No ordinary dividend is proposed. This proposal corresponds to a dividend yield of 1.1% based on the year-end share price. Combined with the price trend, this represents total value growth of 31.8% for the Sectra share during the fiscal year.

The equity/assets ratio was 54.1% on April 30, 2020. The dividend policy and Sectra's financial goals state that the equity/assets ratio is to exceed 30%, and it will continue to do so, by a healthy margin, following a resolution in favor of the Board's proposed redemption process. More information and a schedule will be available for investors on Sectra's website not later than August 18, three weeks prior to the AGM on September 8, 2020.

Share redemption program and dividend 2019

The 2019 AGM resolved to transfer SEK 4.50 per share, a total of SEK 172.6 million, to the shareholders through a share redemption program. Redemption was implemented through a 2:1 share split, combined with a mandatory redemption process and a stock dividend to restore the share capital. No ordinary dividend was paid.

Dividend policy

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

Share price trend May 2015–April 2020

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

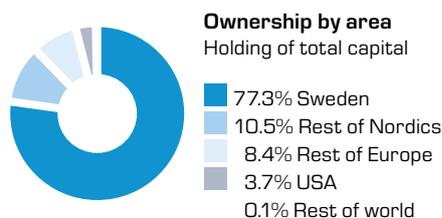
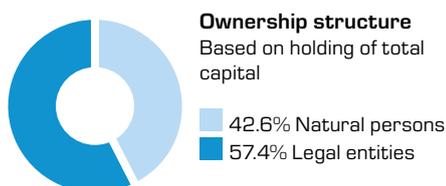


Share data	April 30, 2020	April 30, 2019
Market capitalization total no. of shares, SEK million	16,173	12,349
No. of shareholders	9,465	8,035
No. of shares	38,506,020	38,352,871
Closing price, SEK	420.00	322.00
52-week high, SEK	449.00	325.00
52-week low, SEK	281.00	179.02
52-week price trend, %	30.4	65.8
Stockholm Stock Exchange Total Index OMXSPI, 52-week trend, %	-3.3	6.8
Annual turnover rate	0.27	0.14
Annual average volume per day	39,225	22,416
Marketplace	Nasdaq Stockholm	
Ticker	SECT B	
ISIN code Class B share	SE0012853661	
Listing	March 3, 1999	
Segment	Mid Cap	
Sector	Health Care	

Share capital development and number of shares

Date	Transaction	Change in share capital	Total share capital, SEK	Total no. of shares
May 1, 2019	Opening balance		38,352,871	38,352,871
Oct 4, 2019	Share redemption program—2:1 split	0	38,352,871	76,705,742
Oct 18, 2019	Share redemption program—share redemption	-19,176,435.5	19,176,435.5	38,352,871
Oct 18, 2019	Share redemption program—stock dividend	19,176,435.5	38,352,871	38,352,871
Dec 27, 2019	New share issue—redemption of convertibles	153,149	38,506,020	38,506,020
Apr 30, 2020	Closing balance		38,506,020	38,506,020

The total number of shares outstanding on the balance-sheet date was 2,620,692 Class A shares and 35,885,328 Class B shares. All shares carry equal rights to the company's assets and profits. One Class A share confers ten votes, while one Class B share confers one vote. The total number of votes is 62,092,248. For more information about the share capital's development since the listing in 1999, visit investor.sectra.com/share-capital



Largest owners

The number of shares comprises direct shareholdings and holdings through related parties at April 30, 2020. For current holdings, see investor.sectra.com/shareholders

Shareholder	Class A shares	Class B shares	Capital	Votes
Torbjörn Kronander	465,620	2,638,711	8.1%	11.7%
Jan-Olof Brüer	465,622	2,609,389	8.0%	11.7%
Shannon AB *	623,686	458,364	2.8%	10.8%
Nordea Investment Funds **	0	5,248,246	13.6%	8.5%
Frithjof Qvigstad	262,866	1,902,519	5.6%	7.3%
SEB Investment Management ***	0	4,231,574	11.0%	6.8%
Viiveke Fåk ****	221,700	1,088,150	3.4%	5.3%
Robert Forchheimer ****	202,203	1,178,104	3.6%	5.2%
Ingemar Ingemarsson ****	221,347	50,999	0.7%	3.6%
Fourth Swedish National Pension Fund	0	1,912,162	5.0%	3.1%
Thomas Ericson	136,329	164,914	0.8%	2.5%
IF Skadeförsäkring AB	0	1,389,808	3.6%	2.2%
Swedbank Robur Fonder	0	1,192,111	3.1%	1.9%
AMF Försäkring och Fonder	0	1,044,461	2.7%	1.7%
JPM Chase NA	0	929,935	2.4%	1.5%
15 largest shareholders	2,599,373	26,039,447	74.4%	83.8%
All other owners	21,319	9,845,881	25.6%	16.2%
Total	2,620,692	35,885,328	100%	100%

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

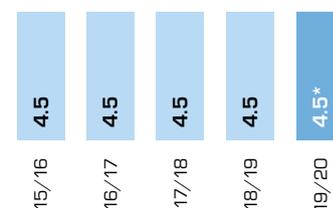
** Includes Nordea SICAV.

*** Includes SEB AB Luxembourg.

**** Sectra's founders.

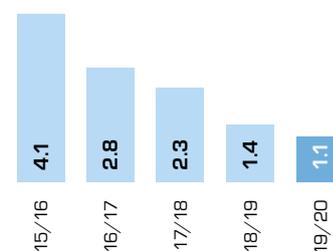
Source: Euroclear Sweden

DIVIDEND/REDEMPTION PER SHARE, SEK

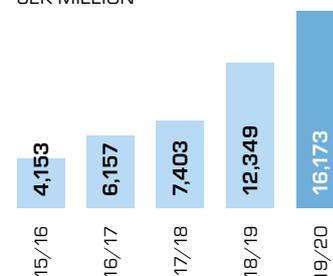


* Board's proposal to the 2020 AGM

DIVIDEND YIELD, %



MARKET CAPITALIZATION, SEK MILLION



Analysts

The following analysts monitor Sectra and regularly publish analyses:

Carnegie
Kristofer Liljeberg

Danske Bank
Carolina Elvind

Board of Directors

The number of shares comprises direct shareholdings, holdings through related parties and legal entities on the balance-sheet date of April 30, 2020. Torbjörn Kronander and Jan-Olof Brüer's holdings include 50% each of a holding through the jointly owned legal entity Shannon AB.

Jan-Olof Brüer

Chairman of the Board
Remuneration Committee Chairman



Torbjörn Kronander

Board member
President and CEO Sectra AB



Born/Elected	Born 1951/Elected 2013 and Chairman of the Board since 2018	Born 1957/Elected 1988/Employed since 1985
Sectra holdings	777,465 Class A shares, 2,838,571 Class B shares and convertibles corresponding to 5,400 Class B shares	777,463 Class A shares and 2,867,893 Class B shares
Board fees 2019/2020	SEK 450,000	SEK 0
Board member's independence	Independent in relation to the company and management. One of the company's largest shareholders with 17.1% of the votes and 9.4% of capital	President and CEO of Sectra AB and one of the company's largest shareholders with 17.1% of the votes and 9.5% of capital
Education/Title	PhD (Technology), Master of Business Administration, officer in the armored troops and Honorary Doctor of Medicine from Linköping University	PhD (Technology), Master of Business Administration, officer in the Naval Reserve and Honorary Doctor of Medicine from Linköping University
Professional experience/previous assignments	Previously President and CEO of Sectra AB 1985–2012 and Board member of Arcam AB	Previously President—and founder—of Sectra's medical operation and Executive Vice President of Sectra AB, full-time at Sectra since 1991, ship captain and Board member of several Cellavision AB and others.
Other posts	Board member of Shannon AB, Conflux AB, Sectra Communications AB, and Lilla Hallmare Gård och Förvaltning, and others	Board member of the Center for Medical Image Science and Visualization (CMIV) research center, Shannon AB and others, member of the Royal Swedish Academy of Engineering Sciences

Anders Persson

Board member
Member of the Audit Committee



Christer Nilsson

Board member, Audit Committee Chairman
and Remuneration Committee member



Born/Elected	Born 1953/Elected 2004	Born 1952/Elected 2008
Sectra holdings	40,472 Class B shares and convertibles corresponding to 2,657 Class B shares	15,297 Class B shares and convertibles corresponding to 531 Class B shares
Board fees 2019/2020	SEK 275,000	SEK 325,000
Board member's independence	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders
Education/Title	Doctor of Medicine, Professor, Senior Physician	Master of Science in Information Technology
Professional experience/previous assignments	Director of the Center for Medical Image Science and Visualization (CMIV) at Linköping University and Senior Physician in radiology	President of Vestadil AB, previously Director and Advisor at 3i plc, senior positions at Datex-Ohmeda and Gambro
Other posts	Board member of CMIV, and others	Board member of Industrifonden and StyrelseAkademien Sverige. Chairman of the Board of StyrelseAkademien Stockholm, and others.

Jonas Yngve

Board member

**Tomas Puusepp**

Board member

**Birgitta Hagenfeldt**Board member and
Member of the Audit Committee

Born/Elected	Born 1965/Elected 2019	Born 1955/Elected 2017	Born 1961/Elected 2018
Sectra holdings	20,597 Class B shares	Convertibles corresponding to 1,013 Class B shares	2,000 Class B shares
Board fees 2019/2020	SEK 225,000	SEK 225,000	SEK 275,000
Board member's independence	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders
Education/Title	Licentiate of Science (Technology)	Bachelor of Science in Engineering	Master of Business Administration
Professional experience/previous assignments	Senior software engineer at Google in Zürich, Switzerland. Previously Chief Software Architect in Sectra's medical operations	Previously President and CEO of Elekta AB and several senior positions at Elekta, various positions at the Research Institute of Physics at Stockholm University, Scanditronix and Ericsson	CFO and Executive Vice President of Avanza Bank Holding. Previously Head of Administration at the fund company RAM Rational Asset Management AB and Authorized Public Accountant at KPMG
Other posts	None	Board member of Elekta AB, Permobil AB and the Swedish-American Chamber of Commerce in New York	None

Deborah CapelloBoard member
Employee representative**Bengt Hellman**Board member
Employee representative**Andreas Örneus**Deputy Board member
Employee representative**Filip Klintenstedt**Deputy Board member
Employee representative

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

» For current holdings, see investor.sectra.com/board-of-directors» For information about matters addressed by the Board in 2019/2020, refer to the Board's Corporate Governance Report at investor.sectra.com/corporate-governance-reports

Group Management and Auditor

The number of shares comprises direct shareholdings, holdings through related parties and legal entities on the balance-sheet date of April 30, 2020. Torbjörn Kronander's holdings include 50% of a holding through a legal entity owned jointly with Board member Jan-Olof Brüer.

Torbjörn Kronander

President and CEO of Sectra AB and Board member



Marie Ekström Trägårdh

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



Simo Pykälistö

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



Born/Employed	Born 1957/Employed 1985/Board member since 1988	Born 1961/Employed 1996	Born 1972/Employed 2003
Sectra holdings	One of the company's largest owners with 777,463 Class A shares and 2,867,893 Class B shares	51,897 Class B shares and convertibles corresponding to 1,013 Class B shares	35,750 Class B shares
Education/Title	PhD (Technology), Master of Business Administration, officer in the Naval Reserve and Honorary Doctor of Medicine from Linköping University	Bachelor of Science in Systems Science and IT	Master of Science in Business and Economics
Previous professional experience/assignments	President of Sectra's medical operation and Executive Vice President of Sectra AB, full-time at Sectra since 1991, ship captain and Board member of Cellavision AB and others	President of Sectra Skandinavien AB, Executive Vice President of Sectra's Imaging IT Solutions operating area and senior positions at Sectra, Board member of Swedish Medtech, Consultant at Frontec AB, Developer/Project Manager at Fujitsu ICL	CFO of Sectra AB, CFO of Pronyx AB, Finance Director at CDT Nordic, Group Controller at M2 Engineering AB, Finance Manager at Kesko Svenska AB, Economist at OKO Bank
Other posts	Board member of the CMIV research center, Shannon AB and others, member of the Royal Swedish Academy of Engineering Sciences	Board member of Pledpharma AB and member of the Royal Swedish Academy of Engineering Sciences	Board member of Sunda Hus AB and Insurance Underwriting Agency OÜ, and others

Mats Franzén

Chief Financial Officer



Johan Carlegrim

General Manager Medical Education business unit



Gustaf Schwang

General Manager Orthopaedics business unit



Born/Employed	Born 1969/Employed 2016	Born 1988/Employed 2012	Born 1976/Employed 2017
Sectra holdings	12,500 Class B shares	3,000 Class B shares	50 Class B shares
Education/Title	Master of Science in Business Administration and Economics	Master of Science in Information Technology	Master of Science in Information Technology
Previous professional experience/assignments	CFO of HTC Group AB, CEO of HTC Cleaning Technology AB Group, Finance Director of Toyota Industries Europe AB, Senior Group Accountant at BT Industries AB, Authorized Public Accountant and Head of PwC's Linköping office	Senior Product Manager in Sectra's medical operations	Director Special Accounts at Elekta AB and senior positions at Elekta, Board member of Swecare Foundation, General Manager at Seaway Group, R&D Director at Nautor's Swan and others.
Other posts	Board member of Terrasancta AB	None	None

Per Andersnäs
Chief Information Officer



Lisa Everhill
Chief People and Brand Officer



Claes Lundström
Research Director Medical IT



Born/Employed	Born 1962/Employed 1997	Born 1979/Employed 2006	Born 1973/Employed 1997
Sectra holdings	450 Class B shares	2,671 Class B shares and convertibles corresponding to 202 Class B shares	9,063 Class B shares and convertibles corresponding to 608 Class B shares
Education/Title	Master of Science in Computer Technology	Master of Science in Business Administration	PhD (Technology)
Previous professional experience/assignments	Product Development Director Imaging IT Solutions operating area and others, senior positions in Sectra's medical operation	Market Communication and Investor Relations Manager and other senior positions in Sectra's medical operation	Product Development Project Manager and others, senior positions in Sectra's medical operation
Other posts	None	None	Consulting Professor, Center for Medical Image Science and Visualization (CMIV)

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



Born/Employed	Born 1962/Employed 1989
Sectra holdings	152,195 Class B shares
Education/Title	Licentiate of Science (Technology), Master of Business Administration
Previous professional experience/assignments	Other senior positions in Sectra's medical operation
Other posts	Board member of Mirantum AB

Auditor

Mia Rutenius
Chief Coordinating Auditor
Grant Thornton Sweden AB



Born/Appointed	Born 1974/Appointed 2016 and most recently 2019
Sectra holdings	0
Education	Authorized Public Accountant
Other posts	Board member of Grant Thornton Sweden AB Chief Coordinating Auditor for Dedicare AB (publ), BioArctic AB (publ), Columbus Ab and Poolia AB (publ).

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

Administration report

The Board of Directors and the President of Sectra AB (publ), Corporate Registration Number 556064-8304, hereby submit the Annual Report and the consolidated financial statements for the period from May 1, 2019 to April 30, 2020. The following sustainability report, income statements, balance sheets, statements of changes in equity, cash-flow statements, accounting policies and notes comprise an integrated part of the Annual Report.

Statement

The information in this Annual Report is such that Sectra is obliged to make public in accordance with the Securities Market Act. Sectra published the year-end report for the 2019/2020 fiscal year on June 3, 2020 at 08:15 a.m. through a press release, and the report was published on Sectra's website. The Annual Report and Sustainability Report were announced via a press release and published on the website on July 1, 2020.

Corporate governance

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

» These documents were published alongside the Annual report and are available at investor.sectra.com/governance together with other information on corporate governance at Sectra.

The Group's operations and structure

Sectra conducts research, development and sales of high-tech products and services in the niche markets of medical imaging IT and cybersecurity. Sectra AB is the Parent Company of the Group, which comprises the operating areas Imaging IT Solutions, Secure Communications, Business Innovation and Other Operations. The latter refers to Sectra's operating area for the joint functions of administration, Group finances, IT, regulatory affairs, people and brand, recruitment, investor relations activities and the Group's financing activities.

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

Acquisitions in 2019/2020

The assets of the Swedish IT security company Columbitech AB, including the shares in its US subsidiary Columbitech Inc., were acquired during the fiscal year. The company specializes in software-based, primarily mobile, VPNs. The acquired assets and operations in the US company became part of Secure Communications as of May 21, 2019. The acquisition does not have any material impact on the operating area's or the Group's sales and earnings. For more information, refer to the acquisition analysis in [Note 13](#).

Significant events

2019/2020 fiscal year

- The Group's net sales rose 17.5% to SEK 1,661.1 million (1,413.5). All operating areas reported sales growth. Imaging IT Solutions accounted for single largest increase after having deployed numerous medical imaging IT system installations among new and existing customers. Operations in the US increased sales by 43.4% to SEK 461.4 million, and overtook Sweden as Sectra's largest market.
- The Group's operating profit rose 25.4% to SEK 295.3 million (235.5). This fiscal year was Sectra's best to date for earnings, and we exceeded the target levels for the three Group-wide financial goals. Refer to page 23. Our success and our growth are built on high levels of customer satisfaction, long-standing customer relationships, high-quality products and skilled, dedicated employees.
- Through a share redemption program, a total of SEK 172.6 million was distributed to the shareholders, corresponding to SEK 4.50 per share.
- A new coronavirus spread around the world and developed into a serious pandemic. National borders were closed, and countries implemented quarantine measures and other restrictions to limit the spread of infection. Many of our customers have been affected, especially those in healthcare who need to prioritize caring for patients who have fallen ill with the coronavirus. Sectra has adapted its operations to these new conditions, and the majority of the company's work is being performed remotely. The situation did not have any significant impact on Sectra's financial outcome during the fiscal year, however.

After the balance-sheet date

- With a strong financial position, positive cash flow and significant recurring revenue, Sectra is well equipped to manage the great degree of uncertainty resulting from COVID-19. In light of this, the Board and the President propose that the 2020 AGM resolve to distribute SEK 4.50 per share to the shareholders through a 2:1 share split in combination with a mandatory redemption process (refer to page 68). No ordinary dividend is proposed.

Outlook

We play a key role in meeting the needs of medical imaging IT and cybersecurity—two changing, growing markets with additional scope for expansion, where the underlying societal trends mean these areas must grow. Sectra's customers operate in some of society's most critical functions. Our job is to help our customers become more efficient and give them the tools to in turn make people's lives healthier, safer and more secure.

Sectra is well positioned in these areas, with stable solutions, high levels of customer satisfaction and a long-term future focus. The Group's financial position enables investments in forthcoming projects and new geographic markets that could eventually become significant. Our possibilities for growth are strong in all operating areas for the foreseeable future, even if COVID-19 will likely mean temporarily dampened demand in certain markets. Read more about risks and uncertainties on page 66. With our work and investments in areas and innovations that have the potential to increase customer value, we are creating value for our customers and are thus helping to make society healthier and safer. This customer value is the foundation of Sectra's success, and also determines how we successfully create shareholder value and returns for our owners.

Financial overview, Group

Performance measures	2019/2020	2018/2019	Change %
Order bookings, SEK million	1,816.0	2,132.8	-14.9
Net sales, SEK million	1,661.1	1,413.5	17.5
Operating profit, SEK million	295.3	235.5	25.4
Net financial items, SEK million	7.7	13.3	-42.1
Profit before tax, SEK million	303.0	248.8	21.8
Profit after tax, SEK million	237.4	199.0	19.3
Operating margin, %	17.8	16.7	n/a
Profit margin, %	18.2	17.6	n/a
Earnings per share, SEK ¹	6.18	5.21	18.6
Cash flow per share, SEK ²	7.69	6.58	16.9

¹ Prior to dilution.

² Cash flow from operations after changes in working capital.

Comments on order bookings, sales and earnings

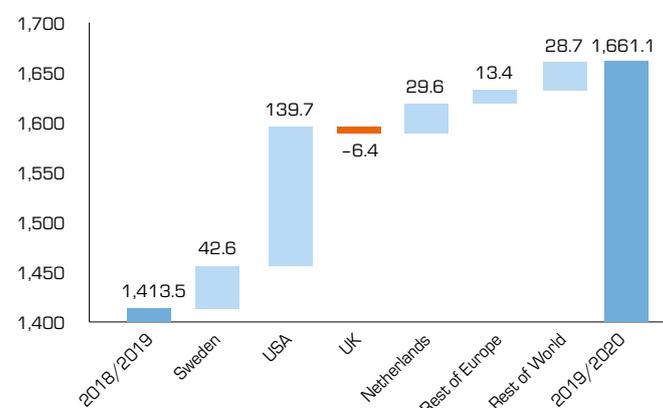
Order bookings amounted to SEK 1,816.0 million. Major long-term agreements contribute to lasting stability, but also give rise to significant variations in order bookings and financial outcomes between periods. The comparative year includes, for example, an extensive order from NSW Health in Australia with an order value of SEK 560 million. Geographically, Imaging IT Solutions' operations in the Netherlands, the UK and the US accounted for the largest individual increases of order bookings. In the US, the company is devoting particular focus to growth. We have signed agreements with a number of prominent key customers and obtained FDA approval during the fiscal year.

The Group's net sales rose 17.5% to SEK 1,661.1 million. All operating areas and geographic markets except the UK reported sales growth. In the UK, revenue from sales of own products increased, though revenue from third-party products was lower than the comparative year. Geographically, operations in the US represented the single largest growth in sales, thus overtaking Sweden as our largest market.

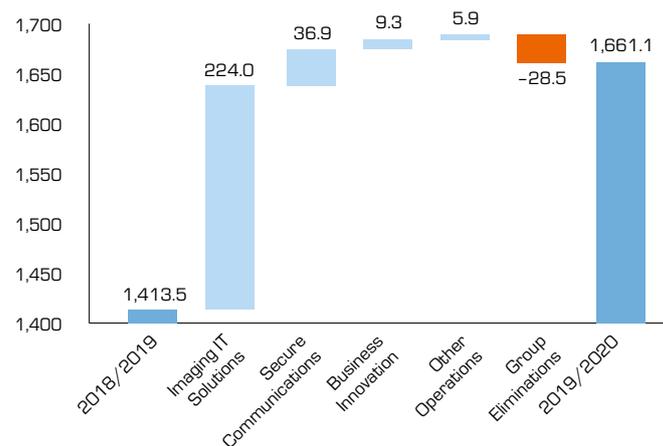
We benefited from exchange-rate movements during the fiscal year. Adjusted for currency fluctuations (refer to [Note 30](#)), sales rose 14.7% compared with the preceding fiscal year. More than 70% of Sectra's net sales are carried out in foreign currency, primarily EUR, USD and GBP, which entails a relatively large sensitivity to exchange rates.

The Group's operating profit rose 25.4% to SEK 295.3 million (235.5). This corresponds to an operating margin of 17.8%, which exceeds our financial goal of 15.0%. Adjusted for currency fluctuations, operating profit increased 19.2%. The Group's operating costs before depreciation and amortization increased 19.1% to SEK 1,092.2 million (917.4), primarily as a result of higher personnel and consulting costs. This increase is primarily attributable to ongoing investments in future areas and an enhanced capacity for the installation and deployment of Sectra's medical imaging systems resulting from the growth in demand and orders from new customers over the past year. Major system installations among new customers initially entailed significant initial costs and a negative effect on cash flow, which primarily affected the outcome for the first half of 2019/2020. Once customers started to go live with the solutions in the second half of the year, it had a positive effect on revenue and on the Group's earnings, margin and cash flow.

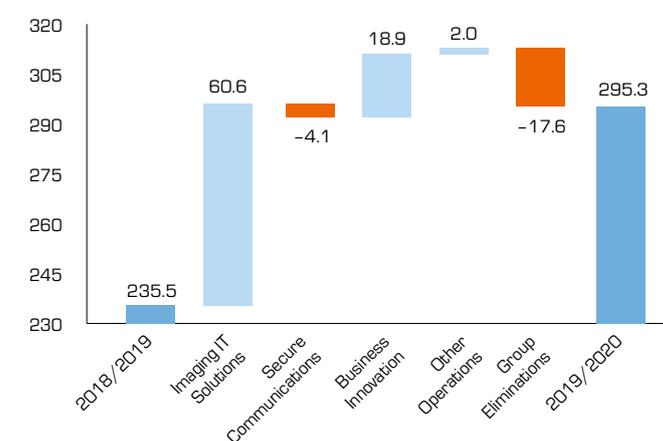
Sales trend per geographic market SEK million



Sales trend per operating segment SEK million



Earnings trend per operating area SEK million



The Group's net financial items amounted to SEK 7.7 million (13.3). Currency fluctuations had an impact of SEK 3.7 million (4.9) on the Group's financial items. Sectra does not hedge its operations, and currency fluctuations therefore have an immediate impact. Profit after net financial items increased 21.8% to SEK 303.0 million (248.8). The result corresponds to a profit margin of 18.2% (17.6). Profit after tax increased to SEK 237.4 million (199.0), corresponding to earnings per share of SEK 6.18 (5.21).

The figures for 2019/2020 include the reversal of a contingent consideration amounting to SEK 8.8 million and impairment of goodwill totaling a negative SEK 7.4 million. The items are related to the acquisition of the Finnish company EXP Analytics Oy in 2015 and the impairment based on the judgment that the company's sales and earnings will grow more slowly than originally expected. These items had a net positive impact of SEK 1.4 million on profit before tax. Excluding nonrecurring items, profit after net financial items rose 21.2%.

Financial position and cash flow

After adjustment for exchange-rate differences, the Group's cash and cash equivalents at the end of the reporting period amounted to SEK 345.3 million (331.9). The Group's debt/equity ratio was 0.11 (0.04) as of the balance-sheet date. The change pertains to the transition to the new accounting policies according to IFRS 16, refer to [Note 11](#). Interest-bearing liabilities amounted to SEK 87.4 million (31.5), of which SEK 80.9 million (0.0) pertained to lease liabilities according to IFRS 16 and SEK 6.5 million (31.5) pertained to convertible loans held by employees and Board members. Two convertible loans totaling SEK 25.0 million were converted to shares during the fiscal year (refer to [Note 2](#)).

The Group's cash flow from operations after changes in working capital amounted to SEK 296.3 million (252.5). Cash flow per share amounted to SEK 7.69 (6.58) for the period. Cash flow from investing activities amounted to a negative SEK 78.5 million (neg: 34.9). Refer to the information about investing activities below. The Group's total cash flow was SEK 21.2 million (48.7). This result include a transfer of SEK 172.6 million (171.5) to the shareholders in conjunction with share redemption programs. Excluding the share redemption program, total cash flow amounted to SEK 193.8 million (220.2).

Investments, depreciation/amortization, impairment, and R&D

Group investments during the fiscal year amounted to SEK 78.5 million (34.9). The investments during the fiscal year pertain primarily to capitalized development costs, infrastructure for cloud solutions for medical imaging, purchasing rights for software and the acquisition of assets in Columbitech AB. Depreciation/amortization amounted to SEK 72.2 million (46.8), of which SEK 22.0 million (0.0) pertained to depreciation of right-of-use assets according to IFRS 16. In addition, a write-down related to Sectra's acquisition of EXP Analytics Oy in 2015 amounted to SEK 7.4 million.

Capitalized work for own use amounted to SEK 41.8 million (37.3), of which SEK 36.9 million (25.2) pertained to capitalized development costs. Amortization of capitalized development projects amounted to SEK 28.4 million (27.3). At the end of the period, capitalized development costs totaled SEK 111.0 million (102.6).

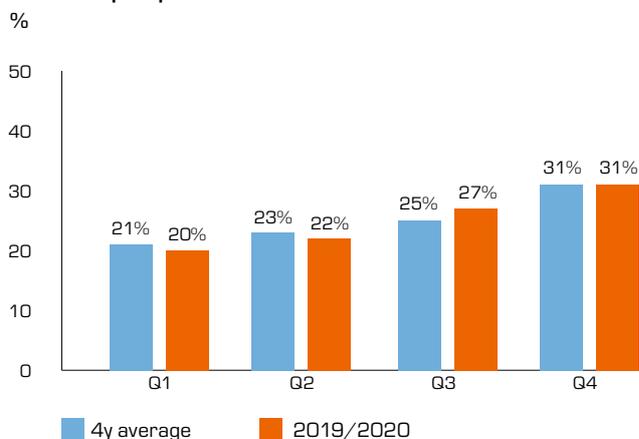
Every year, we invest 10–15% of consolidated sales in research and development (R&D) projects. Read more on page 20. R&D costs for the fiscal year amounted to SEK 205.5 million (172.2).

Seasonal variations

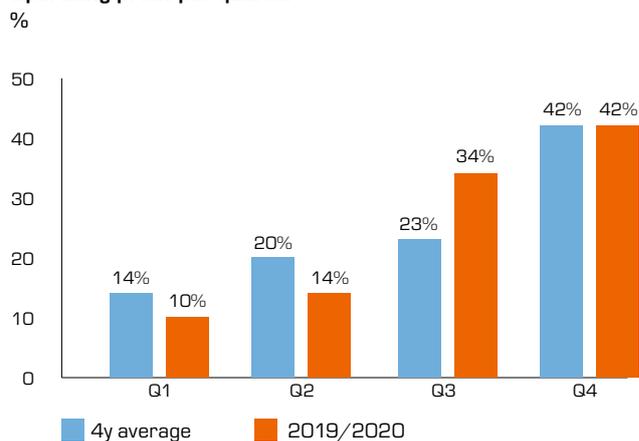
Sectra's seasonal variations entail that most of the company's invoicing and earnings have traditionally been generated at the end of the fiscal year. The variation in order volumes in individual quarters can

also be substantial when customers sign major multiyear agreements with the company, for example, for medical IT projects or encryption systems.

Net sales per quarter



Operating profit per quarter



Financial overview, operating areas and Parent Company Imaging IT Solutions

We experienced increased demand for Sectra's medical imaging products during the fiscal year, both in our large markets (the Netherlands, the UK and the US) and in new markets, such as Canada, as well as via new distribution partners. High customer satisfaction and the distinction of "Best in KLAS" were important factors in this trend. In 2019/2020, the operating area's sales totaled SEK 1,428.2 million (1,204.4), up 18.6%. Operating profit rose 23.6% to SEK 317.6 million (257.0), corresponding to an operating margin of 22.2% (21.3). Deploying our services to new and existing customers enabled a positive earnings performance, and the margin was strengthened by a larger share of licensed content in deliveries and increased capitalization of development costs.

The operating area is implementing long-term growth initiatives in new product areas, such as digital pathology and cardiology, and expanding into additional geographic markets through the establishment of its own operations and through new distributors. To take care of more customers, delivery capacity was gradually strengthened during the fiscal year, primarily in the US but also in growth markets such as Australia, Canada and France, where we received important breakthrough orders in 2018/2019. Additional major installation proj-

ects are ongoing and are expected to be deployed to customers during the coming fiscal year and onwards. Read more about the operating area on page 28.

Business Innovation

The smaller Orthopaedics and Medical Education business units are operated as part of Business Innovation. We also report the expenses for our long-term research activities in this area, which currently largely focus on initiatives in the field of AI for medical applications. We are currently undergoing a product generation shift in both Orthopaedics and Medical Education. The business units have new products that have attracted considerable market attention and both operations have improved their outcome compared with preceding years.

In 2019/2020, sales for Business Innovations amounted to SEK 78.1 million (68.8), up 13.5%. Operating profit increased to SEK 12.9 million (loss: 6.0). The positive performance is primarily attributable to increased revenue from products and services sold as part of the Imaging IT Solutions customer offering. The increase in sales has strengthened operating profit. Moreover, previously reserved expected credit losses could be redeemed in conjunction with payments received, which has a positive net effect on operating profit for the year of SEK 3.2 million. Read more about the operating area on page 34.

Secure Communications

Our Secure Communications operating area is growing, primarily through increased sales from project-based development activities and approved crypto products that protect information essential to the security of critical social functions. This project-based development is partially paid for by customers and will eventually lead to product delivery, which entails an increased operating margin compared with development projects.

For 2019/2020, sales rose 24.2% to SEK 189.3 million (152.4) and operating profit totaled SEK 2.9 million (7.0). Operating profit was charged with our long-term growth initiatives. During the fiscal year, we invested, for example, in development that enables capacity increases in our offerings for critical infrastructure and information security in conjunction with mobile working for government agencies and private business. We have also begun preparations for internationalizing our products and services in this customer segment. The figures for full-year 2019/2020 include reversal of a contingent consideration amounting to SEK 8.8 million and impairment of goodwill totaling a negative SEK 7.4 million. Excluding these items, operating profit was SEK 1.5 million (7.0). The items are related to the acquisition of the Finnish company EXP Analytics Oy in 2015.

Historically, the business model in Secure Communications has largely been built on delivering products and projects, but now the focus is on expanding the share of operational and support services. Our ambition is to continue to grow profitably within all customer segments. The growth strategy has gained a clearer focus on customer segments and increasing service sales, while expanding the customer offering through partnerships. Read more about the operating area on page 42.

Other Operations

Other Operations pertain to Sectra's joint functions for administration, people and brand, recruitment, Group finances, IT, regulatory affairs, investor relations activities and the Group's financing activities. Sales from Other Operations are essentially intra-Group in nature and amounted to SEK 68.6 million (62.7). An operating loss of SEK 26.4 million (loss: 28.4) was reported.

Parent Company's sales and profit

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

The share

On the balance-sheet date, Sectra's share capital totaled SEK 38,506,020, distributed among 38,506,020 shares. Of these shares, 2,620,692 were Class A and 35,885,328 were Class B shares. One Class A share confers ten votes, while one Class B share confers one vote. All shares carry equal rights to the company's assets and profits. These figures include a new share issue due to the conversion of convertibles (2015/2019 and 2016/2019 programs) during the fiscal year corresponding to 153,149 Class B shares.

As of the publication date of this report, on full exercise of outstanding convertibles, the number of Class B shares will increase by 27,233, corresponding to less than 0.1% of the share capital and 0.1% of the voting rights in the company. These figures include the effects of a recalculation of the conversion price for outstanding convertible programs due to the share redemption program for 2019. For more information, refer to [Note 2](#).

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

Major shareholders

On the balance-sheet date, Sectra had 9,465 (8,035) shareholders. Of these, the following shareholders had direct and indirect holdings comprising more than 10% of the number of votes for the total number of shares in the company on the balance-sheet date:

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

Authorization

The 2019 Annual General Meeting authorized the Board of Directors, during the period until the next Annual General Meeting, to decide on a new share issue of not more than 3,700,000 shares. The purpose of the authorization was to facilitate the use of new share issues for financing market investments and acquisitions of companies or operations, to cover the costs arising as a result of the company's incentive programs and to constantly adapt the company's capital structure. The Annual General Meeting also resolved to authorize the company to repurchase not more than 10% of the company's own shares up until the next Annual General Meeting. On the balance-sheet date, the Board had not utilized either of these authorizations.

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

The Board of Directors' statement is reported under [Note 32](#).

Guidelines for remuneration to senior executives

Resolved at the 2019 AGM

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

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

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

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

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

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

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

The Board of Directors should be able to depart from the remuneration guidelines adopted by the AGM if there are particular reasons to do so in an individual case.

Proposals to the 2020 AGM

The Board of Directors proposes that the 2020 AGM resolve on the following guidelines for remuneration and other terms and conditions of employment for senior executives at Sectra AB. Compared with the guidelines adopted by the 2019 AGM, these guidelines were developed and updated to meet the new requirements following from Chapter 8, Sections 51–53 of the Swedish Companies Act.

Scope and applicability of the guidelines

These guidelines cover the President and CEO, other members of Group Management and, where applicable, remuneration to Board members for work performed above and beyond their commission. The guidelines will be applied to contractual remuneration, and changes made to remuneration already contracted, after the guidelines are adopted by the 2020 AGM.

The guidelines do not cover remuneration that has been resolved on by the General Meeting of Shareholders. Board fees will not be paid to executives employed in the Group.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

Briefly, Sectra's business strategy entails developing and selling products and services for medical IT and cybersecurity. Helping our customers improve the efficiency and quality of patient care and increase cybersecurity in critical social functions is the company's most significant contribution to a more sustainable society. For more information about the company's business strategy, refer to Sectra's latest Annual Report available at the company's website, investor.sectra.com.

Successfully implementing the company's business strategy and looking after the company's long-term interests including sustainability assumes that the company can recruit and retain qualified employees. This requires the company to offer competitive remuneration. These guidelines make it possible to offer senior executives competitive total remuneration. Long-term share-based incentive programs have been introduced at the company in certain years. These programs are adopted, where necessary, by the General Meeting of Shareholders and are thus not covered by these guidelines.

Forms of remuneration, etc.

The terms and conditions of remuneration must emphasize remuneration after performance, and varies in relation to the individual's performance and the Group's earnings. Total remuneration is on market terms and can consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits.

Fixed remuneration

Fixed remuneration consists of a basic annual salary (the "Basic Salary"), which is to be competitive in the relevant market and reflect the responsibilities that the job entails. Salary levels will be reviewed once a year to ensure continued competitiveness and to reward individual performances.

Variable remuneration

Variable cash remuneration covered by these guidelines must be intended to promote the company's business strategy and long-term interests, including sustainability.

Variable cash remuneration will be based on predetermined and measurable criteria. These criteria must be based on (i) financial earnings (profit, financial efficiency and sales) or alternately operational goals that over the long term are felt to lead to solid financial results; (ii) share-related goals and (iii) non-financial goals such as sustainability, customer satisfaction, quality and corporate culture. They should also consist of individually adapted quantitative or qualitative goals.

Meeting the criteria for disbursement of variable cash remuneration should be measurable over a period of one or more years. Variable cash remuneration can total a maximum of 50% of the Basic Salary as regards financial, operations, non-financial and individually adapted goals and a maximum of 25% as regards share-related goals during the relevant measurement period.

When the measurement period for meeting the criteria for disbursement of variable cash remuneration has concluded, the extent to which the criteria were met must be determined. The Remuneration Committee is responsible for assessment regarding variable cash remuneration to the CEO. As regards variable cash remuneration to other executives, the CEO is responsible for the assessment. As regards financial goals, the assessment must be based on the latest financial information released by the company.

In addition to variable remuneration that executives may receive in accordance with these guidelines, the Board of Directors may decide that such executives could be covered by programs for variable remuneration that also cover personnel categories other than senior executives such as all employees in the Group or in a particular business area. Such programs must entitle all employees (regardless of position) to the possibility of the same nominal remuneration.

The Board of Directors must also have the legal or contractual possibility—with the ensuing limitations—of demanding the return in full of erroneously disbursed variable remuneration (“clawback”). A clawback of this kind, where applicable, must be issued within five years of the disbursement.

Pension and other benefits

For the CEO and other executives covered by these guidelines, retirement and survivor benefits including health insurance must be provided and are to be defined-contribution. Variable cash remuneration must not be pensionable. Pension premiums must total a maximum of 30% of the Basic Salary.

The executive must be provided with the possibility of exchanging a portion of the Basic Salary with other benefits such as life insurance, healthcare insurance and a company car, provided that it is cost-neutral for the company.

As regards terms of employment subject to laws other than Swedish, the company may make the proper adjustments concerning pension and other benefits in order to comply with compulsory regulations or local practice, in which case the overall goals of these guidelines must be met to the greatest possible extent.

Period of notice

The period of notice must be linked to the age of the executive, in accordance with the following policies.

Upon termination by the company or the executive, the period of notice must be at most (i) 6 months, if at the time of termination the executive is age 40 or younger; (ii) 12 months, if at the time of termination the executive is age 41–50; (iii) 18 months, if at the time of termination the executive is age 51–60; and (iv) 24 months, if at the time of termination the executive is age 61 or older. From the date the executive turns 67, however, the period of notice must be at most 6 months.

Salary and conditions of employment for employees

In preparing the Board’s proposal for these remuneration guidelines, salary and conditions of employment for the company’s employees were taken into account through information on total employee remuneration, the components of remuneration and the increase (and

rate of increase) of the remuneration forming a part of the basis for decision by the Board and the Remuneration Committee in assessing the reasonableness of the guidelines and the ensuing limitations.

The decision-making process for adopting, reviewing and implementing the guidelines

The Board of Directors has set up a Remuneration Committee, the tasks of which include preparing the Board’s decisions on proposals for guidelines on remuneration to senior executives. The Board of Directors will draw up proposals for new guidelines at least once every four years, and present the proposal for resolution by the AGM. The guidelines will be in force until new guidelines are adopted by the General Meeting of Shareholders.

Remuneration to the CEO and, where applicable, Board members (above and beyond ordinary remuneration resolved on by shareholders’ meetings) is decided by the Board based on the recommendations of the Remuneration Committee. Remuneration to other executives is determined by the CEO. The Remuneration Committee must also monitor and evaluate programs for variable remuneration to Group Management, the application of guidelines for remuneration to senior executives and applicable remuneration structures and remuneration levels in the company. The members of the Remuneration Committee are independent in relation to the company and Group Management. To the extent they are affected by such issues, neither the CEO nor other members of Group Management are present when the Board discusses and decides on issues related to remuneration.

Departures from the guidelines

The Board of Directors may decide to temporarily depart from the guidelines in full or in part if, in an individual case, there are particular reasons to do so and a departure is necessary to safeguard the company’s long-term interests including its sustainability, or to ensure the company’s financial strength. As indicated above, the tasks of the Remuneration Committee include preparing Board decisions on remuneration issues, which includes decisions on departures from the guidelines.

Sustainability Report

Sectra's sustainability efforts are directly linked to the company's vision and mission statements. The priorities of the business strategy—customer value, corporate culture, innovation and international expansion—go hand in hand with our sustainability efforts.

The foundation is our vision and our corporate culture, where an ethical approach to business permeates everything that we do. Through the priorities and goals defined to create value for our customers, we also create value for our employees, shareholders and society as a whole. Sectra's Group-wide operational targets and financial goals (refer to pages 22–23) are thus also our sustainability targets and are monitored using the same goal process: from Sectra's business areas to the executive management team to the Board.

Sectra's business model and goals are described on pages 11–23. These pages present how our business ideas, strategies and product offerings help customers make people's lives healthier, safer, and more secure. This section is supplemented below by detailed descriptions and key performance indicators (KPI) for our work on such sustainability issues as customer value, social conditions and employees. Our work on managing risks, counteracting corruption, respecting human rights and climate issues are also described here.

Governance of sustainability efforts

Long-term, sustainable value creation is an integral part of Sectra's business strategy priorities. The Board of Directors is the company's highest administrative body and is responsible for managing the company's affairs as well as safeguarding and maintaining Sectra's corporate culture. The Board is also responsible for identifying how sustainability issues impact the company's risks and opportunities. Responsibility for financial, environmental and social issues, and sustainability initiatives as well as for maintaining society's confidence in Sectra then lies with the President and CEO in accordance with the instructions established by the Board. We have a decentralized organization, which for example means that all customer-related sustainability issues rest with the different business areas, with responsibility delegated to the respective business area managers. For further information on corporate governance in Sectra, refer to the Corporate Governance Report available at investor.sectra.com/governance. Sectra has a management system, The Sectra Way, which encompasses systems for quality management, information security and the environment as well as other processes and procedures necessary for managing the company. For the purpose of governing sustainability efforts, we have prepared various policies and procedures in the management system and have established goals and KPIs.

Customer value

Customer satisfaction

In all our markets, we routinely conduct our own customer satisfaction measurements based on the Net Promoter Score (NPS) method, based on how our customers respond to the question "How likely are you to recommend Sectra to a friend or colleague?" These surveys provide important information for achieving high customer satisfaction and continuing to develop as a company. Customer feedback on Sectra indicates a high level of quality. External surveys, such as "Best in KLAS," show equally positive results as the company's own surveys. Read more on Sectra's website medical.sectra.com/KLAS.

Quality and product safety

Quality control and product safety are highly important, since Sectra's products and services can mean the difference between life and death for individuals and large groups of people. Moreover, some Sectra products handle sensitive and confidential information that may be crucial for national security or the integrity of an individual. Sectra's management system contains policies, procedures and guidelines for how issues concerning information security, personal data and patient security are to be managed.

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

Sectra's operating areas are certified according to relevant standards in their respective areas, including ISO 9001:2015, ISO 27001:2013, ISO 13485:2016 and ISO 13485:2016+MDSAP. This means that internal and external certifying auditors review the company every year to assess its compliance with these standards and its internal processes and notify Sectra of any need for corrective actions.

CUSTOMER SATISFACTION	Policy/Governance
	The procedure for measuring and monitoring customer satisfaction <i>Responsible:</i> Brand Manager; Operations Managers and Regional Managers
	Review procedure
	Monitoring and analysis in management groups for the respective subsidiaries Management review at Group level, annual evaluation and decisions on measures Regular reporting to the Board Internal controls and external certifying auditors annually review our compliance with our own procedures and call our attention to any shortcomings that need to be addressed
	Results of policies and procedures
	High level of customer satisfaction. Customer feedback on Sectra reflects high-quality deliveries
	KPI
	NPS ≥ 20
	Outcome 2019/2020 (preceding year in parentheses)
	NPS well over 20 for 13 of the 14 measured sub-areas (12 of 14)

QUALITY AND PRODUCT SAFETY	Policy/Governance
	Quality policies for Medical IT and Secure Communications Internal processes and quality assurance procedures Relevant regulations and standards in the respective areas; refer to text above Processes and procedures for incident management Information security policy Policy for permitted use of assets Policy for general security and IT communication in the offices Data protection policy Own certification programs and internal training courses for employees and distributors <i>Responsible:</i> President and CEO, IT Manager, Quality Manager, Information Security Manager, Data Protection Officer
	Review procedure
	Management review at Group level, annual evaluation and decisions on measures Internal controls and external certifying auditors annually review our compliance with standards as well as our own processes and procedures, and call our attention to any shortcomings that need to be addressed Sectra's crypto products are evaluated and approved by security authorities since they are used to protect highly sensitive information Government authorities review and approve the medtech products that Sectra sells
	Results of policies and procedures
	High level of quality and product safety
	KPI
	2019/2020: Obtain FDA approval for Sectra's digital pathology module
	Outcome 2019/2020
	Goal met

The company also works with its own certification programs and internal training courses for employees and distributors.

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

Social conditions and employees

Corporate culture where employees are satisfied and develop

We value the Sectra culture and our employees' satisfaction on the job. Helping our customers to ensure a sustainable, functioning society makes Sectra a workplace where our employees can feel they are creating meaningful results in their work. This is an important part of our ability to attract new talent and to retain key individuals. We monitor our success with a corporate culture index, which is weighed together with employee responses to questions regarding the understanding of our culture, how it is to affect employee behavior and whether their managers are living up to the culture and our fundamental values.

Long-term work on retaining and strengthening our corporate culture is ongoing. This includes enhancing the efficiency of and elucidating internal procedures throughout the entire employee life

cycle, from recruitment to the day they leave us. Read more about our strategic initiatives on pages 16–17. We are working on a number of different procedures and tools to develop our employees and strengthen leadership as well as to monitor personnel satisfaction, for example, through performance appraisals, employee surveys, competence training and leadership development. Managers and employees work together to identify development needs and draw up development plans in conjunction with regular performance appraisals. This is conducted using an established process for personnel management, which is part of the company's management system. Internal and external courses, training programs, various certification programs and supervision help to ensure that employees have the correct skills for their role and their duties. For new managers, there is also "Leadership at Sectra," an internal leadership development program. Management in line with Sectra's culture is monitored with a leadership index, which is weighed together with employees' responses to a number of questions.

Work environment

The Group takes a proactive approach to occupational health and safety issues, for example, by offering health screenings, wellness programs and training opportunities. We also care about our employees having a healthy balance between work and leisure. This is important both for our employees and for Sectra. We feel that employees who have passions outside of their jobs, either in their family or in leisure pursuits, also bring that energy and drive into their work.

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

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

We conduct systematic health and safety work that encompasses both physical and social work environments. Health and safety issues, and incident reporting, are monitored by safety representatives at Sectra's workplaces and the company healthcare service, which report to Group Management.

Equal treatment, gender equality and diversity

Sectra's workplace shall be distinguished by equal opportunities and equal treatment, with everyone assuming responsibility for the treatment of their fellow human beings. In line with Sectra's policy in the area, we work continuously to promote gender equality and diversity. The policy states that the company's position on human rights is that no form of discrimination will be tolerated regardless of ethnic or national origin, skin color, gender, sexual orientation, religion, political opinions, nationality or social origin. Sectra has zero tolerance towards all forms of discrimination, bullying and harassment. Sectra's organization has global operations, where language skills and the ability to operate in different cultures are important success factors. We monitor our success with a goal based on employees' perception of Sectra as a workplace with equal opportunities, where bullying and harassment do not exist.

At Sectra, appointments to all positions are based on the individual's competence and characteristics. We consider these criteria to be more

important than, for example, gender or nationality, religion and/or age. The availability of women engineers is low in Sectra’s technology-intensive niche areas, but the company is still seeking to achieve a better gender balance. The Board’s diversity policy is stated in the Corporate Governance Report, which is available on the Sectra website.

SOCIAL CONDITIONS AND EMPLOYEES	Policy/Governance
	Corporate culture
	Work environment policy
	Policy and procedure for systematic health and safety work, and fire prevention efforts
	Policy for gender equality and diversity
	Policy for salaries and bonus payments
	Procedures for HR management
	System support for recruitment and talent management
	<i>Responsible:</i> President/CEO, operations managers, regional managers
	Monitoring/Review procedure
Internal and external training	
Leadership program	
Annual employee survey	
Performance appraisals with every employee, at least once per year	
Management review at Group level, annual evaluation and decisions on measures	
Internal controls and external certifying auditors annually review our compliance with our own processes and procedures, and call our attention to any shortcomings that need to be addressed	
Results of policies and procedures	
Dedicated employees who are satisfied, improving and doing their best to meet—and sometimes exceed—customer expectations	
KPI	
Employees’ “gut feeling” when coming to work: ≥ 3.5 on a five-point scale	
Corporate culture index: ≥ 3.5 on a five-point scale	
Equal opportunity: ≥ 3.5 on a five-point scale	
Outcome 2019/2020 (preceding year in parentheses)	
“Gut feeling” 4.0 (4.0)	
Corporate culture index 4.6 (4.4)	
Equal treatment 4.6 (4.4)	

Key figures, employees

Read more in Note 2.

20%

Percentage of women in Group Management

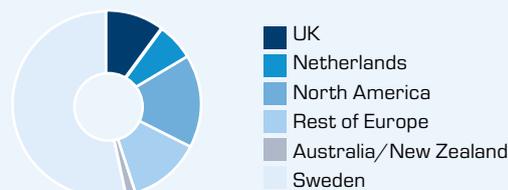
30%

Percentage of women employees

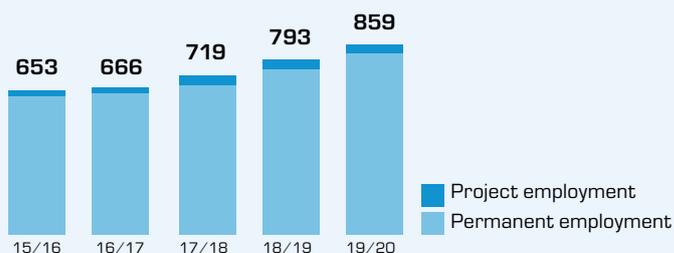
4.33

Leadership index on a five-point scale

Distribution of employees by country



Number of employees on the balance sheet day



Sectra’s personnel have extensive expertise and a solid educational background. 87% of its employees have a university degree and many have completed postgraduate studies.

Business ethics

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

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

Code of Conduct and respect for human rights

Sectra conducts global business, with its principal exposure to countries in Europe and North America. The company’s model for working with customers, distributors and strategic partners is based on responsibility, transparency and knowledge sharing. Sectra has worked with several of its customers for more than 20 years. We endeavor to build long-lasting relationships since these give us the

time to develop both an understanding of each other’s values and mutual respect. These close, long-term partnerships play a very important role in Sectra’s success. Accordingly, our work on increasing our market shares and winning the loyalty of new customers cannot jeopardize our business ethics and responsibility.

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

BUSINESS ETHICS	Policy/Governance
	Corporate culture
	Code of Conduct
	Quality and control procedures
	Whistleblower procedure
	<i>Responsible:</i> President/CEO, operations managers, regional managers, partner operations managers
	Review procedure
	Annual follow-up with partners
	External auditors carry out specific recurring audit procedures in subsidiaries worldwide
	Internal controls and external consultants annually review our compliance with standards as well as our own processes and procedures, and call our attention to any shortcomings that need to be addressed
Results of policies and procedures	
Responsible, ethical business conduct	
KPI	
Sectra's operations, and partner operations related to Sectra, must be free of corruption	
Outcome 2019/2020 (preceding year in parentheses)	
No indications of corruption in 2019/2020 (No indications of corruption 2018/2019)	

There is a follow-up every year with all the company's distributors and business partners, which can lead to a more detailed review of these issues as needed. Reviewing partners and suppliers is part of the annual management review, and is regulated in Sectra's quality management system. In addition, regulatory partner audits are conducted regularly via a selection in accordance with procedures in the management system.

Based on the structure of the company's value chain, we consider the risk of human rights violations to be minor. Sectra does not therefore have any formal monitoring and control of results in this area. Nevertheless, working to promote human rights in all parts of Sectra's operations is of the utmost importance to us. For this reason, we addressed human rights during the fiscal year as part of Sectra's Code of Conduct. The company respects human rights, as expressed in the International Bill of Human Rights, in every country where we operate. The company also respects the principles of fundamental rights in the ILO Declaration on Fundamental Principles and Rights at Work.

Combating corruption and bribery

The company does not tolerate corruption and works proactively to ensure that neither the company nor its partners are involved in any form of corrupt activities. As part of its Code of Conduct and anti-corruption policy, Sectra has introduced a whistleblower system where employees and other individuals can report inappropriate behavior or other deviations. All employees must feel confident that they can report irregularities and serious incidents that impact the company without fear of adverse consequences. All reports made in accordance with this whistleblower policy will be given serious consideration and they will be handled professionally and in confidence.

Environmental impact and climate reporting

Sectra's environmental work is characterized by consistent environmental consideration and continuous improvement processes in respect of climate impact and resource use. This applies to both the internal and external environment. However, the Group's opera-

tions are largely comparable with working in a traditional office environment. This means that our external environmental impact is extremely limited, which is why we do not have any formal monitoring or control of results in this area. We have, however, established an environmental policy (see investor.sectra.com/sustainability) and an environmental plan for operations. The company's operations are not subject to notification or permit requirements under the Swedish Environmental Code.

Internal environmental impact

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

External environmental impact and climate reporting

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

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

Sectra's management system includes an environmental plan. The plan describes the environmental impact and environmental goals of the Group's business activities and the measures taken to achieve these goals. During the year, Sectra began an initiative to survey the climate impact caused by operations. Currently there is only incomplete data for Swedish operations.

CO ₂ emissions, metric ton	2019
Business travel, scope 1 ^a	13
Energy consumption, scope 2 ^b	122
Total	135

^{a)} Scope 1 encompasses business travel with service vehicles, as well as company cars for employees in Sweden.

^{b)} Scope 2 encompasses electricity as well as district heating and cooling used at Sectra offices and corporate apartments in Sweden. The electricity comes from 100% renewable sources.

Risk management

Given the fact that customer confidence is a critical success factor, Sectra prioritizes stable, long-term growth over rapid, high-risk expansion. Because Sectra is active in several industries and a large number of markets, the Group's overall exposure to political and market risks, for example, is limited. To prevent risks, the company has established a number of policy documents that explain Sectra's values, how its managers and employees are expected to conduct themselves, and risk management in various areas. For example, the document covers:

- Policy and process for risk management
- Policy and process for managing information security risks
- Policy and process for managing medical technology risks
- Financial policy
- Code of Conduct and plans for gender equality, environment and work environment; see the respective sections above

Business and financial risks are analyzed continuously and measures to reduce the Group's risk exposure are taken as needed. The Board and company management conduct an annual review of risks and risk management. The risks judged to have a risk index of moderate or high are described here. Read more about how the company assesses risks in **Note 30** on page 95 under Risks, risk management and sensitivity analysis.

A green asterisk [●] indicates sustainability risks. The risks that Sectra has identified in the areas of environment, social conditions and personnel as well as human rights that are deemed to be low are not reported.

An orange asterisk [●] indicates financial risks.

RISKS WITH HIGH OR MODERATE RISK INDEX SCORE MEASURES TO LIMIT RISK

(Risk index score = assessed probability multiplied by assessed financial impact)

Business ethics risks

Risk level: Moderate

The focus on business ethics has increased, both within the company and in the global business environment. This is particularly true when it comes to corruption and bribery, which have received greater attention in the media due to a number of international scandals. According to Executive Management's assessment, the company's risks in this area are increasing as a result of the growing number of international distribution partners, which are more difficult to monitor using internal procedures.

Sectra has a Code of Conduct that contains a strict anti-bribery policy, which is intended to limit the risk of individual instances of bribery. For more information, refer to the heading Business ethics and combating corruption. The Code of Conduct is included in all distribution agreements and Sectra is entitled to terminate its business relationships at short notice if the code is not followed. Other measures include ongoing assessments of subsidiaries and partners and specific audit procedures for selected subsidiaries each year.

Leaks of confidential information and cybersecurity threats

Risk level: Moderate

Employees of the company are exposed to, or have access to, confidential information. As a result of IT advances and a growing number of cybersecurity breaches in society, there is now a greater risk that important confidential information belonging to Sectra and its customers could be exposed. Leaks of confidential information could impact customer confidence in the company, have a serious effect on the company's sales and result in fines or compensation claims.

Confidentiality agreements are signed with all employees and consultants. Employees and consultants working in the Secure Communications business area also undergo security checks and are provided with mandatory training for handling confidential defense information. Sensitive information is handled in small groups and, in special cases, a logbook is kept with the names of the people who have access to the information. Executive Management and employees in particularly exposed positions use Sectra's solutions for secure mobile telephony. Additional resources were set aside in 2019/2020 to improve the Group's information security. Internal training, security tests and monitoring are conducted regularly.

Intellectual property rights disputes

Risk level: Moderate

Sectra invests considerable resources in product development. In 2016/2017, Sectra began selling a system for digital pathology—a new field with patents from various players, which has increased the risk of patent disputes.

To ensure a return on its R&D investments, the company analyzes the requirements for various products in terms of intellectual property rights in order to identify and protect these products through patents. Sectra's patent portfolio currently comprises 22 patent families.

RISKS WITH HIGH OR MODERATE RISK INDEX SCORE MEASURES TO LIMIT RISK

(Risk index score = assessed probability multiplied by assessed financial impact)

Product liability and property risks

Risk level: Moderate

Through its operations, Sectra assumes product liability, which means that personal injury or damage to property caused by the company's systems at the premises of a customer or third party could lead to compensation claims. Increased sales of cloud services are leading to greater risk exposure and a need for new types of insurance, such as cyber insurance. The terms and conditions for the cover offered by these types of insurance is, however, not clear.

Insurance needs are evaluated on an annual basis. Insurance policies have been taken out for the property and liability risks to which the Group is exposed. The probability of risk pursuant to product responsibility is deemed to be low, as Sectra has historically never had any claims for damages. However, the overall risk is increasing due to a rise in cyber threats in society. Any claims that may arise due to cyber threats may have a substantial financial impact on the operations. Accordingly, the assessed risk level is deemed to be moderate.

Patient security and integrity

Risk level: Moderate

The medical IT systems developed and sold by Sectra may impact patient security. Along with an increase in the number of cybersecurity incidents around the world, new and stricter requirements from local authorities and the EU have contributed to higher risk. An incident relating to patient security or the loss of patient information may result in the loss of customers, reduced sales and fines or compensation claims.

The company's products are developed, manufactured, marketed, sold and maintained in accordance with quality-control procedures and processes. For more information, refer to the heading Quality and product safety. After its products are delivered to customers, Sectra follows quality-control procedures designed to improve the safety and clinical effectiveness of its products. Incidents involving Sectra's products are investigated systematically in order to identify the underlying causes. Based on these investigations, corrective or preventive measures are taken for the products in question and, in certain cases, reports are submitted to the relevant authorities. Sectra's products are evaluated by such organizations as the FDA in the US, which reduces the company's patient security risk. Internal and external audits are performed on a regular basis.

Currency exchange risks

Risk level: Moderate

The Group's exposure to currency exchange risks mainly arises through transactions in foreign currencies in the form of customer and supplier payments and, to a lesser extent, in connection with the translation of foreign subsidiaries' income statements and balance sheets. The Group's largest exposures are in USD, EUR and GBP.

Sectra continuously monitors risks and cash flows in foreign currencies. Subsidiary financing is carried out in the local currency. The Group does not currently hedge its transaction exposure since the costs involved in effectively managing hedging contracts are deemed to be higher than any potential gains. In 2019/2020, currency effects had a positive impact on the Group's operating profit.

Outstanding accounts receivable

Risk level: Moderate

The Group's customers primarily include government authorities, public healthcare providers and other reputable customers with high credit ratings, although payment practices vary between countries. Sectra is exposed to greater credit risks in countries where many of its customers are privately owned, such as the US. An increase in the number of partners outside Europe is contributing to a higher risk of potential credit problems.

Sectra has procedures in place to ensure thorough credit ratings of its customers and partners. To minimize credit risks in fixed-price projects, Sectra makes extensive use of advance partial payments and bank guarantees.

COVID-19

During the third quarter of Sectra’s fiscal year 2019/2020, there were reports regarding the spread of a new coronavirus that developed into a serious global pandemic by the end of the fiscal year. Measures and restrictions to reduce the spread of infection vary among different countries, and at present it is impossible to survey the consequences of COVID-19, especially not over the long term. On the balance-sheet date, the consequences of the pandemic did not entail any significant effect on the Group’s financial outcome for the fiscal year.

Sectra has an IT infrastructure that is well suited to working remotely, and since the outbreak we have continually developed and adapted our procedures and approaches to continue maintaining our service and installation commitments for our customers. More than half of Sectra’s invoicing comprises regularly recurring revenue, and we see no reason to believe that this portion of the Group’s revenue would be affected more than marginally even if the situation were to worsen. Our balance sheet is strong, with positive net cash funds and a high level of creditworthiness. As of April 30, 2020, cash and cash equivalents and unutilized credit facilities totaled SEK 360.3 million and interest-bearing liabilities in the form of convertible debt instruments totaled SEK 6.5 million. Sectra routinely monitors the cash flow from operations, investments and financing to ensure that the Group has sufficient funds available to meet future anticipated and potential demands.

The high degree of uncertainty in our business environment means that at this point in time it is more difficult than usual for management and the Board to assess future business consequences or financial effects for Sectra. We are not unaffected, but we are well equipped to handle the situation with a strong balance sheet, positive cash funds and significant recurring revenue.

Brexit

In Europe, Brexit received a great deal of attention during the fiscal year. Based on the information we have today, our assessment is that Brexit will not have any significant effect on Sectra’s operations, assuming that a trade agreement between the EU and the UK is signed during the calendar year. We took measures in anticipation of Brexit and prepared relevant agreements that will enable us to continue to share personal data with our UK subsidiary. This is important for maintaining support for the products developed in the UK and so that our personnel in the UK can retain access to information about personnel in Europe.

About the Sustainability Report

Sectra’s Sustainability Report comprises pages 11–23, 25, 39, 62–67. The Report encompasses the Parent Company Sectra AB (Corporate Registration Number 556064-8304) and all units included in Sectra’s consolidated financial statements for the 2019/2020 fiscal year. Refer to **Note 12** on page 89. The Sustainability Report has been prepared in accordance with the provisions of the Swedish Annual Accounts Act, Chapters 6–7. Sectra’s operations are deemed not to have any substantial negative environmental impact or risk for violation of human rights, either direct or indirect. The Sectra Group does not therefore have any formal monitoring and control of results in these areas.

Sectra’s principles for corporate governance are described in the Corporate Governance Report (see investor.sectra.com/governance), which also presents the Board of Directors’ diversity policy. By signing the Annual Report and consolidated financial statements, the Board of Directors and the CEO have also approved the Sustainability Report. The auditor’s statement on the Sustainability Report is included in the auditor’s report presented on page 99.

<p>Facts</p> <ul style="list-style-type: none"> • The effects of the COVID-19 pandemic are having a major global and societal impact. • The situation entails serious challenges for our customers, who fulfill critical social functions that must be maintained despite the pandemic. • Companies and individuals are affected by closed borders and schools, as well as restrictions concerning public gatherings and other measures to reduce the spread of infection. • The pandemic is having major financial effects on society and certain industries. We see, for example, that some healthcare providers in the US are imposing temporary halts to investments as well as pay cuts. • Trade shows and other events are being canceled or converted to digital events. • Different countries have different rules, and at present it is impossible to survey the consequences of COVID-19, especially not over the long term. 	<p>Sectra’s priorities</p> <ul style="list-style-type: none"> • Keep our solutions, services and support available to customers so they can ensure functional health and medical care as well as infrastructure. • Safeguard the health of employees (and their families), customers and visitors to Sectra’s offices. • Act calmly, preserve stability and keep a high standard in contingency planning. • Maintain cybersecurity internally and among our customers. • Ensure that customers, employees and other stakeholders understand how we are handling the situation and what measures we are taking. • Continually evaluate and develop our approach to working remotely, both internally and with customers. • Continually monitor and review the situation in order to adapt operations and avoid disruptions.
<p>Assumptions on risks and uncertainties</p> <ul style="list-style-type: none"> • Our customers’ decisions in ongoing procurements or planned installation projects will be delayed owing to other necessary priorities. • The effects of the pandemic will lead to serious socioeconomic consequences globally, as a result of which customers will impose temporary halts to investments. • Employees (or their families) will fall ill with COVID-19. • Limitations in the form of closed borders as well as restrictions on travel and public gatherings will remain for a long time to come. • Disruptions to supply chains or deficiencies in third-party products. • Potential increases in currency volatility. <p>Potential consequences for Sectra that could impact future financial outcomes</p> <ul style="list-style-type: none"> • Delays in installation projects. • Temporary pauses in procurements. • Temporarily decreased demand for Sectra’s products. 	<p>Examples of measures Sectra has taken</p> <ul style="list-style-type: none"> • Imposed strict safety and hygiene measures based on WHO and national recommendations to protect ourselves and our customers. Many employees work from home, if their work tasks permit it. • Support and service teams work remotely to reduce the risk of infection and to comply with restrictions from government authorities. • Global installation teams that work remotely. • Review of supply chains and measures to ensure deliveries of third-party products. • Virtual user group meetings, online meetings and training sessions. • Added value for our customers based on their immediate needs, for example, support in setting up field hospitals, remote viewing systems for doctors working from home, remote classroom systems, services and products for secure remote communication. • Recurring communication on measures and the immediate situation in internal and external channels.

Approval of reports

Pursuant to a Board decision on June 30, 2020, the consolidated financial statements have been approved for publication and will be presented to the Annual General Meeting for adoption on September 8, 2020.

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

Share premium reserve	128,427,912
Loss brought forward	-26,917,535
Net profit for the year	224,757,325
	326,267,702

Proposed appropriation of profits

The Board and President propose that the profits be appropriated so that SEK 326,267,702 is carried forward. The Board and President propose that the Annual General Meeting resolves that SEK 4.50 per share be transferred to shareholders through a 2:1 share split combined with a mandatory redemption process and a stock dividend to restore the share capital. This entails a transfer of SEK 173,277,090 to the company's shareholders. No ordinary dividend is proposed.

The corresponding distribution to the shareholders in the preceding year was SEK 4.50 per share. This proposal corresponds to a dividend yield of 1.1% based on the year-end share price. Combined with the price trend, this represents total value growth of 31.8% for the Sectra share during the fiscal year.

The proposal is in line with Sectra's dividend policy. The Board deems that the company's current balance sheet and cash flows are of adequate strength to secure the development of the business, while providing the shareholders with a high return. In its assessment, the Board took Sectra's levels of incoming orders, earnings and expected cash flow over the coming year into account, as well as the uncertainties brought by the COVID-19 pandemic; refer to page 67. With a strong financial position, positive cash flow and significant recurring revenue, Sectra is well equipped to manage the great degree of uncertainty resulting from the pandemic.

At the end of the fiscal year, the Group's equity/assets ratio was 54.1%. The dividend policy and Sectra's financial goals state that the equity/assets ratio is to exceed 30%, and it will continue to do so, by a healthy margin, following a resolution in favor of the Board's proposed redemption process. Additional information regarding the proposed share split and mandatory redemption process will be published in the notice of the AGM and the full proposal to the AGM.

Board of Directors' affirmation

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

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

Linköping, June 30, 2020

Torbjörn Kronander

President and CEO
Board member

Jan-Olof Brüer

Chairman of the Board

Christer Nilsson

Board member

Jonas Yngvesson

Board member

Birgitta Hagenfeldt

Board member

Tomas Puusepp

Board member

Anders Persson

Board member

Bengt Hellman

Board member
Employee representative

Deborah Capello

Board member
Employee representative

Auditor's report was submitted
on June 30, 2020
Grant Thornton Sweden AB

Mia Rutenius

Authorized Public Accountant

Consolidated income statements

SEK thousand	Note	2019/2020	2018/2019
Operating income			
Net sales	1	1,661,138	1,413,522
Capitalized work for own use		41,757	37,269
Reversal of contingent consideration		8,873	0
Other operating income		3,714	3,407
Total income		1,715,482	1,454,198
Operating expenses			
Goods for resale		-248,305	-254,457
Personnel costs	2	-815,176	-676,807
Other external costs	3, 4	-276,979	-240,584
Impairment of intangible assets	9	-7,443	0
Depreciation of tangible assets	10	-16,191	-14,325
Amortization of intangible assets	9	-34,051	-32,484
Depreciation of right-of-use assets	11	-21,989	0
Total operating expenses		-1,420,134	-1,218,657
Operating profit		295,348	235,541
Financial items			
Interest income and similar profit/loss items	5	10,437	14,497
Interest expenses and similar profit/loss items	6	-2,748	-1,246
Total financial items		7,689	13,251
Profit after financial items		303,037	248,792
Taxes	8	-65,683	-49,813
Net profit for the year		237,354	198,979
Attributable to:			
Parent Company owners		237,354	198,979
Non-controlling interest		0	0
Earnings per share, SEK			
Before dilution		6.18	5.21
After dilution		6.16	5.17
No. of shares on balance-sheet date			
Before dilution		38,506,020	38,352,871
After dilution	2	38,533,253	38,530,851
Average no. of shares before dilution		38,416,683	38,197,403
Average no. of shares after dilution	2	38,531,852	38,523,210

Consolidated statement of comprehensive income

SEK thousand	Note	2019/2020	2018/2019
Net profit for the year		237,354	198,979
Items that may be reclassified to profit and loss			
Change in translation differences from translating foreign subsidiaries		-475	10,517
Other comprehensive income for the year		-475	10,517
Total comprehensive income for the year		236,879	209,496
Attributable to:			
Parent Company owners		236,879	209,496
Non-controlling interest		0	0

Consolidated balance sheets

SEK thousand	Note	Apr 30, 2020	Apr 30, 2019
ASSETS			
Fixed assets			
Intangible assets	9	193,368	182,651
Tangible assets	10	66,297	40,148
Right-of-use assets	11	84,275	0
Financial assets	16, 29	161,452	170,274
Deferred tax assets	8	4,226	5,996
Total fixed assets		509,618	399,069
Current assets			
Inventories	17	32,560	40,859
Accounts receivable	18, 30	276,094	258,913
Current tax assets		8,141	7,648
Other receivables		8,604	14,208
Prepaid expenses and accrued income	19	331,530	262,186
Cash and cash equivalents	20	345,300	331,935
Total current assets		1,002,229	915,749
Total assets		1,511,847	1,314,818
EQUITY AND LIABILITIES			
Equity			
Share capital		38,506	38,353
Other contributed capital		355,045	330,185
Reserves		116,305	96,050
Retained earnings, including net profit for the year		307,357	263,321
Total equity		817,213	727,909
Long-term liabilities			
Long-term provisions	21	3,691	14,356
Deferred tax liabilities	8, 21	4,799	7,395
Long-term liabilities	11	58,561	0
Other long-term liabilities	22	2,951	6,451
Total long-term liabilities		70,002	28,202
Current liabilities			
Accounts payable		36,787	55,322
Current tax liabilities		12,113	22,102
Current provisions	21	13,778	8,972
Current liabilities	11	22,402	0
Other current liabilities	23	50,548	71,035
Accrued expenses and deferred income	24	489,004	401,276
Total current liabilities		624,632	558,707
Total equity and liabilities		1,511,847	1,314,818

Pledged assets and contingent liabilities, see Note 25.

Consolidated cash-flow statements

SEK thousand	Note	2019/2020	2018/2019
OPERATING ACTIVITIES			
Operating profit		295,348	235,541
Adjustment for non-cash items ¹	26	102,686	41,716
Interest and dividends received	5	6,785	14,497
Interest paid	6	-2,748	-1,246
Income tax paid		-74,797	-81,209
Cash flow from operations before changes in working capital		327,274	209,299
Changes in working capital			
Change in inventories		8,546	-10,358
Change in receivables ¹		-83,365	37,117
Change in current liabilities		43,817	16,484
Cash flow from operations		296,272	252,542
INVESTING ACTIVITIES			
Acquisitions of intangible assets	9	-44,775	-25,176
Acquisitions of tangible assets	10	-32,967	-9,699
Acquisitions of subsidiaries	13	-812	0
Divestment of financial assets ¹		18	0
Cash flow from investing activities		-78,536	-34,875
FINANCING ACTIVITIES			
Raising of convertibles	22	0	2,951
Repayment of lease liabilities	11	-21,018	0
Payment of contingent consideration		-2,937	-346
Redemption of shares		-172,588	-171,538
Cash flow from financing activities		-196,543	-168,933
Cash flow for the year		21,193	48,734
Cash and cash equivalents, opening balance		331,935	282,341
Exchange-rate difference in cash and cash equivalents		-7,828	860
Cash and cash equivalents, closing balance	20	345,300	331,935
Unutilized credit facilities	20	15,000	15,000

¹ Cash flow has been reclassified from investing activities to operations regarding long-term accounts receivable in Group-financed managed-services agreements. For fiscal year 2018/2019, the amount was SEK 1,846 thousand.

Consolidated statement of changes in equity

SEK thousand	Reserves				Retained earnings, including net profit for the year	Total equity
	Share capital	Other contributed capital	Translation reserve	Other reserves		
Opening balance May 1, 2018	38,120	302,336	18,235	53,209	249,970	661,870
Conversion to shares	233	27,849				28,082
Redemption of shares					-171,539	-171,539
Transactions with shareholders	233	27,849	0	0	-171,539	-143,457
Allocation to fund for development costs				25,223	-25,223	0
Reversal from fund for development costs				-11,134	11,134	0
Net profit for the year					198,979	198,979
Other comprehensive income			10,517			10,517
Equity as of April 30, 2019	38,353	330,185	28,752	67,298	263,321	727,909
Conversion to shares	153	24,860				25,013
Redemption of shares					-172,588	-172,588
Transactions with shareholders	153	24,860	0	0	-172,588	-147,575
Allocation to fund for development costs				36,905	-36,905	0
Reversal from fund for development costs				-16,175	16,175	0
Net profit for the year					237,354	237,354
Other comprehensive income			-475			-475
Closing balance April 30, 2020	38,506	355,045	28,277	88,028	307,357	817,213

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

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

Parent Company income statements

SEK thousand	Note	2019/2020	2018/2019
Operating income			
Net sales	1	145,610	130,600
Capitalized work for own use		4,873	4,368
Other operating income		880	2,450
Total income		151,363	137,418
Operating expenses			
Goods for resale		-14,840	-17,097
Personnel costs	2	-67,497	-66,088
Other external costs	3, 4	-69,353	-70,618
Amortization of intangible assets	9	-3,656	-3,098
Depreciation of tangible assets	10	-8,606	-6,231
Total operating expenses		-163,952	-163,132
Operating loss		-12,589	-25,714
Profit from financial items			
Interest income and similar profit/loss items	5	28,529	69,647
Interest expenses and similar profit/loss items	6	-792	-1,488
Profit after financial items		15,148	42,445
Appropriations	7	267,250	185,497
Profit before tax		282,398	227,942
Tax on net profit for the year	8	-57,640	-39,046
Net profit for the year		224,758	188,896

Parent Company balance sheets

TSEK	Note	Apr 30, 2020	Apr 30, 2019
ASSETS			
Fixed assets			
Intangible assets	9	17,383	16,166
Tangible assets	10	23,506	17,858
Participations in Group companies	12	35,597	35,597
Participations in associated companies	14	564	564
Receivables from Group companies	15	230,114	230,290
Deferred tax assets	8	312	996
Total fixed assets		307,476	301,471
Current assets			
Receivables from Group companies		442,816	369,680
Accounts receivable	18	11,133	15,900
Other receivables		2,167	1,530
Prepaid expenses and accrued income	19	9,808	8,704
Cash and bank balances	20	246,077	225,324
Total current assets		712,001	621,138
Total assets		1,019,477	922,609
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		38,506	38,353
Statutory reserve		226,456	226,456
Fund for development costs		16,067	13,167
Total restricted equity		281,029	277,976
<i>Unrestricted equity</i>			
Share premium reserve		128,428	103,568
Retained earnings		-26,918	-40,325
Net profit for the year		224,758	188,896
Total unrestricted equity		326,268	252,139
Total equity		607,297	530,115
Long-term liabilities			
Other long-term liabilities	22	2,951	6,451
Total long-term liabilities		2,951	6,451
Current liabilities			
Accounts payable		6,744	3,843
Liabilities to Group companies		361,866	310,117
Current tax liabilities		3,780	12,812
Provisions	21	4,500	4,706
Other current liabilities	23	5,198	27,870
Accrued expenses and deferred income	24	27,141	26,695
Total current liabilities		409,229	386,043
Total equity and liabilities		1,019,477	922,609

Parent Company cash-flow statements

SEK thousand	Not	2019/2020	2018/2019
OPERATING ACTIVITIES			
Operating loss		-12,589	-25,714
Adjustment for non-cash items	26	15,300	24,032
Interest and dividends received	5	25,437	60,718
Interest paid	6	-792	-1,488
Income tax paid		-65,938	-63,602
Cash flow from operations before changes in working capital		-38,582	-6,054
Changes in working capital			
Change in receivables		-68,665	52,898
Change in current liabilities		51,034	-41,792
Cash flow from operations		-56,213	5,052
INVESTING ACTIVITIES			
Acquisitions of intangible assets	9	-4,873	-4,369
Acquisitions of tangible assets	10	-14,254	-4,938
Payment of loans to subsidiaries	15	-1,546	-550
Repayment of loans from subsidiaries	15	2,977	511
Cash flow from investing activities		-17,696	-9,346
FINANCING ACTIVITIES			
Raising of convertibles	22	0	2,951
Group contributions received/paid	7	267,250	185,497
Redemption of shares		-172,588	-171,539
Cash flow from financing activities		94,662	16,909
Cash flow for the year		20,753	12,615
Cash and cash equivalents, opening balance		225,324	212,709
Exchange-rate difference in cash and cash equivalents		0	0
Cash and cash equivalents, closing balance	20	246,077	225,324
Unutilized credit facilities	20	15,000	15,000

Statement of changes in Parent Company's equity

SEK thousand	Share capital ¹	Statutory reserve	Fund for development costs	Share premium reserve	Retained earnings, including net profit for the year	Total equity
Opening balance May 1, 2018	38,120	226,456	10,214	75,719	134,167	484,674
Conversion to shares	233			27,849		28,082
Redemption of shares					-171,538	-171,538
Total transactions with the company's owners	233	0	0	27,849	-171,538	-143,456
Allocation to fund for development costs			4,368		-4,368	0
Reversal from fund for development costs			-1,416		1,416	0
Net profit for the year					188,896	188,896
Equity as of April 30, 2019	38,353	226,456	13,166	103,568	148,573	530,114
Conversion to shares	153			24,860		25,013
Redemption of shares					-172,588	-172,588
Total transactions with the company's owners	153	0	0	24,860	-172,588	-147,575
Allocation to fund for development costs			4,873		-4,873	0
Reversal from fund for development costs			-1,972		1,972	0
Net profit for the year					224,758	224,758
Closing balance April 30, 2020	38,506	226,456	16,067	128,428	197,842	607,297

¹ On the balance-sheet date, Sectra's share capital totaled SEK 38,506,020, distributed among 38,506,020 shares. Of these shares, 2,620,692 are Class A shares and 35,885,328 are Class B shares.

Accounting policies

Introduction

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

All amounts are in SEK thousands, unless otherwise stated.

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

IFRS 16 Leases replaces *IAS 17 Leases* and related interpretations, for fiscal years starting January 1, 2019 or later. IFRS 16 has been adopted by the EU. Sectra applies IFRS 16 as of May 1, 2019. The new standard entails that all contracts with a term of more than 12 months of a certain monetary materiality are recognized as assets and liabilities in the balance sheet, with depreciation, amortization and interest expenses recognized in profit and loss. Contracts that were previously recognized as operating leases are now capitalized in the balance sheet. Sectra completed the process of identifying the company's leases and determining the effects during the fourth quarter of 2018/2019. The effect on opening total assets for 2019/2020 was an increase of SEK 89.6 million and a decrease of 3.4 percentage points in the equity/assets ratio in the opening total assets. Total cash flow was unaffected, although the transition entails an increase in cash flow from operations and a decrease in cash flow from financing activities, since the majority of lease payments are now recognized as repayment of lease liabilities and not in operations. Sectra's leases pertain primarily to offices and premises as well as vehicles.

Sectra chose to apply the modified retrospective approach, meaning that upon transition to IFRS 16 the liability for remaining payments of the leased asset was calculated with a corresponding asset in the form of a right-of-use asset, resulting in no impact on opening equity. Comparative figures have not been restated. Leases with a term of 12 months or less and leases where the underlying asset has a low value are not included in the liability and the right-of-use asset in the balance sheet.

The Group's weighted average incremental borrowing rate used when discounting lease liabilities upon transition on May 1, 2019 was 2.2%.

Refer to **Note 11** for the effects of the transition to IFRS 16.

Sectra's leases have not changed as a consequence of COVID-19.

The accounting policies and calculation methods are otherwise unchanged compared with those applied in the 2018/2019 fiscal year.

New and amended accounting policies that become applicable from 2020/2021 or later

New and amended IFRS with future application are not deemed to have any significant effects on the financial statements.

Basis of preparation for the reports

Assets, provisions and liabilities are measured at cost or nominal value unless otherwise stated in the notes that follow. The preparation of financial statements in accordance with IFRS requires that the Group uses accounting assumptions and estimates for the future. The most important estimates and judgments are presented in **Note 28**.

Consolidated financial statements

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

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

Acquisitions

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

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

Translation of foreign subsidiaries

Functional currency

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

Transactions and balance-sheet items

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

Financial statements of foreign operations

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

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

Segment reporting

The division by operating segment is based on the areas of operation monitored by the Board of Directors and Executive Management in the internal reporting, and on whether an individual segment's sales exceed 10% of the Group's total sales. The Group's operations are divided into the following segments: Imaging IT Solutions, Secure Communications, Business Innovation and Other Operations. Other Operations pertain to Sectra's joint functions for administration, recruitment, Group finances, people and brand, IT, regulatory affairs, investor relations activities and the Group's financing activities. All transactions between segments are conducted on business terms, and are based on prices charged to non-related customers in conjunction with independent sales of identical goods or services.

Revenue

Revenue is recognized in accordance with *IFRS 15* Revenue from Contracts with Customers. In assessing whether revenue is to be recognized, the Group follows a five-step procedure:

1. Identify the customer contract
2. Identify the performance obligation
3. Establish the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize the revenue at the point in time when the performance obligation has been fulfilled

The Group often conducts sales transactions that encompass several of the Group's products and services (e.g. delivery of software licenses, and service and upgrade contracts).

In all cases, the total transaction price of a contract is allocated to the specific performance obligations based on its relative standalone selling price. When determining the transaction price, variable consideration, constrained estimates of variable consideration, the existence of a significant financing component, consideration with non-cash funds and consideration payable to the customer are to be taken into account when applicable. Variable consideration and financing components exist in certain cases. Revenue is recognized either over time or at a point in time, when or if the Group meets the performance obligations by transferring the promised goods or services to the customer. In cases where revenue is recognized over time, the input method is primarily used. Revenue is thus recognized on the basis of the inputs required to complete the performance obligation. Key inputs include labor hours expended and costs incurred in relation to the total labor hours expected and total costs for completing the performance obligation.

The payment terms vary between contracts. The Group does not have any standardized terms and conditions for payment, since they vary from customer to customer.

The Group recognizes a contract liability (invoiced non-recognized income) when payment has been received for an unfulfilled performance obligation. Refer to [Note 24](#). Similarly, if the Group satisfies a performance obligation before consideration has been received, the Group recognizes a contract asset (recognized non-invoiced income). Refer to [Note 19](#).

Imaging IT Solutions

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

Secure Communications

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

Business Innovation

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

Pensions and post-retirement benefits to employees

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

Intangible assets

Intangible assets are recognized at cost less amortization and impairment losses for all intangible assets excluding goodwill. Goodwill is recognized at cost less impairment losses. Yields are individually measured when the need is indicated, and annually for incomplete development projects in order to identify any impairment requirements. If the carrying amount exceeds the recoverable amount, the differences are charged against profit for the period on an ongoing basis as they arise. For an asset that does not generate cash flows, the recoverable amount is calculated for the cash-generating unit to which the asset belongs. The

recoverable amount is the higher of the asset's net selling price and value in use. Value in use is calculated as the present value of future cash flows for specific assets.

The amortization period for intangible assets exceeds five years if the asset is expected to generate financial benefits, based on individual assessment, over a period exceeding five years. Impairment is reversed if the asset's recoverable amount exceeds its carrying amount. Impairment losses on goodwill are never reversed.

Capitalized development costs

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

Goodwill

Goodwill represents future economic benefits arising from a business acquisition that are not specifically identified and recognized separately. Refer to "Acquisitions" for information about how goodwill is determined the first time it is recognized. Goodwill is recognized at cost less accumulated impairment losses. Refer to [Note 9](#) for a description of impairment testing.

Patents and licenses

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

Trademarks and customer relationships

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

Tangible assets

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

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

Leases

Policies applied as of May 1, 2019

A lease is defined as an agreement or part thereof that transfers the right of use for an asset (the underlying asset) for a given amount of time in exchange for remuneration. The Group's leased assets comprise primarily premises and vehicles.

Sectra recognizes a right-of-use asset and the associated lease liability upon entering into an agreement. Leases with a term of 12 months or less and leases where the underlying asset has a low value are not included in the right-of-use asset or liability in the balance sheet. These agreements are expensed on a straight-line basis over the term of the contract.

The liability is initially measured at the present value of remaining lease payments over the term of the contract. Discounts are at the Group's incremental borrowing rate.

The right-of-use asset is initially measured at the value of the liability plus any direct expenditures, as well as lease payments made on or before the start date of the contract.

The right-of-use asset is depreciated on a straight-line basis over the term of the lease.

Sectra chose to apply the modified retrospective approach, meaning that upon transition to IFRS 16 the liability for remaining payments of the leased asset was calculated with a corresponding asset in the form of a right-of-use asset, resulting in no impact on opening equity. Comparative figures have not been restated.

The Group's weighted average incremental borrowing rate used when discounting lease liabilities upon transition on May 1, 2019 was 2.2%.

Policies applied through April 30, 2019

Before May 1, 2019, IAS 17 was applied instead of IFRS 16.

Through operating and finance leases, the Group could utilize equipment, premises, computers, cars and items for onward leasing. All of the Group's leases were recognized as operating leases, since the material risks and benefits were deemed to remain with the lessor. Operating lease payments were charged against net profit for the year in question. These costs were recognized as ongoing operating expenses in profit and loss, and were spread over the entire term of the lease.

Borrowing costs

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

Inventories

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

Receivables

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

Taxes

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

Financial instruments

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

Financial assets

Except for those accounts receivable that do not contain a significant financing component and are measured at their transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value. After the initial measurement at fair value, financial assets are measured based on the Group's business model for managing the asset and the type of cash flow the asset gives rise to. Financial assets are classified in the categories of amortized cost, fair value via profit and loss, or fair value via other comprehensive income. In the periods included in the financial statement, the Group has no financial assets categorized as measured at fair value via other comprehensive income.

Long-term accounts receivable

The expected term of long-term accounts receivable exceeds 12 months, and recognition is accordingly at the discounted amount expected to flow in under the amortized cost method. Any impairment of long-term accounts receivable impacts operating profit.

Accounts receivable

The expected term of accounts receivable is brief, and recognition is accordingly at the undiscounted amount expected to flow in under the amortized cost method. Any impairment of accounts receivable impacts operating profit.

Cash and cash equivalents

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

Financial assets are recognized in the balance sheet when the company becomes party to the agreement, and are derecognized when the agreement expires or the company loses control over the assets. A bad debt provision is made when an expected credit loss exists under the original terms of the receivable. The IFRS 9 impairment model uses

more forward-looking information to account for expected credit losses. Credit loss recognition is not dependent on the Group first identifying a credit loss event. Instead, the Group accounts for more extensive information in the assessment of credit risk and measurement of expected credit losses, including previous events, current conditions, and reasonable and supportable forecasts that impact the expected possibility of obtaining future cash flows from the asset. The Group applies a simplified approach when recognizing accounts receivable and other receivables and contract assets, and recognizes expected credit losses for their remaining term to maturity. This is where the expected weaknesses in contractual cash flows exist, considering the risk of default at any time during the expected life of the financial instrument. When determining the expected credit losses, the Group uses its historical experience, external indicators and forward-looking information for the calculation.

Financial liabilities

Financial liabilities are classified in the categories of amortized cost, fair value via profit and loss, or fair value via other comprehensive income. In the periods included in the financial statement, the Group has no financial liabilities categorized as measured at fair value via other comprehensive income. Financial liabilities are initially measured at fair value adjusted for transaction costs. They are subsequently measured at amortized cost using the effective interest method, except for financial liabilities measured at fair value through profit and loss.

Provisions

Provisions are measured at amortized cost. Provisions pertain mainly to short-term guarantee commitments, which are recognized at the undiscounted nominal amount.

Contingent consideration

Contingent consideration is recognized in accordance with IFRS 3 at fair value via profit and loss.

Accounts payable

Accounts payable are measured at amortized cost. The expected term of accounts payable is brief, and the liabilities are accordingly recognized at the undiscounted nominal amount.

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

Provisions

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

Fair value

The method for calculating the fair value of financial assets and liabilities is based on three measurement levels. At measurement Level 1, fair value is calculated based on quoted market prices and instruments traded in an active market. At measurement Level 2, quoted market prices are not available, but variables for the calculation of fair value are obtained from market quotations. At measurement Level 3, fair value is calculated based on data that is not available in the market. The Group's financial assets and liabilities mainly belong to measurement Level 2 and 3. Refer to [Note 29](#).

Cash-flow statement

The cash-flow statement has been prepared using the indirect method. Cash flows in foreign currencies are restated at the average exchange rate. Acquisitions and/or divestments of subsidiaries are included, net after cash and cash equivalents acquired or divested, in cash flow from investing activities. Cash and cash equivalents comprise cash on hand and bank deposits.

Parent Company

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

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

In accordance with RFR 2, exchange rate differences arising on monetary items comprising part of a net investment in a foreign operation are to be recognized in profit and loss and not in other comprehensive income. The rule of the Swedish Annual Accounts Act on the capitalization of development costs came into effect in 2016. The rule entails that when development costs are capitalized, the corresponding amount must be transferred from unrestricted equity to restricted equity under the "Fund for development costs," and is to be recognized separately in the balance sheet.

The new IFRS 16 Leases standard has not had any impact on the Parent Company's financial statements, since leases are recognized in accordance with the exemption in RFR 2. The costs for leases are recognized on a straight-line basis over the term of the lease. No rights of use and lease liabilities are recognized in the Parent Company's balance sheet.

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Note 1 Operating segments, function classification and earnings

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

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

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

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

Other Operations pertain to Sectra's joint functions for administration, people and brand, recruitment, Group finances, IT, regulatory affairs, investor relations activities and the Group's financing activities.

Operating segments

	Imaging IT Solutions		Secure Communications		Business Innovation		Other Operations	
	19/20	18/19	19/20	18/19	19/20	18/19	19/20	18/19
Net sales	1,428,215	1,204,191	189,327	152,357	78,120	68,785	68,609	62,696
Of which, external	1,418,665	1,198,047	187,838	151,028	53,547	63,274	1,088	1,173
Depreciation/ amortization	37,482	29,711	11,033	7,872	3,346	2,787	20,370	6,439
Operating profit	317,578	257,022	2,949	7,036	12,868	-6,048	-26,429	-28,425
Assets	1,562,898	1,311,655	178,935	187,550	36,193	43,420	1,046,645	1,055,636
Liabilities	1,334,091	1,104,539	165,040	175,020	28,426	22,949	432,328	530,731
Investments	49,280	20,804	16,902	4,765	4,873	4,368	14,254	4,938

	Eliminations ¹		Total Group ²	
	19/20	18/19	19/20	18/19
Net sales	-103,133	-74,507	1,661,138	1,413,522
Of which, external	n/a	n/a	n/a	n/a
Depreciation/ amortization	0	0	72,231	46,809
Operating profit	-11,618	5,956	295,348	235,541
Assets	-1,312,824	-1,283,443	1,511,847	1,314,818
Liabilities	-1,265,251	-1,246,331	694,634	586,908
Investments	0	0	85,309	34,875

Geographic areas

	Sweden		UK		Netherlands		Rest of Europe	
	19/20	18/19	19/20	18/19	19/20	18/19	19/20	18/19
Net sales	383,218	340,640	230,724	237,117	149,118	119,496	334,333	321,020
Assets	675,434	567,892	286,894	294,877	124,682	112,125	204,838	190,976
Investments	74,323	30,533	3,509	147	724	656	1,953	3,318

	US		Rest of World		Total Group ²	
	19/20	18/19	19/20	18/19	19/20	18/19
Net sales	461,423	321,681	102,322	73,568	1,661,138	1,413,522
Assets	185,658	126,341	34,341	22,607	1,511,847	1,314,818
Investments	3,949	28	851	193	85,309	34,875

¹ 72.1% (70.9) of the Parent Company's total sales are attributable to other companies within the Group. Purchases from Group companies amounted to 28.9% (13.5).

² Sectra has no customers that individually contribute more than 10% of total net sales. Of the Group's total intangible and tangible assets, amounting to SEK 343.9 million, SEK 224.9 million is attributable to Sweden, SEK 60.3 million to the UK and SEK 58.7 million to other countries.

cont. Note 1 Operating segments, function classification and earnings**Net sales per product group**

	19/20	18/19
Hardware and other third-party products	251,889	230,438
Software	455,419	369,644
Services	953,830	813,440
Net sales	1,661,138	1,413,522

Income statement classified by function³

SEK thousand	19/20	18/19
Net sales	1,661,138	1,413,522
Cost of goods sold	-604,319	-548,363
Gross profit	1,056,819	865,159
Selling expenses	-333,784	-283,104
Administration expenses	-224,677	-177,279
Research and development costs	-205,541	-172,163
Other operating income	3,714	3,407
Other operating expenses	-1,183	-479
Operating profit	295,348	235,541
Financial items	7,689	13,251
Profit after financial items	303,037	248,792
Taxes	-65,683	-49,813
Net profit for the year	237,354	198,979

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

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

	19/20		18/19	
	Total	of whom, women	Total	of whom, women
Parent Company				
Sweden	72	30	68	28
Group				
Australia	11	4	8	1
Denmark	13	4	13	4
Finland	4	2	5	2
France	5	2	3	2
Canada	7	2	5	1
Netherlands	50	13	42	12
Norway	22	8	22	7
New Zealand	2	0	2	0
Portugal	25	6	20	6
Spain	4	1	4	1
UK	79	26	77	24
Sweden	414	113	380	102
Germany	25	4	21	2
US	119	42	104	34
Group total	780	227	706	198

On the balance-sheet date, the proportion of female Board members amounted to 10% (13) including employee representatives on the Boards of Directors of all Group companies and to 22% (33) on the Parent Company's Board of Directors. The proportion of women in the Group's management groups, including company presidents, amounted to 27% (30) and the proportion of women in Group Management to 20% (30).

Salaries and other remuneration

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Board and President	37,070	32,730	5,586	4,916
Other employees	561,778	459,033	38,960	34,062
Total	598,848	491,763	44,546	38,978

Social security expenses

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Board and President				
Social security contributions	7,423	6,383	1,891	1,594
Pension costs	3,339	2,886	559	598
Total Board and President	10,762	9,269	2,450	2,192
Other employees				
Social security contributions	133,132	112,912	12,409	11,645
Pension costs	34,197	26,073	3,624	2,948
Total other employees	167,329	138,985	16,033	14,593

cont. Note 2 Employees and personnel costs

Remuneration of the Board, President and other senior executives 2019/2020

	Board fee	Basic salary	Variable remuneration	Other remuneration	Pension premiums	Total
Jan-Olof Brüer, Chairman of the Board	450	0	0	0	0	450
Anders Persson	275	0	0	0	0	275
Christer Nilsson	325	0	0	0	0	325
Tomas Puusepp	225	0	0	0	0	225
Ulrika Hagdahl ¹	75	0	0	0	0	75
Birgitta Hagenfeldt	275	0	0	0	0	275
Jonas Yngvesson ²	150	0	0	0	0	150
Total remuneration of the Board	1,775	0	0	0	0	1,775
President/CEO Torbjörn Kronander	0	2,650	1,200	0	559	4,409
Other senior executives (nine individuals)	0	10,080	1,849	0	2,059	13,988
Total remuneration of the President and other senior executives	0	12,730	3,049	0	2,618	18,397
Total	1,775	12,730	3,049	0	2,618	20,172

¹ Stepped down at the 2019 AGM.

² Elected at the 2019 AGM.

Preparation and decision-making process

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

Remuneration of the Board

Fees are paid to the Board Chairman and other external members in accordance with the decision of the Annual General Meeting. Internal Board members are not paid a fee. In 2019/2020, a fee of SEK 225,000 was paid to each of the Board members, and SEK 450,000 was paid to the Chairman of the Board. For Audit Committee work, SEK 50,000 was paid to external Board members and SEK 100,000 to the Chairman of the Audit Committee. No separate fees were paid for Remuneration Committee work. Other remuneration pertains to consultant services for assignments in which a Board member has specialist expertise.

Remuneration of the President and other senior executives

Remuneration of the President/CEO and other senior executives is based on market terms and comprises basic salary, variable salary, other benefits and pension. The fixed salary is determined taking into account experience,

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

Terms of notice and severance pay

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

Pension

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

Convertible programs

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

Issued incentive programs

Convertible programs	2016/2020	2018/2022	2018/2023
Number of underlying Class B shares	19,325	6,895	1,013
Conversion price, SEK	181.1	371.6	383.6
Exercise period	Dec 10–16, 2020	Jan 10–14, 2022	Jan 9–13, 2023
Time to expiration	Dec 1, 2016–Dec 31, 2020	Nov 1, 2018–Jan 31, 2022	Nov 1, 2018–Jan 31, 2023
Interest rate during time to expiration	Stibor +2.25%	0.00%	0.00%
Dilution upon full conversion, capital	0.1%	0.0%	0.0%

Number of convertibles	May 1, 2019	Concluded programs	New programs	Increase due to recalculated price	Apr 30, 2020
Convertibles	177,980	-153,240	0	2,493	27,233
Total	177,980	-153,240	0	2,493	27,233

Recalculation occurred as a result of the share redemption program.

Note 3 Fees to auditors

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Grant Thornton				
Audit fees	2,389	2,003	1,909	1,333
Audit activities in addition to audit assignment	455	351	304	309
Tax advisory services	316	118	117	69
Other services	81	93	54	76
Audit fees to other auditors				
Audit fees	512	10	0	0
Other services	0	0	0	0
Total	3,753	2,575	2,384	1,787

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

Note 4 Operating lease expenses¹

	Parent Company	
	19/20	18/19
Lease expenses paid for the year ²	13,535	9,511
Nominal value of agreed future lease payments:		
Due for payment within 1 year	13,512	11,443
Due for payment after 1 year but within 5 years	43,116	46,120
Due for payment after more than 5 years	0	0
Total	56,628	57,563

¹ Sectra applies IFRS 16 as of May 1, 2019. For the Group's lease expenses, refer to Note 11 Right-of-use assets, page 88.

² The Parent Company's leases pertain chiefly to office space.

Note 5 Interest income and similar profit/loss items

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Other interest income	6,785	9,637	303	283
Interest income from Group companies	0	0	10,912	9,036
Dividends	0	0	14,223	51,400
Exchange difference, net	3,652	4,860	3,091	8,929
Total	10,437	14,497	28,529	69,648

Note 6 Interest expenses and similar profit/loss items

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Interest expenses	2,748	1,246	699	1,085
Interest expenses from Group companies	0	0	93	403
Total	2,748	1,246	792	1,488

Note 7 Appropriations

	Parent Company	
	19/20	18/19
Group contributions	267,250	185,497
Total	267,250	185,497

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

Note 8 Tax on net profit for the year

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Tax expenses				
Current tax	-65,155	-52,480	-56,955	-39,944
Deferred tax	-528	2,667	-685	898
Total tax expenses	-65,683	-49,813	-57,640	-39,046

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

Profit before tax	303,037	248,792	282,397	227,942
Tax per applicable tax rate for the Parent Company, 21.4% (22%)	-64,850	-54,734	-60,433	-50,147
Adjustment of tax for previous years	-665	258	0	0
Tax effect of non-deductible expenses	-1,375	-474	-240	-179
Tax effect of non-taxable income	3,128	158	3,044	11,308
Change in temporary differences	833	-709	-11	-28
Tax effect of other tax rates in foreign subsidiaries	-2,754	5,688	0	0
Tax on net profit for the year	-65,683	-49,813	-57,640	-39,046

Deferred tax liabilities

Deferred tax liabilities on current assets	1,218	2,780	0	0
Deferred tax liabilities on surplus values	3,582	4,615	0	0
Total deferred tax liabilities	4,799	7,395	0	0

Deferred tax assets

Deferred tax assets on current assets	4,159	4,585	312	997
Deferred tax assets on provisions	68	1,411	0	0
Total deferred tax assets	4,226	5,996	312	997

Note 9 Intangible assets

	Group						Parent Company
	Capitalized development ¹	Goodwill ²	Patents and licenses ³	Customer relationships ⁴	Trademarks ⁵	Total	Capitalized development ¹
Opening cost	237,317	76,616	2,500	58,542	7,838	382,813	19,332
Translation difference	47	1,873	0	-755	20	1,185	0
Investments for the year	25,176	0	0	0	0	25,176	4,368
Accumulated cost at April 30, 2019⁶	262,540	78,489	2,500	57,787	7,858	409,174	23,700
Opening amortization and impairment	-132,691	-21,358	-1,975	-32,003	-6,700	-194,726	-4,436
Translation difference	0	-343	0	1,017	12	686	0
Amortization for the year	-27,288	0	-300	-4,531	-364	-32,483	-3,098
Accumulated amortization and impairment at April 30, 2019	-159,979	-21,701	-2,275	-35,517	-7,052	-226,523	-7,534
Closing residual value according to plan at April 30, 2019	102,561	56,788	225	22,270	806	182,651	16,165
Opening cost	262,540	78,489	2,500	57,787	7,858	409,174	23,700
Translation difference	0	-185	0	1,328	323	1,466	0
Investments for the year	36,904	0	12,852	2,586	0	52,342	4,873
Accumulated cost at April 30, 2020⁶	299,444	78,304	15,352	61,701	8,181	462,982	28,573
Opening amortization and impairment	-159,979	-21,701	-2,275	-35,517	-7,052	-226,523	-7,534
Translation difference	0	37	0	-1,326	-308	-1,597	0
Amortization for the year	-28,447	0	-377	-4,851	-376	-34,051	-3,656
Impairment for the year	0	-7,443	0	0	0	-7,443	0
Accumulated amortization and impairment at April 30, 2020	-188,426	-29,107	-2,652	-41,694	-7,736	-269,614	-11,190
Closing residual value according to plan at April 30, 2020	111,018	49,197	12,700	20,007	445	193,368	17,383

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

² Goodwill is attributable to the acquisition of Burnbank Systems Ltd, EXP Analytics Oy and RxEye AB. Goodwill attributable to the acquisition of RxEye AB was impaired in its entirety during the 2016/2017 fiscal year. Of total goodwill, SEK 44,566 thousand (44,775) was attributable to the Imaging IT Solutions segment and SEK 4,631 thousand (12,013) to the Secure Communications segment.

³ Remaining values in patents and licenses pertain to SEK 11,525 thousand (0) in the Imaging IT Solutions segment and SEK 1,175 thousand (225) in Secure Communications. Of investments for the year, SEK 1,294 thousand pertains to the acquired assets in Columbitech Inc.

⁴ Customer relations belong to the Imaging IT Solutions and Secure Communications segments. Of total customer relations, SEK 17,658 thousand (22,270) was attributable to the Imaging IT Solutions segment and SEK 2,349 thousand (0) to the Secure Communications segment. In Imaging IT Solutions, they pertain to assets acquired from Sectra Sverige AB, Sectra imaXperts BV, Burnbank Systems Ltd, it-mark ApS and RxEye AB. In Secure Communications, they pertain to assets acquired from Columbitech Inc. Of investments for the year, SEK 2,586 thousand pertains to the acquired assets in Columbitech Inc.

⁵ Trademarks pertain only to the Imaging IT Solutions segment and are attributable to acquired assets from Sectra Sverige AB and Burnbank Systems Ltd.

⁶ Of the accumulated cost, 13.2% (9.8) pertains to ongoing development projects and 86.8% (90.2) to completed projects.

Impairment of intangible assets

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

Cash-flow assumptions*Goodwill*

Future cash flows for goodwill are based on expected synergy effects in terms of the growth potential for sales for Imaging IT Solutions with respect to Burnbank Systems Ltd's products. Cash-generating unit for goodwill pertaining to Burnbank Systems Ltd changed in 2019/2020: the smallest cash-generating unit for which future cash flows can be measured was previously deemed to be limited to the UK market and is now deemed to be Imaging IT Solutions in its entirety. The change took place since the sale of Burnbank Systems Ltd's

products is deemed to be an integral part of the total business in Imaging IT Solutions and is no longer limited to the UK market. Goodwill attributable to the acquisition of EXP Analytics Oy is based on future cash flows in the form of growth potential in the Finnish and Estonian market. The cash-generating unit for goodwill pertaining to EXP Analytics Oy is the Sectra Communications Oy subgroup.

Other intangible assets

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

Discounting factor

Along with a joint discount rate of 6.7% (7.0), each cash-flow generating unit is charged an additional individual risk premium of 1.0 percentage point in the event that the technical conditions pertaining to the unit are considered, in all material respects, to be new and an additional individual risk premium of 1.0 percentage point in cases where the market conditions are considered, in all material respects, to be new. Overall, the assessment is that the components included in the risk premium are unchanged compared with the preceding year.

cont. Note 9 Intangible assets*Goodwill*

A pre-tax rate of between 6.7% and 8.7% (7.0–8.0) was used when calculating cash flows associated with goodwill.

Other intangible assets

The present value of forecast future cash flows for development projects has been calculated using a pre-tax rate of between 6.7% and 8.7% (7.0–9.0).

Forecast period and growth rate

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

Other assumptions regarding required yield

Risk-free interest:	Ten-year treasury bill on the balance-sheet date -0.1% (0.2)
Market risk premium:	6.8% (6.8)
Company-specific risk premium:	0.0–2.0% (0.0–2.0)
Beta value:	The beta value is calculated at 1.0 (1.0)
Interest expenses:	Sectra's assessed cost for borrowing
Tax rate:	Tax rate in Sweden

Since all assets were acquired using equity, the return requirement is between 6.7% and 8.7% after tax, which corresponds to between 8.5% and 11.1% before tax.

Impairment tests and sensitivity analyses for the year*Goodwill*

Impairment tests of goodwill in all acquired companies for the year show that at the balance-sheet date there is no need for further impairment. Should there be any future changes in individual variables, the value in use may fall below the carrying amount which could lead to impairment. A sensitivity analysis in which the discount rate increases by 2 percentage points and annual perpetuity growth decreases by 2 percentage points results in the value that exceeds the carrying amount being reduced by an average of 27%. If growth during the forecast period also decreases by 2 percentage points, the value that exceeds the carrying amount is reduced by a total average of 56%.

Other intangible assets

Impairment tests for the year per development project and other intangible assets were performed with such a margin that Executive Management deems that any reasonable and possible changes in individual variables will not cause the value in use to fall below the carrying amount. A sensitivity analysis in which the discount rate increases by 2 percentage points and annual perpetuity growth decreases by 2 percentage points results in the value that exceeds the carrying amount being reduced by an average of 25%. If growth during the forecast period also decreases by 2 percentage points, the value that exceeds the carrying amount is reduced by a total average of 31%.

Parent Company

At April 30, 2020, the Parent Company held intangible assets related to capitalized development projects in Business Innovation amounting to SEK 17.4 million (16.2).

Note 10 Tangible assets

	Group				Total
	Land and buildings	Office furniture	Equipment and office machines	Equipment at customer premises	
Opening cost	6,285	21,367	53,934	98,947	180,532
Translation difference	200	512	1,242	4,196	6,150
Investments for the year	0	1,033	5,402	3,264	9,699
Sales/ disposals for the year	0	-68	-3,173	-670	-3,910
Accumulated cost at April 30, 2019	6,485	22,844	57,405	105,737	192,471
Opening depreciation and impairment	-726	-14,113	-44,371	-78,173	-137,382
Translation difference	-18	-238	-974	-2,944	-4,175
Depreciation for the year	-110	-1,409	-4,558	-8,248	-14,325
Sales/ disposals for the year	0	21	3,038	500	3,559
Accumulated depreciation and impairment at April 30, 2019	-854	-15,739	-46,865	-88,865	-152,323
Closing residual value according to plan at April 30, 2019	5,631	7,105	10,540	16,872	40,148
Opening cost	6,485	22,844	57,405	105,737	192,471
Translation difference	-33	44	136	-1,968	-1,821
Investments for the year	0	5,737	12,156	15,074	32,967
Reclassification	0	9,840	0	0	9,840
Sales/ disposals for the year	-122	-529	-1,656	-251	-2,558
Accumulated cost at April 30, 2020	6,330	37,936	68,041	118,592	230,899
Opening depreciation and impairment	-854	-15,739	-46,865	-88,865	-152,323
Translation difference	6	35	-115	2,207	2,133
Depreciation for the year	-106	-1,465	-4,973	-9,647	-16,191
Sales/ disposals for the year	122	306	1,100	251	1,779
Accumulated depreciation and impairment at April 30, 2020	-832	-16,863	-50,853	-96,054	-164,602
Closing residual value according to plan at April 30, 2020	5,498	21,073	17,188	22,538	66,297

cont. Note 10 Tangible assets

	Parent Company			Total
	Office furniture	Equipment and office machines	Equipment at customer premises	
Opening cost	4,789	12,033	23,900	40,722
Investments for the year	428	2,138	2,372	4,938
Accumulated cost at April 30, 2019	5,217	14,171	26,272	45,660
Opening depreciation and impairment	-4,272	-9,418	-7,882	-21,572
Depreciation for the year	-87	-1,070	-5,074	-6,231
Accumulated depreciation and impairment at April 30, 2019	-4,359	-10,488	-12,956	-27,803
Closing residual value according to plan at April 30, 2019	858	3,683	13,316	17,857
Opening cost	5,217	14,171	26,272	45,660
Investments for the year	112	473	13,670	14,254
Accumulated cost at April 30, 2020	5,329	14,644	39,942	59,915
Opening depreciation and impairment	-4,359	-10,488	-12,956	-27,803
Depreciation for the year	-118	-1,197	-7,292	-8,606
Accumulated depreciation and impairment at April 30, 2020	-4,477	-11,685	-20,248	-36,409
Closing residual value according to plan at April 30, 2020	852	2,959	19,694	23,506

Note 11 Right-of-use assets and lease liabilities

	Premises	Vehicles	Other	Total
Adjusted opening balance due to IFRS 16	88,074	4,506	243	92,824
New contract	8,255	5,983	51	14,289
Concluded contracts	-1,226	-21	0	-1,248
Translation difference	-453	27	-12	-438
Accumulated cost	94,650	10,495	282	105,427
Depreciation for the year	-19,147	-2,770	-72	-21,989
Concluded contracts for the year	745	11	0	755
Translation difference	64	15	2	81
Accumulated depreciation	-18,338	-2,744	-70	-21,153
Carrying amount	76,312	7,751	211	84,275

Lease expenses	19/20
Variable lease payments	3,604
Expenses pertaining to low-value assets	2,855
Depreciation	21,989
Interest, premises	1,699
Interest, vehicles	74
Interest, other assets	4
Total	30,225

Revenue from onward leasing	19/20
Premises	1,042
Total	1,042

Cash outflow from leases	19/20
Repayment of lease liabilities	21,018
Interest expenses pertaining to lease liabilities	1,777
Variable lease payments	3,604
Expenses for low-value assets and short-term leases	2,855
Total	29,254

Lease liabilities	200430
Non-current lease liabilities	58,561
Current lease liabilities	22,402
Total	80,963

Maturity analysis—undiscounted cash flows	200430	
Year 1	210430	22,866
Year 2	220430	20,752
Year 3	230430	19,076
Year 4	240430	14,952
Year 5 or later	250430	7,533
Total		85,179

Effect of transition to IFRS 16

	Opening balance 190501	Restated according to IFRS 16	Restated opening balances 190501
Assets			
Intangible assets	182,651		182,651
Tangible assets	40,148		40,148
Right-of-use assets	0	93,518	93,518
Financial assets	170,274		170,274
Deferred tax assets	5,996		5,996
Total fixed assets	399,069	93,518	492,587
Other current assets	583,814	-3,927	579,887
Cash and cash equivalents	331,935		331,935
Total current assets	915,749	-3,927	911,822
Total assets	1,314,818	89,591	1,404,409

Equity and liabilities

Equity (incl. profit for the period)	727,909		727,909
Provisions	23,327		23,327
Deferred tax liabilities	7,395		7,395
Long-term liabilities	0	68,816	68,816
Other long-term liabilities	6,451		6,451
Current liabilities	0	20,775	20,775
Other current liabilities	549,736		549,736
Total equity and liabilities	1,314,818	89,591	1,404,409

Reconciliation of disclosures concerning operating leases (IAS 17) and reported lease liabilities (IFRS 16)

Obligations for operating leases at April 30, 2019	100,723
Finance lease liabilities at April 30, 2019	0
Low-value leases (not included as expensed)	-4,496
Effects of extension options	-1,448
Discount effect	-5,188
Reported lease liabilities in the opening balance sheet at May 1, 2019	89,591

Note 12 Participations in Group companies

	Corp. Reg. No.	Reg. office	No. of participations	Share of capital, %	200430 Carrying amount	190430 Carrying amount
Parent Company:						
Sectra Imaging IT Solutions AB	556250-8241	Linköping, SE	300,000	100%	2,883	2,883
Sectra Communications AB	556291-3300	Linköping, SE	3,000,000	100%	3,000	3,000
Sectra Secure Transmission AB	556247-1283	Linköping, SE	100,000	100%	95	95
Ebberöd Capital, Inc.	20-8912327	Shelton, US	1,000	100%	0	0
Ebberöd Capital Ltd	6707408	London Stansted, UK	1,000	100%	0	0
Sectra Sverige AB	556483-9479	Linköping, SE	40,350	100%	21,016	21,016
Sectra Norge AS	975 353 265	Oslo, NO	5,000	100%	283	283
Sectra Inc.	06-1473851	Shelton, US	500	100%	384	384
Sectra Medical Systems GmbH	HR B 8546	Cologne, DE	500	100%	219	219
Sectra Danmark A/S	10073251	Odense, DK	5,000	100%	639	639
Sectra Ltd	4571654	London Stansted, UK	1	100%	0	0
Sectra Pty Ltd	105 376 190	Sydney, AU	1	100%	1	1
Sectra New Zealand Ltd	1539744	Auckland, NZ	1	100%	0	0
Sectra Medical Systems SL	B84352749	Madrid, ES	500	100%	2,290	2,290
Art Ces Lda	PT513270396	Porto, PT	5,000	100%	48	48
Sectra imaXperts BV	39069257	Almere, NL	500	100%	4,664	4,664
Sectra France SAS	811070317	Paris, FR	1,000	100%	9	9
Sectra Canada Inc	BC1112137	Vancouver, CA	100	100%	65	65
Total					35,597	35,597
Sectra Imaging IT Solutions AB:						
Paxlink AB	556572-3292	Linköping, SE	1,000	100%	811	811
RxEye AB	556807-9924	Stockholm, SE	1,090,856	100%	13,261	13,261
Burnbank Systems Ltd	05968184	Ipswich, UK	1,000	100%	61,836	61,836
Burnbank Dataconnect Ltd	02860002	Ipswich, UK	1,450	100%	0	0
Burnbank Healthsystems Ltd	06502661	Ipswich, UK	2	100%	0	0
Total					75,908	75,908
Sectra Communications AB:						
Sectra Secure Solutions AB	556570-9325	Linköping, SE	3,000,000	100%	6,981	6,981
Sectra Communications Ltd	4884887	London, UK	1	100%	0	0
Sectra Communications BV	27264295	The Hague, NL	1,800	100%	164	164
Sectra Communications Oy	2679724-9	Helsinki, FI	2,500	100%	23	23
Columbitech Inc.	04-3719150	Delaware, US	100	100%	0	-
Total					7,168	7,168

Note 13 Acquisitions

On May 21, 2019, the Group acquired the assets of the Swedish IT security company Columbitech AB, including all shares in its US subsidiary Columbitech Inc. The company specializes in software-based, mobile VPNs. The acquisition strengthens the total offering of our Secure Communications operating area and ability to support security-conscious organizations' strategies for secure mobile work via smartphones and tablets, regardless of which technological platform the mobile device is based on. The acquisition also means that the operating area now has a presence and customers in the US market.

The total consideration transferred on the date of acquisition amounted to SEK 3.1 million, of which SEK 0.9 million comprised a cash consideration, SEK 1.7 million a contingent consideration recognized as a provision in the Group, and SEK 0.5 million a contingent consideration recognized as a current liability in the Group. The fair value of the additional purchase consideration was calculated based on the likelihood that the sales and earnings objectives set for 2024 would be achieved. The acquisition was fully financed with Sectra's existing funds. The value of customer relations was calculated based on the discounted non-restricted cash flows that the acquired customer contracts are deemed to give rise to.

Payment of the contingent consideration is based on the sales and earnings trend for Columbitech Inc.'s operations. The range for the contingent consideration is between SEK 0.0 million and SEK 2.2 million.

The operations were consolidated into Secure Communications from the date of acquisition on May 21, 2019, at which time Sectra obtained a controlling influence over the acquired unit. During the fiscal year, the Columbitech Inc.'s sales amounted to SEK 1.5 million and an operating loss of SEK 2.5 million was posted. Since the acquisition date, the company's sales have amounted to SEK 1.5 million and the operating loss to SEK 2.5 million.

Acquired net assets at May 21, 2019:

SEK million	Carrying amount of the acquired company	Value according to acquisition analysis
Customer relationships	–	2.6
Patents and licenses	–	1.3
Current receivables	0.3	0.3
Cash and cash equivalents	0.0	0.0
Deferred tax	–	–0.8
Current liabilities	–0.4	–0.4
Total acquired net assets	0.0	3.1
Fair value of consideration transferred		3.1
Goodwill		–
Net outflow of cash and cash equivalents due to the acquisition¹		
Cash consideration transferred		0.9
Cash and cash equivalents not yet paid		2.2
Cash and cash equivalents in the acquired company on the date of acquisition		0.0
Total		3.1

¹ Excluding acquisition-related expenses of SEK 0.3 million, which are recognized as external costs in the consolidated income statement for the 2019/2020 fiscal year.

Note 14 Participations in associated companies

	Parent Company	
	200430	190430
Opening cost	564	564
Total	564	564

	Corp. Reg. No.	Reg. office	No. of participations	Share of capital	200430 Carrying amount	190430 Carrying amount
Sectra Saudi Arabia Ltd	10213371171087	Riyadh, SA	500	50%	564	564
Total					564	564

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

Note 15 Long-term receivables from Group companies

	Parent Company	
	200430	190430
Opening cost	230,290	222,239
New receivables	1,546	550
Amortized receivables	–2,977	–511
Exchange-rate difference	1,255	8,012
Total	230,114	230,290

Note 16 Financial assets

	Group		Parent Company	
	200430	190430	200430	190430
Other shares and participations	19	37	0	0
Long-term accounts receivable	161,433	170,237	0	0
Total	161,452	170,274	0	0

Note 17 Inventories

	Group		Parent Company	
	200430	190430	200430	190430
Component stocks	26,652	32,593	0	0
Finished products	5,908	8,266	0	0
Total	32,560	40,859	0	0

Impairment of inventory via profit and loss totaled SEK 2,492 thousand (199) in 2019/2020.

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

Note 18 Accounts receivable**Accounts receivable per currency**

	Group		Parent Company	
	200430	190430	200430	190430
SEK	18,032	36,970	761	-628
USD	70,771	41,109	5,489	4,455
EUR	119,182	112,216	4,612	12,037
GBP	44,069	40,827	286	74
Other currencies	24,040	27,791	-15	-38
Total	276,094	258,913	11,133	15,900

Long-term accounts receivable (refer to Note 16) of SEK 161,433 thousand (170,237) pertain only to GBP.

Change for the year in the reserve for expected credit losses

	Group		Parent Company	
	200430	190430	200430	190430
Opening balance	24,723	30,799	4,656	907
Realized losses	-64	-268	-64	-268
Reversal of unutilized amounts	-20,635	-12,129	-5,255	-552
Reserve for expected credit losses	9,080	6,643	1,864	4,569
Exchange-rate effect	32	-322	-43	0
Total	13,136	24,723	1,158	4,656

See Note 30 for an age analysis.

Note 19 Prepaid expenses and accrued income

	Group		Parent Company	
	200430	190430	200430	190430
Prepaid rent	4,016	3,746	2,349	1,998
Accrued interest income	2	2	2	2
Prepaid support agreements	36,936	31,640	4,649	3,073
Other items	57,904	68,376	2,808	3,631
Recognized non-invoiced income ¹	232,672	158,422	0	0
Total	331,530	262,186	9,808	8,704

¹ Recognized non-invoiced income constitutes contract assets according to IFRS 15. This item comprises non-invoiced income attributable to performance obligations that have been satisfied according to customer contracts, but that is dependent on terms other than the remaining calendar time before payment of the consideration falls due. During the fiscal year, 76% of the opening balance was invoiced.

Note 20 Cash and cash equivalents

	Group		Parent Company ¹	
	200430	190430	200430	190430
Bank balances	345,300	331,935	246,077	225,324
Total	345,300	331,935	246,077	225,324

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

Bank overdraft facilities

	Group		Parent Company	
	200430	190430	200430	190430
Credit limit granted	15,000	15,000	15,000	15,000
Unutilized portion	-15,000	-15,000	-15,000	-15,000
Utilized credit amount	0	0	0	0

Note 21 Provisions

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

	Group				Parent Company
	Taxes	Guarantee commitments and other provisions	Contingent consideration ¹	Total	Guarantee commitments
Carrying amount May 1, 2019	7,395	7,755	15,573	30,723	4,705
Provisions made in the period	1,005	10,994	1,700	13,699	2,902
Reversal of provisions	0	0	-10,519	-10,519	0
Translation difference	0	0	-65	-65	0
IFRS 16	-193	0	0	-193	0
Amount appropriated	-3,408	-6,070	-1,899	-11,377	-3,107
Carrying amount Apr 30, 2020	4,799	12,679	4,790	22,268	4,500
Of which, total long-term portion of provisions	4,799	2,622	1,069	8,490	0
Of which, total short-term portion of provisions	0	10,057	3,721	13,778	4,500

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

¹ For more information, refer to Note 29.

Note 22 Other long-term liabilities

	Group		Parent Company	
	200430	190430	200430	190430
Convertible debentures 16/20	0	3,500	0	3,500
Convertible debentures 18/22	2,562	2,562	2,562	2,562
Convertible debentures 18/23	389	389	389	389
Total	2,951	6,451	2,951	6,451
	200430	190430	200430	190430
Opening liabilities	6,451	28,529	6,451	28,529
Repayment to holders of convertibles	0	0	0	0
Conversion to shares	0	0	0	0
New convertible loans	0	2,951	0	2,951
Reclassification to current liabilities	-3,500	-25,029	-3,500	-25,029
Closing liabilities	2,951	6,451	2,951	6,451

The assessment of whether the interest rate for convertibles is market-based is based on Sectra's current costs for borrowing. Refer to Note 30 for information about maturities and interest terms, and Note 2 for more information about the convertible programs.

cont. Note 22 Other long-term liabilities**Reconciliation of liabilities attributable to financing activities**

	Group		Parent Company	
	200430	190430	200430	190430
May 1, 2018	28,529	28,082	0	0
<i>Cash items</i>				
Repayments	0	0	0	0
Convertible loan payments rec'd	2,951	0	0	0
<i>Non-cash items</i>				
Fair value	0	0	0	0
Reclassification from long- to short-term convertible loan	-25,029	25,029	0	0
Conversion to shares	0	-28,082	0	0
Currency adjustment	0	0	0	0
April 30, 2019	6,451	25,029	0	0
Application of IFRS 16				89,591
Adjusted May 1, 2019	6,451	25,029	89,591	89,591
<i>Cash items</i>				
Repayments	0	-16	0	0
Lease payments	0	0	-21,018	-21,018
Payments rec'd	0	0	0	0
<i>Non-cash items</i>				
Fair value	0	0	0	0
Reclassification	-3,500	3,500	0	0
New leases	0	0	13,676	13,676
Conversion to shares	0	-25,013	0	0
Currency adjustment	0	0	-1,286	-1,286
April 30, 2020	2,951	3,500	80,963	80,963

Note 23 Other current liabilities

	Group		Parent Company	
	200430	190430	200430	190430
Convertible debentures 15/19 reclassification from long-term liabilities	0	3,500	0	3,500
Convertible debentures 16/19 reclassification from long-term liabilities	0	21,529	0	21,529
Convertible debentures 16/20 reclassification from long-term liabilities	3,500	0	3,500	0
Value-added tax	27,586	27,703	424	1,047
Employee withholding taxes	12,055	9,247	1,118	863
Other liabilities	7,407	9,056	156	931
Total	50,548	71,035	5,198	27,870

Conditions

For information about the terms for the convertible debentures, see [Note 2](#) Salaries and other remuneration.

Note 24 Accrued expenses and deferred income

	Group		Parent Company	
	200430	190430	200430	190430
Accrued social security contributions	43,831	33,935	6,537	6,654
Accrued vacation pay	58,882	52,767	9,044	8,115
Prepaid support agreements	68,222	66,388	0	0
Accrued accounts payable	47,310	40,058	1,611	3,239
Invoiced non-recognized income ¹	170,265	147,111	4,148	3,198
Other items	100,494	61,017	5,801	5,496
Total	489,004	401,276	27,141	26,702

¹ Advances received for installation services not yet performed as well as prepaid service and support revenue constitute customer payments received before the goods or services have been transferred (contract liabilities) and for which revenue is expected to be recognized during the coming fiscal years. Installation services revenue is recognized during the installation phase, while service and support revenue is recognized during the contract period. During the fiscal year, 93% of the opening balance was revenue recognized.

Note 25 Pledged assets and contingent liabilities

	Group		Parent Company	
	200430	190430	200430	190430
For bank overdraft facilities	200430	190430	200430	190430
Chattel mortgages	36,250	36,250	11,000	11,000
Total pledged assets	36,250	36,250	11,000	11,000
Guarantees on behalf of subsidiaries			92,599	102,869
Total contingent liabilities			92,599	102,869

Note 26 Cash flow**Adjustment for non-cash items**

	Group		Parent Company	
	19/20	18/19	19/20	18/19
Depreciation/amortization and impairment	72,231	46,809	12,262	9,329
Exchange-rate differences	4,970	-10,342	3,244	8,929
Reversal of provision/provision	25,485	5,249	-206	5,774
Total	102,686	41,716	15,300	24,032

Note 27 Related parties

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

Note 28 Important estimates and judgments and uncertainty in estimates

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

Impairment requirements relating to intangible assets including goodwill are assessed on an ongoing basis, based on the calculated recoverable amount per cash-generating unit. The recoverable amount is based on the unit's value in use, which consists of estimated future cash flows during its useful life. Estimates are based on budgeted long-term targets and anticipated growth. Group synergy effects were taken into consideration when calculating cash flow associated with goodwill. The present value of the forecast future cash flows for all development projects has been calculated using an after-tax discount rate of between 6.7% and 8.7% (7.0–9.0). An after-tax discount rate of between 6.7% and 8.7% (7.0–9.0) has been used when calculating cash flows associated with goodwill. The growth rate assessment has been set in line with

Note 29 Measurement of financial assets and liabilities

Group 200430	Amortized cost	Fair value through profit or loss	Total
Financial assets			
Investments held as fixed assets	0	19	19
Long-term accounts receivable	161,433	0	161,433
Other financial assets	161,433	19	161,452
Accounts receivable	276,094	0	276,094
Cash and bank balances	345,300	0	345,300
Total financial assets	782,827	19	782,846
Financial liabilities			
Long-term liabilities	2,951	0	2,951
Provisions	12,679	0	12,679
Contingent consideration	0	4,790	4,790
Other current liabilities	3,500	0	3,500
Accounts payable	36,786	0	36,786
Total financial liabilities	55,916	4,790	60,706

The earnings effect of impairment losses and reversals of previous impairment on bad debt losses was a negative SEK 5,418 thousand, net (neg: 2,257). No gains or losses were recognized in any of the other categories.

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

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

Calculation of fair value

The following methods were used to determine fair value:

Securities holdings that are available for sale belong to Level 2, meaning that the calculation of fair value is based on market quotations or the calculation of future cash flows for which variables are obtained from market quotations whenever possible. The holding that can be sold amounts to SEK 19 thousand (37).

The contingent considerations recognized in provisions in an amount of SEK 4,790 thousand (15,573) belongs to Level 3, which means that the calculations of fair value are based on unobservable inputs. The calculations were based on the likelihood that set goals would be achieved. SEK 1,069 thousand (14,356) pertains to the long-term portion and SEK 3,721 thousand (1,217) to the short-term portion. The value of the contingent consideration

market trends and growth goals in the business areas. Assumptions regarding future cash flows may be uncertain.

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

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

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

Provisions for expected credit losses is an assessment that means the outcome could be higher or lower than expected.

Revenue recognition contains assessments for establishing amounts and points in time for recognizing revenue under IFRS 15.

Group 190430	Amortized cost	Fair value through profit or loss	Total
Financial assets			
Investments held as fixed assets	0	37	37
Long-term accounts receivable	170,238	0	170,238
Other financial assets	170,238	37	170,275
Accounts receivable	258,913	0	258,913
Cash and bank balances	331,935	0	331,935
Total financial assets	761,086	37	761,123
Financial liabilities			
Long-term liabilities	6,451	0	6,451
Provisions	7,754	0	7,754
Contingent consideration	0	15,573	15,573
Other current liabilities	25,029	0	25,029
Accounts payable	55,323	0	55,323
Total financial liabilities	94,557	15,573	110,130

attributable to the acquisition of it-mark ApS is based on the degree to which the earnings objective set for April 30, 2020 was achieved. The fair value was established at DKK 1.3 million (3.3), based on the company's earnings outcome. The value of the contingent consideration attributable to EXP Analytics Oy is based on the sales and earnings trend for both the company and the entire Secure Communications segment until April 30, 2020. The range for the contingent consideration was between EUR 0.1 million and EUR 1.0 million, which was based on market conditions for the company. The fair value was established at EUR 0.0 million (0.9), based on the market trend. The value of the contingent consideration attributable to the acquisition of RxEye AB is based on the sales performance of the company's products and certain markets up to December 31, 2020. The range for the contingent consideration is between SEK 0.0 million and SEK 110.0 million. The assessed fair value totals SEK 1.3 million (1.5). The value of the contingent consideration attributable to Columbitech Inc is based on the sales and earnings trend for the company until December 31, 2024. The range for the contingent consideration is between SEK 0.0 million and SEK 2.2 million, which is based on market conditions for the company. The fair value is assessed at SEK 2.2 million (0.0), which is based on reasonable expectations with respect to the company's sales and earnings trend, SEK 0.5 million of which is recognized as a current liability in the balance sheet. The sales performance and earnings above have a direct impact on all of the contingent considerations, which is why the considerations may be changed.

Note 30 Risks, risk management and sensitivity analysis

Risks related to operations

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

Customers and partners

Sectra's five largest partners and customers jointly account for 16.3% (16.1) of consolidated sales. No individual customer accounts for more than 10% of consolidated sales. Although sales to each customer are often divided among a number of agreements, the proportion of long-term managed-services agreements has increased and, therefore, the loss of a major customer could have a significant effect on the Group's long-term earnings and financial position. Due to the continuous expansion of operations, the proportion of the Group's business volume represented by each individual partner and customer is gradually declining.

Product liability and property risks

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

Intellectual property rights

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

Other business risks

The prices for medical systems in the world market are largely governed by major international companies. Accordingly, the USD and EUR exchange rates have an effect on the price structure and competitiveness. Other business risks, such as market risks, suppliers, technical development, dependence on individual persons, cybersecurity threats and ethical risks are analyzed continuously. Measures are taken as needed to reduce the Group's risk exposure. For risks associated with the ongoing COVID-19 pandemic, refer to the Group's sustainability report, see page 67.

Financial risks

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

Currency exchange risks

The Group's exposure to currency exchange risks mainly arises through transactions in foreign currencies in the form of customer and supplier payments and, to a lesser extent, in connection with the translation of foreign subsidiaries' income statements and balance sheets. In accordance with the Group's financial policy, subsidiary financing is to be carried out in the local currency and currency exposure pertains mainly to USD, GBP and EUR. Operating profit for the year includes an exchange loss of SEK 884 thousand (loss: 345) and net financial items include an exchange gain of SEK 3,652 thousand (4,860).

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

Group revenue and expenses in various currencies

SEK million

Currency	Revenue	Expenses	Net exposure
SEK	368.0	-629.7	-261.7
USD	467.1	-294.6	172.5
EUR	232.0	-156.0	76.0
GBP	369.6	-205.7	163.9
Other currencies	224.4	-121.5	102.9
Total	1,661.1	-1,407.5	253.6

Interest-rate risks

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

Credit risks

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

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

Age analysis accounts receivable

SEK million	200430	190430
Accounts receivable not due for payment	171.2	184.2
Accounts receivable overdue by 0–60 days	70.4	50.8
Accounts receivable overdue by more than 60 days	26.2	18.0
Accounts receivable overdue by more than 120 days	21.4	30.6
Reserve for expected credit losses	-13.1	-24.7
Total	276.1	258.9

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

Liquidity risks

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

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

Convertible loans 2016/2020, SEK 3,500 thousand, are payable in December 2020. Convertible loans 2018/2022, SEK 2,562 thousand and 2018/2023, SEK 389 thousand, are payable in January 2022 and 2023, respectively. The 2016/2020 convertible loan carries a variable interest rate, Stibor +2.25%. Convertible loans 2018/2022 and 2018/2023 carry 0% interest. Convertibles have terms of zero to four years. Refer to [Notes 2 and 22](#) for further information about convertibles issued.

Sensitivity analysis

The Group's earnings depend mainly on product sales and the cost of personnel and materials. The analysis below is based on the figures from the 2019/2020 fiscal year and how the variables named would have affected profit after net financial items if no measures such as hedging or adaptation of resources had been taken. Each variable is treated individually, provided the others remain unchanged. The analysis is not claimed to be precise, but is merely indicative.

cont. Note 30 Risks, risk management and sensitivity analysis

Variable	Change	Effect on profit after financial items
Net sales/gross profit	+/- 1%	+/- SEK 14.1 million (+/- 12.1)
Cost of materials	+/- 1%	+/- SEK 2.5 million (+/- 2.5)
Personnel costs	+/- 1%	+/- SEK 8.2 million (+/- 6.8)
Interest rate levels	+/- 1%	+/- SEK 3.4 million (+/- 3.1)
Exchange-rate changes:		
SEK/USD rate	+/- 1%	+/- SEK 2.3 million (+/- 1.4)
SEK/EUR rate	+/- 1%	+/- SEK 2.6 million (+/- 2.3)
SEK/GBP rate	+/- 1%	+/- SEK 2.3 million (+/- 1.9)

In the event that the SEK weakens by 1% against the USD, GBP or EUR, profit after net financial items would improve by SEK 7.2 million.

Note 31 Asset management

The Group's financial goals have been determined by the Board. The goal is to have a favorable and flexible capital structure so that it can be changed if the conditions for operations or for different borrowing alternatives change and maintain financial stability. The Group's equity/assets ratio goal is 30%. In the 2019/2020 fiscal year, the Group's equity/assets ratio was 54.1% (55.4).

The Group's capital is defined as total equity less any positive unrealized changes in value and amounted to SEK 817,213 thousand (727,909) at April 30, 2020. Sectra's operations have previously been characterized by major seasonal variations during the fiscal year, which is why the Board aims to maintain a healthy capital structure with a low debt/equity ratio. In the 2019/2020 fiscal year, the Group's debt/equity ratio was 0.11% (0.04).

Note 32 Board's statement concerning repurchase and transfer of the company's treasury shares

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

Nature, scope, and risks of the operations

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

The financial position of the company and the Group

The financial position of the company and the Group as of April 30, 2020 are presented in this Annual Report. The Annual Report also describes the policies applied for the measurement of assets, provisions and liabilities.

At the end of the 2019/2020 fiscal year, unrestricted equity in the Parent Company amounted to SEK 326.3 million (252.1) and the Group's retained earnings to SEK 307.4 million (263.3).

According to the Annual Report, the Group's equity/assets ratio is 54.1%. The authorization to repurchase the company's own Class B shares does not jeopardize the completion of any investments deemed necessary.

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

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

Justification for proposed repurchase

With reference to the above and to what has otherwise come to the knowledge of the Board of Directors, the Board is of the opinion that, after a comprehensive review of the financial position of the company and of the Group, the proposed authorization to repurchase and transfer the company's own Class B shares is justified according to the provisions of Chapter 17, Section 3, paragraph 2 and 3 of the Swedish Companies Act, that is, with reference to the requirements that the nature of the business, its scope and the risks placed on the size of the company's and Group's equity and the company's and the Group's consolidation requirements, liquidity and financing needs in general.

Note 33 Proposed appropriation of profits

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

Share premium reserve	128,428
Loss brought forward	-26,918
Net profit for the year	224,758
Total	326,268

The Board and President propose that the profits be appropriated so that SEK 326,268 thousand is carried forward. In addition, it is proposed that the Annual General Meeting resolves that SEK 4.50 per share be transferred to the shareholders through a 2:1 share split, combined with a mandatory redemption process and a bonus issue to restore the share capital. This entails a transfer of SEK 173,277 thousand to the company's shareholders. No ordinary dividend is proposed.

Note 34 Events after the balance-sheet date

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

Note 35 Definitions of key figures

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

Adjusted equity: Recognized equity increased by 78.6% of untaxed reserves.

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

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

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

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

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

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

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

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

Liquidity: Current assets divided by current liabilities.

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

P/E ratio: Share price at the end of the year in relation to the earnings per share for the year.

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

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

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

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

Value added: Operating profit plus labor costs.

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

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sectra AB (publ) for the financial year 2019-05-01—2020-04-30 apart from the sustainability report on pages 62–67. The annual accounts and consolidated accounts of the company are included on pages 56–96 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 30 April 2020, and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 30 April 2020, and their financial performance and cash flow for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not include the sustainability report on pages 62–67. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for opinions

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

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

Key Audit Matters

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

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

Our opinion is that revenue from contracts with customers is a key audit matter since the revenue streams are high and the assessments of when the conditions for revenue recognition according to IFRS are met are central for the financial reports. Contracts with customers include various combinations of deliveries of feasibility studies, component deliveries, licenses, installation services, hardware, and support and maintenance services and upgrades. Revenues are recorded either at a certain point in time or over time, when or if the Group fulfills the performance obligations by transferring the promised goods and services to the customer. Receivables relating to contracts with customers amounts to SEK 670.2m, of which trade account receivable amounts to SEK 437.5m as per April 30, 2020 and the measurement of these receivables are dependent on management's assessment of expected credit losses. Information regarding accounting policies concerning revenues is disclosed on page 75 and information regarding revenues and receivables relating to contracts with customers are included in [Note 1](#) and [Note 16, 18](#) and [19](#).

Our audit procedures have included the following audit procedures but were not limited to these: audit of routines and controls related to the revenue, accounting of projects, analytical procedures related to project accounting and audit of the accounting related to a sample of customer contracts in order to verify that the accounting is consistent with the Group accounting policies. Our audit procedures also included the company's assessment of expected credit losses. Our audit procedures have included examination and assessment that applied accounting principles are in accordance with IFRS and whether information disclosed in the annual report is in all material respect sufficient in accordance with the Annual Accounts Act and IFRS.

Valuation of goodwill

Goodwill amounted to SEK 49M as per April 30, 2020. In accordance with IFRS goodwill should annually be tested for impairment. Our opinion is that valuation of goodwill is a key audit matter since the valuation is complex and relies on assessments related to future growth, required return as well as future market- and economic conditions. Information regarding accounting principles and impairment tests are included on page 75 and in [Note 9](#).

Our audit procedures have included the following audit procedures but were not limited to these: audit of routines and controls related to accounting of goodwill and audit of impairment tests. Audit of impairment tests have included audit of the model for impairment tests and audit of the assumptions especially related to forecasts of cashflows, future growth and required return and sensitivity analyzes. Our audit procedures have included examination and assessment that applied accounting principles related to goodwill are in accordance with IFRS, and the disclosures in the annual report regarding the assumptions with largest impact on the impairment tests.

Existence and valuation regarding on-going development projects

Capitalized development expenditure amounted to SEK 111M as per April 30, 2020, and includes both on-going and completed development projects. In accordance with IFRS capitalized development expenditure related to on-going projects should annually be tested for impairment. Our opinion is that capitalized development expenditure related to on-going projects is a key audit matter since the valuation is complex and relies on assessments related to forecasts of cashflows, future growth, required return as well as future market- and economic conditions. Information regarding accounting principles and impairment tests are included on page 75 and in [Note 9](#).

Our audit procedures have included the following audit procedures but were not limited to these: audit of routines and controls related to capitalization of expenditure for new projects, audit of new project to project plans and other supporting documentation, audit of impairment tests and audit of sensitivity analyzes. The audit of impairment tests has included audit of the model used for the impairment tests as well as audit of the assumptions especially related to forecasts of cashflows, future growth and required return.

Valuation regarding shares in subsidiaries and receivables on subsidiaries

Shares in subsidiaries amounted to SEK 36M and receivables on subsidiaries amounted to SEK 673M in the Parent Company accounts as per April 30, 2020. The valuation of these assets is dependent on management's assessment regarding indication for impairment and, on impairment testing, managements estimates of the subsidiaries future development. Accordingly, this area is considered to be of particular significance to our audit. Information regarding shares in subsidiaries and receivables on subsidiaries are included in [Notes 12 and 15](#).

Our audit procedures have included the following audit procedures but were not limited to these: audit of supporting documentation regarding management's assessment of the subsidiaries future development and audit of management's basis for assessment of indications of impairment in assets.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–55 and 62–67. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information, and we do not express any form of assurance conclusion regarding this other information. In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure, we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

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

Responsibilities of the Board of Directors and the Managing Director

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

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

The 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.

Auditors' responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Sectra AB (publ) for the financial year of 2019-05-01—2020-04-30 and the proposed appropriations of the company's profit or loss.

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

Basis for our opinions

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

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

Responsibility of the Board of Directors and the Managing Director

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

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

Auditors' responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

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

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

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

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

Auditor's opinion regarding the statutory sustainability report

It is the board of directors who is responsible for the statutory sustainability report on pages 62–67 and that it has been prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's examination of the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A statutory sustainability report has been prepared.

Grant Thornton Sweden AB, Sveavägen 20 SE-103 94 Stockholm, was appointed auditor of Sectra AB (publ) by the general meeting of the shareholders on September 5, 2019 and has been the company's auditor since 2002.

Stockholm, June 30, 2020
Grant Thornton Sweden AB

Mia Rutenius

Authorized Public Accountant

Glossary

Artificial intelligence (AI)

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

Cardiology

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

Cloud

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

Critical infrastructure

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

Crypto

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

Education portal

A cloud-based platform that provides users with access to a large digital library of quality-assured and anonymous medical cases and images as well as the opportunity for distance learning.

Elective healthcare

Healthcare planned in advance, which in contrast to acute care can be postponed for a period of time without serious medical consequences.

Hybrid threat, hybrid warfare

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

Integrated diagnostics

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

Mammography

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

Medical diagnostic imaging

Using images (e.g. from radiology examinations or tissue samples) to assess a patient's medical condition. It could, for example, concern detecting an illness, assessing the course of an illness, or providing guidance for suitable treatment.

Medical IT

Information technology (e.g. software) used in healthcare.

Net Promoter Score (NPS)

A key figure for customer loyalty based on the question: "How likely is it that you would recommend this company to a friend or colleague?" The responses are on a scale from 0 to 10, where 0 means "not at all likely" and 10 means "highly likely." The NPS is the sum of the percentage of ambassadors (i.e. those who responded with 9 or 10) minus the percentage of detractors (i.e. all those who responded between 0 and 6).

Operational technology (OT)

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

Orthopaedics

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

Osteoarthritis

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

Pathology, digital pathology

A specialized medical area that uses tissues and body fluids for diagnostic purposes. By digitizing the workflow, pathologists can review tissue samples digitally instead of with a microscope.

Picture archiving and communication system (PACS)

A system for managing medical images, such as digital radiology images.

Process industry

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

Radiology

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

Trauma

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

Vendor-neutral archive (VNA)

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

Virtual private network (VPN)

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

Visualization table

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

List of references

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¹⁴ Global Digital Pathology 2019: What You Need to Know to Get Started, published in January 2020, <https://klasresearch.com/report/global-digital-pathology-2019/1349>

¹⁵ The Swedish Hip Arthroplasty Register, Annual Report 2018

¹⁶ Sectra's visualization table is developed in collaboration with researchers at the Center for Medical Image Science and Visualization (CMIV), Interaktiva Institutet och Visualiseringscenter C

¹⁷ The global risk report 2018, <https://www.weforum.org/reports/the-global-risks-report-2018>

¹⁸ FRA 2019 year report, <https://www.fra.se/download/18.6cf5edb9170382a0ad51c/1581950150002/FRA-arsrapport-2019.pdf>

Index Sustainability Report

The content of Sectra's Sustainability Report 2019/2020 is shown in the index below, which is inspired by the Global Reporting Initiative's (GRI) index. The Sustainability Report for the 2019/2020 fiscal year includes pages 1–23, 25, 39 and 62–67. Sectra communicates the company's sustainability work annually as part of the Annual Report and Sustainability Report. All references below refer to pages in Sectra's Annual Report and Sustainability Report 2019/2020 and Sectra's Corporate Governance Report, which is provided on the company's website. For questions regarding the Sustainability Report, please contact info.investor@sectra.com.

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Invitation to the 2020 Annual General Meeting

Date: September 8, 2020
Time: 3:30 p.m.
Place: Collegium, Teknikringen 7, Linköping, Sweden

Dividends, share redemption program

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

Notice

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

Particular measures owing to COVID-19

Sectra seeks to safeguard the health of its shareholders and endeavours to help limit the spread of coronavirus in the best possible way. Sectra encourages all shareholders to exercise caution in general, to follow the recommendations of the authorities and to take responsibility for preventing the spread of the virus. Sectra asks all shareholders to consider the possibility of not attending the Annual General Meeting in person and instead to make use of the option of voting in advance or participating through a proxy instead of physically attending the Meeting.

Specific measures include:

- Voting in advance (postal voting) will be offered to shareholders.
- The CEO's presentation will be recorded and published on the Sectra website not later than August 25, 2020, one week before the final registration date and final date for postal voting.
- The presence of the Board of Directors and management may be limited, and they may participate via video link or telephone.
- No drinks or refreshments will be served. Nor will an open house be held at the company offices in conjunction with the meeting.

Sectra is carefully monitoring the effects of the outbreak of COVID-19 in Sweden. Information and updates pertaining to these specific measures are available at investor.sectra.com/agm2020

Notification and voting in advance

Shareholders wishing to attend the meeting must be recorded in the shareholder register maintained by Euroclear Sweden AB not later than September 2, 2020 and notify the company by e-mail info.investor@sectra.com, telephone +46 (0)13-23 52 00 or mail to the following address: Sectra AB, Annual General Meeting, Teknikringen 20, SE-583 30 Linköping, Sweden. The notification should include the shareholder's name, personal or corporate registration number and

daytime telephone number. Where applicable, the number of advisors should be specified. If shareholders intend to be represented by proxy, a power of attorney and other authorization documents must be included with the notification.

The Board of Sectra has decided that shareholders may exercise their voting rights at the Meeting by voting in advance by way of postal voting. For shareholders who wish to vote by post, any such postal voting will also be considered to be registration of attendance at the Meeting. Additional information about this will be available on Sectra's website not later than in conjunction with the notice of the AGM.

Trustee-registered shares

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB. Such registration is to be carried out via the administrator and completed not later than September 2, 2020.

Documents

Complete proposals for decisions and forms for notification and authorization will be available not later than August 18, 2020 (three weeks prior to the AGM) on investor.sectra.com/agm2020 and from Sectra's office in Linköping. Shareholders who wish to receive these documents by mail should contact the company by telephone +46 (0)13-23 52 00 or by email info.investor@sectra.com

Financial calendar 2020/2021

September 4, 2020	Three-month report
November 27, 2020	Six-month report
March 12, 2021	Nine-month report
June 2, 2021	Year-end report

Distribution of the Annual Report

The Annual Report is published on Sectra's website. A message will be sent by mail to all shareholders registered with Euroclear Sweden AB on June 30, 2020 announcing that the report is available. Contact us for a printed copy. To reduce the company's environmental impact, mail distribution will be limited to Europe; other stakeholders should refer to the digital version.

Contact information, Sectra Group Headquarters

Sectra AB

Teknikringen 20
SE-583 30 Linköping, Sweden
E-mail: info@sectra.com
Tel: +46 (0)13 23 52 00
sectra.com

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

Contact for shareholders and investors

Sectra's website for investors:
investor.sectra.com



Shareholder contact

Helena Pettersson
Chief Investor Relations Officer
E-mail: info.investor@sectra.com
Tel: +46 (0)13-23 52 04

Subscription

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

To subscribe and receive information by e-mail, visit investor.sectra.com/subscribe

Give us your feedback

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

» investor.sectra.com/irsurvey

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We help hospitals all over the world improve their efficiency so that they can provide better healthcare to patients. We help critical social functions safeguard their ability to supply electricity, water and heating. We help government officials, blue-light emergency services, diplomats and defense forces communicate without the risk of eavesdropping or access violations. This is how we create conditions for a healthier and safer society.



SECTRA

Knowledge and passion