We modernize and streamline the manufacturing industry

INTERIM REPORT
Second quarter 2018

This English translation is for information purposes only. In case of any discrepancies between this version and the Swedish, the Swedish version shall prevail.

INTERIM REPORT 1 January – 30 June 2018

Strong position in the Nordics, strong starting point for Europe

SECOND QUARTER (1 April – 30 June 2018)

- Net sales amounted to SEK 508.0 million (367.6).
- Operating profit from the operational segments amounted to SEK 23.7 million (14.4). The Group's operating profit amounted to SEK 21.7 million (14.0).
- Profit after tax amounted to SEK 11.0 million (8.0), which corresponds to SEK 0.38 SEK per share (0.33)
- Cash flow from operating activities amounted to SEK 50.5 million (2.0)

FIRST SIX MONTHS (1 January – 30 June 2018)

- Net sales amounted to SEK 946.6 million (717.6).
- Operating profit from the operational segments amounted to SEK 44.9 million (23.6). The Group's operating profit amounted to SEK 40.1 million (22.4).
- Profit after tax amounted to SEK 19.8 million (11.3), which corresponds to SEK 0.74 SEK per share (0.48)
- Cash flow from operating activities amounted to SEK 59.6 million (35.1)

CEO Erik Stenfors comments on the report:

"During the quarter, HANZA net sales exceeded half a billion SEK for the first time, with profitability increased for the fourth consecutive year. These achievements are the result of HANZA's efforts during the development phase. Our segment Nordics reports an industry-leading operating margin of 7.5% for the quarter. With an offer that creates higher customer value than traditional contract manufacturing, it is possible to build up a profitable manufacturing industry even in the Nordic countries."

"As we announced at the beginning of the year, HANZA has now commenced an expansion phase. This means that the extensive projects from the ramping-up phase, such as relocating entire factories, are complete. We are now addressing new customer areas, and we continue the work to streamline our Manufacturing Clusters outside of the Nordic region in order to meet future sales volumes."

"For rapidly-growing companies with global ambitions, strengthening the balance sheet, primarily by lowering working capital and net debt, is just as important as strengthening the income statement. HANZA has achieved strong cash flows in the past, a trend we continued this quarter. Cash flow from operating activities amounted to approximately SEK 50 million during the quarter, while net debt decreased by SEK 36 million, which is *close to 11 percent."*

MATERIAL EVENTS DURING THE SECOND QUARTER OF 2018

- In May, HANZA launched two new manufacturing technologies - heat treatment and non-destructive testing - which were previously procured externally. This further strengthens the range of services offered by HANZA's Manufacturing Cluster in Sweden. The scope of technologies offered has been expanded in close cooperation with the company's customers. The expansion is occurring in the context of a "CORE project", along with extensive technology development, investments and training.
- In accordance with the nomination committee's proposal, the annual general meeting held on 21 May resolved to elect a board of directors in which both the individual directors and the board as a whole meet demanding requirements to conduct its work effectively. The nomination committee also aimed to elect a board that will be suitable for a possible listing on the Nasdaq OMX Stockholm, Small Cap. The Board was thus expanded to include Sofia Axelsson, President and CEO of the bathroom manufacturer Svedbergs, who holds a Master of Science in Public Finance/Business Administration from Gothenburg University.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

- The Board has established a strategy for the forthcoming expansion phase, according to which the HANZA Group's financial targets and dividend policy are adjusted as follows:
    - **Average net sales growth of at least 10% per annum over a business cycle**
      Target unchanged
    - **Average operating margin (EBIT) of at least 6% over a business cycle**
      Previously: Average EBIT in excess of 5% over a business cycle.
    - **The equity ratio shall amount to at least 30%**
      Target unchanged
    - **Dividend of approximately 30% of profit after tax**
      Previous policy: 25% of profit after tax

SEK million	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Net sales	508.0	367.6	946.6	717.6	1,399.7
Operational segments EBITA	25.6	14.5	48.1	23.7	40.1
Business development segment EBITA	-2.0	-0.4	-4.8	-1.2	-4.1
EBITA	23.6	14.1	43.3	22.5	36.0
Amortisation of intangible assets	-1.9	-0.1	-3.2	-0.1	-0.3
Operating profit (EBIT)	21.7	14.0	40.1	22.4	35.7
Operating margin	4.3%	3.8%	4.2%	3.1%	2.6%
Cash flow from operating activities	50.5	2.0	59.6	35.1	72.0
Net interest-bearing debt	293.3	166.8	293.3	166.8	142.0
Equity ratio	35.1%	38.0%	35.1%	38.0%	40.2%

CEO'S COMMENTS

HANZA turns 10

HANZA will turn 10 in August of this year – and what an amazing journey it has been. For example: In the Swedish area Värmland in 2010, we took over a traditional contract manufacturer that was undergoing a Chapter 11 procedure. We have now added other factories to this original factory, and the result is a complete Manufacturing Cluster including electronics, mechanics and assembly, boasting industry-leading profitability and a 7.5% operating margin (EBIT) in Q2. The method is simple and comes down to customer value. With an offer that creates higher customer value than traditional contract manufacturing, it is possible to build up a profitable manufacturing industry even in the Nordic countries.

First the Nordics, then Europe

As we announced at the beginning of the year, HANZA has now commenced a phase of expansion. After seizing a leading market position in the Nordic region, we are now addressing new geographic areas. At the same time, we are working in order to further develop our Manufacturing Clusters to be able to meet new, larger sales volumes, for both existing and new customers.

This means that the major projects carried out during the development phase, such as relocating entire factories, are now complete. Instead, we are now working on specific streamlining projects referred to as CORE (Cluster Operational Excellence), on select manufacturing units. In order to improve the production process, several manufacturers are currently employing what is known as Lean manufacturing at their factories. We have taken this a step further, and are now employing the Lean concept also between our factories in our Manufacturing Clusters. We have earmarked significant resources in 2018 for the development of our Manufacturing Cluster in the Baltics, where we have implemented the Group IT system at our Narva plant, and have also temporarily brought on extra workers in order to meet high demand. We are also engaged in similar coordination efforts in our Manufacturing Cluster in China, and in our Manufacturing Cluster in Central Europe. These three projects are expected to continue for the rest of the year.

Balance sheet optimisation efforts

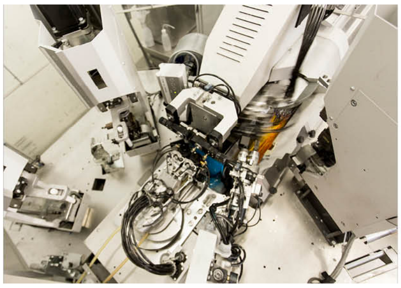
During the second quarter, the net sales exceeded half a billion SEK for the first time. Profitability during the quarter increased for the fourth consecutive year, which is the result of efforts during the development phase of HANZA. For rapidly-growing companies with global ambitions, strengthening the balance sheet is just as important as strengthening the income statement. Hence, important areas are the working capital and the net debt. In the beginning of year 2018, our net debt grew by approximately SEK 170 million as a result of the acquisition of Wermech, with thereto related liabilities and acquisition loans. HANZA has been able to achieve strong cash flows historically, a trend we continued this quarter. Cash flow from operating activities amounted to approximately SEK 50 million in Q2, while net debt decreased by SEK 36 million, which nearly equal to 11%.

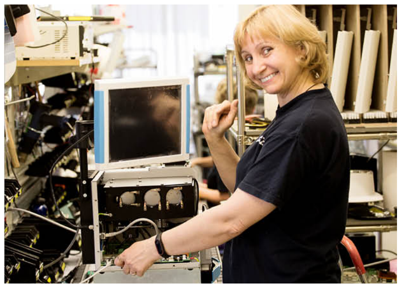
Meeting the future

It is not without being a bit proud that we introduce the Group to potential and existing customers. Our Manufacturing Clusters and our advisory services are unique in our industry. We are also proud of our company's history and financial performance. Several traditional contract manufacturers today have lower sales volumes and profits than ten years ago. During the same period, we have created a profitable billion-SEK industry from scratch, with 1600 employees in six countries.

But the strong history does not automatically translate into future strength. For this reason, we are pursuing systematic efforts at the management level so that we will be able to meet future global challenges. For example, if handled correctly, an economic downturn can lead to new customers, as a recessionary environment means that the product owners will face an urgent need to create new, more cost-effective manufacturing solutions. Similarly, new global trade barriers may lead to new orders for HANZA. Since HANZA got started, we have seized many opportunities based on the difficulties product companies have encountered.

So in a changing business environment, we continue to methodically build HANZA, step by step. The purpose of the current expansion phase is thus to develop HANZA from a leading Nordic manufacturing partner into a major European manufacturing partner. You are most welcome to join us on our coming journey!





MARKET PERFORMANCE

HANZA's market is currently mainly concentrated in the Nordic region, but some customers are also located in the rest of Europe, Asia and the United States. Because HANZA's wide customer base, HANZA's sales volumes generally reflect the business cycle.

The economic expansion in Sweden continues, and the "Barometer Indicator", published by the National Institute of Economic Research, rose in July on the strength of continued healthy signals from the manufacturing industry. Swedish exports are supported by the strong global demand and a weak currency (the Swedish SEK). The parliamentary election in September may lead to complicated coalition building, but is not expected to result in any major market impacts. The Finnish economy strengthened in the spring and summer, spurred by global demand, especially in the industrial sector. Q2 statistics for Norway are also trending positively for the industrial sector compared to the previous quarter.

HANZA does not provide sales forecasts, but can conclude that the company is well situated for continued strong growth. The recent consolidation of factories into Clusters has provided a significant tailwind to Group profitability. Growth has also been, and will continue to be, important for profitability.

HANZA's customer portfolio continues to evolve. The aim is to expand the company's partnership with strategic customers, where greater value can be created for both HANZA and the customer through the cluster model that HANZA offers. This strategy led HANZA to phase out a non-strategic telecom customer, buying from HANZA in year 2014 in excess of SEK 100 million. For the same reason, in early 2018, HANZA decided to terminate a manufacturing contract with an annual volume of approximately SEK 80 million. The bulk of the winding-up activities is estimated to occur in 2018, and HANZA estimates that this volume will be replaced by new volumes and that the transition will have a positive impact on consolidated earnings.

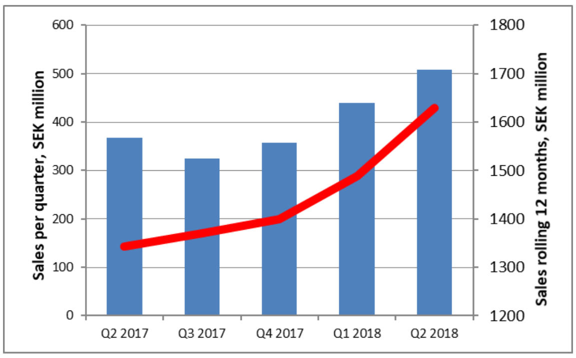
HANZA's five manufacturing clusters: Sweden, Finland, Baltics, Central Europe and China

REVISED FINANCIAL TARGETS AND DIVIDEND POLICY

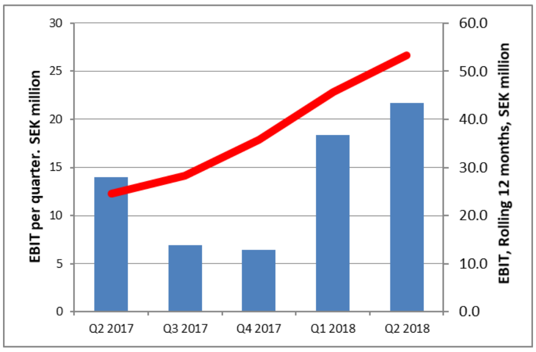
In its decision to publish the quarterly report, the Board also adopted a strategy for the expansion phase, the aim of which is to ensure profitable growth by gaining additional market share and further developing the Group's Manufacturing Clusters. The objective is to be a major strategic manufacturer in Europe by 2022. In view of this objective, the Board has decided to adjust the HANZA Group's financial targets as follows:

- **Growth target: Average net sales growth of at least 10% per annum over a business cycle**
  Comments: Historically, the Group has grown both organically and through acquisitions, a model that is expected to hold into the expansion phase. Target unchanged
- **Profitability target: Average operating margin (EBIT) of at least 6% over a business cycle**
  Comments: The Nordic segment of the HANZA Group reports an operating margin of more than 6%. Other areas are expected to increase their operating margin with the European expansion. The previous target was 5% EBIT over a business cycle.
- **Capital structure target: The equity ratio shall amount to at least 30%**
  Comments: Target unchanged, the aim of which is to maintain a strong capital structure.
- **Dividend policy: Dividend of approximately 30% of profit after tax**
  Comments: The completion of the ramping-up phase provides greater scope for dividend distributions. The previous policy was 25%. When assessing the size of the dividend, care must still be taken to ensure that the Group's development is able to continue while preserving financial strength and freedom of action.

Net Sales



Operating profit



The graphs illustrate net sales and operating profit per quarter (bars), and on a rolling 12-month basis (lines) up to and including the quarter reported.

NET SALES AND FINANCIAL RESULT

Second quarter

Net sales increased by 38.2% to SEK 508.0 million (367.6). Adjusted for the acquiree Wermech's 2017 net sales, the HANZA Group grew by 10.4%. A strengthening of foreign currencies, primarily the Euro, has a positive effect on net sales in the amount of approximately SEK 17 million. Adjusted for currency effects and acquisitions, net sales growth amounts to approximately 8 %.

EBITDA for the quarter amounted to SEK 37.1 million (24.8), which corresponds to an EBITDA margin of 7.3 % (6.7). Depreciation during the period amounted to SEK 15.4 million (10.8), of which depreciation of intangible assets amounted to SEK 1.9 million (0.1). The Group's EBITA amounted to SEK 23.6 million (14.1), while its EBIT amounted to SEK 21.7 million (14.0), which corresponds to an operating margin of 4.3 % (3.8). The operating margin is only marginally affected by the exchange rate effects described above.

For 2Q 2018, the Nordics segment is reporting EBITA of SEK 21.2 million (5.4), which corresponds to an EBITA margin of 8.1 % (3.7). The improved financial performance is due to a combination of continued increased profitability in HANZA's Nordic operations, which in turn is due to streamlining projects and coordination effects, as well as profit contributions from the acquisition of Wermech and cost savings through cluster formation. Net sales increased by SEK 115.7 million to SEK 262.1 million (146.4), which is primarily attributable to the acquiree Wermech.

The Rest of World segment is reporting EBITA of SEK 4.4 million (9.1) for the quarter, which corresponds to an EBITA margin of 1.8 % (4.1). This result was impacted by a number of streamlining projects during the quarter: At the Narva factory, HANZA has implemented the business system used in other parts of the Manufacturing Cluster, while additional staff have been brought on board in order to meet high demand. The investment is being made in order to enable flexibility within the Baltics Cluster. In addition, the China Cluster has incurred costs for the planning and coordination of new customer projects; also, streamlining efforts are underway in Central Europe in order to meet new volumes. Like similar project costs previously incurred during the ramping-up phase, the costs for the streamlining projects have not been separated out as non-recurring costs. The reason is partly that they are part of the business plan, and partly that they contain indirect costs that are not directly measurable. All actions taken within the segment are expected to lead to increased profitability in the future.

We recognize costs associated with special projects to develop the Group and that are not linked to HANZA's operational activities under the Business Development segment; such special projects include acquisitions, disposals, listing costs, the development of service products, etc. In Q2, EBITA for the Business Development segment amounted to SEK -2.0 million (-0.4), primarily comprising integration costs related to the acquiree HANZA Wermech and the development of internal control and corporate governance processes as the Group grows and adapts to the requirements of the Nasdaq OMX Stockholm, Small Cap, in anticipation of an eventual change of listing.

The gross margin amounted to 44.1 % (40.5). Other external charges amounted to SEK -60.1 million (-49.0), while costs of personnel amounted to SEK -127.4 million (-86.2). The increased cost structure is due to the acquisition of Wermech.

Net financial items during the quarter amounted to SEK -7.6 million (-4.9). Of this amount, net interest income/expenses amount to SEK -4.2 million (-3.0). Thanks to renegotiated interest on debt, net interest income/expenses remain unchanged in spite of increased net debt. Other increases in net financial items are mainly attributable to unrealised exchange rate differences upon translation of intra-group balances.

Profit before tax amounted to SEK 14.1 million (9.1). Profit after tax amounted to SEK 11.0 million (8.0). As a result of the decision to reduce the Swedish corporate tax rate starting in 2019, deferred tax assets and tax liabilities have been revalued, resulting in tax income of SEK 0.3 million. See also Note 7.

First six months
HANZA's net sales increased by 31.9 % to SEK 946.6 million (717.6). Adjusted to account for HANZA Wermech and a strengthening of foreign currencies, mainly the Euro, sales growth amounts to approximately 7%. However, last year's comparison figures include sales volumes that have been phased out, primarily attributable to the liquidated factory in Vaasa, Finland, meaning that underlying organic growth is higher.

EBITDA for the first six months amounted to SEK 69.1 million (44.8), which corresponds to an EBITDA margin of 7.3 % (6.2). Depreciation during the period amounted to SEK 29.0 million (22.4), of which depreciation of intangible assets amounted to SEK 3.2 million (0.1). The gross margin amounted to 44.9 % (41.6). The Group's EBITA amounted to SEK 43.3 million (22.5), while its operating profit amounted to SEK 40.1 million (22.4), which corresponds to an operating margin of 4.2 % (3.1).

The Nordics segment reports EBITA of SEK 35.3 million (10.9), which corresponds to an EBITA margin of 7.4 % (3.7). Net sales increased by 188.5 % to SEK 479.3 million (290.8).

The Rest of World segment is reporting EBITA of SEK 12.8 million (12.8) for the period, which corresponds to an EBITA margin of 2.7 % (3.0). The result is weighed on by the above-mentioned activities geared at streamlining operations ahead of continued volume increases.

Business development EBITA amounted to SEK -4.8 million (-1.2), primarily comprising costs for the acquisition and integration of the acquiree HANZA Wermech, and for the development of internal control and corporate governance processes.

Net financial items during the quarter amounted to SEK -15.3 million (-8.6). Of this amount, net interest income/expenses amount to SEK -7.3 million (-6.1). A strengthened Euro has led to unrealised exchange rate differences upon translation of intra-group balances, which negatively affects net financial items. During the first quarter, costs associated with bridge financing were also charged to net financial items in the amount of SEK 1.0 million.

Profit before tax amounted to SEK 24.8 million (13.8). Profit after tax amounted to SEK 19.8 million (11.3).

CASH FLOW AND INVESTMENTS

Cash flows from operating activities have trended positively in Q2, amounting to SEK 50.5 million (2.0). EBITDA for the first six months amounted to SEK 59.6 million (35.1). Tied-up working capital increased in the amount of SEK 23.0 million (-18.8) in Q2 and in the amount of SEK 5.3 million (1.2) in the first six months. Working capital is adversely affected by longer lead times on electronic components, as well as capital tied up in the new projects awarded to HANZA.

The aggregation of production units ("Cluster formation") will reduce the amount of capital tied up over time, also leading to lower investment needs.

Cash flows from investing activities in Q2 amounted to SEK -9.6 million (8.6), comprising investments in machinery and equipment in the amount of SEK 9.9 million (4.9), and disposals of fixed assets in the amount of SEK 0.3 million (13.5). In the first six months, net cash flow from investments in machinery amounts to SEK 21.9 million (11.9) while investments in subsidiaries amount to SEK -144.4 million (-).

Cash flow from loans amounted to SEK -22.6 million (-10.2) in Q2. For the first half of the year, cash flow amounted to SEK 50.7 million (-28.7), due to acquisition loans in the amount of SEK 88 million in connection with HANZA's acquisition of Wermech. The acquisition was also financed by a new share issue during the first quarter in the amount of SEK 56.0 million (-) after transaction costs.

FINANCIAL POSITION

Shareholders' equity at the end of the period amounted to SEK 402.6 million (298.0), whereas the equity ratio was 35.1 % (38.0). The balance sheet total amounted to SEK 1,146.5 million (783.7). Cash and cash equivalents amounted to SEK 58.0 million (42.2) at the end of the period. Net interest-bearing debt amounted to SEK 293.3 million (166.8) at the end of the period. The debt increase compared to 30 June 2017 is attributable to the acquisition of Wermland Mechanics AB during first quarter 2018. During second quarter 2018 the net debt decreased with the amount of SEK 35.8 million.

EMPLOYEES

During the quarter, the average number of employees in the Group was 1,491 (1,416). The number of employees at the end of the period is 1,632. At the start of the year the number was 1,373. Of the employees at the end of the period, 173 came with the acquisition of Wermech.

THE PARENT COMPANY

The parent company's net sales, which consists exclusively of income from Group companies, amounted to SEK 3.7 million (2.5) during the quarter. Profit before tax for the quarter amounted to SEK -0.1 million (-0.7). No investments have been affected in the parent company.

SHARES

At the beginning of the year, the number of shares outstanding was 22,324,008. As part of the financing of the acquisition of Wermech, during Q1 HANZA completed a new share issue, which resulted in the addition of 6,697,200 new shares and an increase in share capital by SEK 669,720. Following the new share issue, the number of shares in the Company amounts to 29,021,208. There is only one share class. Erik Penser Bank AB is the company's Certified Adviser, and also acts as the market maker.

The shares trade on the Nasdaq First North Premier. The Premier Segment places higher demands on listed entities regarding information and accounting than the standard First North rules do. Trading on the Premier Segment also means that the company operates according to a higher standard of transparency, in preparation for a possible move to the Nasdaq OMX Stockholm, Small Cap. The share price at the end of the period was SEK 14.60 (9.84). Since 2016, there has also been a warrants programme in place, under which warrant holders, after restatement for the preferential rights issue, are entitled to subscribe for 1.07 shares at SEK 11.14 from 1 November 2018 until 31 December 2018. The number of warrants amounts to 896,000.

MATERIAL RISKS AND UNCERTAINTIES

The risk factors that are most material to HANZA are the financial risks and changes in the market. For more information about risks and uncertainties, please refer to Note 3 in the company's 2017 annual report. There have been no material changes in the risks since the preparation of the 2017 annual report.

RELATED PARTY TRANSACTIONS

There have been no transactions between the HANZA Group and related parties during the quarter with a material effect on the Group's position or earnings.

The interim report gives a true and fair view of parent company and Group operations, as well as their position and earnings, and describes the material risks and uncertainties faced by the parent company and the companies forming part of the Group.

Stocksund, 20 August 2018

On behalf of the Board of directors

Erik Stenfors, CEO

This interim report has not been audited by the company's auditor.

FINANCIAL REPORTS

CONSOLIDATED REPORT ON COMPREHENSIVE INCOME

Amount in SEK millions	Note	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Net sales	**2, 4**	**508.0**	**367.6**	**946.6**	**717.6**	**1,399.7**
Change of inventories in production, finished goods and work in progress on behalf of others		-14.5	8.6	7.0	13.4	18.0
Raw materials and consumables		-269.4	-227.3	-528.7	-432.7	-825.0
Other external charges		-60.1	-49.0	-117.4	-95.5	-191.1
Costs of personnel		-127.4	-86.2	-239.3	-171.6	-339.2
Depreciation		-15.4	-10.8	-29.0	-22.4	-43.4
Other operating income	5	2.6	11.9	5.2	15.8	21.4
Other operating expenses	5	-2.1	-0.8	-4.3	-2.2	-4.7
Operating profit	**4**	**21.7**	**14.0**	**40.1**	**22.4**	**35.7**
Profit/loss from financial items						
Financial income		-	-	0.1	-	-
Financial expenses		-7.6	-4.9	-15.4	-8.6	-16.3
Financial items – net	**6**	**-7.6**	**-4.9**	**-15.3**	**-8.6**	**-16.3**
Profit/loss before tax		**14.1**	**9.1**	**24.8**	**13.8**	**19.4**
Income tax	7	-3.1	-1.1	-5.0	-2.5	-3.0
Profit/loss for the period		**11.0**	**8.0**	**19.8**	**11.3**	**16.4**
Other comprehensive income						
Items that can subsequently be reversed in profit or loss						
Exchange rate differences		2.8	4.0	16.7	3.9	10.0
Other comprehensive income for the period		**2.8**	**4.0**	**16.7**	**3.9**	**10.0**
Total comprehensive income for the period		**13.8**	**12.0**	**36.5**	**15.2**	**26.4**

Profit/loss for the period and total comprehensive income are in their entirety attributable to the parent company's shareholders

Earnings per share before dilution, SEK		0.38	0.33	0.74	0.48	0.69
Earnings per share after dilution, SEK		0.38	0.33	0.74	0.48	0.69
Weighted average number of shares before dilution		29,021,208	24,174,668	26,691,656	23,604,718	23,892,035
Adjustment upon calculation of earnings per share after dilution:						
Convertibles		-	-	-	526 319	260 996
Optioner		266 359	-	184 132	-	-
Weighted average number of shares after dilution		29,287,567	24,174,668	26 875 788	24 131 037	24 153 031

Based on the number of shares restated on the basis of the bonus issue element of the preferential rights issue during the quarter.

CONDENSED CONSOLIDATED BALANCE SHEET

Amount in SEK millions	Note	2018-06-30	2017-06-30	2017-12-31
ASSETS				
Fixed assets				
Intangible assets				
Goodwill		265.8	146.1	147.6
Other intangible assets		69.2	0.5	3.8
Intangible assets		**335.0**	**146.6**	**151.4**
Tangible fixed assets		**265.8**	**216.1**	**205.8**
Financial fixed assets				
Other long-term securities holdings		0.3	0.3	0.3
Deferred tax assets		11.5	16.2	16.7
Financial fixed assets		**11.8**	**16.5**	**17.0**
Total fixed assets		**612.6**	**379.2**	**374.2**
Current assets				
Inventories		308.6	266.4	270.2
Accounts receivable		132.5	62.3	49.4
Other receivables		23.0	23.7	13.5
Prepayments and accrued income		11.8	9.9	6.4
Cash and cash equivalents		58.0	42.2	56.1
Total current assets		**533.9**	**404.5**	**395.6**
TOTAL ASSETS		**1,146.5**	**783.7**	**769.8**

CONDENSED CONSOLIDATED BALANCE SHEET, cont'd

Amount in SEK millions	Note	2018-06-30	2017-06-30	2017-12-31
SHAREHOLDERS' EQUITY				
Shareholders' equity attributable to the parent company's shareholders		**402.6**	**298.0**	**309.3**
LIABILITIES				
Long-term liabilities				
Liabilities to credit institutions	3	225.9	93.3	87.3
Non-interest-bearing long-term liabilities		31.5	7.5	7.4
Total long-term liabilities		**257.4**	**100.8**	**94.7**
Current liabilities				
Overdraft facility	3	53.2	63.1	68.8
Liabilities to credit institutions	3	56.2	43.9	39.9
Other interest-bearing liabilities		16.0	8.7	2.1
Accounts payable		245.2	182.5	167.4
Other liabilities		31.3	36.8	44.4
Accrued expenses and deferred income		84.6	49.9	43.2
Total current liabilities		**486.5**	**384.9**	**365.8**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,146.5**	**783.7**	**769.8**
Shareholders' equity per share at the end of the period, SEK		13.87	12.32	12.79
Number of shares at the end of the period		29,021,208	24,174,668	24,174,668

Based on the number of shares restated on the basis of the bonus issue element of the preferential rights issue during the quarter.

CONDENSED CONSOLIDATED REPORT OF CHANGES IN SHAREHOLDERS' EQUITY

Amount in SEK millions	Note	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Opening balance		388.9	286.0	309.3	268.8	268.8
Profit/loss for the period		11.0	8.0	19.8	11.3	16.4
Other comprehensive income						
Exchange rate differences		2.8	4.0	16.7	3.9	10.0
Total comprehensive income		13.8	12.0	36.5	15.2	26.4
Effect of implementation of IFRS 15	2	-	-	0.8	-	-
Transactions with shareholders						
Warrants issue		-	-	-	-	0.1
New share issue		-	-	60.3	-	-
Issue costs		-0.1	-	-4.3	-0.1	-0.1
Conversion of convertible loan		-	-	-	14.1	14.1
Total contributions from and distributions to shareholders, recognized directly in equity		-0.1	-	56.0	14.0	14.1
Closing balance		402.6	298.0	402.6	298.0	309.3

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Amount in SEK millions	Note	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Cash flows from operating activities						
Profit/loss after financial items		14.1	9.1	24.8	13.8	19.4
Depreciation		15.4	10.8	29.0	22.4	43.4
Other non-cash items		1.2	-1.5	5.3	-3.1	-1.8
Paid income tax		-3.2	2.4	-4.8	0.8	0.8
Cash flows from operating activities prior to the change in working capital		**27.5**	**20.8**	**54.3**	**33.9**	**61.8**
Total change in working capital		**23.0**	**-18.8**	**5.3**	**1.2**	**10.2**
Cash flows from operating activities		**50.5**	**2.0**	**59.6**	**35.1**	**72.0**
Cash flows from investing activities						
Investments in subsidiaries	8	-	-	-144.4	-	-
Investments in fixed assets		-9.9	-4.9	-22.3	-8.0	-14.3
Disposals of tangible fixed assets		0.3	13.5	0.4	19.9	23.0
Cash flows from investing activities		**-9.6**	**8.6**	**-166.3**	**11.9**	**8.7**
Cash flows from financing activities						
New share issue		-0.1	-	56.0	-	-
Change in loans		-22.6	-10.2	50.7	-28.7	-48.1
Cash flows from financing activities		**-22.7**	**-10.2**	**106.7**	**-28.7**	**-48.1**
Reduction/increase in cash and cash equivalents		**18.2**	**0.4**	**0.0**	**18.3**	**32.6**
Cash and cash equivalents at the beginning of the period		39.8	42.2	56.1	24.1	24.1
Exchange differences in cash and cash equivalents		0.0	-0.4	1.9	-0.2	-0.6
Cash and cash equivalents at the end of the period		**58.0**	**42.2**	**58.0**	**42.2**	**56.1**

CONDENSED PARENT COMPANY INCOME STATEMENT

Amount in SEK millions	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Operating income	**3.7**	**2.5**	**7.3**	**4.4**	**8.6**
Operating expenses	**-4.2**	**-3.0**	**-7.8**	**-6.1**	**-12.7**
Operating profit	**-0.5**	**-0.5**	**-0.5**	**-1.7**	**-4.1**
Profit/loss from financial items					
Other interest income and similar income items	0.6	0.1	1.0	0.4	0.6
Interest charges and similar income items	-0.2	-0.3	-0.8	-0.9	-1.6
Total profit/loss from financial items	**0.4**	**-0.2**	**0.2**	**-0.5**	**-1.0**
Profit/loss after net financial items	**-0.1**	**-0.7**	**-0.3**	**-2.2**	**-5.1**
Appropriations	-	-	-	-	4.5
Profit/loss before tax	**-0.1**	**-0.7**	**-0.3**	**-2.2**	**-0.6**
Tax on profit for the period	-	-	-	-	0.2
Profit/loss for the period	**-0.1**	**-0.7**	**-0.3**	**-2.2**	**-0.4**

Other interest income and similar income items include interest income from Group companies in the amount of SEK 1.0 million (0.4).

There are no parent company items that are recognized in comprehensive income, for which reason total comprehensive income is consistent with the profit/loss for the period.

CONDENSED PARENT COMPANY BALANCE SHEET

Amount in SEK millions	Note	2018-06-30	2017-06-30	2017-12-31
ASSETS				
Fixed assets				
Financial fixed assets		**292.5**	**241.9**	**238.2**
Total fixed assets		**292.5**	**241.9**	**238.2**
Current assets				
Current receivables		2.0	1.1	5.6
Cash and cash equivalents		0.6	0.0	7.1
Total current assets		**2.6**	**1.1**	**12.7**
TOTAL ASSETS		**295.1**	**243.0**	**250.9**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity		**281.5**	**224.0**	**225.8**
Long-term liabilities		**8.4**	**2.8**	**8.6**
Current liabilities		**5.2**	**16.2**	**16.5**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**295.1**	**243.0**	**250.9**

NOTES

Note 1 General information

All amounts are reported in millions of SEK (SEK millions) unless otherwise stated. Information in brackets refers to the corresponding period of the preceding year. The interim information on pages 7 to 10 forms an integral part of this financial report.

Note 2 Basis for the preparation of reports and accounting principles

HANZA Holding AB (publ) applies IFRS (International Reporting Standards), as adopted by the European Union. This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The interim report for the parent company has been prepared in accordance with chapter 9 of the Swedish Annual Reports Act, and with RFR 2, Accounting for legal entities.

Aside from the changes described farther down in this note, the accounting principles are in accordance with the principles that were applied in the previous financial year. For more information on these, please refer to Note 2 of the company's 2017 annual report. This interim report should be read in conjunction with this annual report.

The introduction of IFRS 9 "Financial Instruments" has not affected the Group's incomes statement or balance sheet.

IFRS 15 "Revenue from Contracts with Customers" is being applied by the Group for the first time in 2018. Recognition of the vast majority of Group revenues remains unchanged, but in some cases where delivery is made to what is referred to as buffer stock, the revenues are now recognized earlier. Hanza has chosen prospective application, which means that the 2017 comparison year has not been recalculated. At the beginning of the year, there was buffer stock in the amount of SEK 9.4 million, with a realizable value of SEK 10.2 million. The difference, SEK 0.8 million, is reflected directly in the consolidated report of changes in shareholders' equity, as an "Effect of the implementation of IFRS 15". If the quarterly earnings were to be reported in accordance with previous accounting principles, consolidated net sales would have been SEK 4.5 million lower and the operating profit would have been SEK 0.6 million lower. See Note 4 for a description of consolidated revenue.

In 2018, HANZA has transited to cluster-based segment classification, which is described in Note 4.

Note 3 Financial instruments - Fair value of financial liabilities valued at amortized cost

The Group's borrowing consists of a large number of notes taken out at different times and with different maturities. Most of the loans carry a floating rate of interest. Against the background of the foregoing, the reported values may be deemed to provide a good approximation of fair values.

The fair value of short-term borrowing corresponds to its carrying amount, as the discount effect is not material.

Note 4 Revenue and segment information

Description of revenue from contracts with customers
HANZA's revenue is attributable primarily to the production of components, subsystems and finished composite products according to the customer specifications, but where HANZA has been involved in customising the manufacturing process. HANZA's performance obligations are deemed to have been met when the component or composite product is delivered to the customer. Exceptions from the foregoing are made in cases where there is an agreement with the customer regarding a buffer stock of finished components or products. In these cases the performance obligation is deemed to have been met at the time the component or product is placed in buffer stock, meaning that it is available to the customer.

The breakdown of external revenue by segment, which is in line with the Group's cluster-based organisation, is set out in the segment information section below. In addition, the recognition of external revenue is divided into the manufacturing technologies 'Mechanics' and 'Electronics' further below.

Description of segment reporting
As of 2018, HANZA applies cluster-based segment classification to replace the segment classification used through 2017, which was based on manufacturing technology. The new segment classification is thought to more faithfully reflect the business model, organisation and manner in which the Board and management currently monitor and evaluate the business. Operational reporting is broken down into the following segments:

- **Nordic** – Manufacturing clusters located in or near HANZA's primary geographical customer markets, which currently consist of Sweden, Finland and Norway.
  These clusters currently comprise Sweden and Finland. The operations in these areas are characterised by a high degree of automation and close collaboration with customer development departments.
- **Rest of the world** – Manufacturing clusters outside of HANZA's primary geographical customer areas, but close to key end-customer regions. These clusters currently consist of the Baltic States (near the Nordic countries), Central Europe (near Germany and others) and China (in China). The operations are characterised by heavy labour input, complex, extensive monitoring, and a focus on efficient logistics.
- **Business development** – Costs and revenues not allocated to the Manufacturing Clusters, which primarily consist of Group-wide functions within the parent company, as well as Group-wide adjustments not allocated to the other two segments

Sales between segments are made on market terms.

Revenues by segment

	Apr - Jun 2018			Apr - Jun 2017		
	Segment revenues	**Less sales between segments**	**Income from external customers**	**Segment revenues**	**Less sales between segments**	**Income from external customers**
Nordic	265.0	-2.9	262.1	149.0	-2.6	146.4
Rest of the world	257.5	-11.6	245.9	243.4	-22.3	221.1
Business development	-	-	0.0	0.1	-	0.1
Total	**522.5**	**-14.5**	**508.0**	**392.5**	**-24.9**	**367.6**

	Jan - Jun 2018			Jan - Jun 2017		
	Segment revenues	Less sales between segments	Income from external customers	Segment revenues	Less sales between segments	Income from external customers
Nordic	484.5	-5.2	479.3	300.6	-9.8	290.8
Rest of the world	495.8	-28.6	467.2	468.0	-41.7	426.3
Business development	0.1	-	0.1	0.5	-	0.5
Total	**980.4**	**-33.8**	**946.6**	**769.1**	**-51.5**	**717.6**

Operating profit by segment

Segment results are reconciled to profit/loss before tax as follows:

	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Operating profit					
Nordic	21.2	5.4	35.3	10.9	16.2
Rest of the world	4.4	9.1	12.8	12.8	23.9
Business development	-2.0	-0.4	-4.8	-1.2	-4.1
Total EBITA	**23.6**	**14.1**	**43.3**	**22.5**	**36.0**
Amortisation of intangible assets	-1.9	-0.1	-3.2	-0.1	-0.3
Operating profit	**21.7**	**14.0**	**40.1**	**22.4**	**35.7**
Financial items – net	-7.6	-4.9	-15.3	-8.6	-16.3
Profit/loss before tax	**14.1**	**9.1**	**24.8**	**13.8**	**19.4**
Non-recurring items					
Transaction costs	-	-	-0.3	-	-1.4
Restructuring	-	1.3	-	-2.9	-5.2
Real estate capital gains	-	2.4	-	2.4	2.4
Total	**-**	**3.7**	**-0.3**	**-0.5**	**-4.2**
EBITA per segment excluding non-recurring items					
Nordic	21.2	2.4	35.3	10.1	17.7
Rest of the world	4.4	7.5	12.8	12.9	24.0
Total	**25.6**	**9.9**	**48.1**	**23.0**	**41.7**
Business development	-2.0	0.5	-4.5	0.0	-1.5
Total	**23.6**	**10.4**	**43.6**	**23.0**	**40.2**
Non-recurring items	-	3.7	-0.3	-0.5	-4.2
EBITA	**23.6**	**14.1**	**43.3**	**22.5**	**36.0**

In Q2 2017, the non-recurring item for restructuring for the segment Rest of the world, was impacted positively by a debt write-down of SEK 7.3 million. (See also Note 5 below.)

Revenue from external customers by manufacturing technology

	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Mechanics	361.2	238.2	665.3	461.0	900.7
Electronics	146.8	129.3	281.2	256.1	498.0
Business development	-	0.1	0.1	0.5	1.0
Total	**508.0**	**367.6**	**946.6**	**717.6**	**1,399.7**

Note 5 Other operating income and operating expenses

Other operating income	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Profit on disposal of fixed assets	0.3	3.9	0.3	6.5	8.1
Exchange gains	1.4	0.4	3.7	1.4	4.5
Debt write-down	-	7.3	-	7.3	7.3
Other items	0.9	0.3	1.2	0.6	1.5
Total other operating income	**2.6**	**11.9**	**5.2**	**15.8**	**21.4**
Other operating expenses					
Loss on disposal of fixed assets	-	-0.6	-	-1.0	-1.1
Exchange losses	-1.9	-0.1	-4.1	-1.0	-3.3
Other items	-0.2	-0.1	-0.2	-0.2	-0.3
Total other operating expenses	**-2.1**	**-0.8**	**-4.3**	**-2.2**	**-4.7**

Note 6 Financial income and expenses – Net financial items

Financial income	Apr - Jun 2018	Apr - Jun 2017	Jan - Jun 2018	Jan - Jun 2017	Jan - Dec 2017
Interest income	-	-	0.1	-	-
Net exchange gains and losses	-	-	-	-	-
Total financial income	**-**	**-**	**0.1**	**-**	**-**
Financial expenses					
Interest expenses	-4.2	-3.0	-7.4	-6.1	-11.2
Net exchange gains and losses	-2.3	-0.9	-5.8	-0.6	-1.6
Other financial expenses	-1.1	-1.0	-2.2	-1.9	-3.5
Total financial expenses	**-7.6**	**-4.9**	**-15.4**	**-8.6**	**-16.3**
Total financial items - net	**-7.6**	**-4.9**	**-15.3**	**-8.6**	**-16.3**

Note 7 Income tax

The effective tax rate for the quarter is 22 percent (12) and for the first six months 20 percent (18). An important part of the Group's operations derives from Estonia, where profits are only taxed upon distribution of dividends. The Estonian tax rate has therefore been set at 0 percent for purposes of the calculation. The effective tax rate therefore varies according to the proportion of pre-tax profits stemming from Estonia.

The tax expense during the quarter was reduced by SEK 0.3 million due to the restatement of deferred tax assets and liabilities in Sweden. Receivables and liabilities that are expected to be utilised and paid, respectively, starting in 2019 have been restated due to a decision to gradually reduce corporate income taxes as from that time.

Note 8 Acquisitions of subsidiaries

On 1 February 2018, Hanza Holding acquired all shares in Wermland Mechanics Group AB (Wermech). The company owns the subsidiary Wermland Mechanics Töcksfors AB, which manufactures custom-made sheet-metal components at plants in Töcksfors and Svanskog in Värmland. In 2017, Wermech posted preliminary sales of approximately SEK 366 million, with an operating profit of SEK 27 million.

The total purchase price is capped at SEK 167.5 million, consisting of a fixed component in the amount of SEK 145.0 million that was paid upon entry into possession, and a variable supplementary purchase price of no more than SEK 22.5 million, payable during the first quarter of 2019. The expected supplementary purchase price has been estimated at SEK 16.5 million in the acquisition analysis, which was discounted to SEK 15.8 million. In the acquisition, an intangible asset in the form of customer relations was identified in the amount of SEK 66.0 million. The Customer relations will be amortized on a straight-line basis over 10 years. In addition, goodwill in the amount of SEK 113.3 million is reported in the acquisition. The acquisition analysis is still preliminary.

Purchase price, SEK million	
Cash and cash equivalents paid upon entry into possession	145.0
Conditional supplementary purchase price due during Q1 2019	15.8
Total estimated purchase price	**160.8**
Reported amounts of identifiable acquired assets and assumed liabilities	
Cash and cash equivalents	0.6
Intangible fixed assets	66.0
Tangible fixed assets	54.3
Inventories	29.1
Accounts receivable and other receivables	62.8
Deferred tax liability	-25.2
Borrowings	-76.3
Accounts payable and other liabilities	-63.8
Total identified net assets	**47.5**
Goodwill	113.3
Total net assets transferred	**160.8**

HANZA's business model aims to coordinate factories with various manufacturing technologies into what are referred to as Manufacturing Clusters within certain geographical areas. Following an acquisition, production is reallocated in order to optimise the manufacturing process, material logistics and cost-effectiveness from the Manufacturing Cluster's perspective. In addition, administration, IT, marketing, sales etc. are also coordinated within the respective Manufacturing Cluster in order to make a positive impact on the acquired company's profitability.

This integration, which commences immediately after the acquisition, impacts individual factories' financial reports, for which reason an acquired company's reports following an acquisition are no longer comparable to the situation that would have prevailed if the company had remained independent. Wermech forms part of the HANZA Group as from 1 February 2018. In January 2018, the company posted sales of SEK 33.4 million and an operating profit of SEK 2.4 million. Reported external sales to HANZA's customers from the acquiree Wermech in Q2 amount to SEK 109.5 million, with a reported operating profit of SEK 10.2 million. As of the acquisition date, Wermech is reporting external sales of SEK 180.3 million, with a reported operating profit of SEK 16.1 million.

KEY RATIOS

	Apr - Jun 2018	**Apr - Jun 2017**	**Jan - Jun 2018**	**Jan - Jun 2017**	**Jan - Dec 2017**
Net sales, SEK millions	508.0	367.6	946.6	717.6	1,399.7
EBITDA margin, %	7.3%	6.7%	7.3%	6.2%	5.7%
Operating margin, %	4.3%	3.8%	4.2%	3.1%	2.6%
Operational segments EBITA, SEK millions	25.6	14.5	48.1	23.7	40.1
Operational EBITA margin, %	5.0 %	3.9%	5.1%	3.3%	2.9%
Operating capital, SEK millions	695.9	464.8	695.9	464.8	451.3
Return on operating capital, %	3.6%	3.1%	8.4%	4.9%	8.4%
Capital turnover on operating capital, times	0.7	0.8	3.3	3.0	3.0
Net interest-bearing debt, SEK millions	293.3	166.8	293.3	166.8	142.0
Net debt/equity ratio, times	0.7	0.6	0.7	0.6	0.5
Equity ratio, %	35.1%	38.0%	35.1%	38.0%	40.2%
Average number of employees	1,491	1,416	1,450	1,370	1,305

FORTHCOMING DISCLOSURES

- The interim report for the period January-September 2018 will be presented on 12 November 2018

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DEFINITIONS

The Group is the entity being referred to in this interim report except as otherwise stated. Figures in brackets indicate outcomes for the corresponding period in 2017.

Business development costs include costs incurred to develop the Group which are not related to the operating activities, such as acquisitions, disposals, listing costs, cost of developing service offers etc.

EBITDA refers to earnings before interest, taxes, depreciation and amortization of tangible and intangible items

EBITDA margin is EBITDA divided by net sales

EBITA refers to earnings before interest, taxe and amortization of intangible items

EBIT refers to earnings before interest and taxes

Capital turnover on average operating capital, times, refers to net sales divided by average operating capital

Operational segments EBITA (operational EBITA) is EBITA before business development costs

Operating profit from operational segments (operating EBIT) is operating profit before business development costs

Operational EBITA margin refers to operational segments EBITA divided by net sales

Operating capital is the balance sheet total less cash and cash equivalents, financial assets and non-interest-bearing liabilities

Net debt/equity ratio is net interest-bearing debt divided by shareholders' equity

Return on operating capital is operating EBITA divided by average operating capital

Net interest-bearing debt is interest-bearing liabilities less cash in hand and similar assets and short-term investments

Operating margin (EBIT margin) is operating profit divided by net sales

Equity ratio is shareholders' equity divided by the balance sheet total

ABOUT HANZA

HANZA modernizes and streamlines the manufacturing industry. By bringing together various manufacturing technologies at the local level, the company creates shorter lead times, more environmentally-friendly processes and increased profitability on behalf of its customers. HANZA was founded in 2008 and has rapidly grown into a company with a market capitalization running into the billions of SEK with operations in Sweden, Finland, Estonia, Poland, Czech Republic and China. HANZA's customers include leading companies such as ABB, Atlas Copco, Getinge, Saab Defence and Siemens.
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