engcon

CHANGE THE WORLD OF DIGGING

Annual and Sustainability Report 2022

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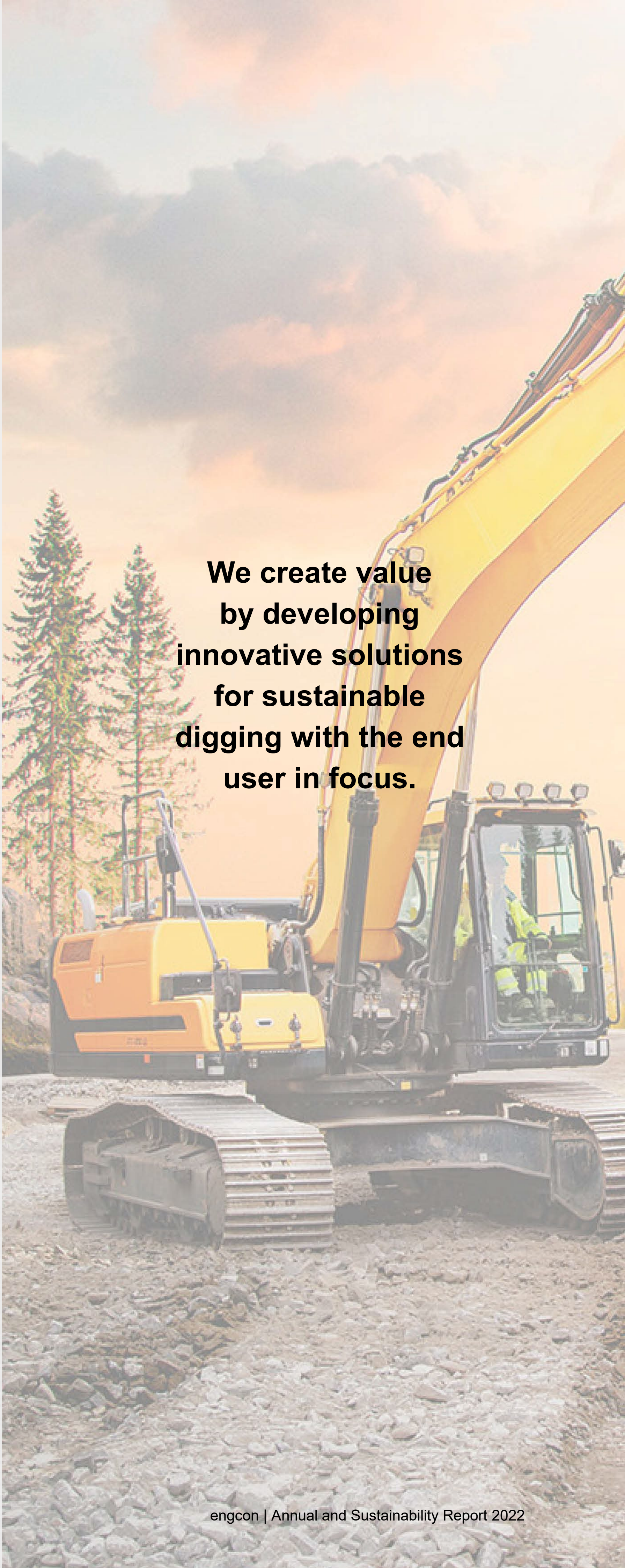
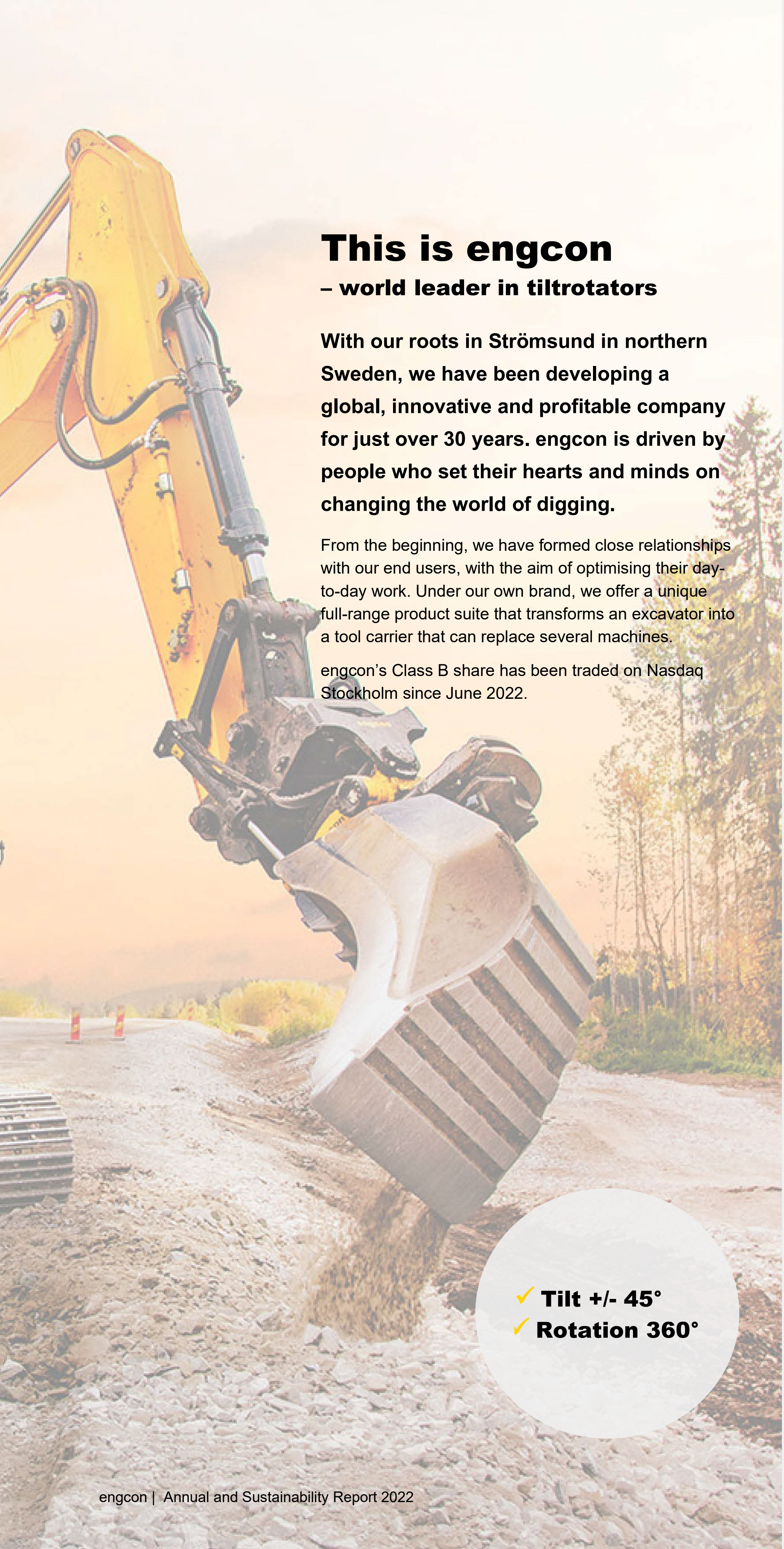
About this report

The formal Annual Report comprises pages 32–104. Financial data pertains to continuing operations unless otherwise stated. The statutory sustainability report comprises pages 10, 20–29 and 110–125.

Market information source: Market study, Strategy& (PwC) 2022 ahead of the IPO.



We create value by developing innovative solutions for sustainable digging with the end user in focus.



This is engcon

– world leader in tiltrotators

With our roots in Strömsund in northern Sweden, we have been developing a global, innovative and profitable company for just over 30 years. engcon is driven by people who set their hearts and minds on changing the world of digging.

From the beginning, we have formed close relationships with our end users, with the aim of optimising their day-to-day work. Under our own brand, we offer a unique full-range product suite that transforms an excavator into a tool carrier that can replace several machines.

engcon's Class B share has been traded on Nasdaq Stockholm since June 2022.

✓ **Tilt +/- 45°**
✓ **Rotation 360°**

Global coverage
Active in 16 markets through own local sales companies and a network of dealers.

Strong position in a growing market
An approximately 45 per cent share of a global market that is expected to grow by 19 per cent per year until 2026.

Sustainable solution
Resource-efficient and safer digging with a lower climate impact.

Scalable manufacturing
Assembly and production in Sweden and Poland.

Committed employees
400+ employees around the world.

We are changing the world of digging.

With innovative solutions for sustainable digging, we are taking important steps towards our vision – to change the world of digging. Our mission is to be the leading, independent manufacturer of advanced attachments for excavators around the world.

How

We develop innovative products and solutions that are based on end-customer needs.

Profitability
Resource and time-efficient digging

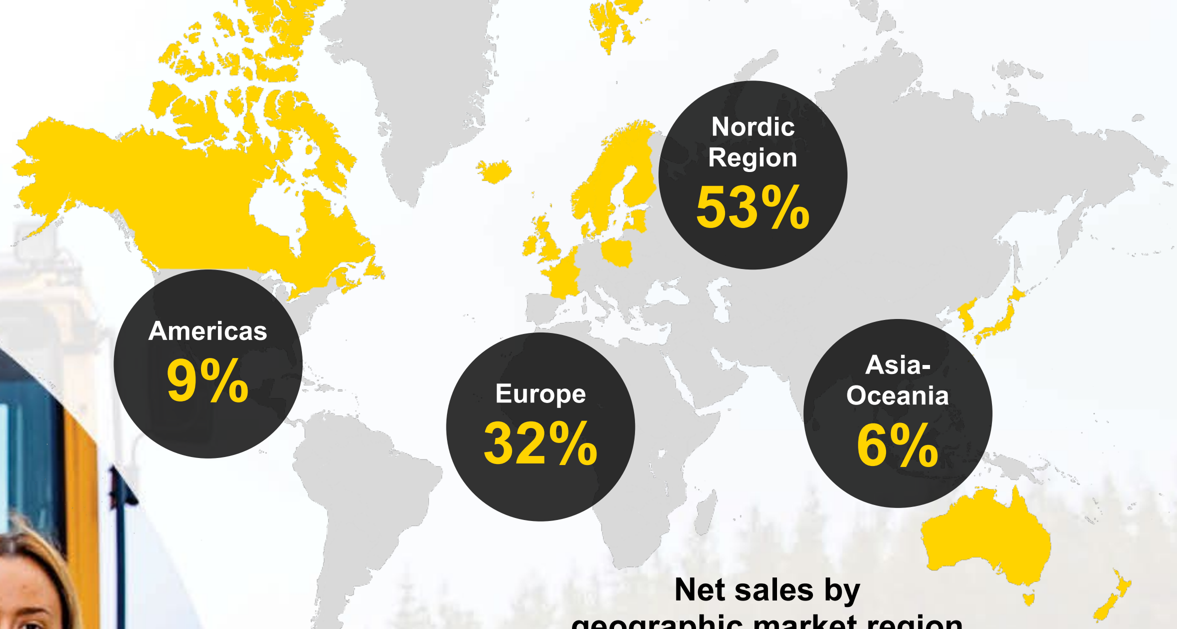
Flexibility
Machinery fitted with tools can perform multiple tasks.

Climate and environment
Lower energy requirements and environmental impact.

Safety
Technology creates a safer way of working.

For who

Our tiltrotator solutions are developed, manufactured and subsequently fitted on new or existing excavators. Dealers serve as a link between excavator manufacturers, tiltrotator manufacturers and end-customers. End customers are companies and private individuals who own excavators, contractors and excavator rental companies. When developing our products, the starting point is always the needs of end customers.



Net sales by geographic market region

Where

engcon conducts sales in 16 countries within four geographical market regions: the Nordic region, the Rest of Europe, the Americas and Asia-Oceania. We address the market through 13 local sales companies and a global network of dealers. The Nordic region is our largest and most mature market. In other markets, the penetration rate for tiltrotators is lower. Production takes place in Strömsund, Sweden and Niepruszewo, Poland.

What

Our unique tiltrotator system turns excavators into tool carriers

Tiltrotators

The flexible wrist of excavators: 360° rotation and +/- 45° tilt.

Tools

Hydraulic and mechanical tools for all types of work.

Quick couplers

Automatic quick couplers for safe and flexible retooling.

Control and safety systems

Control systems to meet the need for digitised, automated and simplified digging.

The year in brief

The year's operating profit improved, supported by a strong order book and gross margin. All geographic regions contributed positively to net sales. The trend in 2022 demonstrated continued profitable and capital-efficient growth for engcon.

+24%

Organic net sales growth

+43%

Gross margin

56%

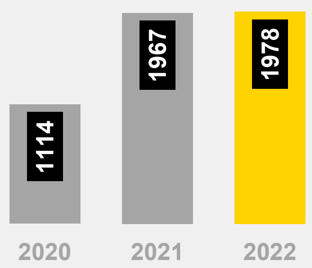
Return on capital employed

Key performance indicators

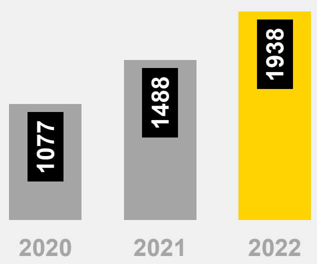
SEK million	2022	2021	2020
Order intake, SEK million	1,978	1,967	1,114
Net sales, SEK million	1,938	1,488	1,077
Gross profit, SEK million	833	626	459
Gross margin, %	43.0	42.1	42.6
Operating profit, SEK million	415	325	215
Operating margin, %	21.4	21.8	20.0
Profit/loss for the period from continuing operations, SEK million	325	269	172
Earnings per share, before and after dilution, SEK	2.01	1.64	1.06
Return on capital employed, %	56.4	47.8	35.4
Equity/assets ratio, %	42.2	60.5	60.6
Average number of full-time employees	425	327	315

All earnings measures pertain to continuing operations unless otherwise stated. For more information, see the financial definitions and alternative performance measures section on page 81.

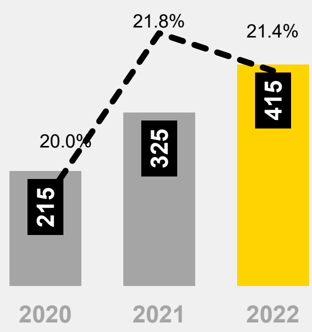
Order intake, SEK million



Net sales, SEK million



Operating profit, SEK million, %



Highlights 2022

Entry to Nasdaq Stockholm

On 17 June, engcon rang the bell and trading in the company's Class B share commenced at Nasdaq Stockholm. Interest in the listing was considerable from both institutional investors and private individuals, thereby broadening engcon's ownership base. The listing was an important milestone in terms of both facilitating a future generational shift for the largest family owners and ensuring engcon's continued growth and viability.

Third generation tiltrotator

Our third product generation was launched in May. To meet future requirements, the new tiltrotator system is taking important steps forward in the sustainability field, applying smart technology to reduce energy consumption, and is adapted for the electrification of excavators. The new tiltrotator system was presented at exhibitions during the year and production is commencing in 2023.

Local sales company in Norway

Following a long period of representation in the market via a local distributor, the contract was terminated and planning commenced for the start up of a sales company owned by engcon. engcon Norway AS was launched in January 2023. We believe there are favourable growth opportunities in the Norwegian market and local operations are establishing valuable relationships with end customers while accumulating local market know-how.

Expanded product range

A number of product improvements were launched during the year, further broadening our offering. In March, the EC Oil quick coupler system for the lower locking system of excavators in the 4–6 tonne range and a lightweight pallet fork for excavators in the 2–6 tonne range were launched. A newly developed compactor plate for excavators in the 12–26 tonne range was presented to the market in April.

Bauma – one of the world's largest exhibitions

On 24–30 October, engcon participated at Bauma in Munich, Germany, one of the world's largest and most visited exhibitions for the construction and civil engineering industry. engcon's focus was to present the third generation tiltrotator system, and interest from visitors was considerable.

CEO's comments

I look back on 2022 with pride. The listing on Nasdaq Stockholm marked a new chapter in our history. Despite uncertainty and challenges, we have exceeded all of our financial targets. Our journey to change the world of digging has only just begun.

Strong order book in a challenging business environment

2022 was far from a normal year. Our performance demonstrated that we succeeded in adapting our operations to meet changed and unpredictable market conditions. The year began with a significant price increase to compensate for rising supplier prices. Lockdowns caused by the pandemic led to component shortages with longer production lead times, and uncertainty increased in the wake of the outbreak of war in Ukraine. On account of price increases and longer delivery times, we noted a distinct pre-ordering and bunkering behavioural pattern among our customers, primarily in the Nordic region. The share of orders brought forward was already significantly greater in the fourth quarter of 2021, and this continued during the first quarter of 2022. This resulted in a considerably larger order book in terms of volume than what is typical which, coupled with supply chain disruptions, put a strain on our production capacity. To further compensate for inflation and energy surcharges, we implemented an additional price increase in April.

Prerequisites for long-term growth

The market for tiltrotators is an attractive and growing niche. Growth is driven by the long-term transformation of the construction and civil engineering industry towards more resource-efficient and sustainable digging globally. Demand was healthy in all of our markets during the year. The proportion of tiltrotator-equipped excavators is low outside of the Nordic region, and we see that there is considerable interest in resource-efficient digging using our tiltrotator solutions. We also noted an important break in the trend in 2022, with growth markets outside the Nordic region for the first time accounting for higher order intake than the Nordic region. This shows that our initiative to increase our presence in these markets is yielding results and is reducing our dependence on the cyclical excavator sales in mature markets. Pre-ordering and bunkering effects at the end of 2021 and the start of 2022, together with increased economic uncertainty, inflation and interest rates led to an expected downturn in Nordic and European markets compared with the exceptional comparative figures of the preceding year. However, from a more long-term perspective we can confirm that the order intake nonetheless remained high. We are also seeing a positive trend in which an increasing number of customers in our growth markets are electing to purchase engcon's complete system comprising tiltrotator, fully hydraulic couplers and various tools to transform excavators into flexible tool carriers.

Gradual improvements in supply

In the third and fourth quarters, the rate of production improved thanks to stellar initiatives from our purchasing department and higher production capacity. Aside from the quicker pace of deliveries, our production also enabled us to deliver stock orders to our geographically remote markets for which we have had limited delivery capacity during the year.

Stable margins and capital-efficient growth

Faced with challenges conditions, we have delivered stable earnings and profitability performance. We view the strong gross margin as proof that our price increases have offset cost increases and energy surcharges in the supply chain. Supported by a strong order book, operating profit improved despite costs for the IPO, the change of business system, and the build up of local sales organisations in our growth markets. At the same time, our expansion is continuing with ongoing investments in the sales force, increased production capacity and the development of the third generation tiltrotator. Overall, the performance for the year demonstrates profitable and capital-efficient growth, and we are proud that we surpassed all of our financial targets that we set in conjunction with the listing.

Innovation through end customers and partners

Our objective is to lead the industry's technical development in close collaboration with our end customers and partners. Many of us breathed a sigh of relief when the pandemic's restrictions were eased. Customer activities and collaboration with excavator manufacturers provide us with important insights for our innovation efforts moving forward. To increase the number of excavators that are ready to be fitted with engcon's tiltrotator when they leave the factory, we continued to develop our partnerships with such companies as Volvo, Doosan and John Deere during the year. By being attentive and inquisitive, and by maintaining a local presence, we gain an understanding of our end customers' current and future needs. In so doing, we strengthen our position and ensure that our solutions are future-proof, in demand and in step with the echnological development of excavators.

Sustainable product development

We want to contribute to and drive the industry's transition to more sustainable and resource-efficient digging. Sustainability forms the foundation of our business since a tiltrotator-equipped excavator provides numerous benefits such as resource efficiency, the need for fewer machines, increased safety and a reduced climate impact.

"We are convinced that innovation is driving sustainable profitable growth, and we have proven this."

The third generation tiltrotator was launched in May and has been presented at exhibitions during the year. To meet future requirements, the new tiltrotator system is taking important steps forward in the field of sustainability. Digging is becoming smarter, more flexible and more efficient. Smart technology reduces energy consumption – something that is increasingly important with the electrification of excavators. The entire construction and civil engineering industry is undergoing change and engcon is part of this journey.

Important climate initiatives

During the year, we stepped up our sustainability ambition by joining the Science Based Targets initiative (SBTi). As a result, we have a target of reducing our absolute direct and indirect carbon dioxide emissions by 42 per cent by 2030 and reducing other indirect emissions from the supply chain. At our factory in Strömsund, we have made preparations for the installation of district heating and are thus able to phase out oil as an energy source. We are also planning to install solar cells at our production facility in Poland and reduce energy consumption by 10 per cent, thereby reducing our future dependence on coal and gas. Our ambition is also to, in close dialogue with our suppliers, identify areas and activities that reduce their climate emissions. I am very proud of our contribution to the global transition.

Nothing is impossible

One of our strengths is our committed employees. During the year, we have demonstrated that we are adept at handling challenges and that we are always prepared to go the extra mile. Many of our employees have made fantastic contributions, particularly during the pandemic. The strong dedication of our employees also resulted in a successful IPO. I am incredibly proud of leading this fantastic team and would like to take this opportunity to extend my sincere thanks to all of our employees. We dare to think innovatively and I am convinced that together, we can continue to push the boundaries of what is possible, support our customers with innovative solutions and contribute to the transition towards sustainable digging. This is how we are creating long-term value and are changing the world of digging together.

Krister Blomgren

President and CEO

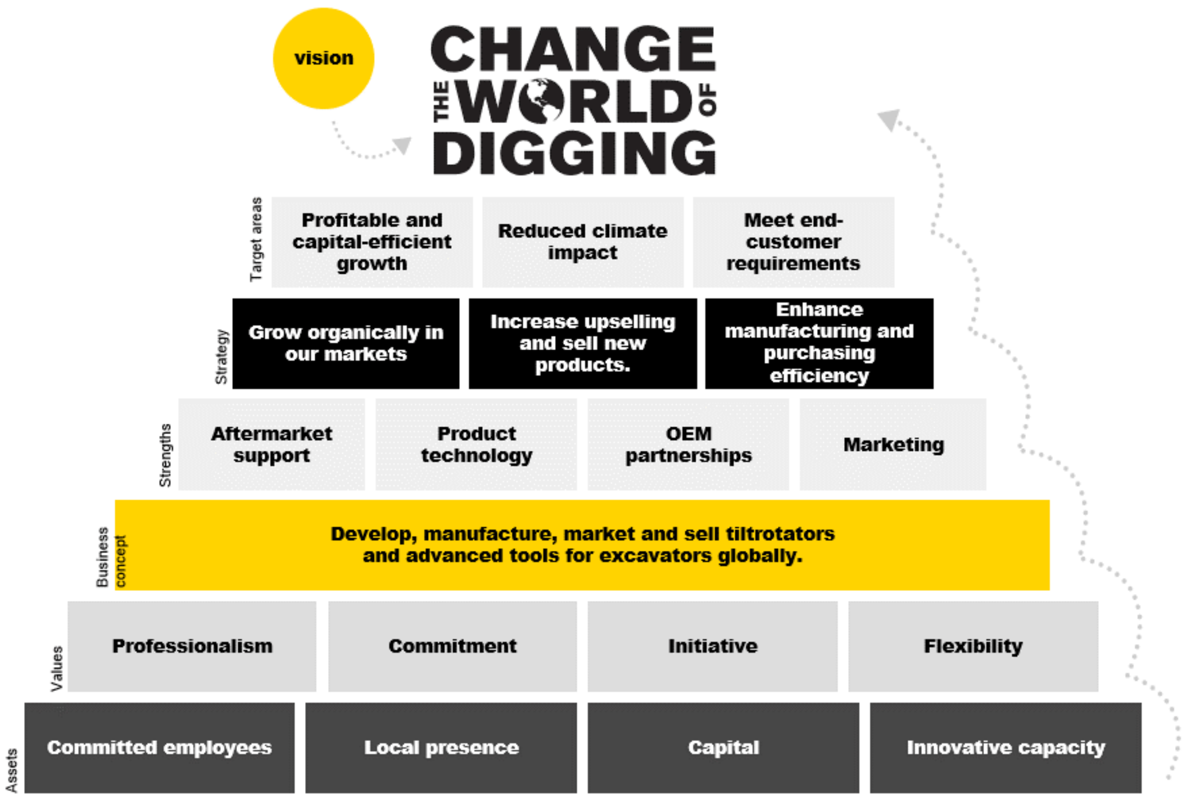
Focus for 2023

- Continue to build the team – people and culture are crucial for our future.
- Drive the transition towards more sustainable digging and reduce our climate impact.
- Invest in the future; the sales organisation, expanded production in Poland and continue to develop the third generation tiltrotator.

Value-creating business model

As a global supplier of tiltrotator solutions, engcon strives to create long-term value for our end customers, shareholders and society at large. We want to contribute to and drive the industry's transition to more sustainable and resource-efficient digging.

How we create sustainable values



Added value for our stakeholders

Our business model contributes to creating added value for all key stakeholders. engcon's ambition is to strengthen its position as an industry-leading innovator of tiltrotators with a clear and integrated sustainability perspective throughout the value chain and product offering. Our ability to develop solutions that meet the needs of end customers is critical both to maintain and to strengthen our position.

Our growth strategy involves continual product development, efficiency improvement and increasing sales across our various markets. We invest in technology and strategic partnerships and we are developing strong local relationships with our customers and partners. Our financial targets and climate targets are contributing to more sustainable digging and value creation over time.

Our targets and outcomes

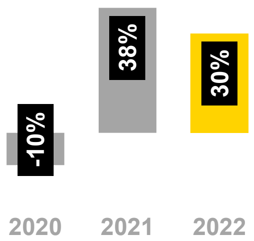
engcon manages and continually monitors the Group's performance based on strategic overriding targets adopted by the Board in 2022. A strong financial position and sustainable operations create scope and the basis for long-term sustainable growth.

Financial targets

Growth
Net sales growth

Target >19%
Outcome 24%

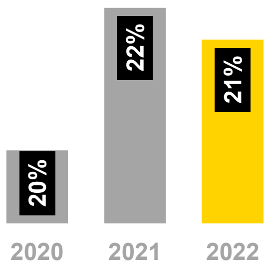
engcon will exceed the growth in the company´s existing markets through organic growth. (Annual market growth is forecast to be approximately 19 per cent during 2021-2026 period.)



Profitability
Operating margin

Target >20%
Outcome 21%

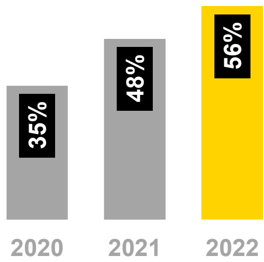
engcon will have an operating margin (EBIT margin) in excess of 20 per cent, measured over a business cycle.



Capital efficiency
Return on capital employed

Target >40%
Outcome 56%

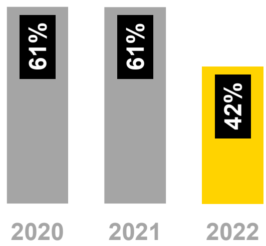
engcon will continue to achieve an industry-leading capital efficiency. Return on capital employed (ROCE to exceed 40 per cent, measured over a business cycle.



Capital structure
Equity/assets ratio

Target >35%
Outcome 42%'

engcon will maintain a strong capital structure supporting further expansive organic growth and dividends to shareholders. Equity to assets ratio to be above 35 per cent.

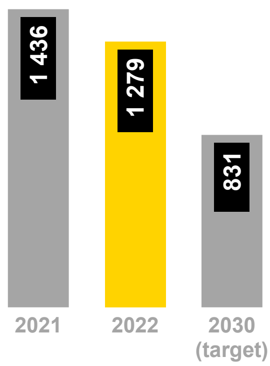


Sustainability targets

Combat climate change
Reduced Scope 1 and Scope 2 CO_2 emissions

Target -42% (2030)
Outcome -11%

engcon is committed to reducing its absolute Scope 1 and 2 greenhouse gas (GHG) emissions by 42 per cent by 2030 from the base year of 2021, and measuring and reducing Scope 3 emissions. Climate targets are approved by the Science Based Targets initiative (SBTi). Read more on pages 26–27.



Trends and driving forces

There is a long-term and global need for more resource-efficient digging, which places new requirements on the entire construction and civil engineering industry. By being at the forefront and developing the solutions of the future, we strive to be industry-defining and transform trends into business opportunities.

Demographic shifts

Urbanisation and lack of labour

Why

The global population is continuing to rise. At the same time, urbanisation is driving a trend toward densification of megacities. Demand for housing, offices, public buildings and infrastructure is growing, as is the need for maintenance work. Urban environments also increase requirements for more flexible excavators that are easier to operate and can be used for different types of tasks. Large parts of the western world are also experiencing a labour shortage in the construction and civil engineering sector.

How

engcon's innovative tiltrotator solutions adapted to the needs of end customers increase the flexibility of excavators in urban environments. The tiltrotator facilitates digging in confined spaces and reduces the need to move the excavator. The machine also becomes a tool carrier that is able to perform several types of tasks and replaces an average of 2.2 other construction machines, leading to more resource-efficient digging. Labour requirements are reduced through the use of technologically smart solutions that improve digging efficiency.

Sustainability

Climate impact and safety

Why

Greater awareness of our global climate challenges is leading to an overall increased focus on sustainable and resource-efficient solutions to achieve established goals. Authorities and organisations are tightening requirements, regulations and standards. Sustainability also encompasses safe workplaces. The risk of accidents during digging work is mainly associated with the excavator operator entering or exiting the cabin and falling tools in conjunction with manual groundwork near the excavator. Construction and civil engineering companies are increasingly requiring contractors to equip excavators with tiltrotators, quick couplers and warning systems with the aim of preventing and minimising accidents.

How

Our tiltrotator system reduces the climate and environmental impact and enhances workplace safety. Excavator productivity increases an average of 25 per cent and up to 6,000 litres of diesel are saved each year, corresponding to about 16,200 kg of carbon dioxide emissions each year. In a machine's seven-year lifecycle, the total carbon dioxide emissions reduction is approximately 113,000 kg. An excavator equipped with a tiltrotator can replace other construction machines, resulting in additional climate benefits. Retooling can be carried out directly from the cabin with a quick coupler connected to the tiltrotator, reducing the risk of injury for the operator who does not need to leave the cabin. engcon's Q-safe safety system counteracts the risk of falling tools, thereby also reducing the risk of accidents.

Excavator's evolution

Digitisation, electrification and versatility

Why

Historically, construction machines have been a step behind the forest industry and heavy vehicles in terms of technological development. Investments in technological development have increased in recent years. Digitally connected positioning and machine control systems are required to efficiently and precisely determine area, depth and angles for digging and to complete certain semi- and fully automated tasks. Electrification also optimises the machine's energy consumption. At the same time, the need to transform the excavator into a more versatile machine and tool carrier for various fields of application is increasing.

How

A broad and innovative product offering with integrated system solutions ensures that engcon is well positioned for the transformation of the industry. Smart technology reduces the third generation tiltrotator system's fuel consumption, which is also designed for electric excavators. The control system with load-sensing hydraulics does not put any unnecessary strain on the machine while the operator can get more working hours from one battery recharge or full fuel tank while comfort and safety are increased. Hydraulic quick couplers allow the excavator to perform multiple types of work. A pallet fork can replace the need for forklifts and an integrated hydraulic coupler is equipped with a grab for demolition and forestry work, while sweeper rollers can be attached for cleaning. Read more about the third generation tiltrotator system on page 25.

Market overview

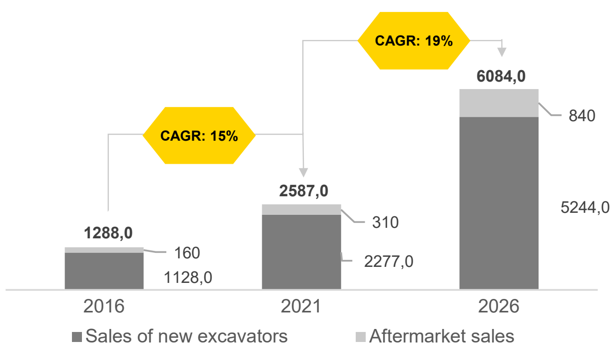
The market for tiltrotators is an attractive and growing niche. The proportion of excavators fitted with tiltrotators is low outside of the Nordic region. As an industry leader, we have a solid basis to further strengthen our position.

engcon is the leading manufacturer of tiltrotators with a global market share of approximately 45 per cent. Tiltrotators is an attractive and rapidly growing niche within the broader market for excavator tools, which is closely linked to the market for excavators. Our product offering is aimed at newly manufactured excavators and existing machines that are currently not fitted with a tiltrotator in the 2–33 tonne range.

An evolving and growing market

To be able to meet future needs for more resource-efficient and sustainable digging, a structural transformation of the global excavator and attachment market is under way. engcon's products and solutions are developed to meet the needs and demands imposed, and the drivers for strong market growth are considered favourable. A tiltrotator increases digging efficiency and broadens the excavator's areas of use, at the same time as the trend is moving towards the machine being transformed into a flexible tool carrier. At the same time, greater requirements are being placed on digitisation, connectivity and electrification. In Sweden, tiltrotators are standard and the penetration rate is approximately 92 per cent. From a global perspective, the market for tiltrotators is still in its infancy with a penetration rate of approximately 2 per cent.

Development of the tiltrotator market, SEK million



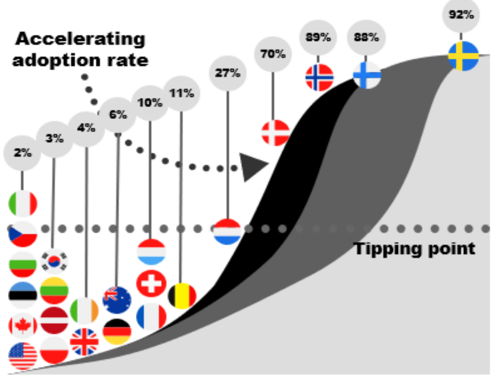
Newly manufactured excavators account for the largest share of tiltrotator sales, but sales are also conducted in the second-hand excavator market. The Strategy& market study estimates the average annual growth rate for tiltrotators in engcon's existing market at approximately 19 per cent until 2026. For the same period, Europe – excluding the Nordic region – is forecast to grow by approximately 25 per cent, the Americas by approximately 37 per cent and Asia-Oceania by approximately 30 per cent.

Market phases and "tipping point"

The penetration rate is closely connected to the maturity phase of the market and can be divided into three phases: development phase, acceleration phase and mature market. In the development phase, the penetration rate increases from zero to 20–25 per cent. Customers and end users are eager to be first with the latest technology and demand innovative, cutting-edge products. In the acceleration phase, the penetration rate has passed 20–25 per cent and risen to approximately 60 per cent.

The tipping point between the development phase and the acceleration phase is where the tiltrotator takes the step to becoming an established market standard. Authorities and clients, such as major construction and civil engineering companies, places requirements on excavators to be equipped with a tiltrotator for efficiency and safety reasons. Once the tipping point has been reached, the sales of tiltrotators to both new excavators and the aftermarket tends to gain momentum. Mature market has been achieved in the Nordic countries, while the Netherlands has recently passed the tipping point.

Penetration rate per country



A small number of major operators

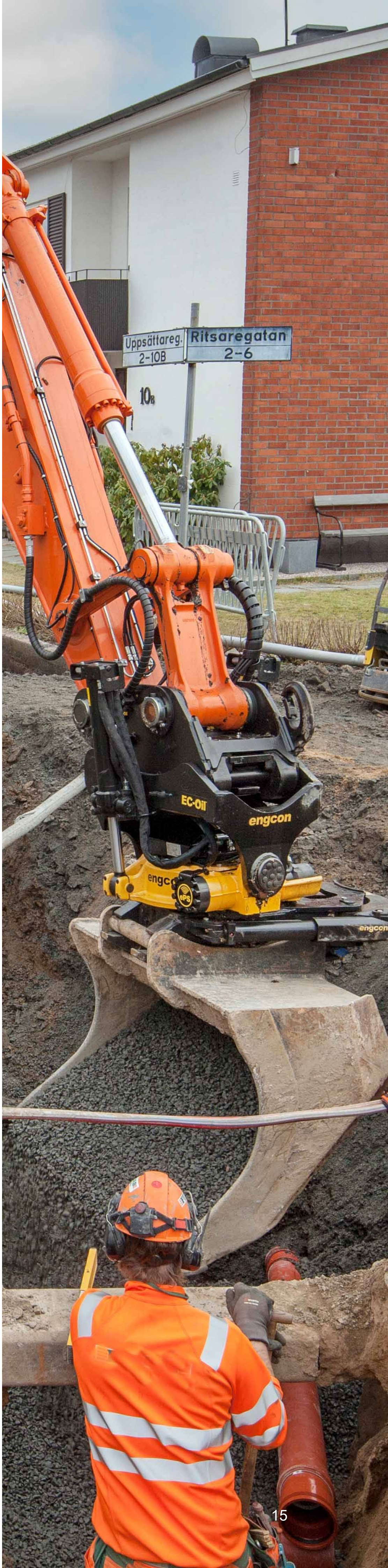
The market for tiltrotator manufacturers is concentrated to five major operators, who together account for about 95 per cent of sales. engcon is the largest of these, with a market share of approximately 45 per cent. The operators can be divided into four groups: global manufacturers, local manufacturers, other operators whose core operations are not tiltrotators, and excavator manufacturers (OEMs) with in-house manufactured tiltrotators. The five largest operators are all global manufacturers, four of which are Swedish. All five collaborate with OEMs and the product portfolio includes quick couplers, tools and other advanced attachments for excavators. Other operators account for less than 5 per cent of the market, have a limited geographic reach and focus on a small number of markets.

engcon's strategy is to offer independent solutions to different OEMs while we, through various partnerships, develop innovative solutions to satisfy the needs of OEMs and end customers.

Competitive advantages

The factors considered to be strengths for the various operators can also be viewed as entry barriers for new operators who wish to enter the market:

- **Aftermarket support** the tiltrotator is a significant investment that is either sold separately or as a full-range product suite with a quick coupler, control system and various tools. Both the excavator and the tiltrotator typically have a heavy workload, which is why an easily accessible and reliable aftermarket service is important.
- **Go-to-market strategy**, a well-defined and implemented strategy to address the market is particularly important in the development phase of a geographic market, and more important than being first to enter that market. Having a focus on the end customer is important in all phases.
- **Product technology,** quality, product range and new innovative solutions such as attachments and control systems are decisive for the customer. In the development phase and the acceleration phase, educating the end user in the various benefits of a tiltrotator is important.
- **Partnership with OEMs**, with valuable knowledge of the excavator market, a strong brand and an established network of dealers, partnerships with OEMs contribute to increased awareness and sales of tiltrotators, but also to simplifying the installation process. These partnerships provide product credibility in the development and acceleration phases..



Go-to-market strategy

With sales companies across the world, we are building trust at a local level as well as close relationships with our end customers.
A global sales network, partnerships with excavator OEMs and marketing campaigns create competitiveness and growth over time.

Local presence and end-customer focus

engcon is currently active in 16 markets across the globe. Our capacity to grow sales depends on which phase the local markets are in and our go-to-market strategy is adapted based on the degree of maturity of the respective markets.

At the end of the year, our sales force comprised more than 70 employees. Local presence is an integral part of our strategy to address the market. Our local employees establish relationships with dealers and end customers and build trust in engcon's brand and products. Marketing activities are primarily targeted at end customers with the aim that demand for our products from this group will mean that dealers and OEMs will want to enter into partnerships with engcon.

Distribution and sales channels

The majority of our sales currently take place through our global network of dealers. Sales also take place through collaboration with OEM dealer networks. A limited amount of products, mainly buckets and tools, are sold via our web shops in Sweden, Finland and Denmark. Dealers buy engcon's products and assume responsibility for marketing, sales and pricing. In certain cases, they may also stock products, which primarily applies to more mature markets or markets where sales are increasing. engcon also has a partnership with and sells tiltrotators to the Swedish company OilQuick AB, which manufacturers quick coupler systems for construction machines.

Strategic partnerships with OEMs

Partnerships with global OEMs help to grow sales and grant access to a large installed base for potential aftermarket updates and maintenance. The partnerships strengthen both engcon's and the OEMs' brands, increase the reach of the company's products and prepare excavators for faster and easier installations of tiltrotators. These partnerships also provide valuable insight into which technologies OEMs are developing for the future, and we contribute with knowledge of end-customer requirements. The partnerships also include joint marketing activities, such as participation in exhibitions.

Aftermarket with a high level of service

engcon has a large service network and widely available aftermarket support with a high level of service, which we view as a strength. In our growth markets, service is primarily carried out by our service partners. In our more mature markets, general service is carried out at the dealer level with training provided by engcon's employees. In certain cases, engcon's own personnel also supervise repairs and specialised service. In addition, support personnel are available that can connect remotely to engcon's control system and applications to troubleshoot and fix problems.

End-customer targeted marketing

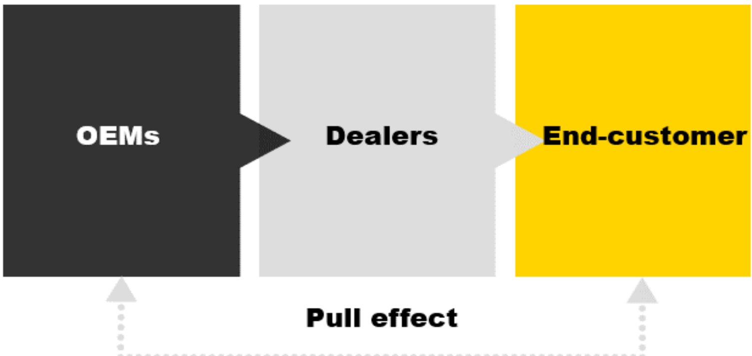
We combine traditional channels, such as exhibitions and demo days, with marketing and brand-building communication via social media, mainly directed to our end customers. Exhibitions and other events help to create new, and maintain existing, relationships with end customers, OEMs, and dealers.

In relation to digital marketing, we work primarily with our own social media channels through influencers, other excavator operators and followers around the world. This is a relatively cost-efficient platform to reach a large target group with targeted marketing. Influencers are also invited to exhibitions and other events to raise awareness of the advantages of engcon's products and solutions. Digital marketing is particularly used in connection with activities to increase the penetration rate in markets that are in the development phase and is targeted at innovators and early adopters. Social media channels that provide video content such as YouTube, Facebook, Instagram and LinkedIn simplify and streamline our communication.

Full-range product suite and value-based pricing strategy

We apply a mix of value and competition-based pricing that is partly governed by customers' perceived value of the products and partly by the competitive landscape in a particular market. We focus on working close to our end customers and developing products with a high level of technology instead of competing on price through large-volume manufacturing. Since 2020, we have intensified our focus on packaging our full-range product suite – tiltrotators, quick couplers, control and safety systems, and joysticks – as a standardised product bundle containing the most advanced and value-generating parts of our product portfolio. A module-based product creates flexibility for the customer who can select the product bundle that suits their needs while also adding other solutions across the lifespan of the tiltrotator. This standardisation simplifies production, sales and service, and improves volumes and profitability per tiltrotator sold. Typically, prices are increased once annually, but as a consequence of cost inflation, the pandemic and energy prices, we conducted one additional price adjustments in April 2022. A 5 per cent price adjustment from the beginning of 2023 was announced in September.

Distribution strategy and channels



Collaboration in focus

For engcon, collaborating with various machine suppliers across the globe is of utmost importance for increasing the company's market shares. Since 2021, engcon and John Deere have maintained a partnership involving engcon making its products accessible for end customers via John Deere's network of dealers in the US and Canada.

"Our relationship and collaboration with John Deere is a strategically important part of our ambition to strengthen our penetration rate in North America"

North America is an important market for engcon. The company currently has two sales offices and employees in numerous US states and Canadian provinces. The proportion of excavators that are equipped with a tiltrotator is low in the US and engcon's ambition is to increase its market shares over the coming years.

Anders Smith
Head of Sales, engcon.

Our geographic markets

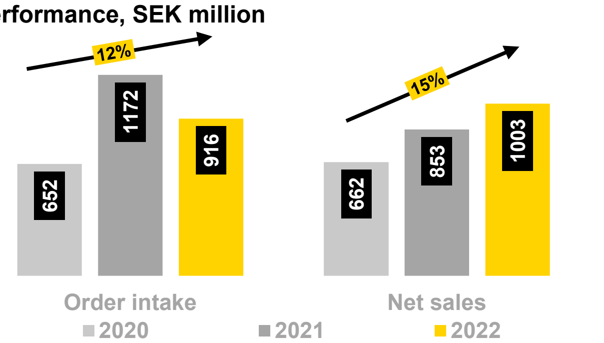
engcon is currently active in 16 markets in four geographic regions across the globe. The Nordic region is our largest and most mature market. During the year, growth in percentage terms was greatest outside the Nordic region, where our growth markets are located.

Nordic region

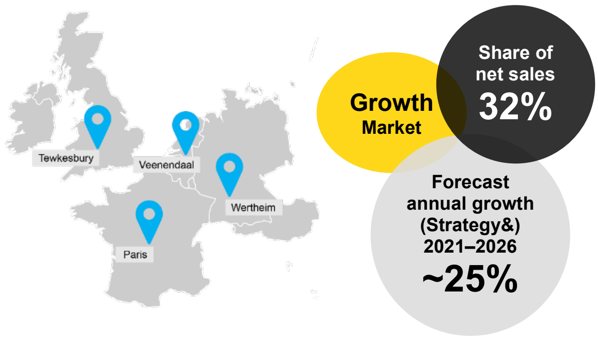
engcon maintains a leading market position in the Nordic region and has been active in Finland and Norway since 1995 and Denmark since 2003. In Finland and Denmark, we have our own sales companies, and from the first quarter of 2023, we also have our own company in Norway, where we previously collaborated with a distributor. Sweden is our most mature market, where the share of newly manufactured excavators with a tiltrotator is estimated at about 92 per cent. Denmark has the lowest penetration rate at approximately 70 per cent, and the figure for the entire Nordic region is about 85 per cent. Growth potential exists in the form of selling solutions that comprise both control systems and advanced tools.

A higher proportion of orders brought forward in the fourth quarter of 2021 and first quarter of 2022 due to price increases and uncertainty concerning delivery times, combined with an uncertain business environment and long lead times, led to lower demand during the second half of the year. The strong order book yielded an improvement in net sales.

Performance, SEK million



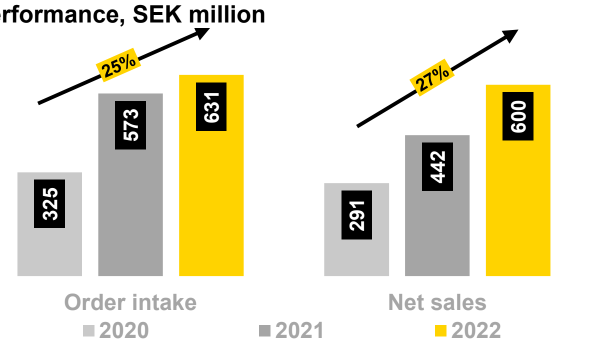
Europe



engcon's European expansion outside the Nordic region began in Germany in 2003, the UK in 2004, France in 2014, the Netherlands in 2016, and Belgium, Ireland and Austria in the past two years. The markets in which we have the strongest position are France and Benelux. In large parts of Europe, the share of sold tiltrotators in relation to new excavators is low and is estimated to be about 6 per cent, with the exception of the Netherlands, where a tipping point with a higher penetration rate has been reached. Germany, France and the UK are the three largest markets for excavators and have the greatest potential.

For the full year, demand in Europe was stable. The order intake was impacted in the second half of the year by a higher proportion of orders brought forward and increased uncertainty in the external environment. Net sales noted a robust trend as the result of a strong order book.

Performance, SEK million

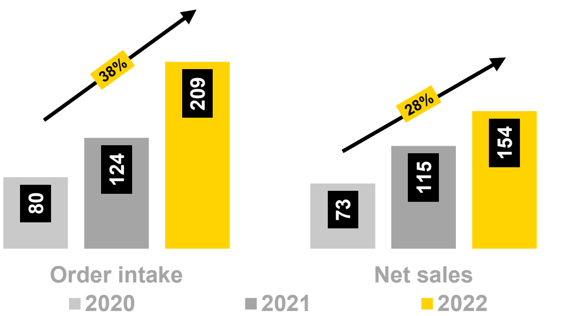


Americas

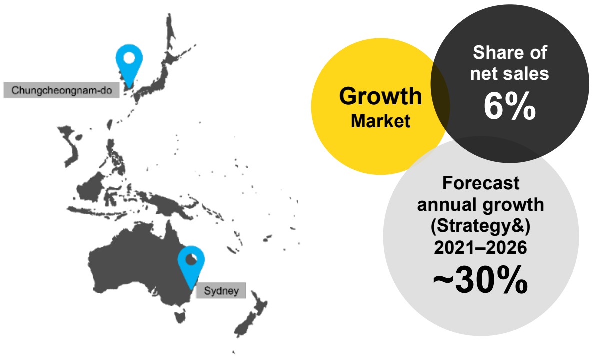
engcon has had a local sales office in Connecticut in the US since 2017 and added a sales office in Montreal in Canada in 2021. We also have a number of employees based in central USA and on the west coast since 2022. A large number of excavators are sold in the US, while the share of sold tiltrotators is low and estimated to be approximately 2 per cent. Planned infrastructure investments, maintenance and more stringent emission requirements, together with a labour shortage and demands for increased efficiency in the construction and civil engineering industry, are expected to boost growth in the coming years. Sales are primarily targeted to the North American market, but some sales also take place through dealers to South America. We have an OEM partnership with John Deere that provides access to a distribution network of approximately 1,600 dealers in the US and Canada.

Activity in the US market was high. Our full-range product suite is attracting the US market, which is considered to have considerable growth potential. The Americas recorded the largest percentage increase of order intake during the year and in the fourth quarter, which will make a positive contribution to net sales in 2023.

Performance, SEK million



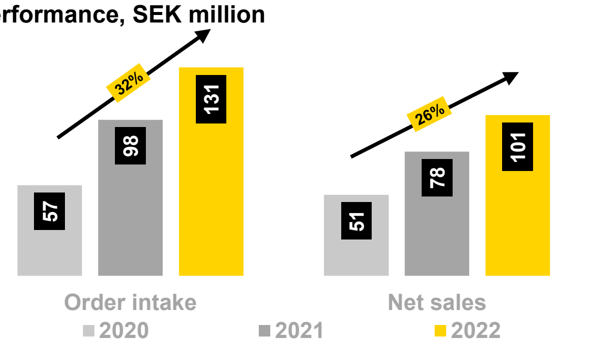
Asia-Oceania



engcon has been active in Japan since 2018 through a distributor, and expanded its presence in the region with local sales offices in South Korea and Australia in 2020. In Australia, engcon previously sold products through partners. The region is in the development phase with a share of sold tiltrotators to new excavators of approximately 2 per cent. Japan is considered to have strong growth potential driven by an ageing workforce and regulations that govern efficiency improvements. engcon's strongest position in the region is in South Korea. The South Korean market features a large proportion of wheeled excavators which, when fitted with tiltrotators, are the ideal tool carrier. At the same time, South Korea also has positive similarities with the Nordic region, with many smaller excavator companies that are deemed to be more receptive to the message of the tiltrotator's efficiency-enhancing qualities. Our partnerships with machine manufacturers Doosan and Hyundai are making a positive contribution to sales.

Demand in Asia-Oceania was also positive with favourable opportunities to strengthen our position and increase sales. Both order intake and net sales were stable.

Performance, SEK million



engcon's tiltrotator is helping to reduce carbon dioxide emissions

In 2022, the global fleet of engcon's tiltrotators enabled our customers to reduce their GHG emissions by 3.3 million tonnes of CO2e. This is a climate saving equivalent to over 70,000 excavators[1].

[1] Direct emission reductions are estimated as a result of the increased efficiency of tiltrotator-equipped excavators, which has been verified by expert opinions, customer interviews and PwC calculations. More information can be found on page 24

How we contribute to the transition

Sustainability is a driving force for our long-term growth. engcon is helping to accelerate the transition towards sustainable digging by focusing on four key areas:

Innovation and future solutions

We drive product innovation that allows our customers to achieve their sustainability ambitions and be able to transition to an electrified vehicle fleet.

Environment and climate

We work strategically and activity based to reduce our climate impact. Using science-based targets, we want to combat the effect of climate change and future-proof the company's growth.

CHANGE THE WORLD OF DIGGING

Responsibility for people and society

We attract expertise through innovation, global operations and competitive working conditions. We promote diversity, inclusion, gender equality and health.

Responsible business

We practice corporate responsibility across the value chain. We collaborate with partners in the transition towards sustainable digging through the exchange of knowledge, expertise and technology.

Sustainability as a driving force

engcon's products contribute to changing the conditions for digging by ensuring the sustainable and responsible use of resources, the environment and people.

The majority of engcon's operations are located in Strömsund in northern Sweden. This is a strategic location from a sustainability perspective with its clean energy supply and development potential. The company's growth also contributes positively to the local community in Strömsund through local component supply, jobs and engagement in local schools and sport.

Our sustainability strategy for 2030 is an integrated part of our business strategy. At the end of 2022, we applied for Science Based Targets initiative's (SBTi) validation of our climate targets, which were approved in March 2023. This means that we are to reduce our absolute carbon dioxide emissions within Scope 1 and Scope 2 by 42 per cent by 2030 from the 2021 level, and take responsibility for working towards reducing our Scope 3[2)] impact.

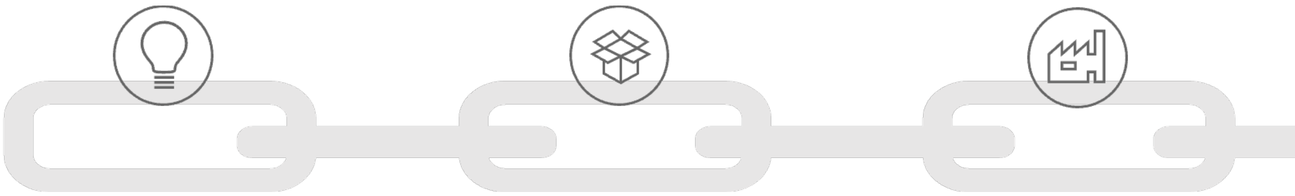
Agenda 2030 and the UN's 17 Sustainable Development Goals (SDGs) aim to reach a standard of sustainable development that the world's leaders have committed to achieving by 2030. engcon is active in the target areas that we have the opportunity of impacting[3)]. We also work continuously to promote a sustainable mindset in all aspects of our operations with the goal that this will permeate all activities.

The sustainability report has been prepared in accordance with the provisions of the Swedish Annual Accounts Act, Chapters 6 and 7.

[2)] Scope 1, 2 and 3 are described in more detail on page 26 and in the sustainability notes on pages 117–122.
[3)] A target analysis of how engcon is contributing to the UN SDGs can be found in the materiality analysis on pages 114–116.

Impact on the value chain

engcon's climate impact varies across the value chain. The single greatest impact is total emissions from the purchasing of components, since our products comprise components that we assemble. This is an area in which we have a strong indirect influence through product development and the choice of materials.



Development of products

Through innovation, we are continuing to lead technological development in the industry and reduce our customers' dependency on fossil fuels. We are attracting talent and promoting innovation by acting as an attractive employer that places innovation, diversity and equality high on the agenda.

Emissions

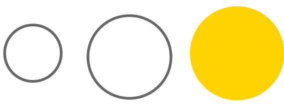
0,6 k ton CO_2e

Share of total emissions

1%

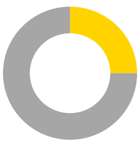
Ability to influence

High



Data quality

Specific
General
Estimated



Purchases of components

With stable relationships, clear requirements, controls and targeted activities, we can contribute to improving work conditions, strengthening human rights and reducing climate impact in the supply chain.

Emissions

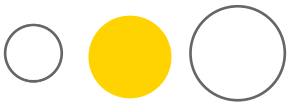
~33 k ton CO2e

Share of total emissions

56%

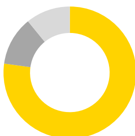
Ability to influence

Medium



Data quality

Specific
General
Estimated



Manufacturing

By focusing on sustainable manufacturing, we are reducing our climate footprint. Our productivity is increasing with healthy and thriving employees. By actively working with diversity and equality at our workplace and in the local community, we increase our ability to attract the right expertise, which promotes local community development.

Emissions

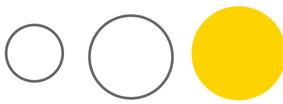
4 k ton CO2e

Share of total emissions

7%

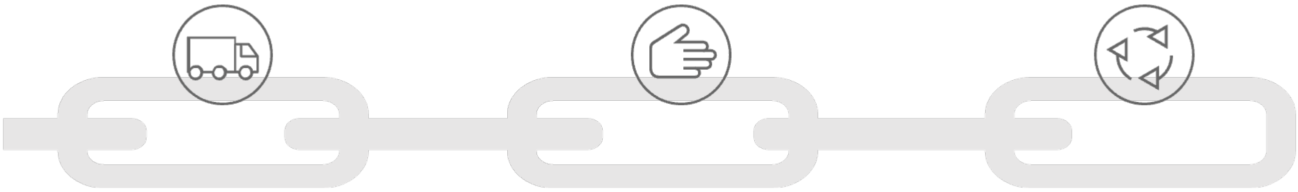
Ability to influence

High



Data quality

Specific
General
Estimated



Transportation

By optimising our logistics chain, we reduce our climate footprint and meet our customers' demand for rapid, secure and sustainable deliveries.

Sales

Clear values and efficient procedures to ensure compliance with laws and ethical principles allow us to create stable business relationships and increase transparency and control in the sales process.

End-of-life management

By offering a high-quality product with a focus on maintenance and upgrades, we extend the useful lives of our equipment. We offer a product that is manufactured from recoverable material. By doing so, we contribute to a more circular approach in the digging industry.

Emissions

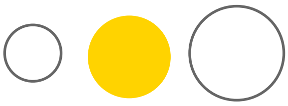
3 k ton CO2e

Share of total emissions

5%

Ability to influence

Medium



Data quality

Specific
General
Estimated

Emissions

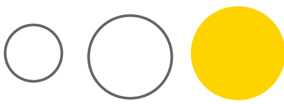
0,1 k ton CO2e

Share of total emissions

<1%

Ability to influence

High



Data quality

Specific
General
Estimated

Emissions

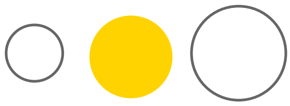
19 k ton CO2e

Share of total emissions

32%

Ability to influence

Medium



Data quality

Specific
General
Estimated

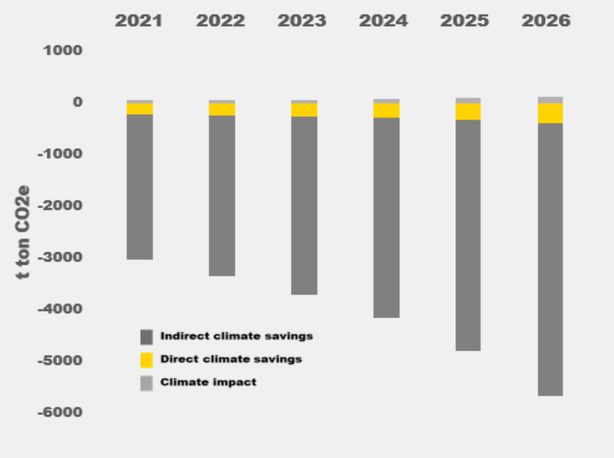
Innovation creating the solutions of the future

We promote innovation and create the solutions of the future by leading the industry's technological development. On average, we invest 4 per cent of our annual sales in innovation in close dialogue with our end customers and partners. In doing so, we remain at the leading edge and are strengthening our position.

Climate and safety as driving forces

Innovation has been a central aspect of our work since engcon was founded. Product development is conducted centrally next to our factory in Strömsund. We work continually to further improve our products, and reducing our climate footprint and increasing safety are central aspects of our product development. Both experts and customers have verified that an investment in a tiltrotator results in direct savings in fuel and indirect savings through increased efficiency and flexible work. Accordingly, the global fleet of tiltrotators contributes to reducing annual carbon dioxide emissions. The benefit to the climate increases in pace with the number of tiltrotators that reach the market, replacing excavators without tiltrotators. There are clear safety advantages to equipping an excavator with a tiltrotator, and many of our customers state that this is one of several decisive factors for purchasing a tiltrotator.

Global fleet of engcon's tiltrotators contributing to reduced carbon dioxide emissions



Estimated for an excavator which is used 1,500 hours yearly with a lifespan of 7 years and mapping made of engcons total emissions.

Sustainability benefits

~25%
more efficent

~2,2
construction machines can be replaced

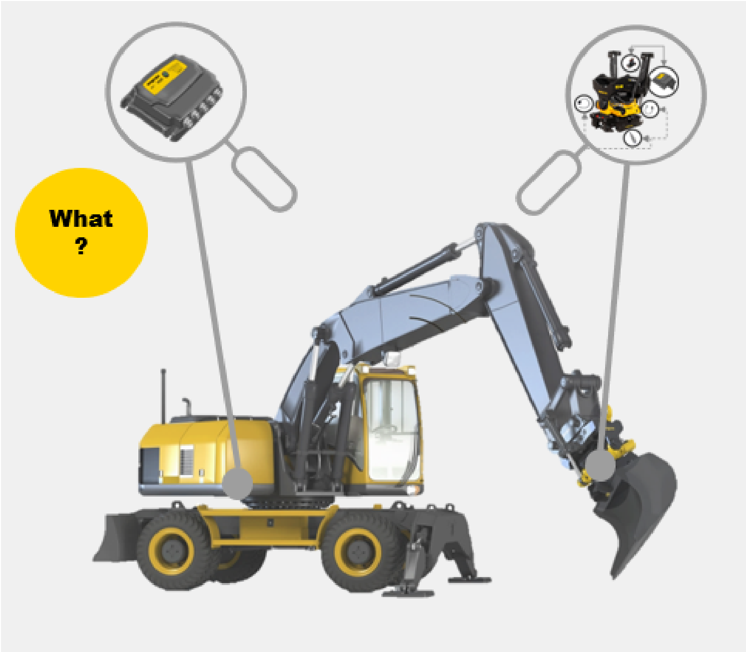
~6 000 liter
annual fuel saving

~113 000 kg CO_2
saved during the lifespan of an excavator

~61%
of owners value increased safety

Estimated for an excavator, weight 30 ton, which is used 1,500 hours yearly with a lifespan of 7 years and a yearly diesel consumption of 30,000 litres.

Third generation tiltrotator system – ready for the future world of digging



How ?

- **Agile, smart and efficient**
- **Fuel-saving control system and hydraulics**
- **Autonomously activated**
- **User-friendly and personal**
- **Ready for electrification**

Environ-ment and climate

Direct fuel savings as a result of electrification of the excavator corresponding to 775 tonnes of CO_2 per tiltrotator-equipped excavator*

Cutting-edge technology

The third generation tiltrotator system is equipped with technology that has never been used on tiltrotators and that takes a clear step towards the electrified, connected and autonomous excavators of the future. The third generation's load-sensing technology leads to reduced fuel consumption, improved precision, less wear and tear, and lower maintenance costs. The reduced energy need simplifies the use of alternative fuels for excavators, such as electricity and hybrid solutions. With help from a new sensor technology, the newly developed control system can precisely calculate the tilt and rotation of the tiltrotator, which means improved user-friendliness and greater potential for autonomous operations. Furthermore, the newly developed control system enables a more efficient remote connection, thereby improving remote support as well as the ability to remotely configure equipment.

Martin Engström,
Product owner, engcon

Third generation tiltrotator meets future needs

The third generation tiltrotator saves both energy and time thanks to a new control system and state-of-the-art hydraulics. The machine works more efficiently, which ensures a more flexible work flow for the operator.

Thanks to our innovation-driven work with a focus on the end customer, our customers can trust that engcon will always deliver cutting-edge technology.

" With the launch of the third generation tiltrotator, we are well prepared for the electrification of the industry and thus the needs of end customers."

The package we offer is to be the full-range premium product suite that our end customers want to have. This is how we are changing the world of digging.

Environment and climate

engcon's tiltrotator and other products are net climate positive across their useful lives. We always strive to become better. As such, we work strategically to reduce our environmental and climate footprint by mapping our emissions and working in the long term to reduce them.

Net climate positive products

Climate-positive operations is not just a vision we are working towards but something that we are producing and delivering every day. engcon's tiltrotators and other products are enabling our customers to reduce their climate impact by cutting down on movement and the number of machines and to use their excavators more intelligently. A more efficient way of working and fewer machines makes a direct contribution to a reduction in fuel usage. Our tiltrotators and other products thus yield negative GHG emissions during their useful lives, which makes them climate-positive products.

Responsibility for environmental and climate impact

Even if engcon's products are net climate positive across their useful lives, we take responsibility for our environmental and climate impact and work strategically to reduce our climate footprint. The production and transportation aspects of our operations impact the climate. Our production impacts the environment and climate through the extraction of virgin material such as iron ore, the manufacturing of products, transportation and end-of-life management. These activities release emissions to the air, water and ground throughout our value chain. Read more on pages 22–23.

Reduced impact

The majority of engcon's production takes place in Strömsund in northern Sweden where there is favourable access to energy supply with a low climate impact. In addition to Strömsund, we also have a production plant in Niepruszewo, Poland. We have several activities planned for 2023 focused on reducing our energy consumption in Poland, where energy supply is significantly more climate intensive compared with Sweden.

About our carbon footprint

Scope 1 emissions

1.4%

Scope 1: Direct emissions from operations that we control, including heat production from our own facilities and fuel consumption of our own cars and company cars.

Scope 2 emissions

0.8%

Scope 2: Indirect emissions linked to our consumption of purchased electricity.

Scope 3 emissions

97.8%

Scope 3: Indirect emissions as a result of our operations, such as purchases of materials and components, transportation, business trips and waste.

[2] Refer to the detailed emissions for each category pursuant to the Greenhouse Gas Protocol in the sustainability notes on pages 119–120.

Scope 3 – indirect emissions

Almost all of engcon's climate impact is the result of purchases of components (Scope 3). This includes castings, weld metals, electronics and hydraulics. Our supplier base is primarily located in Sweden, and thereafter in the rest of Europe. Overall, we have over 100 suppliers. Since purchases of components account for such a large proportion of our climate impact, we collaborate with our suppliers to reduce the climate impact from this category. Our ambition is to maintain a close dialogue and collaboration with our suppliers in 2023 regarding their climate impact, contributing knowledge and support to identify activities and measures that can reduce their climate footprint.

Long-term target

42%

reduction in emissions from our own operations by 2030

Reduced emissions

from purchased components, ongoing activity

Target 2023

100%

District heating in our facility in Strömsund

10%

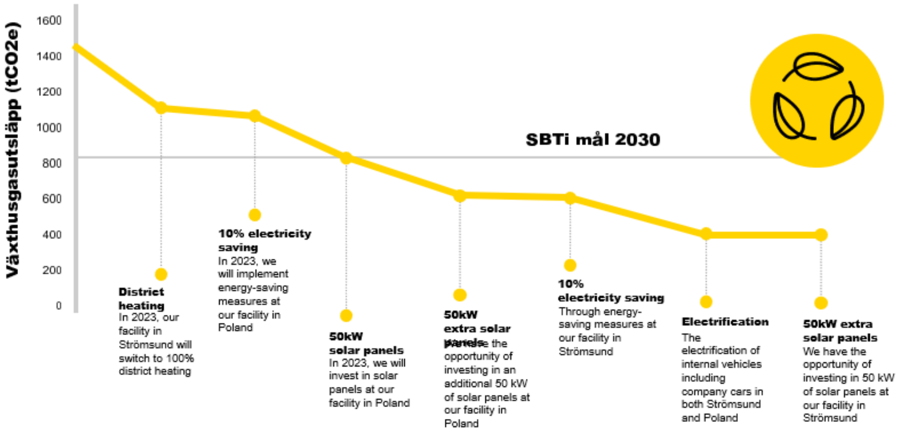
Energy savings target at our factory in Poland

50 kW

Solar power facility at our factory in Poland

engcon's roadmap to reduced emissions

We are faced with the challenge of reducing our emissions at the same time as we are expanding globally. We have set ambitious science-based climate targets and have a clear strategy to reach our targets that we continually update based on the company's growth. Climate-saving activities such as conversion to district heating, electricity saving measures, solar power installations and the electrification of our internal vehicle fleet will enable us to achieve our climate target for 2030 by some margin and provide us with the scope to expand within the framework of the target.



Responsibility for people and society

engcon is growing with a focus on commitment, professionalism, initiatives and safety. We want to contribute to economic productivity and act as an attractive employer. We achieve this by taking responsibility for people and the communities in which we are active.

We are well placed to be a successful company that contributes to sustainable growth by offering safe and good working conditions and a strong corporate culture with both employees and end customers in focus. We strive to collaborate responsibly with suppliers and other business partners and to comply with regulations and ensure transparency in our business relationships.

Commitment and professionalism

Our committed employees make engcon an attractive workplace

Our ambition is to be a forward-looking, attractive, inclusive and digitally enabled company where employees are able to collaborate to deliver sustainable business results. Based on a shared results-driven culture with its roots in inclusion and diversity, we strive to attract and retain the best talents, regardless of gender, ethnicity, religion, disability, sexual orientation or age. We work with internal training, work rotation and internal recruitment and are attentive to internal suggestions for developing and improving the work environment.

Initiatives

Strömsund plays an important part in our continued success and growth. This is where our head office is located as well as the largest of our two production facilities. We are deeply engaged in our local community in many different ways, for example, by supporting various local initiatives and sports associations and by working to put Strömsund on the map in various national and international contexts. The company's growth also has a positive contribution on a national level.

During the 2012–2022 period, the Group's Swedish operations have paid SEK 489 million in state income tax.

Good health

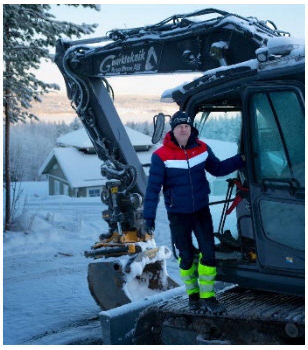
Team engcon is engcon's own wellness initiative that focuses on physical activity and community, with the target of achieving a healthier and more energised engcon. As part of this, Team engcon is also a skiing team that competes in the Ski Classics long-distance ski championship. Team engcon is therefore a unique initiative representing all abilities and where everyone is equally important.

23%

Share of women in full-time positions

33%

Share of women with managerial duties



Morgan Olsson, contractor

engcon impressing end customers

Contractor Morgan Olsson has owned his own excavators for nearly 20 years. He was one of the first people in Jämtland to equip their machines with engcon's safety hitch, and he is very happy.

"It is simple and secure, everything happens automatically – it's incredibly convenient."

Morgan is also impressed that engcon has a professional customer support team that puts the end customer in focus. "If I am wondering about anything, I can call and get an answer immediately. If I need reserve parts, they can deliver them on the same day or the following day. As a contractor, that's worth its weight in gold," says Morgan.

Morgan sees the future as bright, and is monitoring the development of the industry when it comes to its electrification. He would like to test an electric machine, but it is primarily hybrid machines that currently arouse his curiosity.

Responsible business

We strive to conduct our operations in a responsible way by adhering to stringent, clearly defined procedures and promoting a responsible corporate culture.

Code of Conduct

Our Code of Conduct is our guide to ethical business operations and optimising the social and environmental effects of our activities. engcon's Board of Director has adopted the Code of Conduct for 2022, which is designed to ensure that we always act with integrity and in accordance with the highest ethical norms even if laws, environmental standards and social conditions vary in the countries in which we conduct operations. The Code of Conduct is based on the UN Global Compact and its ten principles on human rights, labour, environment and anti-corruption.

According to our stated target, every employee shall undergo training in our Code of Conduct once a year.

Close supplier collaboration

We have a target that all of our suppliers from which we purchase goods and components for at least SEK 1 million must sign and comply to our Code of Conduct. We ensure compliance with our Code of Conduct through regular meetings with, visits to and audits of our suppliers. engcon strives to continually develop its partnerships with suppliers to ensure the highest possible functionality, quality and sustainability. To minimise risks connected to component shortages and enable growth, we work continuously to broaden our supplier base (dual sourcing) without compromising on quality. In 2023, we will initiate collaboration with the 15 suppliers that have the largest carbon footprints and work together to reduce their emissions.

Whistleblowing

At engcon, we are eager to ensure compliance with our guidelines, principles applicable laws. We want to ensure that it is possible to detect and act on signals of any irregularities within the company at an early stage. In 2022, an external global whistleblower function was established. The whistleblower function is available both internally and externally for employees, customers, partners and other stakeholders.

90%

57 of 63 suppliers have signed our Code of Conduct

29%

7 of 24 have completed supplier audits (Target 100% by 2024)

The share and shareholders

engcon's Class B share has been listed on the Mid Cap segment of Nasdaq Stockholm since 17 June 2022.

engcon has two share classes: Class A shares and Class B shares, of which the Class B share is traded on Nasdaq Stockholm. Each Class A share represents ten votes and each Class B share one vote. The share capital amounted to SEK 21,250,320 on 31 December 2022, distributed among 35,344,778 Class A shares and 116,443,222 Class B shares. The quotient value is SEK 0.14 per share. Since the listing date until the end of the year, 19.5 million Class B shares were traded on Nasdaq Stockholm.

Share performance and market capitalisation

At the end of the year, the share price was SEK 66.55 per share, an increase of 44.7 per cent from the price on the listing date of SEK 46 per share. This can be compared with Nasdaq OMX Stockholm PI, which includes all shares, which rose 5.0 per cent during the same period, and OMX Stockholm Industrials, comprising industrial companies, which increased 14.4 per cent. The market capitalisation was SEK 10,101 million on 30 December.

Shareholders

The number of shareholders at the end of the year amounted to 5,473. The company's largest shareholder, the company's founder, Stig Engström, through the company Ommapo Förvaltning AB, controlled 35.4 per cent of the capital and 67.1 per cent of the votes. The second largest shareholder, Monica Engström, through the company Monen Holding AB, controlled 32.0 per cent of the capital and 22.4 per cent of the votes. No other shareholder holds, directly or indirectly, more than 10 per cent of the shares in engcon (votes and capital). Following these, Capital Group, Nordstjernan, Svolder AB, Handelsbanken Fonder and C WorldWide Asset Management were engcon's largest shareholders. At the end of the year, Swedish institutions and companies owned 89.5 per cent of the capital and 96.6 per cent of the votes. Foreign ownership amounted to 10.5 per cent of the capital and 3.4 per cent of the votes.

Flagging

In September, Capital Group flagged that their shareholdings amounted to just over 5 per cent of capital and 1.6 per cent of votes. Capital Group's ownership amounted to 5.1 per cent of the capital and 1.7 per cent of the votes. As of 1 February 2023, Capital Group flagged that its shareholdings had decreased to 4.99 per cent of capital and 1.62 per cent of votes.

➔Read more about the share and share capital trend at www.engcongroup.com.

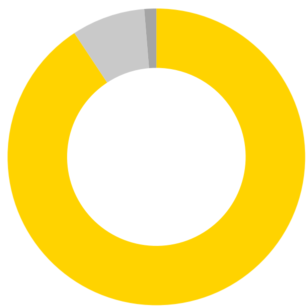
Incentive programme

At the beginning of 2022, engcon had one active long-term share-based incentive programme comprising a total of about 230 individuals. Read more on page 94, note 40.

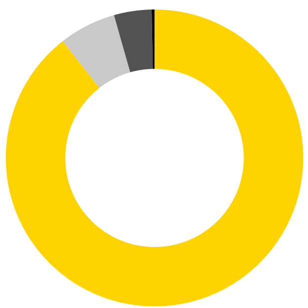
Dividend and dividend policy

engcon's dividend policy is to distribute approximately 50 per cent of net profit from the year's earnings. The dividend proposal will consider engcon's long-term development potential, financial position and investment needs. For the 2022 financial year, the Board of Directors proposes a dividend of SEK 0.85 per share, distributed evenly on two disbursement occasions. The record date for the right to the first dividend payment of SEK 0.43 per share is proposed to be 8 May 2023, and for the second dividend payment of SEK 0.42, the record date is proposed to be 2 October 2023. Provided that the Annual General Meeting resolves in accordance with the dividend proposal, the payments will take place on 11 May 2023 and 5 October 2023, respectively.

Shareholder by type



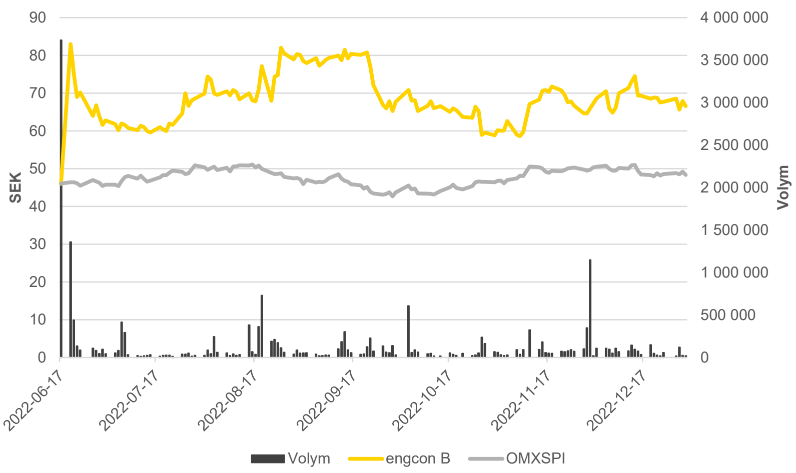
Shareholder by country



Largest shareholders, 30 December 2022

Owner	Class A shares	Class B shares	Capital, %	Votes, %
Stig Engström	29 037 204	24 735 396	35,4%	67,1%
Monica Engström	6 307 574	42 212 226	32,0%	22,4%
Capital Group		7 738 823	5,1%	1,65%
Nordstjernan		7 608 696	5,0%	1,6%
Svolder AB		5 434 783	3,6%	1,2%
Handelsbanken Fonder		4 814 366	3,2%	1,0%
C WorldWide		3 023 806	2,0%	0,6%
Andra AP-fonden		2 173 913	1,4%	0,5%
Formica Capital AB		1 650 000	1,1%	0,4%
Krister Blomgren		1 259 400	0,8%	0,3%
Total ten largest	**35 344 778**	**100 651 409**	**89,6%**	**96,7%**
Other	**0**	**15 791 813**	**10,4%**	**3,4%**
Totalt number of shares	35 344 778	116 443 222	100,0%	100,0%

Share price development since the listing*



**The initial value for the engcon Class B share pertains to the price on listing date, other values are closing prices.*

Quick facts

Trading venue: Nasdaq Stockholm
Segment: Mid Cap
Sector: Industry
Share class: Class B share
Ticker: ENGCON B
ISIN code: SE0017769847
Total listed shares: 116,443,222
Market cap. 30 Dec 2022: SEK 10.1 billion

Five reasons to invest in engcon

1 **Global market leader** in a rapidly growing niche supported by the transformation of the construction industry
Read more on pages 13–16.

2 **Industry-leading innovator** through strategic partnerships with OEMs and close relationships with end customers.
Read more on pages 17–18.

3 **End-customer centric go-to-market strategy** with global sales network.
Read more on pages 17–18.

4 Long track-record of **high, profitable and capital-efficient growth.**
Read more on page 12.

5 **Clear strategy for continued value-creating** growth globally.
Read more on pages 17–20.

Administration Report

The Board of Directors and the CEO of the listed company engcon AB (publ) with Corp. Reg. No. 556647-1727 hereby submit the Annual Report and consolidated accounts for the Group's and Parent Company's operations for the 2022 financial year.

The Board of Directors' report on internal control of financial reporting and the corporate governance report encompasses both the Parent Company and the Group and is prepared in accordance with the Swedish Annual Accounts Act, see pages 43–55. In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, a sustainability report has been prepared. The sustainability report can be found on pages 20–29 and sustainability notes can be found on pages 110–126. Amounts are recognised in millions of Swedish kronor (SEK million) unless otherwise stated. Rounding differences may occur.

Business operations

The engcon AB Group, referred to below as "engcon", the "Group" and the "company", is a global developer and manufacturer of tiltrotators with accessories and software for digging. Under its own brand, engcon offers a unique full-range product suite that turns an excavator into a tool carrier that can replace several other machines. The products and solutions enhance flexibility, precision and safety of excavators and thereby increase the efficiency and safety of digging for end users.

The products consist of various components designed by engcon. Some of the components are also manufactured at engcon's production sites in Strömsund, Sweden and in Niepruszewo, Poland. Most of the components are purchased from suppliers in Sweden and Northern Europe. engcon's head office is located in Strömsund, Sweden.

Market

engcon has an active sales strategy in 16 (16) markets in the Nordic region, the rest of Europe, the Americas and Asia-Oceania and generates some sales from the rest of the world. Sales and installations primarily take place through an established network of dealers. At the same time, end customers are targeted directly through the Group's 13 (13) local sales companies. The Nordic region is engcon's largest market and accounted for 53 per cent (57) of net sales in 2022.

Group structure and segments

engcon AB is the Parent Company of the Group with 23 (22) directly and indirectly wholly owned subsidiaries, which are presented in Note 9. The Group's operations are based on one operating segment, but sales and order intake are governed based on the following geographic market regions:
Nordic region – Sweden, Denmark, Norway and Finland
Europe – Europe excluding the Nordic region
Americas – North America and South America
Asia-Oceania – Japan, South Korea, Australia, New Zealand and rest of the world

Significant events during the year

Demand was healthy in all of engcon's markets in 2022, resulting in an increase in order intake, net sales and earnings. Despite uncertainty connected to the war in Ukraine and the current global situation, the Group maintained its operations and production during the year. The outbreak of the war in Ukraine in February and the resulting geopolitical turbulence with high inflation, rising interest rates, an economic downturn and a shortage of components in several different areas impacted our operations. Our flexibility and ability to adapt operations has created a solid platform for stable earnings despite a market that is difficult to assess.

To meet cost increases during the year, price increases for customers were announced as of 1 April 2022 in addition to the annual price adjustments that came into effect on 1 January 2022.

Challenges in the supply chain were managed well during the first half of the year, and delivery capacity improved at the end of the third quarter despite continued difficulties securing certain components. Thereafter, we saw a stable, higher rate of production with shorter lead times as a result. To meet additional cost increases, a 5 per cent price increase for customers was announced from 1 January 2023.

Lawsuit

In June 2022, Rototilt Group filed a lawsuit against engcon that alleged that the company had infringed upon a patent. The adjusted damages claimed amounted to approximately SEK 200 million. The alleged infringement relates to sensor technology in the Q-safe locking system. In consultation with experts in the field of patent law engaged by engcon as well as with the company's legal advisors, engcon has assessed that no patent infringement has taken place and thus no provision for this has been made in the accounts. In April 2022, engcon appealed the decision to grant the patent in question to the European Patent Office (EPO) and requested that the patent be declared invalid. Processing of this matter in the EPO is ongoing. The lawsuit in Sweden will be admissible in district court at the end of March. Nothing new has come to light that has led to any changed assessment.

Significant events during the year

- Price increases were announced on new orders as of 1 April 2022 in addition to the annual price adjustments that came into effect on 1 January 2022. A price increase with effect from 1 January 2023 was also announced.
- The third generation tiltrotator system was launched at various exhibitions.
- In June, Rototilt Group AB filed a lawsuit regarding an alleged infringement of patented sensor technology in the Q-safe locking system. For more information, see above, under the "Lawsuit" section.
- During the fourth quarter, an existing overdraft facility of SEK 300 million was renegotiated at unchanged terms..
- At an Extraordinary General Meeting on 9 May, an extra dividend of SEK 90 million was approved, which was paid at the end of May.
- On 17 June, engcon's class B shares were listed on Nasdaq Stockholm

Group development

All earnings measures pertain to continuing operations unless otherwise stated. Cash flow and the balance sheet recognises continuing and discontinued operations.

Multi-year overview

SEK million	2022	2021
Order intake	1,978	1,967
Net sales	1,938	1,488
Gross profit	833	626
Operating profit	415	325
Equity	501	613
Balance sheet total	1,186	1,013

Order intake and net sales

The Group's order intake in 2022 amounted to SEK 1,978 million (1,967), an increase of 1 per cent (77) year-on-year.

Net sales amounted to SEK 1,938 million (1,488), an increase of 30 per cent (38).

Net sales increased in all markets year-on-year.

Earnings and net financial items

Operating profit amounted to SEK 415 million (325), an increase of 28 (51) per cent. The operating margin was 21.4 per cent (21.8).

Net financial items amounted to SEK 0 million (16), with the preceding year's net financial items primarily positively impacted by the divestment of Drivex AB that amounted to SEK 7 million. This year, net financial items was impacted by the weak SEK and increased financing costs.

Profit before tax amounted to SEK 415 million (341). Income tax was SEK -90 million (-72). The increase in current tax was an effect of improved earnings.

Profit before tax amounted to SEK 325 million (313).

Investments and depreciation/amortisation

engcon continuously invests in the maintenance of production units and production equipment in order to increase productivity and capacity. In 2022, investments were primarily attributable to the production unit in Strömsund.

The Group's investments in operational non-current assets and right-of-use assets amounted to SEK 75 million (32).

Depreciation/amortisation relating to non-current assets amounted to SEK 39 million (31) during the year.

Cash flow

Cash flow from operating activities amounted to SEK 216 million (175).

Cash flow from investing activities amounted to SEK -45 million (-7) for the year. The investments were mainly attributable to machinery and development costs for the third generation tiltrotator.

Cash flow from financing activities amounted to SEK -345 million (-160). The year-on-year change was mainly the result of the dividend to shareholders and loan repayments.

Total cash flow for the year was SEK -174 million (8). For cash flow related to discontinued operations, see Note 14.

Financial position and return

SEK million	31 Dec 2022	31 Dec 2021
Total borrowing	56	75
Total lease liabilities	72	47
Bank overdraft facilities	136	-
Cash and cash equivalents	-30	-228
Net debt	234	-106
Equity	501	613
Return on capital employed, %	56.4	47.8
Equity ratio, %	42.2	60.5

Net debt (net cash) at the end of the year was SEK 234 million (-106).

Equity amounted to SEK 501 million (613) and the equity to assets ratio was 42.2 per cent (60.5). Return on capital employed was 56.4 per cent (47.8).

Performance by geographic market region

Order intake

SEK million	2022	2021	Δ%
Nordic region	916	1,172	-22
Europe	631	573	10
Americas	209	124	69
Asia-Oceania	131	98	34
Total excl. foreign exchange	**1,887**	**1,967**	**-4**
Foreign exchange effect	91	-	
Total	**1,978**	**1,967**	**1**

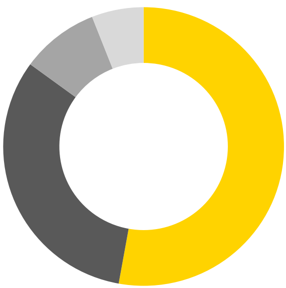
All markets, except for the Nordic region, posted a strong order intake during the year, with the Americas and Asia-Oceania accounting for the greatest increase. The order intake in the Nordic region was impacted by pre-ordering and bunkering effects from the fourth quarter of 2021.

Net sales

SEK million	2022	2021	Δ%
Nordic region	1,003	853	18
Europe	600	442	36
Americas	154	115	34
Asia-Oceania	101	78	29
Total excl. foreign exchange	**1,858**	**1,488**	**24**
Foreign exchange effect	80	-	
Total	**1,938**	**1,488**	**30**

All markets recorded increased net growth, with the greatest increase in Europe and the Americas. .

Net sales by geographic market region 2022



Financial targets

The financial targets for the Group aim to secure the company's financial stability. The measurable and risk-mitigating financial targets for 2022 were:

Net sales growth, engcon's objective is to exceed the growth in the company's existing markets through organic growth. Net sales growth was 24.6 per cent for the year.

Profitability, engcon targets an operating margin (EBIT margin) in excess of 20 per cent measured over a business cycle. The operating margin was 21.4 per cent (21.8) for the year. Excluding IPO costs, the operating margin was 22.3 per cent (22.1).

Capital efficiency, engcon will continue to achieve an industry-leading capital efficiency. Return on capital employed (ROCE) is to exceed 40 per cent measured over a business cycle. As of December 31, return on capital employed was 56.4 per cent (47.8).

Capital structure, engcon will maintain a strong capital structure supporting further expansive organic growth and dividends to shareholders. Equity to assets ratio to be above 35 per cent. Equity to assets ratio amounted to 42.2 (60.5) per cent for the Group and 42.2 (60.5) per cent for the Parent Company. Following the proposed dividend of SEK 0.85 (2.90) per share, the equity to assets ratio as of 31 December 2022 was 31.4 per cent for the Group and 24.6 per cent for the Parent Company.

Dividend policy, engcon will pay approximately 50 per cent of net profit in dividends. The dividend proposal will consider engcon's long-term development potential, financial position and investment needs. The proposed dividend corresponds to about 40 per cent of net profit. For more information, see page 37 as well as page 104.

We achieved our financial targets for 2022 and the company meets the requirements that the bank places on the company's financial stability..

Other Group information

Employees

The average number of full-time employees for continuing operations at year-end amounted to 425 (327), of whom 23 per cent (20) were women and 77 per cent (80) men.

Sustainability and the environment

Our corporate responsibility involves an overall perspective on economic, social and environmental aspects. We work actively to change our own behaviour so that it contributes to a positive impact and ultimately inspires and motivates our stakeholders to do the same.

engcon works to promote greater environmental responsibility across its operations. We continuously pursue a responsible environmental agenda in the areas that are considered to be the most significant for operations: transportation; energy and water use; waste management and purchases. Our ambitious climate targets have been validated by the Science Based Targets initiative (SBTi) and require us to reduce our absolute carbon dioxide emissions by 42 per cent by 2030 from the 2021 level, and take responsibility for working towards reducing our impact from transportation, waste and purchases. engcon's Code of Conduct is the starting point for how all employees should approach environmental consideration.

engcon does not conduct operations requiring a permit under the Swedish Environmental Code, but has a reporting obligation to Strömsund Municipality regarding the production unit's painting operations. No notifications were filed during the year.

engcon follows the prevailing environmental legislation and other prevailing norms and regulations that concern the impact that people have on the environment. engcon conducts an environmentally friendly production process that is certified pursuant to the ISO 14001 environmental standard.

Health and safety are a central part of the Group's operations and encompass both employees and customers. engcon works in an integrated manner with health and safety and strives to increase awareness of the importance of prioritising safety through training and other recurring activities.

We have prepared a sustainability report in accordance with the Swedish Annual Accounts Act on page 126.

Share capital and shareholders

Our share is listed on NASDAQ OMX Stockholm. Share capital amounts to SEK 21,250,320, distributed among 35,344,778 Class A shares and 116,443,222 Class B shares. The shares have a quotient value of SEK 0.14 per share. Each Class A share represents ten votes and each Class B share one vote. On 31 December, there were 5,473 shareholders in the company. The company's largest shareholder on 31 December 2022 was the company's founder, Stig Engström, through the company Ommapo förvaltning AB, which controlled 35.4 per cent of the capital and 67.1 per cent of the votes. The second largest shareholder was Monica Engström, through the company Monen Holding AB, which controlled 32.0 per cent of the capital and 22.4 per cent of the votes. Following these, Capital Group, Nordstjernan, Svolder AB, Handelsbanken Fonder and C WorldWide Asset Management were engcon's largest shareholders. At the end of September, Capital Group flagged that shareholdings in engcon AB corresponded to 5.01 per cent of capital and 1.62 per cent of votes. As of 1 February 2023, Capital Group flagged that shareholdings in engcon AB corresponded to 4.99 per cent of capital and 1.62 per cent of votes. For more information on the decisions of the Annual General Meeting, see the corporate governance report on pages 43-55.

Dividend

The dividend to shareholders is to amount to approximately 50 per cent of net profit. A dividend of SEK 0.85 (2.90) per share is proposed for the financial year, which corresponds to a dividend of about 40 per cent of net profit. For more information, see appropriation of profits and dividend on page 37 and page 104.

Parent Company

The Parent Company is domiciled in Strömsund, Sweden, and its primary operations consist of Group-wide functions such as IT, R&D, finances and market. The Parent Company's net sales amounted to SEK 59 million (49). Operating loss amounted to SEK -91 million (-35), and profit for the year was SEK 192 million (478).

Guidelines for remuneration to senior executives

The CEO is entitled to annual fixed salary and pension benefits in accordance with engcon's pension policy applicable at any time. The employment agreement of the CEO stipulates a notice period of 12 months when notice is given by the company and a notice period of six months when notice is given by the CEO.

For other senior executives, employment is subject to a mutual notice of termination of three to six months. For more information, refer to Note 7 on page 74.

No change regarding the existing guidelines for remuneration to senior executives will be proposed to the Annual General Meeting since the Board of Directors believes that the guidelines fulfil their purpose well.

Incentive programmes

In 2021, the Board resolved to introduce a long-term incentive programme in the form of a warrant programme for employees in the engcon Group. The purpose of the program is to encourage broad-based share ownership amongst the company's employees, facilitate recruitment, maintain competent employees, increase the alignment of interests between the employees and the company's shareholders and increase motivation to reach or exceed the company's financial targets. 219 (232) engcon employees are participating in the warrant programme. For more information, refer to Note 40.

Outlook

engcon does not present any financial forecasts for its future performance. Operations in 2023 will be conducted with the same directional focus as previously.

Risks and uncertainties

The armed conflict in Ukraine that has been ongoing since the end of February 2022 and the global geopolitical turbulence and economic downturn with increased inflation and interest rates have had some impact on engcon during the year, primarily connected to disruptions in the supply chain with longer lead times. The situation in the external environment could result in continued rising prices for raw materials, energy, components and freight, and as a result, reduced demand for our products. The company is monitoring developments closely and the potential consequences, particularly with regard to access to certain raw materials and components. With all due respect for the global situation, the outlook is positive for our market and for engcon. For more information, see risks and uncertainties on page 38.

Events after the end of the year

engcon terminated its contract with its previous distributor in Norway and started its own operations in the country through the company engcon Norway AS in the first quarter of 2023.

On 15 February 2023, Rototilt Group adjusted the damages claimed in its lawsuit to approximately SEK 200 million. For more information, see page 33.

Proposed appropriation of profits

At the disposal of the Annual General Meeting:

SEK	2022
Share premium reserve	67,296,026
Retained earnings	-24,480,831
Profit for the year	192,058,459
Total	**234,873,654**
The Board of Directors proposes that the following be distributed to shareholders:	
-Shareholders (SEK 0.85 per share)	129,019,800
The Board of Directors proposes that the following be carried forward	105,853,854
Total	**234,873,654**

The Board of Directors of engcon AB proposes that the Group's earnings and balance sheets will be presented to the Annual General Meeting for adoption on 4 May 2023. The Board of Directors proposes a dividend of SEK 0.85 (2.90) per share, distributed on two occasions (SEK 0.43 and SEK 0.42 per share respectively) with the record dates of 8 May and 2 October 2023. The payment dates are proposed to be 11 May and 5 October 2023, respectively.

The proposed dividend is justifiable in view of the requirements that the nature, scope and risks of the operations place on the amount of equity and the company's liquidity and general financial position. The dividend will not impact the company's ability to fulfil its current and long-term obligations or to implement necessary investments. Moreover, the Board believes that the company's financial position, in light of the proposed dividends, is satisfactory for creditors. Furthermore, the Board does not see any other circumstances that would prevent the dividend from being paid in accordance with the Board's proposal.

Risks and risk management

All business activities are associated with risks that could impact operations, earnings and financial position. engcon conducts a collective risk assessment annually in which risks are identified and graded based on probability and impact. The aim is to identify and prevent risks with action plans to limit negative impact on operations and to enable profitable growth.The risks are grouped based on strategic, business-related and financial risks, which includes sustainability-related risks. The risks that engcon has identified as most material to operations are described below together with measures to mitigate risks.

Risk	Description	Controls
Strategic risks	Strategic risks can impact our ability to implement our business strategies, reach our long-term targets and create value for our stakeholders. Strategic risks include both external and internal factors. These risks are identified and managed by the Board and Group management and are generally addressed at Board meetings.	
Market conditions and competition	engcon's products and solutions are used globally by companies that offer digging services to industries impacted by general economic conditions, such as the construction industry, which could impact demand from engcon's customers that primarily consist of dealers. Even if engcon's products and solutions are currently market leading, the competitive landscape could change in the form of more stringent requirements for certain products and for a sustainable offering.	Flexible manufacturing in which a large proportion of the components that are used in assembly of equipment are purchased from suppliers. Increased focus on product development to broaden the existing product portfolio and meet customer demand for digital solutions, electrification and services. Focus on global expansion to developed and stable countries to minimise geopolitical risk and reduce dependency on one market/region. Competitors and market development are carefully monitored. The current external environment, with uncertainty associated with the war in Ukraine and the global and competitive situation with increasing inflation and interest rates, has provided us with additional experience in terms of resilience, flexibility and the ability to manage a temporary downturn and allocate resources based on changing local conditions.

Strategic partnerships with OEMs	engcon strives to be an independent supplier of its products and services under its own brand to various original equipment manufacturers (OEMs). If OEMs were to decide to limit the availability of their machines through a closed interface or compatibility only with competing products, there is a risk that customers would not be able to choose engcon's full-range product suite, which could impact the company's sales and earnings.	engcon is conducting joint R&D projects with several OEMs both globally and for specific markets and strives to continually identify different strategic partnerships. These partnerships ensure that the machines are prepared for engcon's tiltrotator and other attachments. The local sales organisation works close to the end customers to market and demonstrate engcon's product suite and to proactively identify needs that improve and develop our products. This is an integrated part of product development and innovation.

Risk	Description	Controls
External risks	Political, macroeconomic and external events could have direct and indirect consequences on our market. Global trends can change the needs and behaviour of our customers.	We efficiently adapt operations in light of new conditions. A strong cash flow allows capital to be invested where needed, and we maintain a close relationship with our customers and dealers, enabling to rapidly identify new behaviour and any change in demand.
Corporate sustainability	Our business model and strategy must be sustainable in the long term for operations to be conducted responsibly. Sustainability aspects are important for ensuring the relevance and competitiveness of our external offering from a recruitment perspective and a financial perspective.	Our business model and business plan are routinely followed up by the Board and Group management. Active sustainability efforts in prioritised areas enable us to take responsibility for global and national sustainability targets and work towards science-based climate targets. For more information, refer to the Sustainability report, material sustainability-related risk aspects and management and outcomes 2022 on pages 20–29 and sustainability notes on pages 110–126.
Environment and climate	Climate change entails a risk of changes in regulations, taxes and prices for resources, pollution and access to natural resources such as energy, water and raw materials. Refraining from actively reducing environmental impact could have a negative impact on operations, either directly or by disrupting the supply chain. A lack of compliance with environmental regulations may lead to fines.	Active environmental work leading to reduced emissions and less consumption of resources limits the impact on the environment and climate. Regular risk assessments and clear environmental targets enable proactive initiatives to be carried out to minimise our impact. For more information, see the Sustainability report, material sustainability-related risk aspects and management and outcomes 2022 on pages 20–29 and sustainability notes of pages 110–126

Operational risks	Operational risks include risks that could have a direct negative impact on earnings and the financial position, and on our business in both the short and long term. These risks are continually identified and managed by the Board and Group management.	
Product development	An inability to develop, launch and market new products in response to customer requirements for productivity, safety and sustainability. Product development is also impacted by legislation in regards to issues involving emissions, noise, vibration, safety and recycling. The risk of existing products and solutions from engcon being replaced by alternatives from competitors.	engcon continually invests in R&D to develop products in line with the needs and demands of end customers, even during periods of low business activity. Product design with a lifecycle perspective and measurable efficiency and safety targets and recycling potential is applied to tiltrotators.
Production and supply chain	Unforeseen serious circumstances or interruptions that disrupt the company's production or supply chain caused by, for example, machine outages, shortages of components and raw materials, access to transportation, IT systems, weather conditions, fires or pandemics. The inability to delivery products or services in time to customers or other stakeholders, which could result in a decline in earnings or negative financial impact due to breaches of contract that could lead to compensation claims from customers.	The Group has guidelines for crisis management and a continuity plan in place. The Group continually plans for different risk scenarios for engcon's production units, weaknesses in the supply chain and dependency on IT systems. An expanded network of subcontractors to minimise supplier dependence and ensure that this network can handle changes in volume. Additional measures for strengthening the purchasing function and a build up of own stock to reduce dependency.

Risk	Description	Controls
Employees	Inability to attract and retain key competence and expertise to ensure innovation and high quality within product development.	Routine analysis of competence and requirements to ensure the availability of people with the requisite expertise. Active follow up of regular performance reviews. Employee surveys were implemented in 2022. Recruitment can take place externally as well as internally, partly through job rotation. Market-based salaries are linked to commercial targets and priorities. engcon strives to maintain healthy relationships with trade unions in Sweden, and collaborates with local schools and universities. Great value is also placed on preserving and further developing our strong corporate culture which, together with clear communication, promotes commitment, job satisfaction and rapid adjustment to new conditions.

Risk	Description	Controls
Health and safety	Non-compliance with health and safety regulations could lead to accidents that result in personal injury or that damage productivity and the engcon brand. A pandemic could impact the health of Group employees and weaken their ability to carry out their work.	Analyses and management of health and safety risks are carried out continually in operations. engcon places considerable focus on health and safety, and strives to increase awareness of the importance of prioritising safety through training and other recurring activities in the Group. Health and safety as the highest priority for employees and customers was strengthened during the pandemic, with the introduction of preventive measures and adaptations in production and out in the field in local markets.
Reputation and product liability	engcon's reputation, brand and business performance could be impacted by factors including customers losing confidence in the products and services supplied. This could be a result of quality flaws or a deterioration in delivery capacity and availability from both engcon and dealers. engcon is exposed to product liability and warranty claims should the company's products be defective or cause injury to a person or property. If a product is defective, the company is responsible in most cases to take measures or replace the defective products. engcon is also exposed to the risk of non-compliance by the company or any of its business partners with ethical, social, product, work, health, safety or environmental-related standards.	All products are carefully tested and quality assured. Clear processes and procedures for how complaints are to be managed are implemented, both internally and via dealers and other partners. engcon has a clear set of values that all employees are expected to act in accordance with. All employees are also expected to comply with the Code of Conduct, and all new employees must familiarise themselves with the Code of Conduct as part of their onboarding training.
Information security	Major IT incidents leading to significant downtime in critical operational IT systems or services. Incidents can be caused by cyberattacks and even lead to demand for ransoms and a loss of reputation.The inability to delivery products, services or information in time to customers or other stakeholders, which could lead to a decline in earnings or negative financial impact as a result of breaches of contract that could lead to claims for compensation from customers.	engcon works continually on IT security improvements, including a risk review of important business applications and networks to evaluate the resilience of business-critical systems and services. Security projects are continually ongoing with a focus on preventive measures and monitoring of firewalls and servers, as well as scanning of networks and implementation of penetration tests, which identify vulnerabilities that can be addressed by initiating preventive initiatives and activities to ensure stable and reliable IT infrastructure.

Risk	Description	Controls
Business ethics	All transactions and agreements should be entered into without the presence of any ethical ambiguity, such as threats, bribes or other unreasonable or unsound demands. Corruption must not occur. Even if clear guidelines and policies have been adopted and accepted by employees and suppliers, there is the risk that decisions are made that are in conflict with this.	We manage the risk of inappropriate actions by both employees and suppliers by setting clear conditions and routinely monitoring compliance with our guidelines and policies.Our employees receive regular training in our Code of Conduct.
Legislation and administration	The business is exposed to amendments to laws and regulations in various areas and countries. Obvious risks include errors and deficiencies in documentation and agreements. Insufficient and inappropriate procedures, a lack of proper reporting or checks, human error, skills shortages and unclear delegation of responsibilities comprise risks that could prevent operations from being run efficiently.	Amendments to, and forthcoming, legislation and regulations are continuously monitored. In the event of insufficient internal expertise, external expertise is called upon within specific areas. Clear procedures, guidelines and processes are established to counteract errors and deficiencies. These are evaluated and updated continually.
Financial risks	Financial risk management is crucial for long-term value creation and financial performance. Financial risks are regulated by the financial policy and any risks are identified and managed by the Board and Group management.	
Koncernens finansiering	Loans from credit institutions comprise the Group’s primary source of indebtedness. The level of indebtedness could have consequences for engcon’s operations and for investments, working capital and dividends. The company’s ability to manage its indebtedness is dependent on future earnings, which in turn are impacted by the prevailing economic climate and financial, commercial, regulatory and other factors.	The Group manages its capital to ensure that all units can continue to pursue operations and that shareholder returns are maximised by optimising the capital structure. The target is to maintain a balanced and flexible capital structure and to provide shareholders with a long-term, stable dividend. The Group manages short-term liquidity risk with a reserve that consists of unutilised facilities, cash and cash equivalents and short-term assets. The long-term liquidity risk is managed through continual forecasts and follow ups and by matching maturity profiles for financial assets and liabilities. The Group maintains close collaboration with a number of major Nordic commercial banks. For more information about market risks, foreign currency exchange risks, interest-rate risks, credit risks and capital risks, refer to Note 39.

Corporate governance report

Corporate governance refers to the rules and regulations and the structure that exists to effectively and in a controlled manner govern and lead operations in a limited liability company. The ultimate purpose of corporate governance is to satisfy shareholders' return requirements and to provide all stakeholders with adequate and accurate information about the company and its development.

Rules and regulations

engcon AB is a Swedish public limited liability company whose shares are listed on Nasdaq Stockholm. The governance of engcon is based on both internal and external rules and regulations. These are listed below. engcon has been subject to the Swedish Corporate Governance Code (the Code) since the company was listed on Nasdaq Stockholm on 17 June 2022. It is the opinion of the Board that engcon in all respects complied with the Code in 2022 and has no deviations to report.

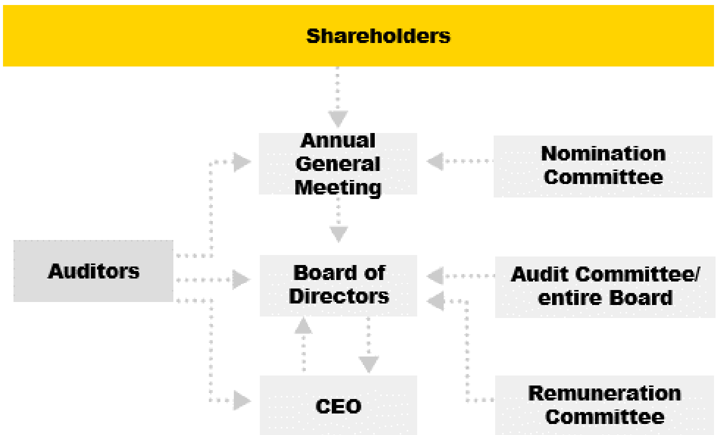
External rules and regulations

- Swedish Companies Act
- Swedish Annual Accounts Act and IFRS
- Nasdaq OMX Stockholm Rule Book for Issuers
- Swedish Corporate Governance Code
- Other relevant Swedish and foreign laws, rules and regulations.

Internal rules and regulations

- Articles of Association
- Instructions and formal work plan for the Board and CEO, respectively
- The company's Code of Conduct
- Internal guidelines, policies, handbooks and manuals

Corporate governance in engcon



Annual General Meeting

engcon's highest decision-making body is the Annual General Meeting which, together with any extraordinary general meetings, offers shareholders an opportunity to govern through their right of decision. The Annual General Meeting appoints the Board and the Chair of the Board and resolves on the fees to be paid to these. The Annual General Meeting establishes principles for the composition of the Nomination Committee and remuneration of senior executives. The Meeting also appoints auditors to examine the consolidated accounts, and the administration by the Board and the CEO. In addition, the Annual General Meeting adopts the annual accounts and the resolutions on the appropriation of profits and the granting of discharge from liability for the members of the Board and the CEO. Finally, the Annual General Meeting adopts the resolution on the approval of the Board's annual remuneration report.

The Annual General Meeting decides on:

- Adoption of annual accounts and appropriation of the company's profit or loss.
- The granting of discharge from liability for the members of the Board and the CEO.

- Election of the Board members and auditors.
- Remuneration of Board members and auditor.
- Guidelines for remuneration to senior executives.
- Approval of the Board's annual remuneration report.
- Other key matters.

Article of Association

In accordance with the Articles of Association, engcon is a public limited liability company with its registered office in Strömsund Municipality. The object of the company's operations is to, directly or indirectly through other wholly or partly owned companies, conduct development, production and/or sale of equipment and services to the construction industry and other related activities. The Board is elected each year at the Annual General Meeting and shall consist of at least three and at most ten members without deputies. The share capital shall amount to not less than SEK 21,250 million and not more than SEK 85,001 million. The number of shares shall amount to not less than 151,788,000 and not more than 607,152,000. Shares are issued in two classes designated as Class A shares and Class B shares. The number of votes for each Class A share shall be ten (10), and for each Class B share shall be one (1).

The Articles of Association are available in their entirety at www.engcongroup.com.

Share capital and shareholders

At year-end, engcon had 5,473 shareholders who held a total of 151,788,000 shares. On 17 June 2022, the company was listed on Nasdaq Stockholm. The share has a quotient value of SEK 0.14. The proportion of foreign shareholders as of 31 December 2022 was 10.5 per cent. The company's two largest shareholders on 31 December 2022 were Stig Engström, through the company Ommapo förvaltning AB, with 67.0 per cent of the votes and 35.4 per cent of the capital and Monica Engström, through the company Monen Holding AB, with 22.4 per cent of the votes and 32.0 per cent of the capital. Following these, Capital Group, Nordstjernan, Svolder AB, Handelsbanken Fonder and C WorldWide Asset Management were engcon's largest shareholders. The company's ten largest shareholders held a total of 96.7 per cent of the votes and 89.6 per cent of the capital.

2022 Annual General Meeting

The 2022 Annual General Meeting was held on 22 March 2022 in Strömsund. All shareholders were represented at the Meeting. The number of shares represented was 151,788,000, corresponding to 100 per cent of the total number of shares. The Annual General Meeting decided on:

- The adoption of the annual accounts and auditor's report as well as the consolidated financial statements and auditors' report on the consolidated financial statements and also to discharge the Board members and the CEO from liability for their management for the 2021 financial year.
- The election of Annika Bäremo, Monica Engström, Stig Engström, Bob Persson and Anna Stålenbring as Board members for the period until the next Annual General Meeting.
- Annika Bäremo was elected Chair of the Board.
- The adoption of dividends to shareholders in accordance with the Board's proposal. The record date was set as 22 March.
- The election of Deloitte AB as auditor, with Harald Jagner as auditor-in-charge.
- The adoption of remuneration of the Board and fees to auditors, and adoption of the Board's proposal for guidelines and principles of remuneration and other employment conditions for the company's senior executives.
- The adoption of principles regarding the appointment of the Nomination Committee ahead of the 2023 Annual General Meeting.
- The conversion of preference shares to Class B shares.
- The adoption of a new Articles of Association.
- The authorisation of the Board to resolve on a new issue of Class B shares in accordance with the Board's proposal.

In addition to the Annual General Meeting, extraordinary general meetings were held that resolved on matters relating to the intention to list engcon AB on Nasdaq Stockholm and on an extra dividend payment to shareholders in accordance with the Board's proposal.

Nomination Committee

In accordance with the instructions approved by the Annual General Meeting, the Nomination Committee shall be appointed each year in September and comprise at least three and not more than five members. The Chair of the Board is to be included in the Nomination Committee. Members are appointed by the three largest shareholders in the company in terms of voting rights as of 31 August each year. If any of the three largest shareholders in terms of voting rights does not exercise its right to appoint a member, the right to appoint such member is transferred to the next largest shareholder in terms of voting rights who does not already have the right to appoint a member of the Nomination Committee. The Chair of the Nomination Committee shall be the member representing the largest shareholder in terms of voting rights, unless the members decide otherwise. If during the Nomination Committee's period in office, one or more of the shareholders who have appointed members should cease to be among the three largest shareholders, the members appointed by these shareholders are to make their places available to the shareholder/shareholders who has/have instead become one of three largest shareholders. If a member of the Nomination Committee steps down during the course of the year, they are to be replaced by another representative from the same shareholder.

The Nomination Committee's assignment
Ahead of the 2023 Annual General Meeting, the Nomination Committee held two minuted meetings where all matters were addressed in accordance with Swedish Corporate Governance Code and the Nomination Committee instruction. The Nomination Committee has applied Rule 4.1 of the Code as its diversity policy when preparing its proposal. The policy is considered to be fulfilled. Matters discussed and considered by the Nomination Committee include:

- The degree to which the current Board, as a group and individually, meets the demands that will be placed on the Board as a result of engcon's operations and phase of development.
- The size of the Board.
- The areas of competence that are and should be present on the Board
- The composition of the Board in terms of experience, gender and background.
- Fees to Board members and possible remuneration for work on Board committees.
- The proposal for the appointment and remuneration of auditors and matters relating to fees to the auditor.
- The model that should be applied when appointing a new Nomination Committee ahead of the 2023 Annual General Meeting.

The proposals to be presented to the Annual General Meeting are:

- Meeting Chairman
- Board of Directors
- Chair of the Board
- Board fees subdivided between the Chair and other members of the Board as well as fees for committee work
- Auditors
- Fees for the company's auditors

The Nomination Committee's composition
In accordance with the Nomination Committee's instruction, engcon's Nomination Committee comprises: Monica Engström (Monen Holding AB), Peter Hofvenstam (Nordstjernan AB), Ulf Hedlundh (Svolder AB) and Chair of the Board Annika Bäremo. The Nomination Committee's Chair is Peter Hofvenstam. The members represent together approximately 41 per cent of the shares and about 25 per cent of the votes in the company as of 31 December 2022. Shareholders who wish to submit proposals to the Nomination Committee may do so by e-mail to valberedning@engcon.com

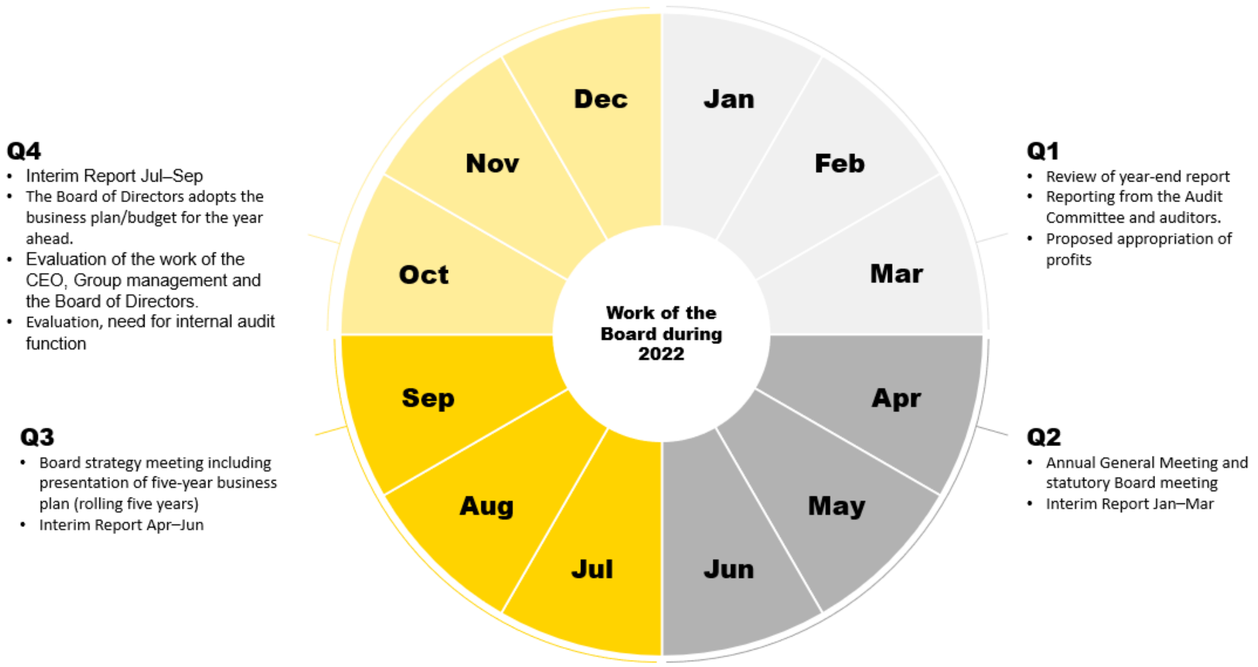
Board of Directors

Responsibility of the Board and Chair
The Board of Directors consists of at least three and at most ten members without deputies. The members are elected each year at the Annual General Meeting for the period until the next Annual General Meeting. The Board of Directors, which represents all shareholders, has the overall responsibility for the organisation and administration of the company. The responsibility includes developing and monitoring the company's strategies and goals, regularly following up the company's performance and financial position and establishing business plans and annual accounts. The Board also has the task of ensuring that there is satisfactory control of the company's compliance with laws and regulations, and of appointing the CEO, adopting the instructions for the CEO and monitoring the day-to-day management of the company. Decisions on major investments and appointments and replacements in Group management are further areas of responsibility. The Chair is responsible for ensuring that the Board executes its assignment in a well-organised and efficient manner.

The Board of Directors' remuneration and attendance 2022

Name	Born	Elected	Dependant/ independant	Board meetings	Remuneration Committee	Audit Committee	Fees, SEK 000s
Annika Bäremo	1964	2022	Independent	13/13	1/1	6/6	580
Anna Stålenbring	1961	2022	Independent	13/13	-	6/6	320
Bob Persson	1950	2022	Independent	13/13	1/1	-	275
Stig Engström	1963	2003	Dependent	13/13	-	-	250
Monica Engström	1958	2004	Independent	13/13	-	6/6	290

Work of the Board during the year



The Board follows a written formal work plan that is reviewed annually and adopted by the statutory Board meeting every year. The formal work plan regulates, among other things, the Board's functions and the division of work between Board members and the CEO. During the first Board meeting, the Board also established instructions for financial reporting and instructions for the CEO. The Board meets in accordance with an annual schedule that is determined in advance. In addition to these meetings, additional meetings may be held to address issues that cannot be referred to an ordinary meeting. In addition to the Board, the Chair of the Board and CEO maintain regular dialogue concerning the management of the company. Examples of ordinary matters addressed by the Board during the year include company-wide policies, overall strategy plans, formal work plan for the Board, capital structure and financing requirements, sustainability work, operating model and organisational matters as well as the process for related party transactions. Future-oriented questions relating to market assessments, the direction of business operations, gender issues and organisational matters were also discussed. In addition to the aforementioned matters, the Board also focused on the global geopolitical turbulence during the year, and its impact on the company's strategies and operating activities. During the year, the Board of Directors adapted operations based on prevailing circumstances, including its strategies for purchasing and inventory management, financing and credit provisions.

Evaluation of the Board's work

In accordance with the company's formal work plan, the Chair ensured that the Board's work was evaluated, and that the Nomination Committee's Chair was informed of the result of this evaluation ahead of the Committee's nomination work. The evaluation comprises a number of predefined and open questions that each Board member answers individually.

Audit Committee

The Audit Committee is appointed each year and consists of three members from the Board. During the year, the Audit Committee comprised Anna Stålenbring (Chair), Annika Bäremo and Monica Engström. The Committee's work is established in the Board's formal work plan. The Audit Committee is responsible for the quality assurance of the company's financial statements and for ensuring the efficiency of the company's internal control and risk management. Part of the assignment is also to remain informed about the audit of the annual accounts and consolidated financial statements. The Audit Committee ensures the auditor's impartiality and independence, evaluates the work performed by the auditors and informs the company's Nomination Committee of the result of this evaluation. The company's auditor attended four meetings during the year to report their observations when reviewing and assessing the company's internal control of the financial reporting. In addition, the Audit Committee assists the Nomination Committee in preparing proposals for auditors and remuneration of these. As part of this, the Committee is to monitor that the auditor's term does not exceed applicable rules, procure the audit and submit an explanatory recommendation pursuant to the procedure stated in Article 16 of the Audit Regulation.

Remuneration Committee

The Remuneration Committee is appointed each year and consists of two representatives from the Board. During the year, the Remuneration Committee comprised Annika Bäremo (Chair) and Bob Persson. The assignment involves, within the framework of the guidelines adopted by the 2022 Annual General Meeting, developing proposals concerning remuneration to the CEO. In 2022, the Remuneration Committee held one meeting, during which a review of the guidelines for remuneration to senior executives was discussed. For more information, see the Principles for remuneration and Note 5.

Auditors

The Annual General Meeting appoints one or two auditors with a maximum of two deputies for the audit of the company's annual report, accounts as well as its administration by the Board and the CEO. At the 2022 Annual General Meeting, Deloitte AB was elected with Harald Jagner as auditor-in-charge for the period until the 2023 Annual General Meeting. The auditor's fees are specified in Note 6.

Responsibility of Group management and CEO

At the end of 2022, Group management comprised CEO Krister Blomgren, CFO Jens Blom, Head of Sales Anders Smith, Head of Development Fredrik Jonsson, CIO Peter Huczkowsky, Head of Communications and IR Anne Vågström, Head of Human Resources Mikael Persson and Head of Production & Purchase Kristian Sjöström. This work is led by the CEO in accordance with applicable instructions that are established annually at the statutory meeting.

The assignment includes regular presentations of relevant information and decision data at Board meetings and motivating proposals for decision. Each year, the Board evaluates the CEO's work in accordance with instructions and applicable requirement specifications. Group management holds meetings about once per month, when strategic and operative matters are discussed. Moreover, every year Group management draws up a business plan and budget. This is followed up in monthly reports when the review focuses on the earnings trend, sustainability, order intake and growth.

Guidelines for remuneration to senior executives

The Annual General Meeting in 2022 resolved, in accordance with the Board's proposal, on the guidelines for remuneration to senior executives. The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the 2022 Annual General Meeting. The General Meeting may also resolve on other remuneration, such as share price-related remuneration, regardless of the provisions in these guidelines, if particular reasons exist and it is considered necessary to satisfy the company's long-term interests and sustainability or to ensure the company's economic viability. Remuneration and benefits to the CEO must be decided by the company's Board.

Variable remuneration to other senior executives is determined by the CEO with the support of the company's Remuneration Committee.

engcon's business strategy, long-term interests and sustainability
engcon's business concept is to directly or indirectly through other wholly or partly owned companies, conduct development, production and/or sale of equipment and services to the construction industry. As a global supplier of tiltrotator solutions, engcon strives to create long-term value for our end customers, shareholders and society at large. We want to contribute to and drive the industry's transition to more sustainable and resource-efficient digging. A prerequisite for the successful implementation of the business strategy and safeguarding of its long-term interests is that the company is able to recruit and retain qualified personnel. The remuneration of employees must be market-based and competitive and stand in relation to responsibilities and authorities. For more information about the business strategy, see page 10.

Decision-making process for establishing, evaluating and applying the guidelines
The Annual General Meeting's decision on the proposal for guidelines for remuneration of senior executives is prepared by the Remuneration Committee. In accordance with the Companies Act, proposals for guidelines are to be prepared by the Board of Directors at least every fourth year. The proposal is presented for a decision at the Annual General Meeting. Guidelines adopted by the Annual General Meeting apply until new guidelines have been approved by the Meeting. The Board is to prepare a proposal for new guidelines when the need arises for substantial changes in the guidelines.

The Remuneration Committee is tasked with monitoring and evaluating ongoing and concluded programs during the year for variable remuneration for the executive management and applicable remuneration levels and remuneration structures at the company. The Remuneration Committee shall also prepare, within the framework of guidelines adopted by the Annual General Meeting, proposals for remuneration of the CEO and other senior executives. Senior executives do not participate in the Board's processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

Fixed salary and incentive programmes
In addition to a fixed cash salary, incentive programmes with an option of variable cash remuneration may be offered to the company's senior executives. Fixed cash salary and variable remuneration from the incentive programme must be adopted for each financial year.

The variable cash remuneration shall be linked to predetermined and measurable criteria which can be financial or non-financial. They can also consist of individually adapted quantitative or qualitative targets. The criteria shall be designed to contribute to engcon's business strategy and long-term interests, including its sustainability. The Board, with support from the Remuneration Committee, is responsible for the evaluation of variable cash remuneration to the CEO. For variable cash remuneration to other senior executives, the CEO is responsible for the evaluation, supported by the Remuneration Committee. The variable remuneration of a senior executive may not exceed 50 per cent of the total annual cash salary.

engcon has an incentive programme in the form of a warrant programme for all employees that was introduced in 2021. The purpose of the programme is to encourage broad-based share ownership amongst the company's employees, facilitate recruitment, retain competent employees and increase motivation to reach or exceed the company's financial targets. As of 31 December, 219 employees were participating in the warrant programme. A total of 1,517,880 warrants were issued, of which 1,312,285 were subscribed for as of 31 December. For more information, refer to Note 40.

Non-monetary benefits
Senior executives have the right to a company car. In addition to company cars, senior executives receive, as is the case with other employees at the company, benefits of lesser value.

Notice of termination and retirement age
The notice period between the company and the CEO is 12 months when notice is given by the company and a notice period of six months when notice is given by the CEO. For other senior executives, employment is subject to a mutual notice of termination of three to six months between the employee and the company.

The CEO has the right to a company car and to insurance and defined contribution pension benefits. The defined contribution pension shall amount to a maximum of 35 per cent of the fixed annual cash salary. The CEO's variable cash remuneration shall not qualify for pension benefits. The retirement age for the CEO is 67.

Other senior executives have the right to a company car. During employment at the company, other executives have to the right to defined contribution pension benefits under collective bargaining agreements applicable at any time. The defined contribution pension shall amount to a maximum of 35 per cent of the fixed annual cash salary. Variable cash remuneration can qualify for pension benefits to the extent provided for in mandatory collective agreement rules or individual employment agreements. The retirement age for other senior executives is in accordance with current regulations.

Consideration of salaries and employment terms and conditions among the company's employees
The Board considers the salary and employment terms and conditions of the company's employees when preparing proposals for remuneration guidelines by including information amount total employee remuneration, remuneration components and the increase – and rate of increase – in remuneration over time in the decision-making data used by the Remuneration Committee and Board to evaluate the reasonableness of the guidelines and their limitations.

Remuneration in 2022
The CEO received a fixed remuneration of SEK 3,048,000, variable remuneration of SEK 675,000, other benefits of SEK 142,000 and pension provisions of SEK 768,000. Other senior executives receive total fixed remuneration of SEK 7,333,000, variable remuneration of SEK 1,578,000, other benefits of SEK 680,000 and pension provisions of SEK 1,274,000. The other senior executives group, which pertains to Group management, including the CEO, comprised eight people. For more information, refer to Note 7.

Ahead of the 2023 Annual General Meeting

The Board believes that the existing guidelines for remuneration to senior executives fulfil their purpose well, and as such, no changes will be proposed ahead of the 2023 Annual General Meeting.

The Board on internal control

The Board is responsible for ensuring that engcon has effective internal control. Quality assurance is carried out by the Board addressing critical accounting matters, as well as financial statements submitted by the company. Matters addressed include compliance with applicable laws and regulations, material uncertainties in carrying amounts, any misstatements that are not corrected, events after the balance sheet date, changes in estimates and assessments, any confirmed irregularities, and other circumstances that affect the quality of the financial statements. The internal control follows the established Internal Control – Integrated Framework, COSO. The components of the framework are: control environment, risk assessment, control activities, information, communication and monitoring activities.

Control environment
Efficient Board work is fundamental for good internal control. The Board has therefore adopted a formal work plan with associated work processes to create clear guidelines for the Board's work. The Board is responsible for preparing and approving a number of basic guidelines and frameworks related to the company's financial statements. The company's governing documents are the corporate governance policy, CEO instructions, financial policy and the financial manual. The instructions are followed up and revised on an ongoing basis and communicated to all employees who are involved in financial reporting. All of this aims to create a basis for good internal control. The Board continuously evaluates the performance and result of operating activities through an adapted reporting package containing the income statement report and developed key performance indicators as well as other material operational and financial information. In its Audit Committee role, it monitors the systems for risk management and internal control during the year. This ensures that operations are effective and conducted in accordance with relevant laws and regulations, and that the financial reporting is reliable. The Audit Committee and Board have studied and evaluated the procedures for accounting and financial reporting and followed up and evaluated the work, qualifications and independence of the external auditors. In 2022, the Audit Committee participated in a review with and received a written report from the company's external auditors.

Risk assessment
engcon continuously and actively works with risk assessment and risk management. This is to ensure that identified risks are managed in an appropriate manner within established frameworks at an early stage. engcon's Group management performs an annual analysis of risks that are assessed on the basis of a given classification. The risk assessment considers procedures relating to, for example, the company's administrative procedures, invoicing and intra-Group profits and cut-off dates related to inventory. Balance sheet and profit/loss items, where there is a risk of material error, are reviewed regularly.

Control activities
In all parts of the accounting and reporting process, control activities are continuously carried out to manage the risks

the Board considers material for the internal control of the financial statements. Control activities include reporting decision processes and decision-making procedures for important decisions on, for example, major investments, inventory levels, measurement of receivables, financing agreements and ongoing contracts. Another control activity is the review of financial statements presented. An organisation with a clear allocation of responsibilities and clear procedures and work roles forms the basis of the company's control structure.

Information and communication
The company's overriding governing documents, such as guidelines and manuals, are continuously updated and available on the company's intranet and in the document library Ativa. The company has developed an intranet to increase transparency and inclusion through a better structure, search functionality and communication functions. The company's external communication is carried out in accordance with engcon's communication policy, which specifies guidelines to ensure that engcon complies with prevailing information obligations.

Long-term value creation
The creation of long-term value can only be achieved if operations are run with a sustainability focus. Sustainability work involves environmental consideration, such as reducing resource use and good control of activities, and also social responsibility, by contributing to the development of the regions in which engcon operates. This work also entails ensuring a good work environment for employees. Sustainability initiatives are conducted in cooperation with customers, suppliers and other stakeholders, which is a prerequisite for success. The sustainability report can be found on pages 20–29 and sustainability notes can be found on pages 110–126. Guidelines for how value-creating sustainability work is conducted are presented in the company's sustainability policy and Code of Conduct. The engcon Board is regularly briefed on the progress of this work.

Follow-up
The internal control is continuously followed up at subsidiary, regional and Group level. The Board receives an update from the company's auditor of the current situation at least once each year. This takes place without the presence of the CEO or other member of Group management. The Board also ensures the company's auditors conduct a review of the financial statements for the third quarter. An annual evaluation is performed of the need to appoint a separate function for the internal audit. To date, the assessment is that there has been little need for this. engcon's finance operations and its financial administration are centrally managed, which means that procedures and processes are uniform. This also enables different parts of the functions to review each other's processes, all of which increases and improves internal control. The follow-up of earnings and balance sheet items is conducted on a monthly basis, by white-collar personnel, Group management, the Audit Committee and the Board. The Audit Committee and the Board review interim reports and the annual report before publication. The Audit Committee is also kept informed of risk management, internal control and financial statements by the auditors. In addition, a whistleblower service has been created that is available on the company's intranet and at www.engcon.com. The service is managed by an external party where anonymous reports can be submitted regarding irregular events in operations. The matters are investigated externally by an independent party who subsequently reports to Group management or the Head of HR.

Board of Directors

Annika Bäremo
Born 1964. Chair of the board and board member since 2022. Chair of the Remuneration Committee and member of the Audit Committee.

Education: Law degree from Uppsala University.

Other ongoing assignments: Senior Vice President and General Counsel at Saab. Chair of the Board of Teknikforetagens juridikstyrelse. Board member of Saab Dynamics AB.

Holdings in the Company: 5,650 shares

Independent in relation to the company and Group management, and independent in relation to major shareholders.

Stig Engström
Born 1963. Board member since 2003.

Education: Four-year technical education at Hjalmar Strömerskolan in Strömsund.

Other ongoing assignments: Assignments as Chair of the Board, CEO and Board member of several companies within the engcon Group. Chair of the Board of Aktiebolaget Mähler & Söner. Board member of Drivex AB, Mähler International AB and Ommapo förvaltning AB.

Holdings in the Company: 29,037,204 class A shares and 24,735,396 class B shares (through a company).

Not independent in relation to the company and Group management, not independent in relation to major shareholders.

Monica Engström
Born 1958. Board member since 2004. Member of the Audit Committee.

Education: Secondary school studies in economics and certified board training from StyrelseAkademien.

Other ongoing assignments: Assignments as Board member of several subsidiaries within the engcon Group. Chair of the Board of Hotel Nordica i Strömsund AB. Board member and CEO of Monen Holding AB and Chair of the Board, CEO and Board member of several of the Group’s subsidiaries. Board member of JIT Mech se Industri Aktiebolag and Chair of the Board and Board member of several of the Group’s subsidiaries. Board member of Aktiebolaget Mähler & Söner, Mähler International AB and Rörströmsälvens Natur & Fiske Upplevelser AB. Board member of non-profit association IBK Strömsund.

Holdings in the Company: 6,307,574 class A shares and 42,212,226 class B shares (through a company).

Independent in relation to the company and Group management, not independent in relation to major shareholders.

Bob Persson
Born 1950. Board member since 2022. Member of the Remuneration Committee.

Education: Economics studies at Umeå University.

Other ongoing assignments: Chair of the Board and part owner of AB Persson Invest.

Chair of the Board of Diös Fastigheter AB (publ).

Board member of Relog AS.

Holdings in the Company: –

Independent in relation to the company and Group management, and independent in relation to major shareholders.

Anna Stålenbring
Born 1961. Board member since 2022. Chair of the Audit Committee.

Education: Bachelor of Business Administration from Växjö University, Strategic Finance from IMD Lausanne, Switzerland, and Advanced Management Programme from INSEAD, France.

Other ongoing assignments: Owner and Board member of A Advisory AB. Board member of Bostadsrattsforeningen Aspholmsparken, FM Mattsson Mora Group AB (publ), Infobric Group AB (publ), Investment Aktiebolaget Chiffonjén, Lammhults Design Group AB (publ), Troax Group AB (publ) and VBG GROUP AB (publ).

Holdings in the Company: 5,650 shares

Independent in relation to the company and Group management, and independent in relation to major shareholders.

Group management

Krister Blomgren
Born 1967. President and CEO since 2011.

Education: Master's Degree in Economics from Mid Sweden University in Östersund.

Other ongoing assignments: Assignments as Chair of the Board and Board member of several companies within the engcon Group. Owner and Board member of KB24 Consulting i Östersund AB.

Holdings in the Company: 1,259,400 class B shares (through a company) and 91,000 warrants.

Kristian Sjöström
Born 1971. Head of Production and Purchasing since 2022.

Education: Master of Science in Mechanical Engineering from the Royal Institute of Technology in Stockholm. Professional Engineering licence from Utah, US.

Holdings in the Company: 3,000 class B shares

Peter Huczkowsky
Born 1974. CIO since 2015

Education: Master's degree in Computer Science from the Royal Institute of Technology in Stockholm.

Holdings in the Company: 1,058,400 class B shares (through a company) and 91,000 warrants.

Fredrik Jonsson
Born 1971. Head of Development since 2007

Education: Four-year technical education at Hjalmar Strömerskolan in Strömsund. Officers' College at the Army Technical School and studies at the Military Academy at Karlberg, as well as the Tactical Programme at the Army Technical School.

Holdings in the Company: 37,500 warrants.

Mikael Persson
Born 1968. Head of Human Resources since 2007.

Education: Leadership studies and training courses in the Swedish Armed Forces.

Holdings in the Company: 45,536 warrants.

Anne Vågström
Born 1974. Head of Communications & Investor Relations since 2021.

Education: Master's degree in Sociology from Umeå University.

Holdings in the Company: 47,500 warrants.

Anders Smith
Born 1985. Head of Sales since 2022

Education: Bachelor's degree in Financial Management, Master's degree in Industrial Financial Management and Master's degree in Management from the Gothenburg School of Economics.

Holdings in the Company: 91,000 warrants.

Jens Blom
Born 1973. CFO since 2022.

Education: Bachelor of Science in Business and Economics from Mid Sweden University in Östersund.

Holdings in the Company: 1,000 class B shares and 18,000 warrants.

Financial overview

Consolidated financial statements

Consolidated income statement

SEK million	Note	2022	2021
Continued operations			
Net sales	4, 5	1,938	1,488
Cost of goods sold		-1,105	-862
Gross profit		**833**	**626**
Selling costs		-235	-165
Administrative costs	6	-150	-84
Research and development costs		-28	-63
Fair value, derivates		-7	-
Other operating income ande operating expenses	9	2	11
Operating profit	15	**415**	**325**
Profit/loss from financial items		-	-
Profit share from associated companies		-	1
Financial income	11	13	17
Financial expenses	12	-13	-2
Profit/loss before tax		**415**	**341**
Income tax	13	-90	-72
Profit/loss for the period from continuing operations		**325**	**269**
Profit/loss from discontiunued operations	14	**-**	**44**
Total profit/loss for the period		**325**	**313**
Profit/loss for the period from continuing operations			
Attributable to:			
Parent company shareholders		305	249
Non-controlling interest		20	20
Total profit/loss for the period			
Attributable to:			
Parent company shareholders		305	293
Non-controlling interest		20	20
Earnings per share, continuing operations (SEK)			
Basic		2.01	1.64
Diluted		2.01	1.64
Earnings per share, total, incl. discontinued operations (SEK)			
Basic		2.01	1.93
Diluted		2.01	1.93

Consolidated statement of comprehensive income

SEK million	Note	2022	2021
Profit for the year		**325**	**313**
Other comprehensive income			
Items that may be reversed to profit or loss:			
Exchange-rate differences upon translation of foreign operations	28	11	3
Total comprehensive income for the year		**336**	**316**
Attributable to:			
Parent company shareholders		314	295
Non-controlling interest		22	21

Consolidated balance sheet

SEK million	Note	31/12/2022	31/12/2021
Assets			
Fixed assets			
Goodwill	16	20	20
Other intangible assets	17	35	-
Right-of-use assets	18	69	49
Property plant and equipment	19	141	149
Participations in associates and joint ventures	20	-	-
Other non-current receivables		2	5
Derivates		-	-
Deferred tax receivables	21	-	2
Total non-current assets		**267**	**225**
Current assets			
Inventories	22	443	303
Accounts receivable	23	347	208
Current tax assets		27	3
Other receivables	24	29	24
Prepaid expenses and accrued income	25	43	22
Cash and cash equivalents	37	30	228
Total current assets		**919**	**788**
Total assets		**1,186**	**1,013**
Equity and liabilities			
Share capital	26,40	21	21
Other contributed capital	27	6	6
Translation reserve	28	14	4
Retained earnings including profit for the year	29	425	560
Equity attributable to Parent company shareholders		**466**	**591**
Non-controlling interest	30	35	22
Total equity		**501**	**613**
Non-current liabilities			
Borrowings	31	4	8
Deferred tax asset	21	8	-
Lease liabilites	32	55	36
Provisions product warranty	33	30	23
Total non-current liabilities		**97**	**67**
Current liabilities			
Trade payables	34	146	94
Current tax liabilities		109	61
Lease liabilites		17	11
Borrowings	31	52	67
Overdraft facility	31	136	-
Derivates		7	-
Other liabilities	35	42	34
Accrued expenses and deferred income	36	79	66
Total current liabilities		**588**	**333**
Total interest bearing debt		**685**	**400**
Total equity and liabilities		**1,186**	**1,013**

Consolidated statement of changes in equity

SEK million	Share capital	Other contributed capital	Translation reserve	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interest	Total equity
Opening balance 1 january 2021	**1**	**-**	**-8**	**538**	**531**	**30**	**561**
Profit/loss for the year	-	-	-	293	293	20	313
Other comprehensive income	-	-	12	-10	2	1	3
Total comprehensive income	**-**	**-**	**12**	**283**	**295**	**21**	**316**
Transactions with shareholders:							
Bonus issue	20	-	-	-20	-	-	-
Employee share option programme	-	6	-	-	6	-	6
Dividends to shareholders	-	-	-	-241	-241	-29	-270
Total comprehensive income	**20**	**6**	**-**	**-261**	**-235**	**-29**	**-264**
Closing balance 31 December 2021	**21**	**6**	**4**	**560**	**591**	**22**	**613**

SEK million	Share capital	Other contributed capital	Translation reserve	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interest	Total equity
Opening balance 1 january 2022	**21**	**6**	**4**	**560**	**591**	**22**	**613**
Profit/loss for the year	-	-	-	305	305	20	325
Other comprehensive income	-	-	10	-	10	1	11
Total comprehensive income	**-**	**-**	**10**	**305**	**315**	**21**	**336**
Transactions with shareholders:							
Dividends to shareholders	**-**	**-**	**-**	-440	-440	-8	-448
Total transactions with shareholders	**-**	**-**	**-**	**-440**	**-440**	**-8**	**-448**
Closing balance 31 December 2022	**21**	**6**	**14**	**425**	**466**	**35**	**501**

Consolidated statement of cash flows

SEK million	Note	2022	2021
Operating profit		**415**	**325**
Discontiued operations, operating profit/loss		-	9
Adjustments for non-cash items:			
Amortisation and depreciation		39	38
Provision		7	3
Translation difference		24	3
Other adjustments		8	-
Interest received		28	5
Interest paid		-17	-4
Income tax paid		-55	-48
Cash flow from operating activites before changes in working capital		**449**	**331**
Changes in working capital			
Decrease/Increase in inventories		-140	-132
Decrease/Increase in trade receivables		-139	-56
Decrease/increase in other receivables		-26	-13
Increase/decrease in trade payables		52	16
Increase/decrease in other liabilities		20	29
Cash flow from (-used in) operating activities		**216**	**175**
Investing activities			
Acquistion of intangible assets		-35	-
Acquistion of tangible assets		-12	-12
Sale of financial assets		2	5
Cash flow from (-used in) investing activities		**-45**	**-7**
Financing activities			
New borrowing and change in overdraft facility		136	87
Loan repayments		-33	-90
New issue		-	6
Dividends to shareholders		-448	-163
Cash flow from financing activities		**-345**	**-160**
Cash flow for (-used in) the period		**-174**	**8**
Cash and cash equivalents at beginning of period		**228**	**209**
Exchange rate fluctuations in cash and cash equivalents		-24	11
Cash and cash equivalents at the end of period	37	**30**	**228**

Consolidated notes

Note 1 Other information

engcon AB (publ), Corp. Reg. No. 556647-1727, is a limited company registered in Sweden with its registered office in Strömsund. The address of the head office is Godsgatan 6, SE-833 36 Strömsund.

The primary operations of the company and its subsidiaries (the "Group") is the design, production and sale of excavator tools. The composition of the Group is presented in the Parent Company's Note 9.

The financial statements are presented in millions of Swedish kronor (SEK million).

The totals presented in tables and calculations are not always the exact sum of the different parts due to rounding differences. The goal is for each figure to correspond to the source, and therefore rounding differences may occur.

Note 2 Key accounting policies

Basis of preparation
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU and the interpretations of the IFRS Interpretations Committee (IFRIC). Furthermore, the Group applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Corporate Groups.

The financial statements have been prepared based on cost, except for financial instruments measured at fair value at the end of each reporting period, which is described in more detail in the accounting policies below.

New and amended standards
No new or amended standards that came into force in 2022 had any material impact on the Group's financial statements.

New and amended standards that have not yet come into force
New standards, amendments to standards and interpretations that have not yet come into force have not been applied in advance.

Amendment to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendment provides an additional exception to the previously applicable exception upon initial recognition of an asset or a liability. The amendment entails that a company is not to apply the exception for recognising deferred tax related to a transaction that gives rise to equal taxable and deductible temporary differences, but rather recognises both deferred tax assets and tax liabilities. Such transactions also include right-of-use assets and lease liabilities recognised under IFRS 16 and provisions and assets recognised in connection with restoration obligations.

This and other new standards, amendments to standards and interpretations that have not yet come into force are not deemed to have any material impact on engcon's financial statements.

Consolidated financial statements
The consolidated financial statements encompass the company's financial statements and the entities (subsidiaries) over which the company has control as per 31 December of every year. Control is achieved when the Group:

- controls an investee;
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to affect those returns through its power over the investee.

The Group makes a new assessment of whether control exists if facts and circumstances indicate changes to one or more of the three criteria for control listed above.

A subsidiary is consolidated when the company has control over the subsidiary and ceases when the company loses control of the subsidiary. Earnings from subsidiaries acquired or divested during the year are included in profit or loss from the date on which the company gains control over the subsidiary and until the date on which control over the subsidiary ends.

If necessary, the subsidiaries' financial statements are adapted to adjust the accounting policies used to the Group's accounting policies.

All intra-group assets and liabilities, equity, revenue, costs and cash flows that pertain to transactions between companies within the Group are eliminated on consolidation.

A Parent Company is to recognise non-controlling interests in the consolidated statement of financial position in equity, separated from equity for the Parent Company owners. For each business combination, the acquirer shall, at the time of the acquisition, measure non-controlling interests in the acquired company at either fair value or the proportional share of the current ownership instrument in the carrying amount of the identifiable net assets of the acquired company. The choice of valuation method is made for each business combination. All other portions of non-controlling interests shall be measured at fair value at the date of the acquisition. After the acquisition, the carrying amount of non-controlling interests constitutes the amount from the initial recognition plus the share of the holdings in subsequent changes in equity.

A company must attribute profit or loss and all other changes in the net assets to the Parent Company's owners and holders without controlling influence. The company must also attribute the comprehensive income to the Parent Company's owners and non-controlling holders, even if this means that non-controlling holders receive a negative balance.

If the share of non-controlling interest changes, the company must adjust the carrying amounts of the controlling and non-controlling interests so that they reflect the changes in their relative holdings in the subsidiary. Any difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid or received must be recognised directly in equity and distributed to the Parent Company's owners.

When the Group loses controlling influence over a subsidiary, the profit or loss of the disposal is calculated as the difference between (i) the sum of the fair value of the consideration received and the fair value of any remaining holdings and (ii) the previous carrying amounts of the subsidiary's assets (including goodwill), and liabilities and any non-controlling interests. All amounts previously reported in other comprehensive income in relation to the subsidiary are recognised as if the Group had directly disposed the attributable assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another equity item in accordance with the applicable IFRS). The fair value of remaining holdings in a previous subsidiary shall be considered as the fair value at initial recognition of a financial asset according to IFRS 9, or, where applicable, the acquisition value at initial recognition for holdings in an associated company or joint venture.

Business combinations

Business combinations are recognised according to the acquisition method. The consideration transferred in a business combination is to be measured at fair value, which is to be calculated as the sum of the fair values of the assets transferred by the acquirer at the acquisition date, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer. Acquisition-related costs are recognised in profit or loss as they arise.

On the acquisition date, the identifiable assets acquired or liabilities assumed are to be measured at fair value, except:

- deferred tax assets or tax liabilities and assets and liabilities related to employee benefit arrangements are recognised and valued in accordance with IAS 12 and IAS 19, respectively;
- liabilities or an equity instrument for the acquired company's share-based payment transactions or the exchange of the acquired company's share-based payment transactions for the Group's share-based payment transactions using the method in IFRS 2 Share-based Payment at the acquisition date (see below); and
- assets (or disposal groups) classified as held for sale in accordance with IFRS 5 are measured according to that standard.

Goodwill is calculated as the difference between the transferred consideration, the amount of any non-controlling interests in the acquired company, the fair value of the acquirer's previous equity interests in the acquired company and net at the acquisition date of the amounts of the identifiable assets acquired and liabilities assumed.

When the consideration transferred from the Group in a business combination includes contingent consideration, the contingent consideration shall be measured at fair value at the acquisition date and included in consideration transferred for a business combination. Changes in the fair value of the contingent consideration that is deemed to exist during the measurement period are adjusted retroactively, with corresponding adjustment of goodwill. Adjustments during the measurement period are adjustments arising from new information obtained during the measurement period (which may not exceed one year from the acquisition date) regarding facts and circumstances that existed at the acquisition date.

The subsequent recognition of changes in the fair value of the contingent consideration that do not meet the requirement for adjustments during the measurement period depends on how the contingent consideration is classified. Contingent consideration classified as equity shall not be remeasured at the subsequent balance sheet date and the subsequent settlement shall be recognised in equity. Other contingent consideration shall be remeasured at fair value at each balance sheet date and changes in fair value shall be recognised in profit or loss.

In the event of a step acquisition, the Group shall remeasure the previous equity interests in the acquired company at its fair value at the acquisition date and recognise any gain or loss that has arisen in profit or loss. Amounts from holdings in the acquired company prior to the acquisition date previously recognised in other comprehensive income shall be reclassified to profit or loss on the same basis as would be required if the holding had been sold.

If the initial recognition of a business combination is incomplete at the end of the reporting period in which the acquisition takes place, the acquirer shall recognise the preliminary amounts for the items for which the recognition is incomplete in its financial statements. During the measurement period (see above), the acquirer shall retroactively adjust the preliminary amounts or recognise additional assets and liabilities to reflect new information about the facts and circumstances that existed at the acquisition date and which, had they been known, would have affected the calculation of the amounts recognised at that time.

Goodwill

Goodwill is measured and recognised initially as above. Goodwill is not amortised but tested for impairment at least annually. In testing for impairment, goodwill is to be allocated to each of the Group's cash-generating units (or groups of cash-generating units) which are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is to be tested for impairment annually, and whenever there is an indication that the unit may need to be impaired. If the unit's recoverable amount is lower than the unit's carrying amount, the impairment loss shall first be allocated by reducing the carrying amount of goodwill attributed to the unit and then by reducing other assets proportionately based on the carrying amount of each asset in the unit. A recognised impairment of goodwill shall not be reversed in subsequent periods.

Upon disposal of a cash-generating unit, goodwill attributable to the cash-generating unit is to be included in the profit or loss on the disposal

Holdings in associated companies

An associated company is a company, which is not a subsidiary or holding in a joint venture, over which the Group has a significant influence. Significant influence means the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies.

The earnings and the assets and liabilities from associated companies have been incorporated in this Annual Report using the equity method, except when the investment is held for sale, this is then recognised in accordance with IFRS 5.

According to the equity method, a holding in an associated company is initially recognised at cost and the carrying amount is then increased or reduced to consider the owner company's share of the investee's earnings after the acquisition date. When the Group's share of losses in an associated company exceeds the Group's holdings in the associated company (which includes long-term holdings which, by their nature, constitute a part of the Group's net investments in the associated company), the Group ceases to recognise its share of future losses. Additional losses are recognised only to the extent that the Group has legal or constructive commitments or has made payments to the associated companies.

A holding is recognised according to the equity method from the date it becomes an associated company. Any difference at the time of the acquisition in the cost of the holding and the owner company's share of the fair value net of the associated company's identifiable assets and liabilities is recognised as goodwill, which is included in the carrying amount of the holding. Any part of the owner company's share of the fair value net of the associated company's identifiable assets and liabilities that exceed the cost of the holding is included as revenue when determining the owner company's share of the associated company's earnings for the period during which the acquisition took place.

The requirements under IAS 36 are applied to determine whether it is necessary to recognise an impairment of the Group's holding in the associated company. If necessary, the carrying amount of the holding (including goodwill) is to be tested for impairment in accordance with IAS 36 as an individual asset, by comparing its recoverable amount with its carrying amount. An impairment recognised under these circumstances is not allocated to any asset, goodwill included, which is part of the carrying amount of the net holding in the associated company. A reversal of this impairment is recognised in accordance with IAS 36 to the extent that the recoverable amount of the net holding subsequently increases.

The Group ceases to apply the equity method from the date when the holding ceases to be an associated company.

If the Group carries out transactions with an associated company, the earnings from that transaction are to be recognised in the consolidated financial statements only for the portion of the holding in the associated company that is not related to the Group.

Revenue recognition
The Group mainly recognises revenue from the following revenue streams:

Sales of goods are recognised when the control of the goods is passed to the customer, which coincides with the goods being delivered to the customer and engcon has objective proof that the customer has accepted the goods. Revenue is recognised at the amount specified in the contract, minus discounts. There is no financing component in the contracts as the credit period is not expected to exceed one year.

The Group's obligation to offer a refund for faulty products under the standard warranty terms is recognised as a provision, see Note 33. The parts of a customer contract that do not relate to the sale of goods are made up of installations and services. Revenue from the sale of services such as installations and servicing is recognised during the period in which the services are performed.

Rental income from the leasing of premises is recognised straight-line over the term. All rental income is recognised as other operating income and capital gains and losses are recognised under other operating income or other operating expenses

Leases
(a) The Group as lessee
The Group assesses whether the agreement is, or contains, a lease when the agreement is concluded. The Group recognises a right-of-use asset with associated lease liabilities for all leases in which the Group is a lessee, except for short-term leases (agreements classified as leases with a lease term of less than 12 months) and low-value leases (such as computers and office equipment). For these leases, the Group recognises the lease payments as a cost straight-line over the lease.

The lease liability is initially valued at the present value of the lease payments that were not paid at the commencement date, discounted using the interest rate implicit in the lease if this interest rate can be readily determined. If this interest rate cannot be readily determined, the Group is to use the lessee's incremental borrowing rate.

Lease payments included in the valuation of the lease liability include:

- fixed payment less any benefits in connection with signing the lease,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price under the purchase option that the lessee is reasonably certain to exercise, and
- penalties for early termination of the lease is the term reflects the lessee exercising that option to terminate the lease.

The lease liability is recognised as a separate item in the consolidated statement of financial position.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect the interest on the lease liability using the effective interest method, and by reducing the carrying amount to reflect lease payments paid.

The Group remeasures the lease liability and makes a corresponding adjustment to the right-of-use asset if either:

- The lease term changes or if the assessment of an option to buy the underlying asset changes. In these cases, the lease liability is remeasured using a changed discount rate.
- The lease payments are changed as a result of changes in an index or a rate or if there is a change in the amounts expected to be paid under a residual value guarantee. The lease liability is remeasured using the initial discount rate, unless the lease payments change due to a change in the variable interest rate, in which case a changed discount rate shall be used.
- A change to the lease that is not recognised as a separate lease, in which case the lease liability is remeasured by discounting the changed lease payments with a changed discount rate.

Right-of-use assets include the sum of the initial amount of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct expenses. They are then measured at cost less accumulated depreciation and impairment.

When the Group has an obligation to remove the underlying asset, restore its location or restore the underlying asset to the condition prescribed by the terms of the lease, a provision is recognised and measured in accordance with IAS 37 at the corresponding increase in the right-of-use asset, unless these costs are incurred in the production of goods.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If the lease transfers ownership of the underlying asset to the Group or if the cost of the right-of-use asset reflects that the Group will exercise an option to buy, the attributable right-of-use asset is to be depreciated during the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

The right-of-use assets are recognised as a separate item in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether the right-of-use asset requires impairment and recognises any identified impairment as described in principle for “Property plant and equipment.”

Any variable lease payments that do not depend on an index or a rate are not to be included in the valuation of the lease liability or the right-of-use asset. These attributable payments are recognised as an expense in the period in which the event or relationship that gives rise to these payments occur and are included in “Other operating expenses” in profit or loss (see Note 9).

(b) The Group as lessor
The Group concludes leases as a lessor for part of its investment properties.

Leases in which the Group is a lessor are classified as finance or operating leases. If the terms of the agreements substantially transfer the risks and rewards of ownership of the lease, the agreement is classified as a finance lease. All other leases are classified as operating leases. The Group only has operating leases.

Lease payments from operating leases are recognised as revenue straight-line over the term of the current lease. The initial direct expenses which arise when an operating lease is concluded are added to the carrying amount of the underlying asset and expensed straight-line over the term.

When an agreement includes both a lease component and a non-lease component, the Group applies IFRS 15 to allocate the consideration in the agreement to each component.

Foreign currencies
When preparing the financial statements for the individual companies, transactions in currencies other than the company’s functional currency (foreign currencies) are recognised at the exchange rate at the date of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date.

Non-monetary items measured at fair value in foreign currencies are translated at the exchange rate on the date when the fair value was calculated. Non-monetary items measured at cost are not translated.

When preparing the consolidated financial statements, the Group’s assets and liabilities in foreign currency are translated at the closing rate on the balance sheet date. Revenue and expenses are translated at the exchange rate on the transaction date, unless the exchange rate varies significantly during the period in which case the average exchange rate for the period is used. If any exchange rate differences arise, they are recognised in other comprehensive income and accumulated in the translation reserve (attributed to non-controlling interests if applicable).

When disposing a foreign operation, all exchange rate differences accumulated in the translation reserve for that activity and which are attributable to the Parent Company’s shareholders are reclassified to the income statement.

In addition to the above, in the event of a partial disposal of a subsidiary that includes foreign operations, and which does not result in the Group losing its controlling influence, the accumulated exchange rate difference is to be reclassified to non-controlling interests and is not to be recognised in profit or loss. For all other partial disposals (i.e. disposals of associated companies that do not result in the Group losing significant influence or joint control) the accumulated exchange difference is to be reclassified to profit or loss.

Goodwill that arises and fair value adjustments made at the acquisition of foreign operations are to be treated as assets and liabilities in foreign operations and remeasured at the exchange rate at the end of the year. Exchange rate differences are recognised in other comprehensive income.

Pension costs and benefits upon termination of employment
The Group only has defined contribution pension plans. Payments to a defined contribution plan are recognised as an expense when the employees have performed the services that entitle them to the contributions.

Short-term and long-term employee remuneration
A liability is recognised for employee remuneration in respect of salaries, paid annual leave and paid sick leave arising from the employee’s service in the current period at the undiscounted amount of the remuneration expected to be paid in exchange for these services.

Liabilities recognised for short-term remuneration are measured at the undiscounted amount of short-term employee remuneration that the company expects to pay in exchange for these services.

Liabilities recognised for other long-term employee remuneration are measured at present value by estimating the future cash flows expected to be paid by the Group based on the services provided by the employees at the end of the reporting period.

Share-based remuneration
Share-based remuneration settled with equity instruments allocated to employees is measured at the fair value of the equity instruments allocated at the date of allocation. The Group’s share-related remuneration includes vesting conditions which requires the counterparty to complete a specified service period during which services are provided to the company. The fair value of allocated share-based remuneration is expensed straight-line over the vesting period, based on the Group’s assessment of the number of equity instruments that are expected to be earned during the vesting period.

The Group has an incentive programme where the employees pay an option premium corresponding to the fair value at the allocation date. In cases where the fair value was paid for the option, the Group does not recognise any cost in profit or loss. See Note 40.

Tax
The cost of income tax consists of the sum of current tax and deferred tax.

Current tax
Current tax is calculated on the taxable profit for the period. Taxable profit differs from recognised profit because it has been adjusted for revenue and expenses that are taxable or deductible in other periods and further excludes items that will never be taxable or deductible. The Group’s current tax liability is calculated at the tax rates enacted or substantively enacted at the end of the reporting period.

A liability is recognised for cases where taxation is deemed to be uncertain, but it is considered likely for a future outflow of funds to a tax authority. The liability is valued using the best estimate of the amount expected to be paid. The estimate has been made by the company’s tax experts based on previous experience of such activities and, in some cases, based on advice from independent tax specialists.

Deferred tax
Deferred tax is calculated according to the balance sheet method, which means that deferred tax is calculated on differences between carrying amounts of assets and liabilities and corresponding taxable values. Deferred tax liabilities are recognised for substantially all taxable temporary differences, and deferred tax assets are recognised for substantially all deductible temporary differences to the extent that it is probable that the amounts can be utilised against future taxable surpluses. Deferred tax liabilities and tax receivables are not recognised if the temporary differences are attributable to the initial recognition of goodwill or the initial recognition of an asset or liability (which is not a business combination) and at the time of the transaction, neither affects recognised nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences attributable to investments in subsidiaries and associated companies, except where the Group can control the timing of the reversal of the temporary differences, and it is probable that such reversal will not occur in the foreseeable future. Deferred tax assets that are attributable to deductible temporary differences in such investments and holdings are only recognised to the extent that it is probable that the amounts can be utilised against future taxable surpluses, and it is probable that such utilisation will take place in the foreseeable future.

The carrying amount of deferred tax assets is assessed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable surpluses will be available to allow the deferred tax asset to be realised, in whole or in part.

Deferred tax is calculated at the tax rates expected to apply for the period when the asset is recovered or the debt is settled, based on the tax rates and tax rules enacted or substantially enacted at the end of the reporting period.

Measurement of deferred tax liabilities and deferred tax assets is to be based on how the company expects to recover or settle the carrying amount for the corresponding asset or liability at the end of the reporting period.

Deferred tax assets and liabilities are reported net when there is a legal right to offset current tax assets against current tax liabilities and they are attributable to income tax charged by the same tax authority and when the Group intends to settle current tax assets and liabilities by a net amount.

Current tax and deferred tax for the year
Current tax and deferred tax are reported in profit or loss, except when they are attributable to items reported in other comprehensive income or directly in equity, in which case current and deferred tax are reported in other comprehensive income or directly in equity. When current or deferred tax arises from the initial recognition of a

business combination, the tax effects are recognised in the business combination recognition.

Property, plant and equipment
Land and buildings held for use in the production or delivery of goods or services for renting to others (including investment properties), or for administrative reasons, are reported in the statement of financial position at cost less accumulated depreciation and accumulated impairment.

Land under a right of possession is not depreciated.

Equipment is recognised at cost less accumulated depreciation and accumulated impairment.

Depreciation is performed as follows:

Land and buildings	4.0% yearly
Machinery	4.0% - 12.5% yearly
Equipment	10.0% - 33.0% yearly

The estimated useful lives, residual values and depreciation method are evaluated at each end of the reporting period and changes in estimates are recognised prospectively.

A tangible asset is derecognised from the balance sheet upon retirement or disposal or when no future economic benefits are expected to arise from its use. The profit or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets acquired separately
Intangible assets with finite useful lives are recognised at cost less accumulated amortisation and accumulated impairment. Amortisation is recognised straight-line over the estimated useful life, which is shown in Note 17. The estimated useful life and the amortisation method are reviewed at the end of each reporting period, and the effect of any changes in estimates and assessments is reported prospectively. Separately identifiable intangible assets with indefinite useful lives are reported at cost less accumulated impairment.

Internally generated intangible assets – research and development costs
Costs for research are carried as an expense in the period in which they arise. Development costs are recognised in the balance sheet when the criteria are met.

An internally generated intangible asset that arises through development, or in the development phase of an internal project, is included as an asset in the statement of financial position only if a company can demonstrate that all of the following conditions have been met:

- It is technically feasible for the company to complete the intangible asset so that it can be used or sold.
- The company's intention is to complete the intangible asset and use or sell it.
- The company has the conditions to use or sell the intangible asset.
- The company can demonstrate how the intangible asset will generate probable future economic benefits.
- There are adequate technical, economic and other resources to complete the development and to use or sell the intangible asset.
- The company can reliably calculate the costs that are attributable to the intangible asset during its development.

The acquisition value for internally generated intangible assets is the sum of the costs incurred as of the date when the intangible asset first meets the criteria in the points above. If it is not possible to recognise any intangible asset generated internally, then the expenses for development are recognised as an expense in the period in which they arise.

After initial recognition, internally generated intangible assets are stated at cost less accumulated amortisation and accumulated impairment, in the same way as other intangible assets that are acquired separately.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially measured at fair value at the date of acquisition.

Subsequent to initial recognition, intangible assets acquired in a business combination are recognised at cost less accumulated amortisation and accumulated impairment, like other intangible assets acquired separately.

Derecognition of an intangible asset
An intangible asset is derecognised from the statement of financial position upon retirement or disposal, or when no future economic benefits are expected from the use or retirement/disposal of the asset. The profit or loss that arises when an intangible asset is derecognised from the statement of financial position is calculated as the difference between the net revenue and the carrying amount of the asset, reported in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill
At the end of each reporting period, the Group evaluates the carrying amounts of its tangible and intangible assets to determine whether there is any need for impairment of these assets. If there are indications of a need for impairment, the recoverable amount of the asset is calculated to determine any impairment. If the asset does not give rise to cash flows which are largely independent of cash flows from other assets or groups of assets, the recoverable amount is calculated for the cash-generating unit to which the asset belongs. When a reasonable and consistent basis for allocation can be identified, joint assets are allocated to each cash-generating unit, or to the smallest group of cash-generating units for which a reasonable and consistent manner can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually or upon indication of a reduction in value of the asset.

The recoverable amount is the higher of its fair value less selling costs and its value in use. In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a pre-tax discount rate to reflect current market assessments of the time value of money, and the risks associated with the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment is expensed immediately in profit or loss.

If an impairment is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased but the increase in the carrying amount is not to exceed the carrying amount that would have been recognised had no impairment been recognised for the asset (or cash-generating unit) in prior years. The reversal of an impairment is recognised directly in profit or loss. Previously recognised impairments of goodwill are not reversed.

Inventories
Inventories are measured at the lower of acquisition cost and net realisable value. The acquisition cost of inventories shall include all costs of purchase, costs of manufacture and other costs incurred in bringing the goods to their present location and condition. The acquisition cost is calculated using a method based on weighted average prices. The net realisable value represents the estimated sales price less the estimated costs of completion and costs necessary to make a sale.

Financial instruments
Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the instrument’s contractual terms.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the carrying amount of the asset or liability on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised directly in profit or loss.

Financial assets
Subsequent to initial recognition, all recognised financial assets are measured at either amortised cost or fair value, depending on the classification of the financial assets and the cash flow characteristics.

Classification of financial assets
Debt instruments meeting the following conditions are measured at amortised cost:

- the financial asset is held in a business model whose objective is to hold financial assets to collect contracted cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through profit or loss
Financial assets not measured at amortised cost are measured at fair value through profit or loss. The Group uses derivative instruments in the form of currency futures to manage its exposure to foreign currency exchange risk. Further information on financial derivative instruments can be found in Note 39 – Financial instruments

Amortised cost and effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating and recognising interest income or interest expense over the maturity period.

For financial instruments, the effective interest rate is the rate that accurately discounts estimated future cash flows (including fees, transaction costs and other premiums or discounts but excluding expected credit losses) over the expected maturity of the debt instrument (or in some cases a shorter period) to the debt instrument's carrying amount at the time of booking.

Amortised cost for a financial asset is the amount at which the financial asset is measured at initial recognition minus repayments, plus the cumulative amortisation on the use of the effective interest method on any difference between the original amount and the amount on the due date, adjusted for the loss allowance. The gross value of the financial asset is the amortised cost of a financial asset before adjustment for loss allowance.

Interest income is recognised in profit or loss and is included in the item "financial income."

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on all assets measured at amortised cost or fair value through other comprehensive income. The amount of expected credit losses is updated at each end of the reporting period to reflect changes in credit risk since the initial recognition of the respective financial asset. The loss allowance is calculated when the asset is booked and is based on the probability of default over the next twelve months. If the asset shows a significant increase in credit risk, the loss allowance is calculated on the probability of default during the full lifetime of the asset.

For financial assets, the expected credit loss is calculated as the difference between all contractual cash flows to be received by the Group under the agreement and all cash flows expected to be received by the Group, discounted at the effective interest rate. For a lease receivable, the cash flows used to determine the expected credit losses are to be consistent with the cash flows used to calculate the lease receivable in accordance with IFRS 16.

The Group applies the simplified model for accounts receivable. The simplified model involves always calculating expected credit losses for the entire remaining maturity of these receivables. The expected credit losses on these financial assets are calculated using a provision matrix based on the Group's historical credit losses adjusted for general economic conditions and an assessment of both current and forecasted factors at the end of the reporting period, including the time value of money where appropriate.

Definition of default

The Group considers a default to exist when there is clear evidence of significant financial difficulties or when a receivable is more than 90 days past due, whichever is earlier.

Write-offs

The Group writes off a financial asset when there is information indicating that the debtor is in serious financial difficulty and there is no realistic prospect of recovery, for example, when the debtor has been put into liquidation or has commenced bankruptcy proceedings, or, in the case of accounts receivable, when the amounts are past due by more than two years, whichever is earlier. Written-off financial assets may still be subject to repayment actions. Any repayments are recognised in profit or loss.

Derecognition of financial assets from the statement of financial position

The Group is to derecognise a financial asset from the statement of financial position only when the contractual rights expire, or all the risks and rewards of the financial asset are transferred to another party. If the Group neither transfers nor retains all the risks and rewards of ownership of the financial asset and continues to retain control of the transferred asset, the Group recognises the asset and an associated liability for amounts it may be required to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a liability for the proceeds received.

When a financial asset measured at amortised cost is derecognised, the difference between the carrying amount of the asset and the sum of the consideration received and the receivable is recognised in profit or loss.

Financial liabilities and equity

Classification of debt or equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any form of agreement that involves a residual right in the assets of a company less all of its liabilities. Equity instruments issued by the Group are recognised at the issue amount excluding direct issue costs.

Repurchases of the company's own equity instruments are recognised directly in equity. No gains or losses are recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method or at fair value through profit or loss.

Financial liabilities arising when a transfer of a financial asset does not qualify for derecognition from the statement of financial position or when continuing commitment is applicable, and financial guarantee agreements issued by the Group are measured in accordance with the specific accounting policies described below.

Derecognition of financial liabilities from the statement of financial position

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liabilities derecognised and the amount of the consideration paid is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

A provision shall be made for the amount that is the best estimate of the amount required to settle the existing obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the obligation. When a provision is measured using estimated cash flows to settle the existing obligation, its stated present value is the future cash flows (if the time value of the money is significant).

When part or all of the amount required to settle a provision is expected to be reimbursed to a third party, the expected reimbursement is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount can be estimated reliably.

Product warranties

The provision for product warranties is recognised as an expense of goods sold at the time the products are sold, based on an estimated cost using historical data for the level of repairs and replacement products.

Remuneration on termination of employment

At the time of termination of employment, remuneration is recognised as a liability and an expense. This applies only when the Group is demonstrably obliged either to terminate employment before the normal date of termination or when remuneration is provided as an incentive to encourage voluntary redundancy. In the case of an offer of voluntary redundancy, remuneration is calculated on the basis of the number of employees expected to accept the offer. This means that remuneration is expensed based on the work obligation or directly if there is a leave of absence.

Restructuring

A provision for restructuring costs is recognised when the Group has a detailed restructuring plan in place and has created a valid expectation on the part of those affected that the company will implement the restructuring by starting the implementation of that plan or announcing its main features to those affected by it. The valuation of a provision for restructuring costs shall include only the direct costs incurred in the restructuring, which are those that are both related to the restructuring and unconnected to the continuing operations of the company.

Note 3 Key estimates and assessments

The preparation of financial statements in accordance with the Group's accounting policies, which are described in Note 1, requires management to make assessments that have a significant effect on the amounts reported and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions are based on historical experience and other factors that are believed to be relevant. Actual results could differ from those estimates.

The estimates and underlying assumptions are evaluated on an ongoing basis. Changes in these estimates are reported in the period in which the estimate is changed if the change only affects that period, or in the period the change takes place and future periods if the change affects both the period in question and future periods.

Key assessments when applying the consolidated accounting policies

The following are the critical assessments, other than those involving estimates (presented below), that management made in the process of applying the company's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts in the financial statements.

Assessments in determining the timing of satisfying performance obligations

The critical assessments that are made regarding a customer contract are when to recognise revenue and in what amount. Revenue is recognised when control of the goods has passed to the customer. If a contract contains more than one performance obligation, revenue is recognised with respect to the customer credit risk (meaning that risk that the customer will not fulfil its payment obligation).

Key sources of uncertainty in estimates
The assumptions concerning the future and other sources of uncertainty in estimates at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in subsequent financial year are presented below.

Tax
The Board and management continually assess the carrying amount of both current and deferred tax assets and liabilities. For deferred tax assets, the company must assess the likelihood that the deductible temporary differences giving rise to the deferred tax assets will be available for offset against future taxable profits. In addition, in some cases, the value of deferred tax assets and liabilities may be uncertain due to pending tax litigation, etc. The fair value of deferred tax assets and liabilities may therefore differ from these estimates due to different future taxable income, different tax rules or the outcome of government or tax court audits of filed or unfiled tax returns. In assessing the value of deferred tax assets and liabilities, the company must form an opinion on the tax rate that will apply at the time of the reversal of the taxable temporary differences. The Group reported deferred tax assets and liabilities amounting to SEK -8 million (2) at the end of 2022. At the same date, the Group had non-capitalised tax loss carry forwards, which are not capitalised based on the assessment of whether these loss carry forwards can be utilised.
The assessments made in respect of both deferred tax assets and liabilities may have a negative or positive impact on the result, depending on the final outcome.

Impairment testing of goodwill, other intangible assets and property plant and equipment
Goodwill and intangible assets that are yet to become operational are tested for impairment annually. Other intangible assets and property plant and equipment are tested annually to assess if there is any impairment indication. Testing for impairment is based on a review of the recoverable amount. The value is estimated using the management's estimates of future cash flows based on internal business plans and forecasts.

Intangible assets
engcon has not capitalised internally generated intangible assets when applying previous policies. IAS 38 requires internally generated intangible assets to be recognised as an asset, provided that the criteria for recognition are met. As engcon did not have sufficient assessment procedures for capitalising development costs when applying the previous policies, it is not permitted, in accordance with IFRS 1, to recover them retrospectively. In 2022, engcon has developed such procedures to enable the monitoring of internally generated intangible assets in the future.

Lawsuit
In June 2022, Rototilt Group filed a lawsuit against engcon that alleged that the company had infringed upon a patent. In consultation with experts in the field of patent law engaged by engcon as well as with the company's legal advisors, engcon has assessed that no patent infringement has taken place and thus no provision for this has been made in the accounts. In April 2022, engcon appealed the decision to grant the patent in question to the European Patent Office (EPO) and requested that the patent be declared invalid. Processing of this matter in the EPO is ongoing. For more information, see page 33.

Note 4 Revenue from contracts with customers
The Group derives its revenue from contracts with customers through the transfer of goods at a point in time. Revenue from services is recognised in the period in which they are rendered, which is normally upon delivery, and which normally occurs within a reporting period. Revenue is mainly allocated to goods, whereby tiltrotor systems form the main part and attachments and spare parts form the secondary part. An insignificant part is installation services, but these are not reported separately as they are not material..

Note 5 Operating segments and allocation of revenue
Operating segments are accounted for in a way that is consistent with the internal reports submitted to the chief operating decision maker. Group management and the CEO have been identified as the chief operating decision makers for assessment of the Group's earnings and position, as well as making strategic decisions. Group management and the CEO monitor the financial development in the Group as a unit. Accordingly, only one segment is recognised, which corresponds with the consolidated income statement. The reason that the Group is monitored as a segment is that earnings measures are only monitored at total level, since production and other overall costs are central for the Group and not distributed among the geographic market regions. Only the regions' sales and order intake in volume are monitored at a level lower than the operating segment.

Geographic market regions:
The Group's sales are divided into four geographic market regions:

Nordic region – Sweden, Denmark, Norway and Finland

Europe – Europe excluding the Nordic region

Americas – North America and South America

Asia-Oceania – Japan, South Korea, Australia, New Zealand and rest of the world

Internal sales are conducted between the production companies and the local sales companies, as well as between the local sales companies. Sales and installations are mainly conducted through dealers and our own local sales companies.

Net sales

SEK million	2022	2021
Nordic region	1,003	853
Europe	600	442
Americas	154	115
Asia-Oceania	101	78
Total excl. foreign exchange	**1,858**	**1,488**
Foreign exchange effect	80	-
Total	**1,938**	**1,488**

None of the Group's customers individually account for 10 per cent or more of net sales. Of net sales, Sweden, where the company is domiciled, accounted for SEK 392 million (348). The net sales above are based on where the customer is domiciled.

Property, plant and equipment and right-of-use assets

SEK million	31/12/2022	31/12/2021
Nordic region	9	7
Europe	15	12
Americas	9	11
Asia-Oceania	7	6
Total	**40**	**36**
Discontinued operations	-	-
Group-wide functions	170	162
Total	**210**	**198**

Sweden, where the company is domiciled, accounted for SEK 132 million (135) of property plant and equipment.

Note 6 Remuneration of auditors

SEK '000	2022	2021
Deloitte AB:		
Audit services	1,480	1,078
Audit activities in addition to audit engagement	2,144	234
Fiscal advice	595	222
Other services	905	279
Total	**5,124**	**1,813**

Audit assignment refers to the auditor's remuneration for the statutory audit. The work includes the review of the annual report, the consolidated financial statements and accounts, the management of the Board and the CEO, as well as fees for audit advice submitted as part of the audit assignment.

Audit activities in addition to the audit assignment refer to other tasks that the company's auditor performs as well as advice or other assistance as a result of observations made during such review.

Tax advice refers to all tax-related services such as assistance with tax calculation, the preparation of tax returns and consultation regarding VAT, excise taxes and staff matters.

All other work performed by the auditor is defined as other services. This also includes consultancy services.

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Note 7 Renumeration of employees

	2022		2021	
Averege number of employees	**Total**	**of whom men**	**Total**	**of whom men**
Parent company				
Sweden	12	12	12	12
Total parent company	**12**	**12**	**12**	**12**
Subsidaries				
Sweden	266	183	204	149
Nordic region excl Sweden	16	16	12	11
Europe excl Nordic region	98	87	83	73
Americas incl Canada	21	19	9	9
Asia-Oceania	12	11	7	6
Total subsidaries	**413**	**316**	**315**	**248**
Group total	**425**	**328**	**327**	**260**

	31/12/2022		31/12/2021	
Gender breakdown, board members and senior executives	**Total**	**of whom men**	**Total**	**of whom men**
Parent company				
Board members	5	2	3	2
Chief Executive Officer and other senior executives	4	4	2	2
Total parent company	**9**	**6**	**5**	**4**
Group				
Board members	6	3	3	2
Chief Executive Officer and other senior executives	8	7	5	5
Total group	**14**	**10**	**8**	**7**

SEK'000	**2022**	**2021**
Salaries and other benefits	187,957	135,490
Social security costs	46,508	36,326
Contractual pension benefits	12,078	7,923
Total	**246,543**	**179,739**

Renumeration to employees, SEK'000	2022 Salaries and benefits (of which tantiem)	2022 Social security contributions (of which pension costs)	2021 Salaries and benefits (of which tantiem)	2021 Social security contributions (of which pension costs)
Parent company				
Board members, Chief Executive Officer and other senior executives	8 816 (-)	3 933 (1 276)	3 540 (-)	1 726 (814)
Other employees	6 340 (-)	2 973 (982)	6 991 (-)	3 414 (1 017)
Total	**15 157 (-)**	**6 906 (2 258)**	**10 531 (-)**	**5 140 (1 831)**

	Salaries and benefits (of which tantiem)	Social security contributions (of which pension costs)	Salaries and benefits (of which tantiem)	Social security contributions (of which pension costs)
Group				
Board members, Chief Executive Officer and other senior executives	14 188 (-)	5 816 (2 043)	7 661 (-)	3 385 (1 178)
Other employees	173 770 (-)	52 771 (10 036)	127 829 (-)	40 864 (6 745)
Group consolidated total	**187 957 (-)**	**58 586 (12 078)**	**135 490 (-)**	**44 249 (7 923)**

Renumeration and other benefits to the board, CEO and senior executives 2022	Base salary/directors' fee	Variable compensation	Other benefits	Pension	Total	Statutory soc. contrib. & payroll tax
SEK'000						
Chair of the Board (Annika Bäremo)	580	-	-	-	580	182
Other board members	1,318	-	-	-	1,318	317
Chief Executive Officer (Krister Blomgren)	3,048	675	142	768	4,633	965
Other senior executives (7)	7,333	1,578	680	1,274	10,865	2,308
Total	**12,279**	**2,253**	**822**	**2,042**	**17,396**	**3,772**

As of January 2022, Group management has expanded and consists of a total of eight individuals.

Renumeration and other benefits to the board. CEO and senior executives 2021	Base salary/directors' fee	Variable compensation	Other benefits	Pension	Total
SEK'000					
Board member (Stig Engström)	720	-	8	278	1,006
Chief Executive Officer and Board member (Krister Blomgren)	1,337	-	143	306	1,786
Other senior executives (3)	3,379	-	350	455	4,184
Total	**5,436**	**-**	**501**	**1,039**	**6,976**

Remuneration of Group management, CEO and Board of Directors

Other senior executives refers to the CEO and other members of Group management. Other senior executives comprised 8 (5) people. Remuneration and benefits to the CEO and remuneration to other senior executives is determined by the company's Board of Directors. The incentive programme, with an option of variable cash remuneration, may be offered to the company's CEO and other senior executives. The Board, with support from the Remuneration Committee, is responsible for the evaluation of variable cash remuneration to the CEO. For other senior executives, the CEO is responsible for the evaluation, supported by the Remuneration Committee. For 2022, variable remuneration to other senior executives excluding the CEO amounted to SEK 1,578 thousand (0). For 2022, variable remuneration to the company's CEO amounted to SEK 675 thousand (0). engcon also has an incentive programme in the form of a warrant programme for all employees that was introduced in 2021. For more information, refer to Note 40. In 2021, engcon's CEO, Krister Blomgren, acquired 91,000 warrants within the framework of the programme. In 2021, other senior executives, acquired 330,536 warrants within the framework of the programme. No other share-based remuneration was paid. The CEO has the right to a company car and to insurance and defined contribution pension benefits. The defined contribution pension shall amount to a maximum of 35 per cent of the fixed annual cash salary. The CEO's variable cash remuneration shall not qualify for pension benefits. The retirement age for the CEO is 67. Other senior executives have the right to a company car. During employment at the company, other executives have to the right to defined contribution pension benefits under collective bargaining agreements or employment agreements applicable at any time. The defined contribution pension shall amount to a maximum of 35 per cent of the fixed annual cash salary. Variable cash remuneration can qualify for pension benefits unless otherwise stated by collective bargaining agreements. The retirement age for other senior executives is in accordance with current regulations. The notice period between the company and the CEO is 12 months when notice is given by the company and a notice period of six months if notice is given by the CEO. For other senior executives, employment is subject to a mutual notice of termination of three to six months between the employee and the company.

Remuneration to the Board of Directors for 2022 amounted, per member, to: Annika Bäremo (Chair) SEK 580 thousand (0), Stig Engström SEK 310 thousand (278), Monica Engström SEK 290 thousand (0), Anna Stålenbring SEK 320 thousand (0), Bob Persson SEK 275 thousand (0). For 2021, Krister Blomgren received SEK 306 thousand.

Note 8 Pension obligations

Defined contribution pension plans
The Group provides defined contribution pension plans for all employees.The total cost reported in profit or loss was SEK 12 million (8).

For office workers in Sweden, the ITP 2 plan's defined benefit pension commitments for retirement and family pensions (or family pensions) are secured through insurance with Alecta. According to a statement by the Swedish Financial Reporting Board, UFR 10 Accounting for the ITP 2 pension plan funded by insurance with Alecta, this is a multi-employer defined benefit plan. For the 2021 financial year, the company did not have access to information to account for its proportionate share of the plan's obligations, plan assets and expenses, which meant that the plan could not be accounted for as a defined benefit plan. The ITP 2 pension plan, which is secured by insurance with Alecta, is therefore reported as a defined contribution plan. The premium for the defined benefit retirement and family pension is calculated on an individual basis and depends, among other things, on salary, previous pension earned and expected remaining service time. The company's share of total saving premiums for ITP 2 in Alecta amounted to 0.003233%. The company's share of total amount of active insured premiums in ITP 2 amounted to 0.003483%. Expected contributions for the next reporting period for ITP 2 insurance taken out with Alecta will amount to SEK 2.0 million (1.3).

The collective funding ratio consists of the market value of Alecta's assets as a percentage of the insurance commitments calculated according to Alecta's insurance methods and assumptions, which are not consistent with IAS 19. The collective funding ratio should normally be allowed to vary between 125 and 175 per cent. If Alecta's collective funding ratio is less than 125 per cent or exceeds 175 per cent, measures must be taken in order to create conditions for the collective funding ratio to return to the normal range. In the event of low collective funding, a measure may be to increase the agreed price for new policies and increase of existing benefits. In the event of high collective funding, a measure may be to introduce premium reductions. At the end of 2022, Alecta's surplus in the form of the collective funding ratio amounted to 172 per cent (172).

Note 9 Other operating income and operating expenses

SEK million	2022	2021
Other operating revenue		
Foreign exchange gains	56	13
Other operating incom	7	7
Total	**63**	**20**
Other operating expenses		
Foreign exchange losses	57	9
Other operating expenses	4	-
Total	**61**	**9**
Totala operating revenue and expenses	**2**	**11**

Note 10 Operating leases

Operating leases, for which the Group is the lessor, relate to investment properties owned by the Group with lease terms of between one and four years, with a one-year extension option. All operating leases contain a renegotiation clause. If the extension clause is exercised, the lessee does not have the option to purchase the property at the end of the term.

The non-guaranteed residual value does not represent a significant risk for the Group, as it is related to properties located in places with consistent growth in value over the recent years. The Group has not identified any indication that this situation will change.

Future lease payments:

SEK million	31/12/2022	31/12/2021
Year 1	2	2
Year 2-5	2	2
Total	**4**	**4**

Note 11 Financial income

SEK million	2022	2021
Gain/loss on disposal of associated companies	-	5
Other items	13	12
Total	**13**	**17**

Note 12 Financial expenses

SEK million	2022	2021
Interest expenses	-6	-1
Interest expenses lease liabilities	-2	-1
Total interest expense on financial liabilities not classified at fair value in profit or loss	-8	-2
Other financial costs	-5	-
Total	**-13**	**-2**

Note 13 Income tax

SEK million	2022	2021
Current tax		
Present year	-78	-88
Deferred tax (see note 21):		
Change in fair value	3	5
Other tax adjustments	-15	11
	-12	**16**

Current tax rate is 20.6 per cent.

Tax for other jurisdictions is calculated at the applicable tax rate in each jurisdiction.

The reported tax expense for the year can be deducted against the pre-tax profit/loss of the year as follows

SEK million	2022	2021
Profit (-loss) before tax	415	341
Swedish tax 20.6%	-85	-70
Tax effect of profit/loss associated companies	-	1
Tax effect of non-deductable costs	-2	-3
Tax effect of non-taxable income	-0	-
Tax effect of change in unrecognised deferred tax assets	1	-
Effect of various tax rates for subsidiaries in other jurisdictions	-3	-
Tax for the year	**-90**	**-72**

Note 14 Discontinued operations

At an Extraordinary General Meeting on 24 November 2021, a resolution was passed on a distribution in kind of Mähler International AB, which accounted for 10 per cent of the Group’s operations. The distribution was carried out in order to streamline the Group’s operations. Details of the assets and liabilities divested and the calculation of profit or loss from the divestment are reported below.

The result from the discontinued operations, which was included in the income item “profit on disposal of discontinued operations” is specified below:

SEK million	2022	2021
Net sales	-	137
Expenses	-	-127
Profit/loss before tax	**-**	**10**
Income tax	-	-2
Profit/loss from disposal of discontiued operations	-	36
Profit/loss after tax from discontiuned operations	**-**	**44**

In 2021, Mähler International AB contributed SEK 16 million to the Group’s operational cash flow and SEK 1 million attributable to investing activities.

Financing activities contributed with SEK 17 million in 2021.

In 2021, the Group distributed 100 per cent of its holdings in Mähler International AB. In accordance with IFRIC 17, Mähler International AB was remeasured in the Group, resulting in a positive effect of SEK 36 million.

Note 15 Operating expenses

Expenses divided by type of expense are specified below:

SEK million	2022	2021
Net of profit/loss exchange rates	2	12
Depreciation on tangible fixed assets	-20	-20
Depreciation on right-of-use assets	-19	-11
Renumeration to employees	-262	-197
Total	**-299**	**-216**

Note 16 Goodwill

Cost	
As at 1 january 2021	20
As at 31 december 2021	20
Exchange differences	-
As at 31 december 2022	20
Amortisation and impariment losses	
As at 1 january 2021	-
As at 31 december 2021	-
Exchange differences	-
As at 31 december 2022	-
Carrying amounts	
As at 31 december 2022	20
As at 31 december 2021	20
As at 1 january 2021	20

The carrying amount of goodwill has been allocated to the cash-generating unit as follows:

SEK million	31/12/2022	31/12/2021
Production company:		
e-Component Sweden AB	19	19
Nordic region	1	1
Total	**20**	**20**

Impairment is tested once a year and when there are signs of impairment requirements. Goodwill is tested for impairment per cash-generating unit. The recoverable amount of the cash-generating unit was determined on the basis of the value in use in engcon’s valuation model. This model is based on the future cash flow with a forecast period of five years. The forecast is based on the business plan, taking into account the characteristics and performance of these markets for the end users, on the basis of both internal and external sources, and consist of the management’s best assessment and estimates. The parameters used to calculate the future cash flow are revenue growth and gross margin, cost efficiency and efficiency of capital utilisation including planning in investments and targets for working capital

engcon’s weighted average cost of capital (WACC) was 16.45 per cent (16.45). The risk-free interest rate that was used is 1 per cent (1); the same risk-free interest rate was used for all cash-generating units as they have the same organisation, structure and customer base. For the period after five years, growth is estimated at 2 per cent (2).

In 2022, the forecasted value exceeded the carrying amount and no impairment was recognised. engcon also performed a sensitivity analysis for the key parameters that do not give rise to impairment requirements.

Note 17 Other intangible assets

SEK million	Product development costs	Other	Total
Cost			
Opening balance, 1 January 2021	19	7	26
Disposals	-11	-1	-12
Closing balance, 31 December 2021	8	6	14
Opening balance, 1 January 2022	8	6	14
Investments	35	-	35
Acquistion of business	-	-	-
Exchange differences	-	-	-
Disposals	-	-	-
Closing balance, 31 December 2022	43	6	49
	43	6	49
Depreciation and impairment losses			
Opening balance, 1 January 2021	-14	-6	-20
Disposals	6	-	6
Closing balance, 31 December 2021	-8	-6	-14
Opening balance, 1 January 2022	-8	-6	-14
Depreciation	-	-	-
Impairment charge for the period	-	-	-
Exchange differences	-	-	-
Disposals	-	-	-
Closing balance, 31 December 2022	-8	-6	-14
	-8	-6	-14
Carrying amounts			
As at 31 december 2022	35	-	35
As at 31 december 2021	-	-	-

Other consists of patents, trademarks and licenses and are amortised over their estimated useful lives, which are on average 5–10 years.

Note 18 Leases (the Group as lessee)

SEK million	Buildings	Machinery and equipment	Cars	Total
Cost				
Opening balance 1 January 2021	**38**	**2**	**30**	**69**
Additions	13	1	10	23
Disposals	-	-	-6	-6
Closing balance 31 December 2021	**51**	**2**	**33**	**87**
Additions	-	22	15	37
Revaluations	-	-	-	-
Acquisitions	-	-	-	-
Disposals	-	-	-	-
Reclassifications	-	-	-	-
Exchange differences	-			-
Closing balance 31 December 2022	**51**	**24**	**48**	**124**
Depreciation				
Opening balance 1 January 2021	**-12**	**-0**	**-15**	**-26**
Deprecation for the period	-5	-0	-6	-11
Closing balance 31 December 2021	**-17**	**-1**	**-21**	**-38**
Depreciation for the period	-6	-4	-9	-19
Disposals	-	-	-	-
Reclassifications	-	-	-	-
Exchange differences	3	-1	-	2
Closing balance 31 December 2022	**-20**	**-6**	**-30**	**-55**
Carrying amounts				
As at 31 December 2022	32	19	19	69
As at 31 December 2021	35	2	13	49

The Group leases a number of assets such as buildings, machinery and cars. The average lease term is five years (five).

The Group has an option to purchase some of the machinery for the nominal amount at the end of the lease term. The Group's commitments are secured by the lessor's ownership of underlying assets held under leases.

Approximately one-fifth of the leases for buildings and machinery expired during the current financial year. The expired leases were replaced with new leases for the identical underlying assets. This has resulted in an increase in right-of-use assets of SEK 20 million (5).

A maturity analysis of the lease liability is presented in note 32.

SEK million	2022	2021
Amounts recognised in the income statement		
Depreciation of right-of-use assets	-19	-11
Interest expense for lease liabilities	-2	-1
Costs related to short-term leases	-	-
Costs related low-value leases	-1	-2
Costs related to variable lease payments	-4	-2

The total cash outflow for leases amounts to SEK -19 million (-11).

Note 19 Property, plant and equipment

SEK million	Buildings and land	Machinery	Equipment	Construction in progress and advances	Total
Cost					
Opening balance 1 January 2021	114	151	43	9	317
Investments	2	6	7	-	15
Reclassifications	-	-	-	-4	-4
Exchange differences	-	2	-4	-	-2
Disposals	-15	-37	-3	-	-55
Closing balance 31 December 2021	101	122	43	5	271
Opening balance 1 January 2022	101	122	43	5	271
Investments	1	2	7	-	10
Acquistion of business	-	-	-	-	-
Reclassifications	1	1	-	-3	-1
Exchange differences	2	-	-1	-	1
Disposals	-	-	-	-	-
Closing balance 31 December 2022	105	125	49	2	281
Deprecation and impairment losses					
Opening balance 1 January 2021	-38	-66	-28	-	-132
Depreciation	-3	-10	-2	-	-15
Exchange differences	14	8	3	-	25
Disposals	-	-	-	-	-
Closing balance 31 December 2021	-27	-68	-27	-	-122
Opening balance 1 January 2022	-27	-68	-27	-	-122
Depreciation	-3	-10	-5	-	-18
Impairment charge for the period	-	-	-	-	-
Reclassifications	-	-	-	-	-
Exchange differences					
Disposals	-	-	-	-	-
Closing balance 31 December 2022	-30	-78	-32	-	-140
Carrying amounts					
As at 31 December 2022	75	47	17	2	141
As at 31 December 2021	74	54	16	5	149

Assets provided as collateral

Land and buildings with a carrying amount of SEK 71 million (70) and machines with a carrying amount of SEK 3 million (0) have been used as collateral in connection with the raising of loans in the Group. The Group may not use these assets as collateral when raising new loans or sell these assets to another company.

Note 20 Associated companies

Details of significant associated companies
Details of the Group's significant associated companies at the end of the reporting period are specified below:

	Country	Assets	Liabilities	Equity	Income	Share of, %
2021						
Drivex AB	Sweden	-	-	-	-	-
e-Component i Sweden AB	Sweden	-	-	-	-	-
2022						
Drivex AB	Sweden	-	-	-	-	-
e-Component i Sweden AB	Sweden	-	-	-	-	-

Associated companies are accounted for using the equity method in the consolidated financial statements for which the accounting policies are set out in Note 3.

The dividends received from associated companies below represent the amount actually distributed and received by the Group. The other summary information preceding the reconciliation of the Group's carrying amount represents amounts included in the associated company's financial statements according to IFRS, and not the Group's share of those amounts, even if adjusted to reflect the fair value at acquisition or to harmonise accounting policies.

Summarised financial information for each significant associated company in the Group is detailed below. The summarised financial information presented below are amounts in each associated company's financial statements presented in accordance with IFRS.

	Drivex AB	
SEK million	**31/12/2022**	**31/12/2021**
Current assets	-	-
Fixed assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Equity attributable to owners of the Parent company	-	-
Non-controlling interest	-	-
Sales	-	-
Profit/loss from continuing operations	-	-
Profit/loss after tax from discontinuing operations	-	-
Profit for the year	-	-
Other comprehensiv income attributable to owners of the Parent company	-	-
Total profit/loss for the period	-	-
Divendends from associated companies	-	-

	e-Component Sweden AB	
SEK million	**31/12/2022**	**31/12/2021**
Current assets	-	-
Fixed assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Equity attributable to owners of the Parent company	-	-
Non-controlling interest	-	-
Sales	-	-
Profit/loss from continuing operations	-	-
Profit/loss from discontiuning operations	-	-
Profit for the year	-	-
Other comprehensiv income attributable to owners of the Parent company	-	-
Total profit/loss for the period	-	-
Divendends from associated companies	-	-

Interests in associated companies

SEK million	31/12/2022	31/12/2021
Opening balance	**-**	**14**
Profit/loss after tax	-	-
Dividends to shareholders	-	-
Disposals	-	-14
Closing balance	**-**	**-**

Note 21 Deferred tax

The following are the most significant deferred tax liabilities and deferred tax assets reported by the Group and changes to these items during the current and previous reporting period:

SEK million	Fixed assets	Inventories	Other	Total
Opening balance 1 January 2021	**-19**	**3**	**-**	**-16**
Profit/loss	12	5	1	18
Other comprehensive income	-	-	-	-
Equity	-	-	-	-
Exchange differences	-	-	-	-
Opening balance 1 January 2022	**-7**	**8**	**1**	**2**
Profit/loss	-15	4	1	-10
Other comprehensive income	-	-	-	-
Equity	-	-	-	-
Acquisitions of subsidiaries	-	-	-	-
Disposals of subsidiaries	-	-	-	-
Exchange differences	-	-	-	-
Effect due to change in tax rates:	-	-	-	-
recognised in profit or loss	-	-	-	-
recognised inother comprehensive income	-	-	-	-
recognised directly in equity	-	-	-	-
Closing balance 31 December 2022	**-22**	**12**	**2**	**-8**

Deferred tax assets and deferred tax liabilities are only to be reported net if there is a legal right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities are charged by the same tax agency and refer to current tax liabilities and tax assets through net payment. The following deferred tax assets and deferred tax liabilities are recognised in the statement of financial position:

SEK millkon	31/12/2022	31/12/2021
Deferred tax liabilities	-22	-9
Deferred tax receivables	14	11
Total	**-8**	**2**

Note 22 Inventories

SEK million	31/12/2022	31/12/2021
Raw materials	199	165
Work in progress	7	6
Finished goods	237	132
Closing balance	**443**	**303**

Note 23 Accounts receivable

SEK million	31/12/2022	31/12/2021
Accounts receivables not past due	310	191
Accounts receivables up to 30 days past due	13	9
Accounts receivables 31-60 days past due	13	2
Accounts receivables 61-90 days past due	9	2
Accounts receivables more than 91 days past due	2	4
Total	**347**	**208**

Accounts receivable

The average credit period for sales is 60 days. No interest is applied on outstanding accounts receivable.

The Group measures provisions at an amount corresponding to expected credit losses for the remaining lifetime. The loss allowance for accounts receivable are calculated from a matrix based on historical losses. The historical losses are calculated and adjusted for forward-looking and current factors.

The assessment on the balance sheet date led to the loss allowance for 2022 becoming completely insignificant and thus not being reported. The assessment is monitored continuously and if changes in history or other factors lead to an increased risk, the assessment is reviewed.

There have been no changes in calculation techniques or significant assumptions during the reporting period.

The Group writes off an account receivable when there is information indicating that the customer is in serious financial difficulty and there is no reasonable prospect of recovery, such as when the customer has been placed into liquidation or has commenced bankruptcy proceedings or when the accounts receivable are past due by more than two years, whichever occurs first. None of the accounts receivable that have been written off are subject to recovery activities.

Note 24 Other receivables

SEK million	31/12/2022	31/12/2021
VAT receivable	18	12
Tax receivable	6	8
Other current receivables	5	4
Total	**29**	**24**

Note 25 Prepaid expenses and accrued income

SEK million	31/12/2022	31/12/2021
Other prepaid expenses	43	22
Total	**43**	**22**

Note 26 Share capital

Ordinary shares **Number of shares**	31/12/2022	31/12/2021
Resolved number of shares: Originally 10,762 ordinary shares with a value of SEK 100 each.	150,668,000	10,762
Issued and fully paid shares: Spit 14 000:1	-	150,657,238
Preference shares converted to ordinary shares	1,120,000	-
As at 31 December	**151,788,000**	**150,668,000**

Preference shares

Number of shares	31/12/2022	31/12/2021
Resolved number of shares:		
Originally 80 preference shares with a value of SEK 100 each.	1,120,000	80
Issued and fully paid preference shares:		
Split 14 000:1	-	1,119,920
Preference shares converted to ordinary shares	-1,120,000	-
As at 31 December	**-**	**1,120,000**

Total

Number of shares	31/12/2022	31/12/2021
Resolved number of shares:		
Originally 10,842 shares with a value of SEK 100 each.	151,788,000	10,842
Issued and fully paid shares:		
Split 14 000:1	-	151,777,158
As at 31 December	**151,788,000**	**151,788,000**

The company has a total of 35,344,778 Class A shares, corresponding to 353,447,780 votes, and 116,443,222 Class B shares, corresponding to 116,443,222 votes. The quote value of the share is SEK 0.14.

Note 27 Other contributed capital

SEK million	31/12/2022	31/12/2021
As at 1 January	6	-
Employee share option programme	-	6
Transactions costs related to new issue	-	-
As at 31 December	**6**	**6**

Note 28 Translation reserve

SEK million	31/12/2022	31/12/2021
As at 1 January	**4**	**-8**
Exchange-rate differences upon translation of net assets in foreign operations	10	12
As at 31 December	**14**	**4**

Note 29 Retained earnings

SEK million	
Opening balance 1 January 2021	**538**
Paid divedend	-241
Profit for the year	293
Total profit for the year	-10
Bonus issue	-20
Opening balance 1 January 2022	**560**
Paid divedend	-440
Profit for the year	305
Total profit for the year	-
Bonus issue	-
Contributions	-
Closing balance 31 December 2022	**425**

Note 30 Non-controlling interests

Summary financial information for each of the Group's subsidiaries in which there is a non-controlling interest of material significance is detailed below. The financial information presented below is prior to consolidated eliminations.

Mähler International AB

SEK million	31/12/2022	31/12/2021
Current assets	-	-
Right-of-use assets	-	-
Fixed assets	-	-
Current liabilities	-	-
Lease liabilities	-	-
Non-current liabilities	-	-
Equity attributable to owner of the Parent company	-	-
Non-controlling interest	-	-

SEK million	2022	2021
Sales	-	-
Expenses	-	-
Profit/loss for the year	-	-
Profit/loss attributable to owner of the Parent company	-	-
Profit/loss attributable to non-controlling interest	-	-
Profit/loss for the year	-	-
Total profit/loss attributable to owner of the Parent company	-	-
Total profit/loss attributable to non-controlling interest	-	-
Total profit/loss	-	-
Cash flow from operating activities	-	-
Cash flow from (-used in) investing activities	-	-
Cash flow from financing activities	-	-
Cash flow for the period	-	-

engcon Component AB

SEK million	31/12/2022	31/12/2021
Current assets	73	50
Fixed assets	30	31
Current liabilities	53	37
Non-current liabilities	13	22
Equity attributable to owner of the Parent company	19	11
Non-controlling interest	18	11

SEK million	2022	2021
Sales	177	149
Expenses	-162	-130
Profit/loss for the year	**15**	**19**
Profit/loss attributable to owner of the Parent company	8	10
Profit/loss attributable to non-controlling interest	7	9
Profit/loss for the year	**15**	**19**
Total profit/loss attributable to owner of the Parent company	8	10
Total profit/loss attributable to non-controlling interest	7	9
Total profit/loss	**15**	**19**
Cash flow from operating activities	8	26
Cash flow from (-used in) investing activities	-	-1
Cash flow from financing activities	-9	-26
Cash flow for the period	**-1**	**-1**

Total

SEK million	
Opening balance 1 January 2021	**30**
Share of profit of the year	21
Paid dividend	-18
Non-controlling interest attributable to divestment of Mählers Internationl AB (see note 14)	-11
Opening balance 1 January 2022	**22**
Share of profit of the year	21
Paid dividend	-8
Non-controlling interest attributable to divestment of Mählers Internationl AB (see note 14)	-
Closing balance 31 December 2022	**35**

Note 31 Borrowing

SEK million	31/12/2022	31/12/2021
Borrowings with pledged assets at amortised cost		
Bank overdraft	136	-
Bank loan	56	75
Total borrowings	**192**	**75**
Borrowings without pledged assets at amortised cost		
Bank overdraft	-	-
Bank loan	-	-
Long-term loans	4	8
Short-term loans	52	67
Bank overdraft	136	-
Total	**192**	**75**
Bank overdraft		
Granted credit	318	80
Unutilised part	182	80
Utilised part	136	-

The company meets all covenants that the financiers have placed.

The weighted average interest rates paid during the year were as follows:

%	31/12/2022	31/12/2021
Bank loan	3.20	1.23

Note 32 Lease liabilities

SEK million	31/12/2022	31/12/2021
Maturity analysis		
Within 1 year	17	11
1-5 years	45	24
Later than 5 years	10	12
Total	**72**	**47**
Classified as follows:	-	-
Non-current liabilities	55	36
Current liabilities	17	11
Total	**72**	**47**

The Group is not exposed to any significant liquidity risk as a result of the lease liabilities. Lease liabilities are monitored by the Group's CFO or the person appointed by the CFO.

Note 33 Product warranty provision

	SEK million
As at 1 January 2021	**21**
Provisions made	30
Provisions used	-28
As at 31 December 2021	**23**
Provisions made	43
Provisions used	-36
As at 31 December 2022	**30**

Note 34 Accounts payable

Accounts payable mainly consist of outstanding amounts for purchases and ongoing expenses. The average credit period for purchases is 30 days. Most suppliers do not charge any interest on the accounts payable during the first 30 days from the invoice date. Thereafter, interest is charged on the outstanding amounts at different interest rates. The Group has policies for financial risk management to ensure that all debts are paid within the predetermined credit terms.

The management believes that the carrying amount of accounts payable corresponds to their fair value.

Note 35 Other liabilities

SEK million	31/12/2022	31/12/2021
Tax deduction at source and social security costs	10	8
VAT liabilities	27	22
Other current liabilities	5	4
Total	**42**	**34**

Note 36 Accrued expenses and deferred income

SEK million	31/12/2022	31/12/2021
Prepaid income	1	-
Accrued salaries	23	18
Accrued social security costs	8	7
Other accrued expenses	48	41
Total	**79**	**66**

Note 37 Notes to statement of cash flows

Likvida medel

Msek	31/12/2022	31/12/2021
Cash and bank balances	30	228
Total	**30**	**228**

Cash and bank consist of cash and short-term bank deposits with a maturity of three months or less, after deduction of outstanding overdraft facilities. The carrying amount of these assets is essentially their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated cash flow can be reconciled with the items in the statement of financial position shown above. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated cash flow can be reconciled with the items in the statement of financial position shown above.

Transactions that do not involve payments

Acquisition of equipment and tools during the year amounted to SEK 38 million (21), financed through new leases.

Changes in liabilities attributable to financing activities

The table below shows the changes in the Group's liabilities attributable to financing activities, which include both changes attributable to cash flows and changes that do not affect cash flows. Liabilities attributable to financing activities are liabilities for which the cash flows have been, or for which future cash flows will be, classified as cash flows from financing activities in the statement of cash flows.

SEK million	1 January 2022	Cash flow from financing activities (i)	Acqusition of subsidaries	Divestment of subsidaries	New lease contracts	Other changes (ii)	31/12/2022
Bank loan (see note 31)	75	117					192
Lease liabilities (see note 32)	47				25		72
Total liabilities from financing activities	122	117	-	-	25	-	264

SEK million	1 January 2021	Cash flow from financing activities (i)	Acqusition of subsidaries	Divestment of subsidaries	New lease contracts	Other changes (ii)	31/12/2021
Bank loan (see note 31)	97	-22	-	-	-	-	75
Lease liabilities (see note 32)	41	-	-	-	6	-	47
Total liabilities from financing activities	138	-22	-	-	6	-	122

(i) Cash flows from bank loans, loans from related parties and other loans are net of cash from borrowing and repayments of borrowing in the statement of cash flows.

(ii) Other changes include accrued interest and payments.

Note 38 Pledged assets and contingent liabilities

SEK million	31/12/2022	31/12/2021
Pledged assets		
Property mortgages	19	19
Corporate mortgages	36	36
	-	-
Total	**55**	**55**
Contingent liabilities		
Guarantee	-	4
Other contingent liabilities	-	-
Total	**-**	**4**

Note 39 Financial instruments

a) Classes and categories of financial instruments and their fair value

Fair value hierarchy levels 1 to 3 are based on the degree to which fair value is observable:

Level 1 involves quoted prices (unadjusted) in active markets for identical assets or liabilities that the company has access to at the time of valuation;

Level 2 involves input data other than quoted prices that are included in level 1 and that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 valuations involve input data that are not based on observable market data (unobservable input data) or on own assumptions.

	Carrying amount				Fair value			
	Financial assets		Financial liabilities		Category			
31/12/2022	**Fair value recognised in profit or loss**	**Amortised cost**	**Fair value recognised in profit or loss**	**Amortised cost**	**1**	**2**	**3**	**Total**
Cash and cash equivalents (see note 37)	-	30	-	-	-	30	-	**30**
Non-current receivables	2	-	-	-	-	2	-	**2**
Current receivables	-	99	-	-	-	99	-	**99**
Trade receivables and other financial receivables	-	347	-	-	-	347	-	**347**
Accrued income	-	-	-	-	-	-	-	**-**
Derivates with positive market value	-	-	-	-	-	-	-	**-**
Total	**2**	**476**	**-**	**-**	**-**	**478**	**-**	**478**
Liabilities to credit institutions	-	-	-	56	-	56	-	**56**
Lease liabilities (note 32)	-	-	-	72	-	72	-	**72**
Trade payables and other financial liabilities	-	-	-	512	-	512	-	512
Derivates with negative market value	-	-	7	-	-	7	-	7
Total	**-**	**-**	**7**	**640**	**-**	**647**	**-**	**647**

2021-12-31	Carrying amount Financial assets Fair value recognised in profit or loss	Amortised cost	Financial liabilities Fair value recognised in profit or loss	Amortised cost	Fair value Category 1	2	3	Total
Cash and cash equivalents (see note 37)		228	-	-	-	228	-	**228**
Non-current receivables	5	-	-	-	-	5	-	**5**
Current receivables	-	49	-	-	-	49	-	**49**
Trade receivables and other financial receivables	-	208	-	-	-	208	-	**208**
Accrued income	-	-	-	-	-	-	-	**-**
Total	**5**	**485**	**-**	**-**	**-**	**490**	**-**	**490**
Derivates with positive market value	-	-	-	-	-	-	-	**-**
Liabilities to credit institutions	-	-	-	75	-	75	-	**75**
Lease liabilities (see note 32)	-	-	-	47	-	47	-	**47**
Trade payables and other financial liabilities	-	-	-	255	-	255	-	**255**
Total	**-**	**-**	**-**	**377**	**-**	**377**	**-**	**377**

measured at fair value on a recurring basis

Receivables measured at fair value

The company has a loan receivable to a French counterpart that does not solely include contractual cash flows in the form of repayment and interest and is therefore categorised at fair value through profit or loss. However, the loan will be repaid. The instrument is to be considered as level 2, since it is measured through calculation of discounted cash flows with interest and the credit margin as per the balance sheet date.

Derivatives

The company has currency futures that are measured at fair value at level 2 through profit or loss. The measurement method is discounting of contractual cash flows with interest and currency on the balance sheet date.

No transfers were made between level 1 and level 2 during the current or prior years.

(a)(iii) Fair value of financial assets and financial liabilities not measured at fair value (but fair value disclosure is required)

The company is of the opinion that the carrying amount is a reasonable approximation of the fair value of all financial instruments.

(b) Risk management strategy

The Group's CFO is responsible for risk management. These risks include market risk (including foreign currency exchange risk, interest-rate risk and other price risks), credit risk and liquidity risk.

The Group strives to minimise the effects of these risks. For foreign currency exchange risk, currency futures are used to hedge transaction exposure in sales and purchases, see below under Currency futures. The CFO reports to the Board.

(c) Market risk

The Group's operations are primarily exposed to financial risks in changes in exchange rates and interest rates (see below).

There has been no change in the risks to which the Group is exposed or how these risks are managed and measured.

(c)(i) Foreign currency exchange risk management

The Group's external transaction exposure is insignificant as the absolute majority of transactions are in the functional currency of the respective company.

Translation exposure arises for the Group as subsidiaries with foreign currencies are consolidated into the Group. The significant exposures are EUR 10 million (6) and DKK

22 million (11) and if SEK is changed by 10 per cent against both, other comprehensive income would be affected by SEK 14 million (7).

Currency futures
The Group enters into currency futures contracts to manage foreign currency exchange risk arising from the transaction effect of intra-group sales and purchases in foreign currency.

Sensitivity analysis
The nominal amount of currency futures is EUR 16 million (20) and DKK 43 million (85) and their market value is SEK 7 million (566 thousand). A change of 10 per cent in SEK yields a profit/loss effect of SEK 744 (56) thousand.

(c)(i) Interest-rate risk management
The Group is exposed to interest rate risk in its borrowing which essentially has an interest-rate base on the three-month STIBOR.

The Group's total exposure to interest-rate risk amounts to SEK 478 million (490) on financial assets and SEK 647 (377) million on financial liabilities. The average interest rate is 3.2 per cent (1.2) and the duration on the balance sheet date is twelve months/year. For details, see Borrowing Note 31.

Interest-rate risk sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for financial liabilities on the reporting date. For liabilities with variable rate, the analysis is prepared on the assumption that the amount outstanding at the balance sheet date was outstanding for the whole year.

If the interest rates had been 1 per cent higher/lower and all other variables were kept constant, the Group's net interest expenses would have been SEK 558 thousand (747) higher/lower. The impact on valuations is insignificant.

(a) Credit risk management
The accounting policies describe the Group's maximum exposure to credit risk and the valuation grounds used to determine expected credit losses.

For the operational credit risk, the issue is handled in the sales department. Before approving a new customer, an external credit assessment system is used to assess the credit worthiness of the potential customer and defines credit limits for the customer. The customers' limits and ratings are reviewed and approved twice a year by the risk management committee. The majority of accounts receivable have the best credit ratings attributable to the external credit rating system used by the Group.

Credit approvals and other monitoring processes are also available to ensure that follow-up measures are taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each account receivable and debt investment on an individual basis at the end of the reporting period to ensure that sufficient deficits are taken for any non-recoverable amounts. In this respect, the Group's Board members believe that the Group's credit risk is significantly reduced.

The credit risk of cash and cash equivalents is limited as the counterparties are banks with a high credit rating assigned by international credit rating agencies. An analysis of the probability of default and the amounts outstanding lead, due to strong counterparties and very short maturities, to the loss allowance being completely insignificant and therefore not reported.

The maximum credit-risk exposure amounted to SEK 377 million (436) as of 31 December 2022.

(e) Liquidity risk management
The responsibility for liquidity risk management has been delegated by the Board to the CFO. The Group manages short-term liquidity risk with a reserve that consists of unutilised facilities, cash and cash equivalents and short-term assets. The long-term liquidity risk is managed through continual forecasts and follow ups and by matching maturity profiles for financial assets and liabilities.

The Group currently has a reserve consisting of an overdraft facility of SEK 318 million (80). In addition, it has cash and cash equivalents of SEK 30 (228) million.

At the same time, the Group has a close cooperation with several major Nordic commercial banks, of which Svenska Handelsbanken is the principal bank. Financiers are regularly updated on future investment plans, both in terms of direct loans and lease arrangements.

e)(i) Liquidity table
The table below describes the Group's remaining contractual maturity for its financial liabilities and derivatives with agreed repayment periods. The table contains both interest and cash flows and the cash flows are undiscounted. To the extent that interest rates are variable, it is assumed that STIBOR on the balance sheet date remains unchanged for the entire maturity period.

The contractual maturity is based on the earliest date on which the Group may be liable to pay.

SEK million	Up to 1 month	1-3 months	1-12 months	1-5 years	5+ years	Total	Carrying amounts
31/12/2022							
Trade payables and other financial liabilities	512	-	-	-	-	512	**512**
Lease liabilities	-	-	17	45	10	72	**72**
Financial instruments at variable interest (nominal)	-	-	-	-	-	-	**-**
Financial instruments at fixed interest (nominal)	-	-	4	52	-	56	**56**
Derivates	-	-	7	-	-	7	**7**
Interest on interest-bearing instruments						-	**-**
Total	**512**	**-**	**28**	**97**	**10**	**647**	**647**
31/12/2021							
Trade payables and other financial liabilities	255	-	-	-	-	255	**255**
Lease liabilities	-	-	10	24	13	47	**47**
Financial instruments at variable interest (nominal)	-	-	-	-	-	-	**-**
Financial instruments at fixed interest (nominal)	-	-	67	8	-	75	**75**
Derivates	-	-	-	-	-	-	**-**
Interest on interest-bearing instruments	-	-	-2	-	-	-2	**-2**
Conditional earn-out	-	-	-	-	-	-	**-**
Total	**255**	**-**	**75**	**32**	**13**	**375**	**375**

(f) Capital risk management

The Group manages its capital to ensure that units within the Group will be able to continue the operations and that returns to shareholders are maximised through optimisation of the capital structure. The Group's overall strategy will remain unchanged from 2021.

The Group's capital structure consists of net debt (borrowings as disclosed in Note 31 less cash and cash equivalents) and the Group's equity (including issued capital, reserves, retained earnings and non-controlling interests).

The Group is not subject to any external capital requirements.

Liabilities are defined as equity.

Equity includes all capital and reserves in the Group that are treated as capital.

The year-end leverage ratio is calculated as follows:

SEK million	31/12/2022	31/12/2021
Liabilities	685	400
Cash and cash equivalents	30	228
Net liabilities minus cash and cash equivalents	655	172
Equity	501	613
Debt ratio	130.7%	28.1%

Note 40 Share-based remuneration

In 2021, the Board resolved to introduce a warrant programme for all employees in the engcon Group. A total of 1,517,880 warrants were issued, of which 1,312,285 (1,325,638) were subscribed for. The change pertains to the return of warrants in conjunction with termination of employment. Each warrant entitles the holder to subscribe for one share in engcon at an agreed future price. Warrants are conditional on a vesting period of five years. To participate in this program, employees encompassed by the program pay a premium that is based on the fair value of allotted warrants that are measured in accordance with the Black & Scholes model. Therefore, for this program, no cost is recognised during the vesting period since employees have paid the fair value.

Note 41 Events after the reporting period

engcon terminated the contract with its previous distributor in Norway and started its own operations in the country through the company engcon Norway AS in the first quarter.

On 15 February 2023, Rototilt Group adjusted the damages claimed in its lawsuit to approximately SEK 200 million.

Note 42 Related-party transactions

Intra-group balances and transactions between the company and its subsidiaries that are related parties have been eliminated in preparing the consolidation and are not disclosed in this Note.

The company's principal owners, Ommapo förvaltning AB and Monen Holding AB, which are also principal owners of Mähler International AB, had transactions with engcon AB during the period through Mähler International AB. The value of the transactions amounted to SEK 21.8 million (17.6) and mainly comprised products. Ommapo förvaltning AB also has an indirect ownership of Drivex, which has conducted transactions, mainly comprising products, with engcon amounting to SEK 32.4 million (23.4). In addition to these transactions, Ommapo förvaltning AB delivered services to engcon AB for SEK 985 thousand (404) and Monen Holding AB delivered services for SEK 23 thousand (30). Swedish Engineering AB, with its principal owner Kristian Sjöström, has delivered services to engcon AB for SEK 2,119 thousand (104). All transactions were conducted at market value.

Remuneration of key management personnel

The remuneration of company management, who are the Group's key management personnel, is presented in Note 7 Remuneration of employees.

Adoption of financial statements

The financial statements were approved for issue by the Board on 29 March 2023..

Parent Company's financial statements

Parent Company income statement

SEK million	Note	2022	2021
Net sales		59	49
Cost of goods sold		-4	-2
Gross profit		**55**	**47**
Selling costs.		-28	-21
Administrative costs	2	-88	-34
Research and development costs		-9	-28
Fair value, derivates		-7	-
Other operating income and operating expenses		-14	1
Operating profit (-loss)	3	**-91**	**-35**
Profit/loss from financial items			
Profit/loss from participations in group companies	4	40	274
Interest income and similar profit/loss items	5	8	6
Interest expense and similar profit/loss items	6	-10	-
Profit/loss after financial items		**-53**	**245**
Appropriations	7	285	286
Profit/loss before tax		**232**	**531**
Income tax	8	-40	-53
Profit/loss for the year		**192**	**478**

Parent Company statement of comprehensive income

SEK million	Note	2022	2021
Profit/loss for the year		**192**	**478**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**192**	**478**

Parent Company balance sheet

SEK million	Note	31/12/2022	31/12/2021
Assets			
Fixed assets			
Intangible assets		14	-
Property plant and equipment		4	3
Interests in group companies	9	83	81
Receivables from group companies	10	-	4
Other non-current receivables		-	3
Deferred tax receivables		2	-
Total non-current assets		**102**	**91**
Current assets			
Inventories		3	3
Receivables from group companies	10	621	494
Other receivables		3	2
Prepaid expenses and accrued income	11	6	3
Cash and cash equivalents	12, 15	-	166
Total current assets		**633**	**668**
Total assets		**735**	**759**
Equity and liabilities			
Restricted equity			
Share capital	13	21	21
Total restricted equity		**21**	**21**
Non-restricted equity			
Share premium reserve		67	66
Retained earnings		-24	-61
Profit for the year		192	478
Total non-restricted equity		**235**	**483**
Total equity		**256**	**504**
Non-current liabilities			
Untaxed reserves		68	1
Total non-current liabilities		**68**	**1**
Current liabilities			
Overdraft facility		51	-
Derivates		7	-
Trade payables		10	7
Current tax liabilities		94	53
Liabilities to group companies		235	180
Other liabilities		2	1
Accrued expenses and deferred income	14	12	13
Total current liabilities		**411**	**254**
Total interest bearing debt		**479**	**255**
Total equity and liabilities		**735**	**759**

Parent Company statement of changes in equity

SEK million	Share capital	Unrestricted equity	Total equity
Opening balance 1 January 2021	**1**	**195**	**196**
Profit/loss for the year	-	477	477
Total other comprehensive income	-		-
Total comprehensive income	**-**	**477**	**477**
Transactions with shareholders:			
Bonus issue	20	-20	-
Employee share option programme		6	6
Dividends to shareholders	-	-175	-175
Total transactions with shareholders	**20**	**-189**	**-169**
Closing balance 31 December 2021	**21**	**483**	**504**

SEK million	Share capital	Unrestricted equity	Total equity
Opening balance 1 January 2022	**21**	**483**	**504**
Profit/loss for the year		192	192
Total comprehensive income	**-**	**192**	**192**
Transactions with shareholders:			
Bonus issue			-
Employee share option programme			-
Dividends to shareholders		-440	-440
Total transactions with sharholders	**-**	**-440**	**-440**
Closing balance 31 December 2022	**21**	**235**	**256**

Parent Company cash-flow statement

Msek	Note	2022	2021
Operating profit (-loss)		**-91**	**-35**
Adjustments for non-cash items:			
Depreciation		1	1
Amortisation		-	-
Capital gain/loss		-	-
Other adjustments		7	-
Profit/loss from associated companies		-	-
Profit/loss from participations group companies		40	272
Dividend associated companies		-	-
Interest received	5	8	6
Interest paid	6	-10	-
Income tax paid	8	-	-
Cash flow from operating activities before changes in working capital		**-45**	**244**
Changes in working capital			
Decrease/increase in inventories		-1	-
Decrease/increase in trade receivables		-	-
Decrease/increase in other receivables		217	-3
Increase/decrease in trade payables		3	-
Increase/decrease in other liabilities		54	-94
Cash flow from operating activities		**228**	**147**
Investing activities			
Acquistion of intangible assets		-14	-
Acquistion of tangible assets		-1	-1
Change of investments in group companies		-1	-1
Change of long-term receivables group companies		11	-
Change of long-term receivables		-	1
Cash flow from (-used in) investing activities		**-5**	**-1**
Financing activities			
New borrowing and change in overdraft facilites		51	-
New issue		-	6
Dividend		-440	-140
Cash flow from financing activities		**-389**	**-134**
Cash flow for (-used in) the period		**-166**	**12**
Cash and cash equivalents at beginning of period		**166**	**154**
Exchange rate fluctuations in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at end of period	**15**	**-**	**166**

Parent Company notes

Note 1 Accounting policies

Årsredovisningen för moderföretaget har upprättats i The Annual Report for the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. According to RFR 2, the Parent Company is to apply all International Financial Reporting Standards, as adopted by the EU, as far as is possible under the framework of the Swedish Annual Accounts Act.

Amendments to RFR 2 that have come into force

IFRS 16 Leases

Due to the connection between accounting and taxation, the regulations in IFRS 16 do not need to be applied to legal entities. Instead, leases are recognised in accordance with the rules stipulated in RFR 2. The amendments in RFR 2 regarding IFRS 16 are to be applied to financial years beginning on or after 1 January 2021. The Parent Company applies the exception from the application of IFRS 16, which entails that the Parent Company's leases are recognised straight-line over the term.

The other amendments in RFR 2 Accounting for Legal Entities that have come into force and that apply for the 2022 financial year did not have any material impact on the Parent Company's financial statements.

Amendments to RFR 2 that did not come into force in 2022

The Parent Company has not yet started to apply the amendments to RFR 2 Accounting for Legal Entities that come into force on 1 January 2023 or later. These amendments are not deemed to have any material effect.

Differences between the Parent Company's and Group's accounting policies (page 62) are described below:

Classification and presentation formats

The Parent Company's income statement and balance sheet are presented in accordance with the format stated in the Annual Accounts Act. The difference compared with IAS 1 Presentation of Financial Statements, which is applied in the presentation of the Group's financial statements, is primarily that presentation of financial income/expenses and equity.

Leases

As the lessee, the Parent Company recognises lease payments connected as an expense straight-line over the lease term, provided that another systematic approach does not better reflect the user's financial benefit over time.

Subsidiaries

Participations in subsidiaries are recognised at cost. Dividends from subsidiaries are recognised in profit or loss when the right to receive dividends is deemed to be certain and can be reliably calculated. Contingent consideration is recognised as part of the cost if it is possible that such consideration will be paid. The cost is adjusted if in subsequent periods it is established that the initial assessment needs to be revised.

Financial instruments

The Parent Company does not apply IFRS 9. A method based on cost in accordance with the Annual Accounts Act is applied instead. This means that financial non-current assets are measured at cost less any impairment, and financial current assets in accordance at the lower of cost or market method. When calculating the net realisable value of receivables recognised as current assets, the policies for impairment testing and loss allowance under IFRS 9 are applied, see the policies for the Group. When assessing and calculating impairment requirements for financial assets recognised as non-current assets, the policies for impairment testing and loss allowance under IFRS 9 are applied where possible. Financial liabilities are measured at amortised cost by applying the effective interest method. Policies for recognising and derecognising financial instruments correspond to the policies for the Group as described above.

Group contributions and shareholders' contributions

Group contributions are recognised as appropriations in profit or loss. Shareholders' contributions are recognised by the donor as an increase in the item participations in Group companies.

Note 2 Remuneration of auditors

SEK'000	2022	2021
Deloitte AB:		
Audit services	1,380	720
Audit activities in addition to audit engagement	2,144	234
Fiscal advice	595	222
Other services	905	279
Total	**5,024**	**1,455**

Audit assignment refers to the auditor's remuneration for the statutory audit. The work includes the audit of the annual accounts and the consolidated financial statements as well as accounting records, the management of the Board of Directors and the CEO as well as fees for audit advice provided in connection with the audit assignment.

Audit activities in addition to the audit assignment refer to other tasks that the company's auditor performs as well as advice or other assistance as a result of observations made during such review.

Tax advice refers to all tax-related services such as assistance with tax calculation, the preparation of tax returns and consultation regarding VAT, excise taxes and staff matters.

All other work performed by the auditor is defined as other services. This mainly includes consultancy services.

Note 3 Remuneration of employees

See the Group's Note 7 Remuneration of employees.

Note 4 Profit/loss from participations in Group companies

SEK million	2022	2021
Dividends to shareholders	40	277
Amortisation	-	-3
Total	**40**	**274**

Note 5 Interest income and similar profit/loss items

SEK million	2022	2021
Interest income	-	0
Interest income group companies	8	5
Foreign exchange gain	-	1
Total	**8**	**6**

Note 6 Interest expense and similar profit/loss items

SEK million	2022	2021
Interest expenses	-4	-
Foreign exchange losses	-6	-
Total	**-10**	**-**

Note 7 Appropriations

SEK million	2022	2021
Group contributions received	393	304
Group contributions paid	-41	-18
Transfer to tax allocation reserve	-67	0
Total	**285**	**286**

Note 8 Income tax

SEK million	2022	2021
Current tax	-42	-53
Deferred tax	2	-
Total	**-40**	**-53**

Reconciliation of tax expense for the year

SEK million	2022	2021
Profit/loss before tax	232	531
Swedish tax 20.6%	-48	-109
Tax effect of non-deductable expenses	-3	-1
Tax-effect of tax-exempt income	9	57
Tax-effect of fair value derivates	2	-
Total income tax	**-40**	**-53**

Note 9 Participations in Group companies

SEK million	31/12/2022	31/12/2021
Cost		
Opening balance, Jan 1	131	160
Additions	2	5
Disposals	-	-34
Closing balance, Dec 31	**133**	**131**
Amortisation		
Opening balance, Jan 1	-50	-54
Disposals	-	7
Amortisation for the period	-	-3
Closing balance, Dec 31	**-50**	**-50**
Carrying amount	**83**	**81**

Name of the company	Corporate Id.No	Location	Share of capital[1]	Number of shares
engcon Nordic AB	556405-6835	Strömsund	100%	10,000
engcon Poland spzo	7772739915	Poznan	100%	200
engcon UK Ltd	4888209	Coventry	100%	1,000
engcon Germany GmbH	8028826669	Wertheim	100%	25,000
engcon Finland OY	221647-7	Korsholm	80%	80
engcon Sweden AB	556791-3289	Strömsund	100%	1,000
engcon Denmark A/S	34466823	Glamsbjerg	80%	400
engcon France	798712634	Paris	80%	4,400
engcon Real Estate	556687-5570	Strömsund	100%	12,000
engcon SSC AB	556992-2650	Strömsund	100%	500
engcon Netherlands	65694163	Amersfoort	100%	10,000
engcon North America	81-5100081	New Haven	100%	1,000
engcon Norway AS	928661644	Oslo	100%	30,000
engcon Australia	636 463 075	Sydney	100%	8,000
engcon Korea	110114024865	Choong Cheong Nam Do	100%	10,000
engcon Canada	117580-2900	Montreal	100%	100
Microprop AB	556739-8853	Umeå	100%	1,000
engcon component AB	559242-7685	Strömsund	51%	10,200
Uttaracken AB	559277-7253	Strömsund	72%	7,197
engcon Shares AB	559351-6783	Strömsund	100%	1,000
engcon Austria GmbH	569030	Graz	100%	1
engcon Ireland Ltd	708790	Leixlip	100%	20,000

[1] The share of equity is the same as the share of voting power.

Carrying value, SEK million	31/12/2022	31/12/2021
engcon Nordic AB	5	5
engcon Poland spzo	14	14
engcon UK Ltd	4	4
engcon Germany	4	4
engcon Finland OY	1	1
engcon Sweden AB	33	33
engcon Denmark A/S	1	1
engcon France	1	1
engcon Real Estate	9	9
engcon SSC AB	1	1
engcon Netherlands	-	-
engcon North America	1	1
engcon Australia	4	4
engcon Korea	1	1
engcon Canada	1	1
Microprop AB	-	-
engcon component AB	1	1
Uttaracken AB	-	-
Engcon Shares	-	-
engcon Austria GmbH	1	-
engcon Ireland Ltd	-	-
engcon Norway AS	1	-
Net carrying amount	**83**	**81**

Note 10 Receivables from Group companies

SEK million	31/12/2022	31/12/2021
Long-term		
Cost		
Opening balance. Jan 1	4	-
Additions	-	4
Loss reserves	-	-
Regulated receivables	-4	-
Closing balance Dec 31	**-**	**4**
Amortisation		
Closing balance Dec 31	-	-
Carrying amounts long-term receivables group companies	-	4
Carrying amounts current receivables group companies	621	494
Total	**621**	**498**

Financial credit risk
Financial credit risk is the risk that the Parent Company does not receive payment from its counterparties for the Parent Company's investments and bank deposits. Cash and cash equivalents and receivables from Group companies are subject to impairment testing according to the company's model. The table above shows the actual risk exposure for the Parent Company.

Note 11 Deferred income and accrued expenses

SEK milion	31/12/2022	31/12/2021
Other items	6	3
Carrying amount	**6**	**3**

Note 12 Cash at bank balances

SEK million	31/12/2022	31/12/2021
Cash and cash equivalents	-	166
Carrying amount	**-**	**166**

Note 13 Share capital

Share capital and number of shares are presented in the Group's Note 26.

Note 14 Accrued expenses and deferred income

SEK million	31/12/2022	31/12/2021
Accrued salaries and social security contributions	4	2
Other items	8	11
Carrying amount	**12**	**13**

Note 15 Notes to statement of cash flows

Cash and cash equivalents

Msek	31/12/2022	31/12/2021
Cash and bank balances	-	166

Cash and bank consist of cash and short-term bank deposits with a maturity of three months or less, after deduction of outstanding overdraft facilities. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated cash flow can be reconciled with the items in the statement of financial position shown above.

Changes in liabilities attributable to financing activities
The table below shows the changes in the Parent Company's liabilities attributable to financing activities, which include both changes attributable to cash flows and changes that do not affect cash flows. Liabilities attributable to financing activities are liabilities for which the cash flows have been, or for which future cash flows will be, classified as cash flows from financing activities in the statement of cash flows.

SEK million	01/01/2022	Cash flow from financing activities (i)	Acqusition of subsidaries	Divestment of subsidaries	New lease contracts	Other changes (ii)	31/12/2022
Borrowings	**-**	**51**	**-**	**-**	**-**	**-**	**51**
Total liabilities from financing activites	-	51	-	-	-	-	51

SEK million	01/01/2021	Cash flow from financing activities (i)	Acqusition of subsidaries	Divestment of subsidaries	New lease contracts	Other changes (ii)	31/12/2021
Borrowings	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities from financing activites	-	-	-	-	-	-	-

Note 16 Pledged assets and contingent liabilities

MSEK	2022-12-31	2021-12-31
Ställda säkerheter		
Pantsatta aktier i koncernföretag	-	-
Totalt	**-**	**-**
Eventualförpliktelser		
Borgenförbindelser	48	-
Garantier Polen	13	
Totalt	**61**	**-**

Note 17 Related-party transactions

Transactions between the Parent Company and its subsidiaries, which are related parties to the Parent Company are presented below: Disclosures regarding transactions between other related parties are presented in Note 42 on page 94.

SEK million	31/12/2022	31/12/2021
Receivables related parties		
Group companies	621	498
Total	**621**	**498**
Liabilities related parties		
Group companies	-235	-180
Total	**-235**	**-180**

SEK million	2022	2021	2022	2021
Group contribution	393	304	-41	-18
Interest	7	5	-	-
Goods and services	67	52	-16	-10
Total	**467**	**361**	**-57**	**-28**

Appropriation of Profits

The company proposes the following appropriation of profit: pay dividends to the shareholders in the amount of SEK 129,019,800. The proposed dividend is justifiable in view of the requirements that the nature, scope and risks of the operations place on the amount of equity and the company's liquidity and general financial position. The dividend will not impact the company's ability to fulfil its current and long-term obligations or to implement necessary investments. Moreover, the Board believes that the company's financial position, in light of the proposed dividends, is satisfactory for creditors. Furthermore, the Board does not see any other circumstances that would prevent the dividend from being paid in accordance with the Board's proposal.

The following profit is available for distribution by the Annual General Meeting:

SEK	2022
Share premium reserve	67,296,026
Retained earnings	-24,480,831
Profit for the year	192,058,459
Total	**234,873,654**
The Board of Directors proposes that the following be distributed to shareholders:	
-Shareholders (SEK 0.85 per share)	129,019,800
The Board of Directors proposes that the following be carried forward	105,853,854
Total	**234,873,654**

Assurance of the Board

The Board of Directors and CEO of engcon AB assure that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and provide a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with the generally accepted accounting policies and provides 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 provides a fair review of the development of the Group's and Parent Company's operations, financial position and earnings and describes material risks and uncertainty factors faced by the Parent Company and the companies included in the Group. The signatories below also submit engcon AB's 2022 Sustainability Report.

Strömsund, 29 March 2023

Anna Stålenbring
Board member

Annika Bäremo
Chair of the Board

Stig Engström
Board member

Monica Engström
Board member

Bob Persson
Board member

Krister Blomgren
President and CEO

Our auditor's report was submitted on 29 March 2023
Deloitte AB

Harald Jagner
Authorised Public Accountant

Auditor’s report

To the general meeting of the shareholders of engcon AB corporate identity number 556647-1727

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of **Error! Reference source not found.** (publ) for the financial year **Error! Reference source not found.**, except the corporate governance report on pages 43-55.

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 **Error! Reference source not found.** and its financial performance 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 **Error! Reference source not found.** and their financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. 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.

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.

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

Key Audit Matters

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

Valuation of inventories:

Notes 2 and 22 of the annual report set out the company's principles for valuing inventories and further information on the balance sheet item. Incorrect assessments can have a significant impact on the Group's earnings and financial position, as well as key performance indicators. As of December 31, 2022, the stock amount to SEK 443 million. Our audit covered, but was not limited to the following procedures:

- Audit of the application of appropriate accounting policies to the valuation of inventories to verify compliance with IFRS;
- Mapping of the company's routines for inventory accounting,
- Sample tests on the valuation of inventories against purchase invoices and evaluation of the reasonableness of product calculations;
- observations, on a sample basis, of stock inventories;
- Review of the company's model of obsolescence assessment and associated assumptions,
- Verification that required disclosures have been made in the financial statements.

Timing of revenue recognition

Sales amount to SEK 1,938 million for 2022. For further information regarding the company's revenue recognition, please refer to Notes 2,4 and 5 in the Annual Report, which describe accounting policies and operating segments and the distribution of revenue.

We focus on this area as a result of high transaction volume and different sales conditions, which can affect the timing of the risk transition. Our audit covered, but was not limited to the following procedures:

- Review of the application of appropriate accounting policies for revenue recognition to verify compliance with IFRS;
- Mapping of the company's revenue recognition procedures,
- Test of sales transactions on a sample basis to verify whether revenue has been recognized in the correct period,

- Verification that required disclosures have been made in the financial statements.

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 1-31, 110-135. The other information also consists of the Renumeration Report that we obtained prior to the date of this audit report. 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 is 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 is also responsible for such internal control as it determines is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors is responsible for the assessment of the company's and the group's ability to continue as a going concern. It discloses, 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 intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' 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, actions taken to eliminate threats or safeguards applied.

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 of **Error! Reference source not found.** (publ) for the financial year **Error! Reference source not found.** and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the loss to be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors be discharged from liability for the financial year..

Basis of 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.

Responsibilities 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.

Auditor's responsibility

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

The auditor's examination of the Esef report

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528) for **Error! Reference source not found.** for the financial year **Error! Reference source not found.**.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the *Auditors' responsibility* section. We are independent of **Error! Reference source not found.** 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of The Board of Directors and the Managing Director

The Board of Directors is responsible for the preparation of the Esef report in accordance with the Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a validation that the Esef report has been prepared in a valid XHMTL format and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the consolidated statement of financial performance, financial position, changes in equity, cash flow and disclosures in the Esef report have been marked with iXBRL in accordance with what follows from the Esef regulation.

The auditor’s examination of the Corporate Governance Statement

The Board of Directors is responsible for that the corporate governance statement on pages 43-55 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s standard RevR 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement 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 corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accoun

Signature on Swedish original

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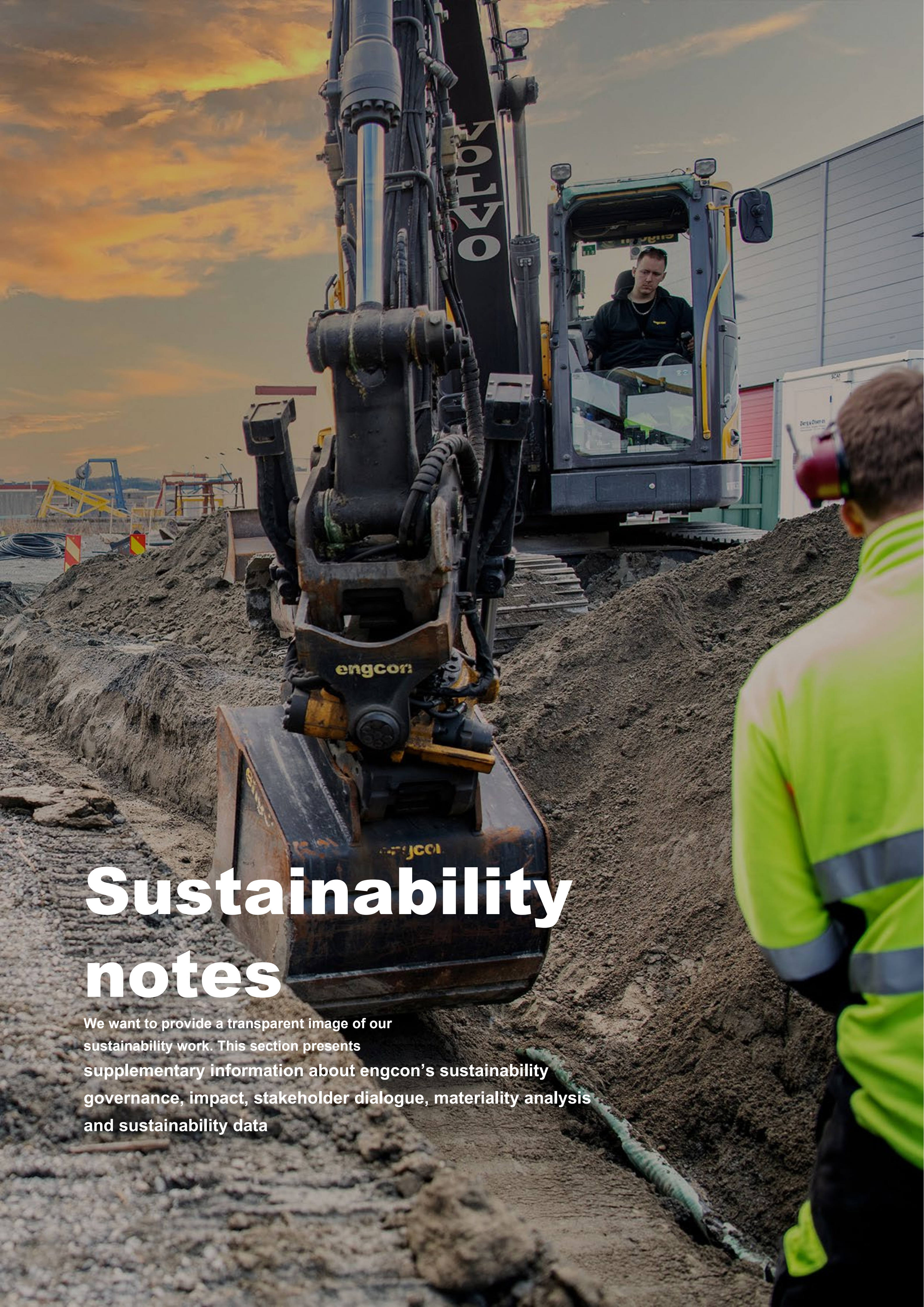
This is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish language original, the latter shall prevail.



Sustainability notes

We want to provide a transparent image of our sustainability work. This section presents supplementary information about engcon's sustainability governance, impact, stakeholder dialogue, materiality analysis and sustainability data

About the sustainability report

engcon's sustainability reporting for 2022 has been prepared in accordance with the provisions of the Swedish Annual Accounts Act chapters 6 and 7. The contents focus on the sustainability issues considered to be the most material for engcon's economic, social and environmental performance. engcon applies the precautionary principle to reduce or entirely avoid negative environmental impact. The sustainability report is part of engcon's Annual Report. engcon reports on its sustainability results on an annual basis. This report concerns the period 1 January until 31 December 2022, which corresponds to engcon's financial year. The latest sustainability report, "engcon's 2021 Annual Report", was adopted on 8 March 2021. For more information about the sustainability report, contact:

Helena Nydahl, Sustainability strategist
+46 72 601 37 06
helena.nydahl@engcon.se

Delimitations and changes

All exceptions in the case of delimitations or scope are clearly stated with the reported information. The reporting principles and calculation methods used are described in connection with the reported data. No amendments have been made to the information provided in previous sustainability reports.

Sustainability governance

The Board of Directors is ultimately responsible for engcon's continuous sustainability work. The CEO has delegated the operational responsibility to the Quality Manager, who pursues sustainability efforts on a Group level and coordinates these efforts with the heads of the other functions. The Quality Manager is responsible for quality assurance, weekly meetings for operational governance/follow ups and recurring meetings with strategic suppliers. Quality and sustainability targets are monitored at Group management meetings. In addition, the Head of HR is responsible for occupational health and safety issues.

The Quality Manager is responsible, together with the CEO, for risk and compliance issues, internal control and for developing engcon's processes for purposeful and proactive risk and compliance activities.

The Board of Directors receives an annual review of engcon's sustainability strategy and is otherwise informed when necessary. In 2022, Group management reviewed and adopted the new sustainability strategy for 2030, which was approved by the Board in November.

Policies and guidelines

engcon is committed to the UN Guiding Principles on Business and Human Rights (UNGP) and the UN Sustainable Development Goals (SDGs). These undertakings are reflected in the Group's Code of Conduct and in policies and processes that deal with ethical issues, quality, purchases, the environment, work, and health and safety. In 2022, a global whistleblower function was established, which is available both internally and externally for employees, customers, partners and other stakeholders. There were zero whistleblowing cases reported in our global whistleblower function in 2022.

Our Code of Conduct, which has been adopted by engcon's Board of Directors, is our guide to ethical business operations and optimising the social and environmental effects of our activities. Laws, environmental standards and social conditions vary in the countries in which we conduct operations. The Code of Conduct is designed to ensure that we always act with integrity and in accordance with the highest ethical norms. The current version of the Code of Conduct was published in 2020.

Our employees receive annual training in our Code of Conduct. New employees are trained in our Code of Conduct as a mandatory part of our onboarding programme.

Examples of internal policies and guidelines:

- Code of Conduct including occupational health and safety (OHS) policy
- Operational policy for quality, the environment and sustainability
- Supplier handbook
- Guidelines concerning victimisation, harassment and discrimination
- Guidelines and action plan for alcohol and drugs

Suspected breaches of the Code of Conduct

All employees are expected to report all observed or suspected breaches of law or engcon's Code of Conduct to their immediate manager, their immediate manager's manager or the HR department. Breaches of the Code of Conduct, other Group policies, or those endangering the health and safety of an individual, can be reported confidentially and anonymously by using our whistleblower system, which is provided by an external party. No individual who files a report in good faith is to be discriminated against or punished. This is also described in engcon's whistleblower policy. In 2022, no cases were reported through the whistleblower system.

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Stakeholder dialogue and networks

The key to sustainability efforts that promote long-term value creation is understanding the business environment and stakeholder expectations. As part of daily business operations, engcon maintains ongoing dialogue with our various stakeholder groups concerning a number of subjects. Such dialogue creates understanding for the expectations on our operations and provides important guidance for identifying priorities and activities connected to various sustainability issues.

Stakeholder identification

A stakeholder is defined as a person, a group of persons or another unit that is impacted by the organisation and its performance or that has another interest in the organisation. Both internal and external stakeholders are taken into account. Key stakeholders are defined through a process that aims to identify the stakeholders that engcon wants to engage in dialogue with. To be considered a key stakeholder whom engcon wishes to engage in dialogue with, the stakeholder must meet the three criteria below:

- The stakeholder has requirements and expectations on engcon
- The stakeholder has a decisive influence on engcon's performance
- engcon is easily able to identify its purpose with the engagement and the type of results that the company can expect a dialogue with the stakeholder to yield

The primary stakeholders for engcon include its customers, end users, business partners, employees, the society in which we operate, investors and owners.

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Dialogues in 2022

The table below presents our most important stakeholder groups, issues connected to engcon's value creation, and channels used for dialogue. The dialogue identifies subjects that are important for us to address in our sustainability efforts.

Stakeholder groups	Dialogue form/channel	Significant topics
Customers Dealers, OEMs, lessors of digging equipment	Meetings, interactions through in-house local sales force and business partners, training activities, joint projects, exhibitions and events, customer surveys.	Customer requirements and product improvements, industry trends, safety, lifecycle perspectives, fuel consumption/carbon dioxide emissions from products, management of the supply chain.
End users Contractors, excavator owners, construction company employees	Meetings, interactions through in-house local sales force and business partners, training activities, joint projects, exhibitions and events, customer satisfaction surveys targeted at end customers	Customer requirements and product improvements for increased efficiency and productivity, safety, flexibility, work environment, and carbon dioxide emissions from products.
Business partners Manufacturers of excavators, attachments and OEMs, dealers	Evaluations and audits of business partners, procurements, meetings, joint development projects.	Safety, carbon dioxide emissions from products, transportation and in-house operations, business ethics including corruption, supply-chain management, carbon dioxide emissions from transportation, carbon dioxide emissions from in-house operations and social engagement.
Suppliers	Regular meetings, visits and assessments.	Delivery capacity, quality performance, sustainability efforts, business ethics including corruption and business agreements.
Employees Existing and potential	Workplace meetings, management meetings, performance reviews, collaboration with trade unions in Sweden, other cooperation council and forums.	A healthy and secure work environment including safety inspections and health checks, team engcon health initiative, the company's development, targets and strategies, expertise and training, product safety, corporate culture and values, terms and conditions, agreements, organisational changes.
Society Authorities, legislators, local communities, non-profit organisations, universities and colleges	Meetings, participation in industry forums, research projects, collaboration with universities, colleges, authorities and local municipalities, interaction with industry colleagues.	Carbon emissions from own operations, products, transportation. Social engagement, collaboration to attract more people to move to Strömsund Municipality "Heja Strömsund", job fairs and university meetups/exhibitions and local collaboration with the Teknikcollege and Teknikhuset municipal initiatives.
Owners/investors Existing shareholders and potential investors as well as analysts	General meetings and Board meetings. Interim reports, the Annual Report, IR website, individual meetings and group meetings with existing shareholders and potential investors as well as bank analysts, for example, in conjunction with interim reports and investor conferences.	Strategies and long-term sustainable profitability, innovation, quality and customer satisfaction. Sustainability issues (ESG – environmental, social and governance issues) are regularly highlighted.

Materiality analysis

An annual risk assessment and internal materiality analysis is carried out by Group management covering such areas as the environment, society and partnerships. Potential risk aspects and the management of identified risks are described below.

Sustainability risk	Potential risk area	Risk management	Related UN SDGs
Innovation and future solutions			
	Several markets are characterised by technological advances and changes in customer preferences. The failure to develop, launch and market new products in response to customer requirements for productivity and sustainability. Product development is impacted by legislation and customer requirements in regards to emissions, noise and recycling. This could increase the risk of competition in growth markets where such legislation and customer requirements are sometimes less stringent. Existing products and services are replaced by alternatives with lower emissions and smarter technology from competitors.	Continuous investments in R&D and the development of products in line with customer demands and expectations, even during periods of low business activity. Product design with a lifecycle perspective with reduced emissions, noise and increased recycling potential to meet legislative and customer requirements. Product design to enable new and smarter technology with lower emissions to challenge technical development in the industry.	8.4 Improve progressively global resource efficiency in consumption and production 9.2 Promote inclusive and sustainable industrialization 9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation 17.1 Strengthen domestic resource mobilization for tax and other revenue collection 17.6 Cooperation on and access to science, technology and innovation 17.17 Encourage and promote effective partnerships
Environment and climate			
	Physical climate changes, changes in regulations, taxes and resource prices, pollution and access to natural reserves such as energy, water and raw materials. Refraining from actively reducing environmental impact could have	engcon's management and organisation continually monitors environmental and climate risks that may impact operations and demand. Innovation includes improved safety, increased efficiency and low carbon dioxide emissions for important	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation

Sustainability risk	Potential risk area	Risk management	Related UN SDGs
	a negative impact on operations, either directly or by disrupting the supply chain. A lack of compliance with environmental regulations may lead to fines.	components. engcon has integrated the most material key performance indicators for the environment into the planning process with the aim of supporting improvements and efficiencies. The Group management and key personnel conduct an annual review of climate-related risks and opportunities. To support minimising environmental impact and ensuring that appropriate precautionary measures are taken, engcon has implemented the ISO 14001:2004 environmental management system and works according to guidelines within the REACH, CLP and RoHs regulations.	12.2 Sustainable management and efficient use of natural resources 12.4 Environmentally sound management of chemicals and all wastes
Responsibility for people and society			
Attract and retain competence	The ability to attract and retain key competence and expertise to ensure innovation and high quality within product development and other operations.	Continual analysis of competence and requirements to ensure access to people with the requisite expertise. Regular performance reviews are actively followed up and employee surveys are regularly performed. Recruitment can take place externally as well as internally, partly through job rotation. Market-based salaries are linked to commercial targets and priorities. engcon strives to maintain healthy relationships with trade unions in Sweden, and collaborates with local schools and universities. Great value is also placed on preserving and further developing our strong corporate culture which, together with clear communication, promotes commitment, job satisfaction and rapid adjustment to new conditions.	
Health and safety	Non-compliance with health and safety regulations could lead to accidents that result in personal injury or that damage productivity and the engcon brand. A pandemic could impact the health of Group employees and weaken their ability to carry out their work.	Analyses and management of health and safety risks are carried out continually in operations. Strong focus on health and safety. engcon strives to increase awareness of the importance of prioritising safety through training and other recurring activities in the Group. Health and safety as the highest priority for employees and customers was strengthened during	8.8 Protect labour rights and promote safe and secure working environments

Sustainability risk	Potential risk area	Risk management	Related UN SDGs
		the pandemic, with the introduction of preventive measures, digitisation and adaptations in production and out in the field in local markets.	
Discrimination and lack of equality	Discrimination and harassment is illegal and shortcomings in this regard could lead to loss of confidence, a less advantageous work environment resulting in diminished productivity, difficulties in recruiting and retaining personnel, and damage claims.	engcon strongly denounces discrimination and harassment. This is clearly stated in engcon's Code of Conduct. Respectful and dignified treatment encourages a healthy and productive work environment, and procedures to prevent and combat discrimination have been established.	8.5 Full and productive employment and decent work, and equal pay for work of equal value
Responsible business			
Respect for human rights	engcon does not see any evident risks for human rights breaches as a result of its operations. engcon does not operate in any countries that are identified as high-risk countries in this regard, even if engcon operates in a small number of countries where human rights violations do occur and interacts with customers and business partners who are exposed to human rights issues.	engcon's Code of Conduct is – in relevant parts – based on the UN guiding principles on business and human rights and must be adhered to by all employees. All new employees complete digital onboarding training and study the Code of Conduct as a mandatory part of the training.	8.7 Eradicate forced labour, modern slavery and human trafficking, and child labour.
Anti-corruption	engcon's Code of Conduct, governance, internal control and compliance processes aim to combat and prevent corruption and fraud. However, corruption and bribery do occur in countries in which engcon operates.	engcon has zero tolerance for corruption, which is clearly expressed in the Code of Conduct that is accepted by all employees. A strong set of values and corporate culture with business ethics as a cornerstone and compass for employees. A stated Speak-Up policy is in place to enable a simple method of disclosing information concerning irregularities. A global whistleblower function, which is available both internally and externally for employees, customers, partners and other stakeholders.	

Environmental disclosures

The governance of environmental issues is based on engcon's Code of Conduct, operational policy (quality, environment and sustainability), Group-wide instructions and established sustainability targets. engcon works towards science-based targets to reduce our carbon dioxide emissions in line with the Paris Agreement. We have a target to reduce our absolute carbon dioxide emissions within Scope 1 and Scope 2 by 42 per cent by 2030 from the 2021 level, and to take responsibility for working towards reducing our Scope 3 impact. The departments are responsible for complying with sustainability targets and policies and reporting the results. All data reported in this section comprises all product units in the Group.

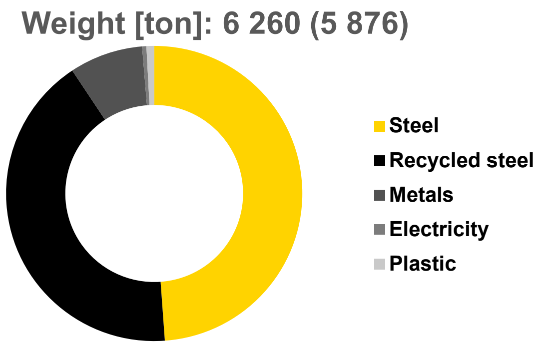
Reduction of carbon dioxide emissions from Scope 1 and 2 since 2021	-11%
Reported accidents resulting in negative environmental impact	0 (0)

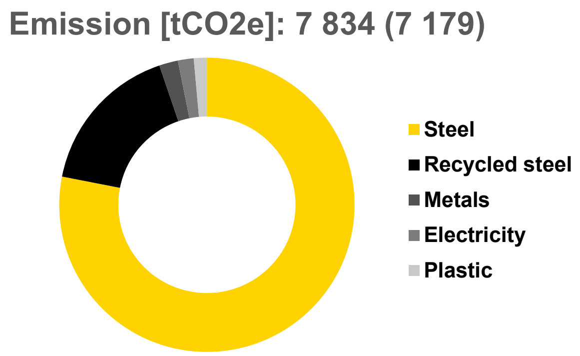
Materials

engcon's products include several materials with varying environmental and climate impact. Steel is the most prevalent raw material in our products, followed by metals such as iron and aluminium bronze, electronics and plastic. Efforts are ongoing to reduce the environmental impact from purchased materials and components.

In the figure below, we report the weights and emission levels of the primary input materials in our products. The materials reported are virgin steel, recycled steel, metals, electronics and plastic. Steel accounts for almost 90 per cent of the reported materials. The breakdown of the materials purchased in 2022 is based on our 40 largest suppliers. 70 per cent of the data is specific while 30 per cent is general and estimated data based on known supplier information. The total weight of purchased material is calculated in part by multiplying the known weight of the products by the number of manufactured products during the year and adding the volume of waste to the weight and in part through known purchasing volumes of steel. Emissions are calculated by multiplying the weight of materials by the emission factor for the specific material.

Purchased raw materials





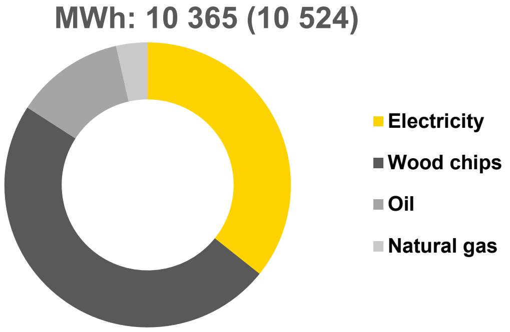
Method

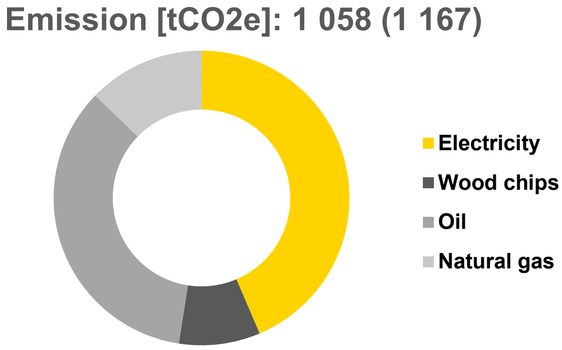
Collection and reporting of data for 2021 and 2022 was conducted by distributing a digital ESG form to our 40 largest suppliers. The suppliers were asked about their component process, transportation (cradle to gate) and packaging material. In the figure above, purchased raw materials from our component suppliers are reported. For 2021, 13 suppliers provided complete data through the form, and for 2022, 20 suppliers provided complete data. Complete responses are calculated as specific data in our reporting of data quality.

Energy

We have several activities planned to reduce our energy consumption and carbon dioxide emissions from energy use at our manufacturing facilities. We are conducting, inter alia, energy-saving measures to reduce electricity use by 10 per cent in our facility in Poland and have converted to district heating for the heating of our facility in Strömsund. The sustainability report outlines engcon's roadmap to reduced emissions and contains a description of these activities, refer to page 27. In 2022, the proportion of renewable energy for electricity and heating was 78 per cent.

Energy use





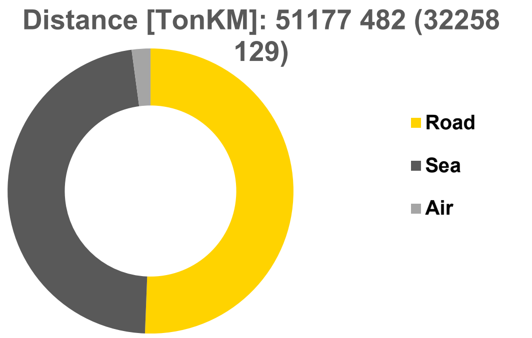
Energy use within the Group
The Group's energy consumption declined from 2021 to 2022. The primary reason for this was electricity savings due to increased electricity prices in Poland. About 90 per cent of engcon's energy is consumed in Sweden, where 100 per cent of electricity and 80 per cent of heating is derived from renewable energy sources. The electricity purchased in Sweden comes from wind power (more than 80 per cent), hydropower (approx. 10 per cent) and bioenergy (approx. 5 per cent). The renewable energy in Sweden comes from the incineration of wood chips. In 2023, we will invest in solar panels in Poland to increase the share of renewable energy and direct our energy initiatives to those areas where they can add the greatest benefit for the climate.

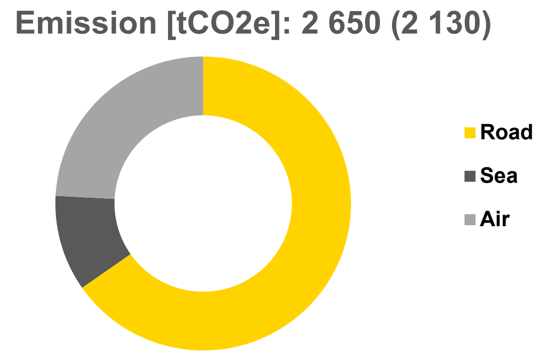
Omissions
Energy consumption for sales offices that are not part of our facilities in Strömsund and Poland is assumed to be negligible and is therefore not included in the calculations.

Method
The collection and reporting of data for 2021 and 2022 was conducted by representatives of each facility. The information was reported as the amount of energy (MWh) for electricity and volume of fuel for heating.

Transportation
While we transport products across the globe, most transport activity takes place in Europe. This section details transportation upstream and downstream. Upstream transportation primarily takes place in Sweden where we have our largest supplier base and thereafter Europe. Our customers are present across the globe, but our base in primarily in Europe. As such, downstream transportation takes place in Europe and the rest of the world. The primary transportation method is by road, but some transportation also takes place by sea and air. At engcon, we work continually to optimise our logistics flows to reduce the environmental impact from our transportation. We focus primarily on the consolidation of logistics. In 2023, we commenced a project with engcon's production and sales companies concerning transportation planning and shipping optimisation. To optimise transportation, consignments are consolidated, thereby generating more efficient transportation and reducing the number of deliveries. This ensures more environmentally and financially sustainable transport activities.

Transportation



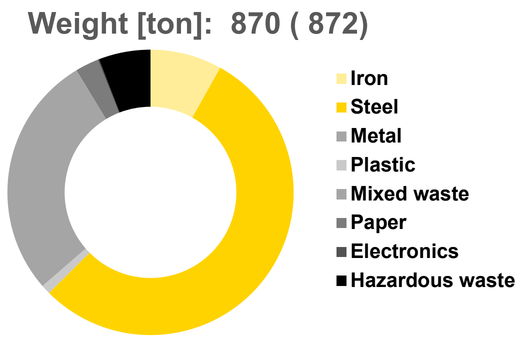


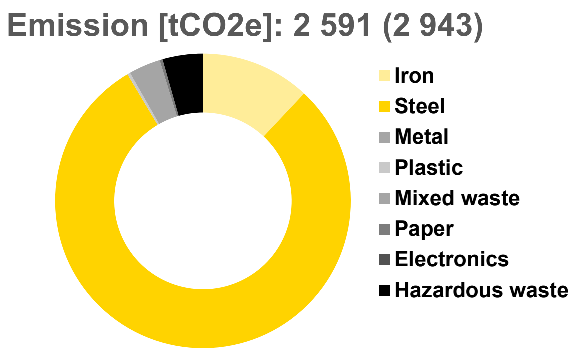
Method
Transportation and emission data for 2021 and 2022 is gathered from our shipping companies, including DHL, DB Schenker, DIERA and Postnord. 5 per cent of emissions from transportation have been calculated from estimated data based on previous experience.

Waste

Steel is 100 per cent recoverable. The majority of our waste can be recycled, and the remaining waste is incinerated with energy recovery. A small proportion of the waste goes to landfills. We work continually to improve waste management and recycling. The amount of waste has increased since 2021 as the result of increased production volumes.

Waste





Avoided emissions	818 (834) tCO2e

Omissions
Waste generated at sales offices that are not part of our facilities in Strömsund and Poland is not covered. This waste is assumed to be negligible compared with waste from our production facilities.

Method
The data is gathered from Stena Recycling, Kuusakoski and Lundstams, which manage our waste in Sweden. Collection and reporting of data from Poland is handled by the facility manager.

Chemicals
engcon handles certain chemicals that are hazardous to health or the environment. This primarily concerns oil, paint and solvents. We have committed to complying with the RoHS and REACH directives. engcon requires that all chemicals used in the Group are verified to ensure the minimum negative impact on the environment and health. Such verification comprises, but is not limited to:

- the process for the use of a new chemical, including a risk assessment and evaluation of the compliance with legal requirements.
- correct labelling, use, storage, delivery and transportation.

- instructions and other appropriate precautionary measures to prevent inappropriate use.
- access to personal protective equipment (PPE) and equipment for spill containment.
- employee training
- process for the identification, evaluation and elimination of chemicals that contain substances that are hazardous for the environment and people's health.

engcon uses the EcoOnline platform to secure a healthy work environment, proper chemicals management and to train employees in the handling of chemicals. EcoOnline includes all chemicals registered together with a safety data sheet. The manager for chemicals documentation conducts regular reviews with the responsible team leaders to ensure that the chemicals list and procedures for handling chemicals are updated.

Emissions

engcon's primary climate impact is the result of our upstream Scope 3 emissions connected to the purchasing of components. Our Scope 1 and 2 emissions have declined 11 per cent since 2021 as the result of a reduction in the use of oil for heating at our production unit in Strömsund and reduced electricity use at our production unit in Poland. Our Scope 3 emissions rose in 2022 due to the increase in our production volume.

Scope 1	818 (932)
Scope 2 - market based	461 (504)
Scope 2 - location based	492 (538)
Scope 3	57,200 (53,500)
Purchased components	33,300 (29,700)
Upstream and downstream transportation and distribution	2,650 (2,130)
Waste generated in operations	2,590 (2,940)
Business trips	110 (33)
Commuting	1.7 (1.3)
Management of end-of-life sold products	18,600 (17,800)

In 2022, the number of business trips increased as an expected effect of eased pandemic restrictions. We also note that following the pandemic, we have become more accustomed to digital meetings and have thus changed our travelling patterns. A positive trend is the increase in the proportion of electric and hybrid company cars during the year.

Travel costs as a percentage of Group sales	0.21% (0.12)
Share of electric and hybrid company cars	70% (50)

Omissions

Energy consumption and waste for sales offices that are not part of our facilities in Strömsund and Poland are assumed to be negligible and are therefore not included in the calculations.

Method
engcon reports Scope 1, 2 and 3 emissions in accordance with the recommendations of the Greenhouse Gas Protocol Corporate Standard (GHG Protocol). Scope 2 emissions are recorded in accordance with the market-based method stated in "GHG Protocol Scope 2 Guidance".

Scope 1: Direct greenhouse gas (GHG) emissions
Despite increased production volumes, Scope 1 emissions declined year-on-year due to a reduction in the use of oil for heating in Strömsund. No energy saving measures were undertaken in 2022 that could explain the decrease. However, it could be due to a number of factors, including the average annual temperature in 2022 being 0.8°C higher than in 2021. Another reason could be more efficient incineration of wood chips for heating in 2022.

Scope 1 data:

- Heating of properties at our production facilities in Sweden and Poland. In Sweden, this is mainly from the incineration of wood chips, but oil is also used. In Poland, natural gas is used for heating.
- Company-owned vehicles used in day-to-day operations at our production facilities in Sweden and Poland.
- Leased cars used as company cars by our white-collar personnel

Scope 2: Indirect GHG emissions
Despite increased production volumes, Scope 2 emissions declined year-on-year due to reduced electricity use at our production unit in Poland.

Scope 2 data:

- Electricity use within the Group.

Scope 3: Other indirect GHG emissions
engcon's Scope 3 emissions account for the majority of the Group's climate impact. A considerable share of Scope 3 emissions – 57 per cent or about 33,300 tonnes CO2e for 2022 – derive from purchases of components (meaning GHG emissions generated outside of the organisation). This is the first time that engcon is reporting Scope 3 emissions. Our aim was to gather specific data, but in certain cases it was necessary to make generalisations and estimates. The data quality of our climate calculations is reported on pages 22–23. engcon is working to improve data quality, particularly in collaboration with our suppliers since the purchasing of components accounts for our greatest source of emissions.

Scope 3 data:

- Purchased components

To calculate emissions from purchased components, we have used a hybrid method that combines supplier-specific, general and estimated data. Purchased components are based on our 40 largest suppliers, which account for 96 per cent of our purchases. 70 per cent of the data is specific while 30 per cent is general and estimated data based on known supplier information. The remaining 4 per cent of purchased materials is estimated to be comparable with emissions from our 40 largest suppliers. Emissions from purchases of components rose in 2022 due to increased production volumes.

- Upstream and downstream transportation and distribution

Emissions from upstream and downstream transportation and distribution are calculated using a combination of fuel and distance-based methods. Transportation and emissions data is gathered from our shipping companies, including DHL, DB Schenker, DIERA and Postnord. 5 per cent of emissions from transportation have been calculated from estimated data based on previous experience.

- Waste generated in operations

Emissions from waste are calculated using a supplier-specific method, meaning that waste-specific Scope 1 and Scope 2 emissions data is gathered from our waste-management companies (data from, for example, incineration, energy recovery and material recovery).

- Business trips

Emissions from business trips are calculated using a combination of fuel-based and distance-based methods. Documentation has been gathered from travel agencies and from the internal reporting function.

- Commuting

Emissions from commuting have been calculated using a combination of the methods based on distance and average data. This means that some of the data has been collected from employee commuting patterns and some has been estimated based on average data for employee commuting patterns.

- Management of end-of-life sold products

Emissions from the management of end-of-life sold products have been calculated using a waste-type-specific method. Data for the total amount of sold products in 2022 was broken down into waste fractions that have been specified based on the waste management method. In 2022, our products were mainly sold in the European market (90 per cent) and thus waste management is assumed to be equated with the levels of the European market. Packaging material has not been included in the calculation, but can be assumed to be a small amount compared with the input material in products sold.

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Sources of the emission factors used

Fuel

- Boverket (2022). Boverket's climate database. Boverket – the Swedish National Board of Housing, Building and Planning.
- EPA (2014). Emission Factors for Greenhouse Gas Inventories. EPA – United States Environmental Protection Agency.

Electricity

- EEA (2022). Greenhouse gas emission intensity of electricity generation in Europe. EEA – European Environment Agency.
- Skellefteå Kraft (2022). Company-specific data for electricity use (market based).
- Enea (2022). Company-specific data for electricity use (market based).
- IVA (2016). Framtidens el – så påverkas klimat och miljö. En delrapport. [Electricity of the future – how the climate and environment will be impacted. A progress report.] IVA – the Royal Swedish Academy of Engineering Sciences, Sweden.
- Engström and others.Guidelines for methodological choices for calculating impact from changed energy use on the Swedish environmental objectives: Prepared with support from the Environmental Objectives Council, the Swedish Energy Agency and the Environmental Protection Agency: Stockholm, Sweden, 2009; p. 76.
- Schakenda and others CO2-Emissions Associated with Different Electricity Mixes; Ostfold Research: Krakeroy, Norway, 2010; p. 20.

Heating

- Swedenergy (2022). Miljövärdering av fjärrvärme. [Environmental evaluation of district heating.] Sweden
- IEA (2022). District Heating – Infrastructure deep dive. IEA – International Energy Agency.

Transportation

- Gustafsson and others Well-to-wheel climate performance of gas and electric vehicles in Europe, Transportation Research Part D: Transport and Environment, Volume 97, 2021.
- DOE (2021). GREET WTW Calculator 2021. DOE - U.S. Department of Energy
- EEA (2012). Overall well-to-wheel greenhouse gas emissions of various types of biofuels, compared to reference fuel. EEA – European Environment Agency
- EEA (2012). Rail and waterborne — best for low-carbon motorised transport. EEA – European Environment Agency

Materials

- Tillväxtanalys (2018). Metaller och deras betydelse för produkters klimatavtryck. [Metals and their significance for the climate footprint of products.] Tillväxtanalys – Swedish Agency for Growth Policy Analysis.
- Environdec (2022). Global Environmental Product Declaration (EPD) programme for publication of ISO 14025 and EN 15804 compliant EPDs.
- FEICA (2022). Environmental Product Declaration. FEICA – the Association of the European Adhesive & Sealant Industry.

Waste

- Hillman et al. Climate Benefits of Material Recycling - Inventory of Average Greenhouse Gas Emissions for Denmark, Norway and Sweden. 2015
- Tillväxtanalys (2018). Metaller och deras betydelse för produkters klimatavtryck. [Metals and their significance for the climate footprint of products.] Tillväxtanalys – Swedish Agency for Growth Policy Analysis.
- Miliute-Plepiene et al. Klimatpåverkan från olika avfallsfraktioner. 2019
- Wäger et al. Environmental impacts of the Swiss collection and recovery systems for Waste Electrical and Electronic Equipment (WEEE): A follow-up, Science of The Total Environment, 2011.

Disclosures on social responsibility

Employees

engcon's employees are crucial for the company's value creation, profitability and growth. At engcon, we want to offer an attractive, inclusive and healthy workplace. Being an attractive employer means being a responsible employer and promoting a dynamic employee culture.

Information about employees working for the organisation

	The Nordic region	Europe	Americas	Asia-Oceania	Group
Women	83	11	2	1	97 (65)
Men	215	83	19	11	328 (262)
Total	**298**	**94**	**21**	**12**	**425 (327)**
Proportion of total employees	70%	22%	5%	3%	100 (100) %
Proportion of women	28%	12%	10%	8%	23 (20) %

Employee survey

In 2022, we commenced structured efforts to measure and follow up employee engagement within the Group. An employee survey containing 46 questions was send to the entire organisation with a response rate of 78 per cent. The employee survey covered the following areas:

- strategy, vision and culture
- training and development
- relationships to managers
- relationships to colleagues
- targets and target fulfilment
- feedback and communication
- health
- workload
- autonomy
- workplace and tools
- meaningfulness and participation

The average value of all responses from the employee survey is presented below as a Total score and an Employee Net Promoter Score (eNPS). engcon's eNPS is based on the question *How likely is it that you would recommend engcon to a friend or acquaintance?* Responses are on a scale 1 to 10.

- 9-10 Promoters: Our most satisfied employees
- 7-8 Passives: Satisfied but not as engaged
- 0-6 Detractors: Unsatisfied employees who would not recommend engcon

eNPS is calculated by subtracting the per cent of Detractors from the per cent of Promoters. The result can vary between 100 and -100

Total score	3.8 of 5
eNPS	6

Staff turnover

Definition of staff turnover: (employees who have left the company/average number of employees) multiplied by 100

Staff turnover is only stated for 2022 since the company was listed on the stock exchange in 2022, which led to some restructuring in the company. As a result, figures for 2021 are not considered comparable.

Total in the Group	23.5%

Employment

engcon is committed to diversity, equality, fair working conditions and the freedom of association of its employees, including the right to join trade unions.

In 2022, the majority of all employees in Sweden, corresponding to 63 per cent of engcon's total employees, were covered by collective agreements.

Training and skills development

Training and skills development is important for engcon to remain at the forefront of technological development. As such, we work in a structured manner with knowledge sharing and the transfer of technology within and between units. Each manager is responsible for the further training of their employees.

All managers conduct annual performance reviews with their employees. These comprise an evaluation of each employee's annual performance and a discussion to adopt new developmental targets for the following year. We use the Heartpace programme to manage annual performance reviews and as a support for our managers.

100 per cent of our employees receive regular reviews of their performances and career development.

Occupational health and safety

engcon is committed to providing a safe and secure workplace. The company focuses its occupational health and safety efforts on reducing and preventing physical, ergonomic and psychosocial risks.

Policies and guidelines

Health and safety is covered by engcon's Code of Conduct, and is managed in accordance with prevailing local laws and regulations in the respective countries. Detailed requirements for how suppliers are to manage health and safety are outlined in engcon's Code of Conduct, which all of our suppliers from which we purchase goods and components for at least SEK 1 million must sign and comply with. We have health and safety representatives at our production facility in Sweden who carry out regular safety inspections. We have an external health and safety consultant at our production facility in Poland who completes inspections on a weekly basis.

Training and other health and safety initiatives

engcon continually provides training for employees to reduce and prevent physical, ergonomic and psychosocial risks. We offer special safety training for roles that are exposed to particular risks. All employees receive basic information and take place in fire drills and drills in the event of accidents. For certain roles, health and safety is included in the onboarding process for new employees.

Health-promoting activities

In Sweden, all employees are covered by sickness and accident insurance and have access to company healthcare. Employees also have access to a massage service at work, and receive subsidies for health-promoting activities (such as sports activities). All employees in Sweden have the opportunity of participating in engcon's own healthcare initiative – Team engcon – where employees are can participate in regular joint exercise sessions at work each week. In other countries, the scope of access to insurance and company healthcare varies. Healthcare services are provided in most cases by external companies that guarantee data confidentiality for employees in accordance with prevailing local legislation.

Occupational injuries

The reported occupational accidents can vary in nature. All accidents are followed up and suitable measures are taken to avoid similar accidents in the future. In 2022, two serious accidents took place. The total number of reported accidents increased in 2022 compared with 2021. This could be linked to the efforts made to encourage the reporting of accidents as well as active follow ups and improvement efforts. The rise in the number of reported accidents reflects an increased degree of maturity among employees in terms of the reporting of accidents. In 2022, we also acquired the company e-Component Sweden AB, the operations of which have a higher incidence of accidents.

In 2022, we saw a marginal increase in sickness absence in the Group. This was due to an outbreak of COVID-19 that affected our production facility in Strömsund, Sweden in the spring of 2022.

Occupational accidents	29 (16)
Proportion of sick leave	5.03 (3.4) %

Anti-discrimination

engcon in committed to offering a safe and sound workplace that promotes diversity and equality and is free from all types of discrimination. This is monitored in our employee survey, and we also encourage employees to report incidents to their immediate managers or via the whistleblower system. No cases of discrimination were reported within the engcon Group in 2022 via the whistleblower system or through internal reporting channels. This information covers all operations across the globe.

Diversity and inclusion

Using our Code of Conduct as a basis, engcon works in various ways to prevent discrimination and promote diversity and inclusion. We set Group-wide targets and take action to achieve these goals. In 2022, we noted that the number of women in full-time positions and women with managerial duties have increased, and that more nationalities are represented at our production facility in Strömsund.

Proportion of women in full-time positions	23% (20)
Share of women with managerial duties	33% (19)
Nationalities among our employees in Sweden	15 (12)
Share of women on the Board	60% (60)
Share of women in Group management	12.5% (12.5)

Local communities

In addition to creating jobs, engcon is active in a number of initiatives that aim to strengthen the local community. The Strömsund region plays an important part in our continued success and growth. This is where our head office is located as well as the largest of our two production facilities. We are deeply engaged with our local community in many different ways including by supporting various local initiatives and sports associations and by working to put Strömsund on the map in various national and international contexts.

- **"Heja Strömsund"**, with the aim of attracting people who want to move to Strömsund to work and develop the district.
- **The engcon hall**, the local sports hall in Strömsund.
- **Teknikcollege**, students at the local high school in Strömsund receive an attractive education that can lead to employment immediately, or provide a healthy foundation for further study.
- **Teknikhuset**, is a meeting place in Strömsund for future technicians, engineers, inventors and entrepreneurs.

Disclosures regarding corporate governance

Suppliers

Our suppliers are mainly based in Europe, primarily in the Nordic region. We have a target that all of our suppliers from which we purchase goods and components for at least SEK 1 million must sign and comply to our Code of Conduct. We ensure compliance with our Code of Conduct through regular meetings with, visits to and audits of our suppliers. engcon strives to continually develop its partnerships with suppliers to ensure the highest possible functionality, quality and sustainability. To minimise risks connected to component shortages and enable growth, we work continually to broaden our supplier base (dual sourcing) without compromising on quality. In 2023, we will initiate collaboration with the 15 suppliers that have the largest carbon footprints and work together to reduce their emissions.

Number of suppliers who have signed the Code of Conduct	57 of 63
Number of supplier audits	7 of 24

Anti-corruption

engcon has zero tolerance for corruption, which is clearly expressed in the Code of Conduct that is accepted by all employees and the majority of our suppliers. In 2022, an external global whistleblower function was established. The whistleblower function is available both internally and externally for employees, customers, partners and other stakeholders. All reported cases are carefully reviewed with the help of external experts and measures are taken if a breach has occurred. In 2021 and 2022, no cases were reported related to potential fraud or corruption via the whisteblower function.

Reported deviations from the Code of Conduct	0 (0)
Reported cases of human rights violations	0 (0)

Sustainability reporting in accordance with the Swedish Annual Accounts Act

The table below refers to the sustainability report that was prepared in accordance with the Swedish Annual Accounts Act

	Environment	Personnel	Social conditions	Human rights	Anti-corruption
Business model	10 Value-creating business model, 22-23 Impact on the value chain, 25 Cutting-edge technology, 26-27 Environment and climate, 109 Sustainability governance, 115 Environmental disclosures, 118 Emissions	10 Value-creating business model, 28 Responsibility for people and society, 123-124 Disclosures on social responsibility	10 Value-creating business model, 24 Innovation creating the solutions of the future, 29 Responsible business, 124 Occupational health and safety, Anti-discrimination and Diversity and inclusion	10 Value-creating business model, 29 Responsible business, 111 Sustainability governance, 125 Disclosures regarding corporate governance	10 Value-creating business model, 29 Responsible business, 111 Sustainability governance, 125 Disclosures regarding corporate governance
Policies and results of the policies	26-27 Environment and climate, 117-122 Environmental disclosures	28 Responsibility for people and society, 123-124 Disclosures on social responsibility	29 Responsible business, 124 Occupational health and safety, Anti-discrimination and Diversity and inclusion	29 Responsible business, 111 Sustainability governance, 125 Disclosures regarding corporate governance	29 Responsible business, 111 Sustainability governance, 125 Disclosures regarding corporate governance
Material risks and how these are managed	22-23 Impact on the value chain, 114-116 Materiality analysis	114-116 Materiality analysis	114-116 Materiality analysis	114-116 Materiality analysis	114-116 Materiality analysis
Performance indicators	26-27 Environment and climate, 117-122 Environmental disclosures	28 Responsibility for people and society, 123-124 Disclosures on social responsibility	29 Responsible business, 124 Occupational health and safety, Anti-discrimination and Diversity and inclusion	29 Responsible business, 111 Sustainability governance, 125 Disclosures regarding corporate governance	29 Responsible business, 111 Sustainability governance, 125 Disclosures regarding corporate governance

Assurance report

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders in engcon AB, corporate identity number 556647-1727

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2022 and for its preparation in accordance with the Annual Accounts Act. The company has defined the scope of the statutory sustainability report on page 126.

The scope of the audit

Our examination has been conducted in accordance with FAR's standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and 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 opinion.

Opinion

A statutory sustainability report has been prepared.

Deloitte AB

Signature on Swedish Original

Harald Jagner
Authorised Public Accountant

This is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish language original, the latter shall prevail.

Other

Multi-year overview

Income statement, SEK million	2022	2021	2020
Net sales	1,938	1,488	1,077
Operating expenses	-1,523	-1,163	-862
Operating profit	415	325	215
Net financial items	-	15	2
Profit before tax	415	341	218
Income tax	-90	-72	-46
Profit/loss from continuing operations	**325**	**269**	**172**

Balance sheet, SEK million	2022	2021	2020
Fixed assets	267	225	279
Other current assets	889	560	437
Cash and cash equivalents	30	228	209
Total assets	**1,186**	**1,013**	**925**
Equity	501	613	561
Interest-bearing liabilities	264	122	138
Non-interest-bearing liabilities	421	278	226
Total equity and liabilities	**1,186**	**1,013**	**925**

Cash flow, SEK million	2022	2021	2020
Cash flow from operating activities	216	175	251
Cash flow from (-used in) investing activities	-45	-7	-37
Cash flow from financing activities	-345	-160	-59
Cash flow for the period	**-174**	**8**	**155**

Key performance indicators	2022	2021	2020
Gross profit, SEK million	833	626	459
Gross margin, %	43.0	42.1	42.6
Operating profit, SEK million	415	325	215
Operating margin, %	21.4	21.8	20.0
Order intake, SEK million	1,978	1,967	1,114
Net sales growth, %	37.6	n/a	n/a
Net debt (+) / Net cash (-), SEK million	234	-106	-71
Net debt/Net cash through EBITDA	0.5	-0.3	-
Equity/assets ratio, %	42.2	60.5	60.6
Return on capital employed, %	56.4	47.8	35.4
Interest coverage ratio, multiple	53	171	n/a
Average number of full-time employees	425	327	315

Data per share	2022	2021	2020
Basic and diluted earnings per share (continuing operations), SEK	2.01	1.93	1.06
Average number of shares outstanding	151,788,000	151,788,000	21,250,320

Alternative performance measures and definitions

This report contains references to a number of earnings measures (performance measures). Some of these performance measures are defined in IFRS, while others are alternative performance measures that are not recognised in accordance with applicable frameworks for financial reporting or other legislation. These alternative performance measures comprise a complement to assist investors and company management in analysing the operations. Below is a report on the reconciliation of alternative performance measures and definitions of performance measures with a motivation for their use.

Estimates[1]

	2022	2021
Equity/asset ratio		
Equity, SEK million	501	613
Total assets, SEK million	1,186	1013
Equity/assets ratio, %	**42.2%**	**60.5%**
Gross margin		
Gross profit, SEK million	833	626
Net sales, SEK million	1,938	1,488
Gross margin, %	**43.0%**	**42.1%**
Operating margin		
Operating profit, SEK million	415	325
Net sales, SEK million	1,938	1,488
Operating margin, %	**21.4%**	**21.8%**
Net debt (-) / Net cash (+)		
Non-current borrowing (+), SEK million	4	8
Current borrowing (+), SEK million	52	67
Non-current lease liabilities (+), SEK million	55	36
Current lease liabilities (+), SEK million	17	12
Bank overdraft facilities (+), SEK million	136	-
Cash and cash equivalents (-), SEK million	-30	-228
Net debt (+) / Net cash (-), SEK million	**234**	**-106**
EBITDA		
Operating profit, RTM, SEK million	415	341
Interest expenses, RTM, SEK million	8	2
Depreciations, RTM, SEK million	39	32
EBITDA	**462**	**375**

Net debt (+) / Net cash (-) /EBITDA		
Net debt (+) / Net cash (-), SEK million	234	-106
EBITDA, SEK million	462	375
Net debt (+) / Net cash (-), SEK million/EBITDA	**0.5**	**-0.3**
Interest coverage ratio, multiple		
Operating profit, RTM, SEK million	415	325
Financial income, RTM, SEK million	9	17
Sum	**424**	**342**
Interest expense, past 12 months, SEK million	8	2
Interest coverage ratio, multiple	**53**	**171**
Organic growth in order intake		
Order intake for the current period	1,978	1,967
Currency change	-91	n/a
Order intaks, ex currency, %	1,887	n/a
Order intake for the preceding period	1,967	n/a
Change in order intake	**-80**	**n/a**
Change in order intake, %	**-4.1%**	**n/a**
Net sales and organic net sales growth		
Net sales for the current period	1,938	1,488
Currency change	-80	n/a
Change in net sales, ex currency, %	1,858	n/a
Net sales for the preceding period	1,488	n/a
Change in organic order intake	**370**	**n/a**
Change in organic order intake, %	**24.6%**	**n/a**
Return on capital employed		
Profit/loss before tax, past 12 months, SEK million	415	341
Interest expense, past 12 months, SEK million	8	2
Profit/loss before tax plus interest expenses, past 12 months, SEK million	423	343
Capital employed at the beginning of the period, SEK million	735	699
Capital employed at the end of the period, SEK million	765	735
Capital employed, average, SEK million	**750**	**717**
Return on capital employed, %	**56.4%**	**47.8%**
Capital employed		
Balance sheet total, SEK million	1,186	1,013
Less: non-interest-bearing liabilities	-	-
Deferred tax liabilities, SEK million	-8	-
Leasing debt, SEK million	-	-
Provisions for product warranties, SEK million	-30	-23
Accounts payable, SEK million	-146	-94
Current tax liabilities, SEK million	-109	-61
Derivatives, SEK million	-7	-
Other liabilities, SEK million	-42	-34
Accrued expenses and deferred income, SEK million	-79	-66
Capital employed, SEK million	**765**	**735**

[1] The company reports currency effects as from the first quarter 2022

Definitions

Key performance indicator	Definitions	Explanation
Return on capital employed	Pre-tax profit plus interest expenses as a percentage of average capital employed, rolling 12 months.	Return on capital employed is a profitability measure used to put earnings in relation to the capital required to conduct operations.
EBITDA	Operating profit before interest and taxes and amortisation of intangible assets and depreciation of non-current assets.	EBITDA is used to facilitate comparisons and assessments of the company's cash flow.
Gross margin	Gross profit divided by net sales.	Gross margin is used to measure product profitability.
Average number of employees	Average number of full-time employees during the reporting period.	Non-financial performance measure.
Net debt (+) / Net cash (-)	Defined as interest-bearing debt minus cash and cash equivalents and certain other financial assets. Interest-bearing debt includes liabilities to credit institutions and lease liabilities.	To ensure that engcon has a stable financing structure and can meet its financial commitments in accordance with its loan agreements.
Net debt (+) / Net cash (-) through EBITDA	Defined as interest-bearing debt minus cash and cash equivalents and certain other financial assets through EBITDA. Interest-bearing debt includes liabilities to credit institutions and lease liabilities.	To ensure that engcon has a stable financing structure and can meet its financial commitments in accordance with its loan agreements.
Order intake	Total order intake during the period calculated in the same way as net sales.	Order intake provides an indication of the current demand for the Group's products and services, which becomes apparent in net sales with varying delays.
Organic net sales growth	Change in net sales as a percentage of net sales during the comparative period in the preceding year for the companies that were part of the Group for the entire comparative period and the current period, excluding translation effects from exchange-rate differences.	Relevant measure for the assessment of the company's capacity to create growth through volume, price and product/service offering in operating activities.
Organic growth in order intake	Organic growth in order intake is growth in order intake excluding translation effects from exchange rate differences, as well as acquisitions and divestments.	It provides an understanding for the Group's order intake, which is driven by changes in volume, price and product/service offering.
Earnings per share	Earnings per share for the period, in SEK, attributable to the Parent Company shareholders, in relation to the weighted average number of shares before and after dilution.	Performance measures in accordance with IFRS.
Interest coverage ratio	EBIT plus financial income through interest expenses.	To ensure that engcon has a stable financing structure and can meet its financial commitments in accordance with its loan agreements.

Key performance indicator	Definitions	Explanation
Operating profit (EBIT)	Earnings before interest and taxes.	Enables comparisons of profitability regardless of capital structure or tax situation.
Operating margin (EBIT margin)	Operating profit divided by net sales.	The EBIT margin is used to measure operational profitability.
Equity/assets ratio	Equity including non-controlling interests divided by total assets.	A key measurement for the assessment of the company's financial stability.
Capital employed	Total assets less non-interest-bearing liabilities.	Capital employed shows the proportion of the company's assets that are financed by capital requiring returns.

Exchange rates

	Closing rate 31 Dec 2022	Average rate Jan–Dec 2022	Closing rate 31 Dec 2021	Average rate Jan–Dec 2021
1 EUR is equivalent to SEK	11.13	10.62	10.23	10.15
1 DKK is equivalent to SEK	1.50	1.43	1.38	1.37
1 NOK is equivalent to SEK	1.06	1.05	1.03	1.00
1 USD is equivalent to SEK	10.44	10.10	9.04	8.57
1 AUD is equivalent to SEK	7.09	7.01	6.56	6.43
1 PLN is equivalent to SEK	2.37	2.27	2.23	2.23
1 GBP is equivalent to SEK	12.58	12.46	12.18	11.78
1 KRW is equivalent to SEK	0.01	0.01	0.01	0.01
1 CAD is equivalent to SEK	7.71	7.75	7.06	6.83

Shareholder information

2023 Annual General Meeting

The Annual General Meeting for engcon AB will be held on 4 May 2023 in Strömsund, Sweden. More information about the event can be found in the notice to the Annual General Meeting.

Shareholders who wish to take part in the Annual General Meeting must be registered in the share register maintained by Euroclear Sweden AB on Tuesday, 25 April 2023.

For more information and notification of attendance, visit www.engcongroup.com.

Ahead of the Annual General Meeting

For the 2022 financial year, the Board of Directors proposes a dividend of SEK 0.85 per share, to be disbursed on two occasions. The record date for the right to the first dividend payment of SEK 0.43 per share is proposed to be 8 May 2023, and for the second dividend payment of SEK 0.42, the record date is proposed to be 2 October 2023. Provided that the Annual General Meeting resolves in accordance with the dividend proposal, the payments will take place on 11 May 2023 and 5 October 2023, respectively

Financial calendar 2022/2023

Interim Report January–March, 28 April 2023

Interim Report January–June, 20 July 2023

Interim Report January–September, 27 October 2023

Year-end Report 2023, 21 February 2024

Financial information and press releases

The 2022 Annual and Sustainability Report are available as downloadable pdfs at www.engcongroup.com. Our website also includes engcon's financial reports, presentations and press releases. To access reports and press releases through our subscription service, you can easily register under the investors page.

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Constant innovation with the end customer in focus.

We are changing the world of digging.