Annual Report 2019

Railcare Group AB (publ)
Reg. No. 556730-7813

Railcare Group AB is a group offering
railway industry services in vacuum engineering,
culvert renovations and special transportation.

Innehåll

Railcare Group AB (publ) is a Swedish public company with its registered offices in Skellefteå, Sweden. Registration number: 556730–7813. LEI code: 549300UH2JD85PIJOK89. In this document, "Railcare" refers to the Railcare Group, Railcare Group AB and its subsidiaries.

The complete Annual Report is available on Railcare's website, www.railcare.se. The printed version of the annual report is distributed only to shareholders who have ordered printed copies. The 2019 Annual Report was published in April 2020. All amounts are expressed in Swedish kronor. Kronor is abbreviated as "SEK", thousands of kronor are abbreviated as "SEK thousands" and millions of kronor are abbreviated as "SEK million". Figures in parentheses refer to the preceding year, 2018, unless otherwise stated. This report contains forward-looking information based on Railcare's current expectations. No guarantee can be given that these expectations will prove to be correct. Actual outcomes may therefore differ substantially from what appears in the forward-looking information as a consequence of, for example, changes in economic, market and competition conditions, changes in legal requirements and other policy measures, exchange rate fluctuations and other factors.

Data regarding the market and competitive situation are Railcare's own assessments unless a specific source is specified. These assessments are based on the best and latest data available. The audited Annual Report includes pages 22-106.

This document is essentially a translation of Swedish language original thereof. In the event of any discrepancies between this translation and the original Swedish document the latter shall be deemed correct.

Photographer: Railcare

2019 in brief

Q1 Railcare is preparing for the future with a battery-powered version of the company's own developed railway vehicles

Q2 Railcare extends framework agreement with Network Rail

Q3 Strong earnings and continued strong sales growth

Q4 Railcare Group AB (publ) acquires the electricity company Elpro i Skellefteå AB for SEK 4.1 million

KEY FINANCIAL RATIOS AND FIGURES, RAILCARE GROUP SUMMARY

Amounts in SEK million, unless otherwise stated	full-year 2019	full-year 2018
Net sales	370.6	270.1
Sales growth, %	37.2	-7.7
Operating profit/loss (EBIT)	32.0	1.5
Operating margin, %	8.63	0.6
Profit for the year	20.8	-1.4
Net financial items	-5.8	-5.3
Total assets	459.2	413.2
Equity/assets ratio, %	33.5	32.3
Key financial ratios and figures per share, SEK		
Earnings per share before dilution	0.90	-0.06
Earnings per share after dilution	0.87	-0.06
Equity per share	6.69	5.81
Dividend per share, SEK	0.30*	-

*) Board of Directors' proposal to the 2020 Annual General Meeting

CEO's comments

Daniel Öholm
CEO

2019 was a year of growth and profit that created even better conditions for Railcare's future and the large railway investments that have been announced in our home markets and around the world. During the year, we increased sales by SEK 100 million to SEK 370 million (270), which is an increase of 37 per cent. Operating profit (EBIT) increased by SEK 30.5 million to SEK 32 million (1.5).

Trafikverket (the Swedish Transport Administration) has announced major future investments in railway maintenance, with a focus on planned maintenance, such as track replacements, switch replacements and ballast exchange. Trafikverket's national plan extends for ten years, with railway maintenance volumes increasing further in the future.

At the beginning of the year, the *Construction Sweden* segment had full utilisation of machinery and personnel in the assignment we performed for Trafikverket up to 15 March with snow clearance in Stockholm, Hallsberg and Gothenburg, Sweden. In the framework agreement that has now been signed with Trafikverket , we received eight call-offs for different rail upgrade projects in 2019 and we were busy during the year with the preparatory work for track replacements until the beginning of the snow clearance project on 15 November. After the snow project on 15 March 2020, we are again getting started with the preparatory work for the upcoming track replacements and we have received six call-offs in Trafikverket agreement, which means that we have good utilisation until July 2020.

For *Transport Scandinavia*, the transports of iron ore take place for Kaunis Iron according to play and by 31 December 2019, we had carried out 806 transports. As the agreement with Kaunis Iron is for five years, it creates a good foundation and stability for the segment. We have now completed the first year of the agreement. In the rest of the operations, we have had five locomotives engaged in the snow contract with Trafikverket and two locomotives on long-term lease to Norway. In March, we carried out transports in connection with the major Swedish military exercise, Northern Wind.

The transport operations were involved during the track replacement between Eskilstuna-Flen, Sweden, where we had contracts with four locomotives. During the year, the locomotive workshop in Långsele, Sweden, received orders for four engine replacements on track cars for a value of SEK 6 million, which provided good utilisation for the operations in the autumn. In autumn 2019, we also carried out a reorganisation to streamline the operations by starting a new company for the workshop in Långsele, Railcare Lokverkstad AB, which structurally is under Railcare T AB.

We had a good start of the year in the *Construction Abroad* segment. We had a higher utilisation and call-offs for the four Railvacs that we have in the UK although it was at the end of the CP5 operational plan. On 1 April 2019, the new CP6 operational plan began and it will be under way for five years. The framework agreement with Network Rail was extended by one year and in connection with this agreement, we succeeded in obtaining more reasonable terms for our compensation the times when the customer cancels the assignment with short notice.

The segment had good utilisation and sales in the last part of the year and planning for 2020 is now in full swing. At the end of the year, we transported over another Railvac adapted to England so now we have a total of five Railvacs in the UK. We transported Railvacs to the UK to meet the announced amount of work, which will come during CP6 and for another four years. Many call-offs have already been made on the framework agreement we have with Network Rail in 2020 and it is continuously being refilled. The framework agreement applies until 31 March 2020 and negotiations are under way for an extension. To manage upcoming production, we trained six UK operators during the year to optimise production. These operators are contracted as subcontractors.

During the fourth quarter, the segment was incurred expenses that to some extent can be considered to be of a non-recurring nature, which negatively impacted earnings. The costs were related to a machine failure, which resulted in extra repair costs.

Within the *Machine Sales* segment, we were focused on completing the build of the five Infranord ordered generator wagons in 2019. The delivery of two generator wagons took place as planned and the remaining three generator wagons will be delivered in the first half of 2020. In the workshop during the year, there was development and construction of the new innovation Multi Purpose Vehicle (MPV), an emission-free battery-powered unit with several areas of application. In the first test run, we found that the noise level decreased by 15-20 dB compared with diesel engines, which is very pleasing.

From 1 October 2019, the new Railcare Machine AB, with a workshop in Skelleftehamn and a department with Innovation and Design as well as sales, was in full swing. Continued cultivation of the export market is under way and the company has a number of tenders out around the world. Within the segment, there were also customary aftermarket sales to North America during the year.

In the fourth quarter of 2019, Railcare signed an agreement to acquire the electricity company Elpro i Skellefteå AB with the total purchase consideration being SEK 4.1 million. The transaction was financed using Railcare's own funds and came into effect on 3 February 2020. In the fourth quarter, the Company secured an order valued at SEK 2.7 million from Norsk Jernbanedrift for machine renovation in the Machine Sales segment. The work will be performed in the first half of 2020.

Railcare is monitoring closely the developing events surrounding the coronavirus and COVID-19. The company is not currently able to assess what impact the virus may have and the possible consequences for societal functions on the Group's operations, financial results and position. Railcare follows the recommendations of the Public Health Agency of Sweden and the Ministry for Foreign Affairs.

Market outlook 2020

Railcare notes that there is a high level of activity in the railway industry and we see volume increases at our customers for many years to come. We are also experiencing considerable interest from new customers, particularly in new markets for machine sales.

In 2020, the first prototype of the MPV (Multi Purpose Vehicle) will be ready for the market, which is another step in our continued innovative technical development that gives Railcare an important competitive advantage.

I would like to thank all of our employees, shareholders and customers for your trust and we are now looking forward to another exciting year!

Daniel Öholm
CEO, Railcare Group AB

"2019 was a year of growth and profit that created even better conditions for Railcare's future and the large railway investments that have been announced in our home markets and around the world."

Vision, business concept, Strategy and Targets

Vision

Railcare shall develop with satisfied customers and favourable profitability, thereby growing shareholder value.

Business concept

In close cooperation with customers, Railcare shall develop innovative services, methods, products, transports and contracting services within the railway industry's different phases. Railcare is to be characterised by its skilled personnel, culture of safety, delivery reliability and quality assurance.

Strategy

- **Continuous development of methods and equipment**
- **Continued focus on core operations**
- **Increased growth and profitability in the four segments**
- **The foremost focus is on safety in the workplace**
- **Development of the organisation and personnel**

Targets

Financial targets

- **Sales SEK 500 million**
- **EBIT 10 %**
- **Equity/assets ratio >25 % after dividends**

Railcare's ambition is to achieve these goals in the medium term.

The Company strives to be the leading specialist company in the markets in which we operate, including Scandinavia, the UK and the export market for innovative solutions for railway construction and transport. This builds on our broad expertise in technology, development and understanding of cost efficiency. Net sales for the 2019 full-year amounted to SEK 370.6 million.

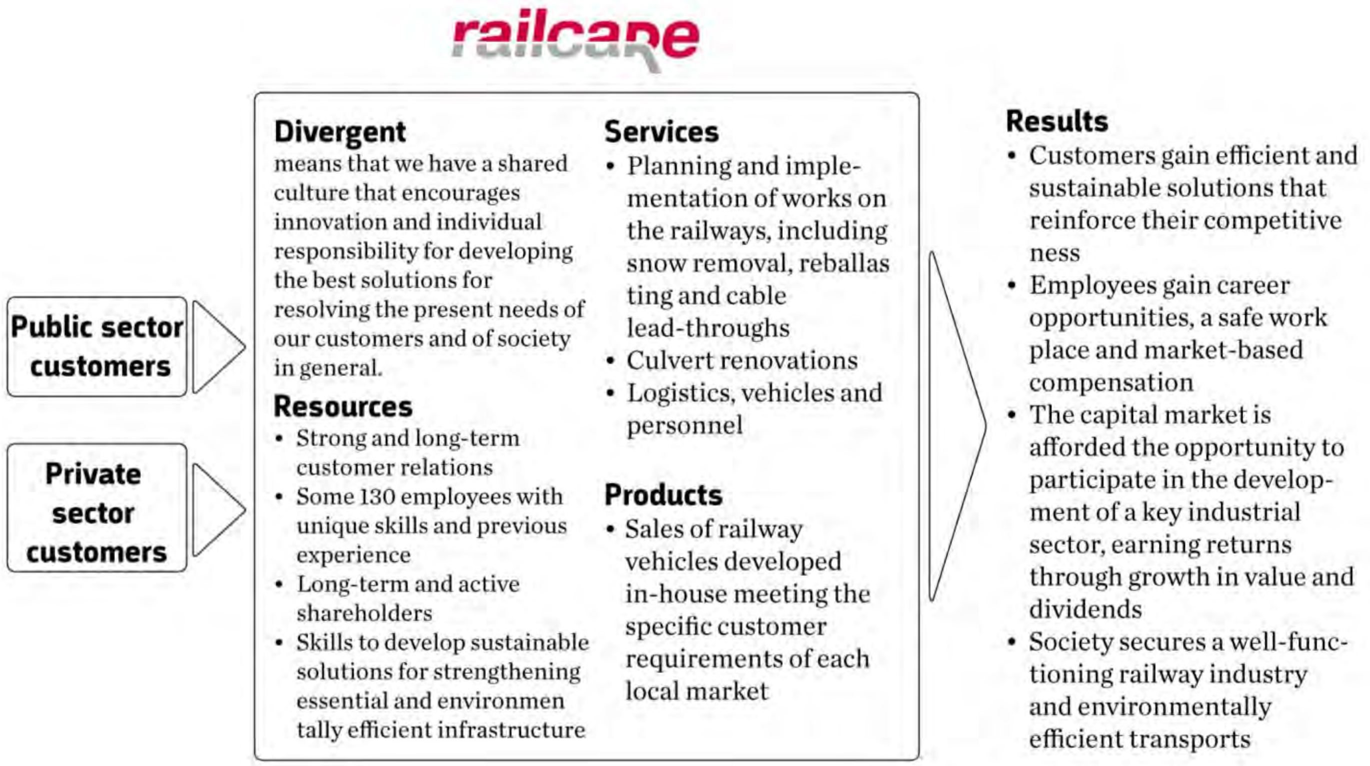
The objective is to maintain positive growth and to develop continuously as an innovative and specialist company. Railcare shall be an energetic and profitable company for its shareholders, and its profitability should be better than the average in the railway industry.

As we build the Railcare of the future, people are our primary resource, as well as the innovations that drive us forward. We are working to develop the organisation and the companies with the objective of generating growth while also being profitable.

Dividend
The Company's dividend policy is to distribute 30-40 per cent of profit after tax, up to the Company's required equity/assets ratio of 25 per cent following payment of dividends.

Business model

Value-generating results for Railcare's stakeholders



Customers

The private customers accounted for 53 per cent of consolidated net sales. In this category, there are various operators, contractors and customers who are in need of reliable transports of heavy and/or oversized loads. Railcare's other customer category is national infrastructure administrators and railway operators in Scandinavia and the UK. In total, this category accounted for around 47 per cent of consolidated net sales in 2019. In 2019, Railcare implemented its first year of the five-year agreement with the mining company Kaunis Iron for the transport of iron ore from the reloading centre in Pitkäjärvi, Sweden, to the unloading port in Narvik, Norway. Other initiatives in 2019 were development and production of the first prototype of an emission-free battery-powered MPV (Multi-Purpose Vehicle) – a highly versatile rail maintenance vehicle.

Export of Railcare's services and machine sales to the international market are an important complement to our core business. In 2019, Railcare participated in Rail Live in the UK in June and Nordic Rail in October. From October 2019, more resources were added to the sales team as Railcare sees increased opportunities with the battery-powered MPV.

Employees

Railcare had 130 employees at the end of the year. Railcare's employees continuously work to resolve challenges in a better way than before. One example is the handling of the dust that arose in one of Sweden's largest infrastructure projects, Citybanan in Stockholm, Sweden. The Company's proprietary Ballast Feeder System is an example of the innovative capacity at Railcare. This machine is designed to work together with Railvac and can thereby do ballast exchange in less time.

Quality and safety are fundamental factors in all of Railcare's operations. In 2019, Railcare's business was approved in the UK through the Railway Industry Supplier Qualification Scheme (RISQS) audit and was awarded their certificate.

Capital market

On 3 April 2018, Railcare's share was listed on Nasdaq Stockholm's main market in the Small Cap segment. The listing is a part of the Company's strive to be transparent at every stage to meet existing and potential customers' requests. Railcare has strengthened its financial reporting and will be more active in the communication with the capital market's various actors. In 2019, Railcare did not pay any dividend per share, SEK 0.00, SEK 0 in total. The Board of Directors has proposed that the 2020 Annual General Meeting resolve to approve a dividend of SEK 0.30 (0.00) per share, totalling SEK 7,237,250 (0), for the 2019 financial year.

Society

Freight and passenger transports by rail contribute to cost-effective and environmentally efficient transports, which are important in both densely built areas and when it involves long distances. There is a need to maintain and build sections of railway in most European countries. Railcare offers services and solutions that mean that the railway strengthens its competitiveness in the logistics market. Our operations create jobs and contribute tax revenues, both locally and nationally, everywhere the Group is active. In 2019, tax expenses amounted to SEK 1.5 million. In addition, social security expenses amounted to SEK 35.2 million.

Market

Railcare's market encompasses a number of different players facilitating railway operations. Railway infrastructure is managed by dedicated infrastructure management bodies, who, in turn, employ rail infrastructure contractors to maintain the quality of the tracks. Train operator companies then use the railway infrastructure to provide transport services for end customers, that is, passengers and purchasers of rail freight services.

Current situation

Work has been done for a few years to build up a uniform railway network in Europe, mainly the countries in the EU. The work aims to increase the railway's efficiency and competitiveness in relation to the other modes of transport. The need for transports is growing in pace with financial growth. The need for commuting and business travel is also growing. In other words, fast and efficient transports are an important factor for growth in the economy.

Lower costs and more attractive products are necessary in an external world that is constantly changing. The competing means of transport are also being developed, which means that the railway must more quickly make use of the new possibilities offered by technical development.

In the past three years, demand for rail transport has increased. The traffic on Swedish railway tracks is thereby more intensive during large parts of the day and the times for maintenance are decreasing and becoming shorter, which places high demands on planning and efficient production management to implement the extensive renovation work included in the Swedish national infrastructure plan for 2019-2029.

In June 2018, the Swedish Government wrote that "maintenance of the infrastructure is crucial to safeguard the benefit of investments already made". In the upcoming planning period, the Swedish Ministry of Enterprise and Innovation increased funding for operations and maintenance of the national roads and railways. The financial scope of operations, maintenance and traffic management on railways amounts to SEK 125 billion during the planning period. This is a funding increase of 47 per cent compared with the previous planning period. In addition to the government funding, railway maintenance is also financed with income from track access fees.

On 1 April 2019, CP6 (2019-2024) began in the UK. Network Rail has released a delivery plan for CP6, where they describe how the upcoming control period will be handled and how Network rail will spend the GBP 42 billion that they received to be able to finance operations, maintenance and renewal of the railway in the UK.[1]

Customers

Railcare's customers are foremost a small number of large-scale organisations including infrastructure management bodies and service providers in the railway market who account for most of the maintenance projects conducted on the railway. The Group has various types of agreements with its customers. A varied agreement structure is applied with fixed multi-year agreements, framework agreements and construction agreements, as well as short-term leasing agreements. Railcare has worked with its current customers for some 20 years, with the exception of Network Rail in the UK, which has been the company's customer since 2005, and Kaunis Iron AB with whom our cooperation began in 2018.

[1] https://cdn.networkrail.co.uk/wp-content/uploads/2019/06/CP6-Delivery-Plan-High-Level-Summary.pdf

Examples of customers for Railcare's operations are government management bodies, maintenance contractors, construction contractors, industrial companies and mining companies.

Competitors

Railcare deems that the advantages of using vacuum technology in the renovation of the railway is an easy, effective and safe way to address the ballast material that is to be replaced with the vacuum nozzle. Within the railway, Railcare deems that there are fewer companies with this railway expertise, which Railcare considers to be an advantage for its operations. Examples of Railcare's unique railway expertise are the concept with snow clearing vehicles where Railcare has the only snowmelter for work on railways.

Regarding the method to renovate culverts with fibreglass lining, Railcare considers there to be around three or four competitors in the road industry: NCC, Aarsleff and JTR Lining. In the UK, which partly has the same niche focus as Sweden, there are few competing companies. The machines that are adapted for the UK can be used in other countries, which means that the market potential for these machines is extensive.

Within Railcare's transport operations, all freight transport operators are deemed to be competitors. However, Railcare has chosen to niche itself in carrying out special transports of goods. This is a transport method that is not deemed to be as common among other companies, which means that the competition situation can be deemed to be good. For locomotive and wagon workshops, the competitors consist of the large government workshops that are in Sweden. There, Railcare has taken the direction of offering high flexibility and service, which is considered to be a competitive advantage over the larger companies in the market. In service of locomotives to external customers, the need to lease a locomotive may arise, which Railcare can also offer. Some examples of the competitors that the transport operations have are Hector Rail, Green Cargo and Tågåkeriet in Bergslagen.

Today, Machine Sales works in a small part of the total world market. Railcare considers the competition to be limited as the technology of excavating with a vacuum during maintenance on the railway is not customary in the industry. The development of the world's largest battery-powered rail vehicle, Multi Purpose Vehicle (MPV). A highly versatile working vehicle in railway maintenance is another example of Railcare's unique railway expertise and innovative capacity.

Products and services

Construction involving machinery and personnel on railways in Sweden and abroad

Among other things, Railcare offers railway maintenance contracting involving machinery and personnel. We perform contracts using our own Railvac 16 000-machines that are able to perform various types of track maintenance on the railways with vacuum technology, including: reballasting, drainage, cable excavation, cable lead-throughs and cleaning out drainage culverts. We also offer mechanised snow removal with our fleet of machines developed in-house, including the SR 700, the world's largest snow melter, as well as the SR 300, SR 200 and SR 100.

Currently, Railcare also offers these services in the UK, Denmark, Finland and Norway. Railcare's largest market outside Sweden is currently the UK, where railway maintenance largely involves reballasting beneath tracks and switches. Railcare performs reballasting using Railvac machines and specially-adapted Ballast Feeder UK machines.

Culvert renovations using fibreglass lining beneath railways, roads and industrial sites

Railcare also offers culvert renovations beneath railways, roads and industrial sites, as well as performing permit inspections. The installation equipment used is not track-bound, but is carried on caterpillar-tracked vehicles, minimising traffic disruption. Culvert renovations are performed using a fibreglass lining adapted to the existing culvert, facilitating an efficient renovation procedure. This results in an extended lifespan for the renovated culvert, offering an environmental advantage compared with conventional culvert renovation methods.

Special transports and leasing of locomotives, wagons, and personnel, as well as repair and upgrading services for locomotives and wagons performed in workshops locomotives and wagons

Railcare offers customers special transport services, including locomotives, wagons, and personnel. In Sweden, we conduct both construction and project transports, as well as heavy transports and special transports requiring traffic permits. In connection with major maintenance contracts, we are on hand to provide locomotives, wagons and personnel, either as a turnkey solution or for the supply of individual resources, including personnel, locomotives, wagons or machines.

Railcare also offers workshop services, such as repairs, upgrades and regular maintenance. In addition, Railcare offers installation of radio control systems and safety systems, as well as renovation and modification of railway vehicles.

Workshop services are provided at two locations, at the wagon workshop in Skelleftehamn, Sweden, and the locomotive workshop in Långsele, Sweden. Railcare Lokverkstad offers workshop services including service, repairs and rebuilds that prevent, remediate and adapt railway vehicles to new needs.

With our well-equipped workshop and skilled staff, we can offer a wide range of measures that extend and improve the working environment, reliability and economic life of rail vehicles.

The locomotive workshop in Långsele is located strategically adjacent to the northern main line and has 14 tracks adapted for both light and heavy maintenance and with a lifting capacity of up to 100 tonnes, here we receive rail vehicles from all of Scandinavia. We also have several service buses based in Långsele, making us flexible and able to covers large parts of Sweden.

We are the obvious partner when it comes to rebuilding, repairing or upgrading railway vehicles – our flexibility, innovative capacity and experience are available to help meet your needs.

Machine sales and marketing of machines and methods developed in-house, focusing on new areas of application and markets globally.

Railcare works with machine sales and marketing of machines, focusing on new areas of application for machines and services in new areas of use and markets globally. The machines are developed and manufactured at our own workshop in Skelleftehamn.

In connection with machine sales, we also offer introductory and full training to optimise use and production. Typical customers include traditional rail maintenance, but also mines, subways and industrial use.

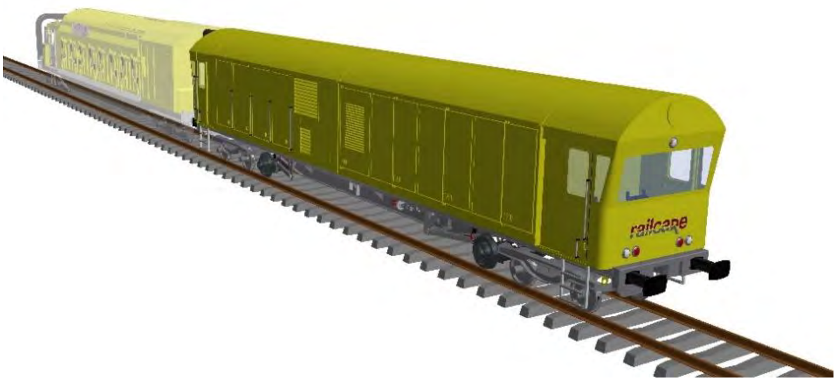
Examples of machines we currently offer include the Railvac 16 000, Tubevac 14 000 and Minevac 8 000 vacuum machines, the SR 700 snowmelter and the SR 200 snow plough.

Emissions-free, battery-powered work vehicle, MPV

During 2020, Railcare is continuing to develop a new generation of battery-powered Multi Purpose Vehicles, MPVs. An MPV is a versatile working vehicle in rail maintenance. The vehicle is equipped with its own power source, vacuum pumps, hydraulics and operator cabs, enabling its use as a battery-powered complement to Railcare's railway vacuum cleaner and snowmelter, as well as acting as a towing vehicle for macadam wagons during track works.

Railcare has partnered with mining equipment company Epiroc in developing the world's largest battery-powered rail vehicle. A prototype was built in 2019, with work continuing in 2020 and initial testing and noise measurements being carried out at Railcare's facility in Skelleftehamn, Sweden.

Many of Railcare's assignments involve underground work, entailing rigorous demands on safety and the working environment, as well as demanding superior efficiency. The company perceives considerable potential for emission-free working vehicles in its existing markets, as well as opportunities to secure assignments from new customer categories.



Employees

Railcare's employees are the company's most important resource and considerable focus is placed on ensuring that the company attracts and retains the right people, facilitating the development of the operations. Railcare is proud of its culture and its employees are proud to work for the company.

As of 31 December 2019, 130 people were employed by Railcare, of whom 12 per cent were women and 88 per cent men. Personnel turnover for the year was 10 per cent.

Gender equality, diversity and non-discrimination

In Railcare's fundamental view, all people are of equal value and no one should be discriminated against or subjected to abusive discrimination on the grounds of gender, trans-gender identity or expression, ethnic background, religion or other belief, disability, sexual orientation or age. Railcare applies zero tolerance of harassment, bullying and abusive behaviour. The company's work on gender equality, diversity and non-discrimination is conducted in accordance with international laws and guidelines.

Skills and career opportunities

Railcare's employees receive the training, continued education and refresher courses necessary for all of them to be able to perform their duties. This applies to all employees, regardless of what they work with. Skills development has also been devised and adapted for the countries in which Railcare's employees work, and we comply with the regulations in each jurisdiction and the training required there.

We also take a highly positively of employees being offered and accepting career opportunities within the Group, and we encourage each employee to develop in his/her role or in those areas perceived as relevant to each of them.

Health and safety

The well-being of our employees and stakeholders is crucial for us and health and safety is therefore a matter of the utmost concern for the Railcare Group. We shall maintain a beneficial, safe and secure physical and psychosocial working environment, ensuring that all employees, including sub-contractors, have the best workplace possible. We conduct ongoing training in working on and around the railway, and offer health and wellness benefits to all employees and encourage them to participate in healthy activities.

Code of Conduct

Railcare's Code of Conduct provides guidance for the company's employees and other stakeholders, including suppliers, consultants, sub-contractors and others. The Code of Conduct describes Railcare's core values and ethics, as well as presenting the guidelines that the company expects its employees and stakeholders to follow.

Values

Our corporate culture and values are highly important to Railcare and build on the values that permeate the entire Railcare Group.

Our values are:

- **Safety**
- **Value-building**
- **Development**
- **Respect**

Railcare employees are expected to work and act based on our values, meaning: being results-oriented and building value for customers, suppliers, colleagues and, consequently, the company as a whole; continuously developing their own skills and the skills of others, taking a long-term approach; taking responsibility, keeping promises and treating all people equally and with respect; and paying attention to safety in the workplace.

Our culture permeates all of our operations and our employees play an active role in ensuring that our values are appreciated and respected. We also take pride in the commitment of our employees to all aspects, from safety at work to the highly talented employees featured in the videos viewable on our YouTube channel[2].

[2] https://www.youtube.com/user/RailcareSverige/

Sustainability

The railway industry is an industry that is continuously under development and that wants to promote a more sustainable society where we can use a well-functioning railway as the environmentally best mode of transport, both for professional operations and for private travel. Railcare's operations are a part of the railway network maintaining the standard required for a sustainable society, both in Sweden and abroad. Within innovative solutions for the railway and its maintenance, we contribute to a better climate and a smarter society.

Sustainability in the value chain

Sustainability and responsible enterprise are aspects that are integrated in Railcare's operations and customer offering. We believe that this is fundamental to meeting the demand for efficient infrastructure and future challenges in surroundings that are changing at a rapid pace.

Railcare's most important stakeholders are customers, end users (passengers and transport buyers), investors, employees, suppliers and local decision-makers in the markets in which we are active. For more information on our business model, see page 7.

We are striving to represent suppliers who share our basic view of environmental issues. Good management of resources and a focus on preventing and reducing negative environmental impact affect the choice of suppliers, products we trade in and which partners we choose to collaborate with.

Employees

The Railcare Group seeks to act long-term and to take environmental responsibility. Our environmental efforts are based on a modest use of natural resources and a commitment to constantly strive to prevent and reduce our environmental impact, and that every employee will have a personal environmental responsibility through commitment and participation in the operations' environmental efforts.

We endeavour to monitor our environmental impact on an annual basis and train our employees in environmental issues. We have goals for the environmental efforts based on implemented environmental aspect assessments and we actively work with various activities to achieve our goals. We have procedures for how we will act in the event of various environmental incidents.

Business travel

Railcare's employees travel to be able to perform their work and this entails an impact on the environment. Each employee in the Group has a responsibility to always choose the most environmental alternative, without negatively impacting the operations.

Safety

When our employees work on railway tracks and in nearby areas, it places high demands on an awareness of the dangers. Railcare always puts safety first and has continuous training sessions and certifications to ensure knowledge of current regulations and expertise. Every year, employees from external companies work during temporary periods in assignments for Railcare. Either to maintain flexibility in the handling of fluctuations in demand or to provide specialist expertise. In order to increase safety awareness among such personnel, Railcare requires these people to have the right safety training. Ordinary rail traffic is often under way adjacent to the work sites and the safety regulations are therefore stringent for the railways in Sweden and abroad. Railcare also has clear safety policies for safe work.

Railcare has developed a system of operations forming a central component is its safety efforts. Through this system, all employees have access to important documents as long as they have a computer, tablet or mobile phone. In the system, examples of deviations, defects on equipment and vehicle maintenance are saves with traceability and follow-up possibilities.

Always safe – or not at all!

Corruption and bribes

Railcare complies with laws and guidelines in terms of improprieties, bribes and corruption. We have zero tolerance when it comes to these three aspects and other similar illegal acts and if anyone in Railcare believes they know of any improprieties, bribes or corruption, they are expected to report it to their immediate manager, Group Management or the Board of Directors.

Permits and environment

Railcare holds necessary permits and licences in the jurisdictions in which operations are conducted. For the operations in Sweden, licences are held for the transport of waste in the form of used railway ties and to handle flammable goods, and the requirements are met for conducting welding work. Railcare T AB is a railway company approved by the Swedish Transport Agency with a licence and safety certificate part A+B, administrator of own infrastructure in Skelleftehamn and Långsele, Sweden,, Entity in Charge of Maintenance (ECM) for freight wagons and an ECM-certified provider of freight wagon maintenance. Railcare Sweden Ltd. is approved by the industry organisation Railway Industry Supplier Qualification Scheme (RISQS) to provide services to the railway network in the UK. The Group conducts operations in other jurisdictions without special requirements on permits or licences.

Railcare conducts no environmentally hazardous activities.

Policies and guidelines

Railcare has Group-wide policies and guidelines that are communicated to the entire Group, as well as local policies and guidelines for the UK. Examples of policies and guidelines are the Corporate Governance Policy, the Work Environment Policy, the Electrical and Traffic Safety Policy, HR Policy, Quality Policy and Environmental Policy.

Compliance and follow-up

Railcare's Code of Conduct forms the basis of everything we do. The Code of Conduct is an important tool that provides all employees and contracts personnel guidance on how Railcare views its operations and does business. Railcare strives to develop commitment and understanding of the importance of following the Code of Conduct and handling any deficient compliance.

Policies are to be communicated to all employees in the company. Every employee has an obligation to review the Company's policies and follow the rules and procedures that Railcare has set up in the scope of its sustainability work.

Conducting active sustainability work and reducing the Company's environmental impact is an on-going effort with continuous improvements. The identified aspects in environmental and other sustainability targets are then placed in the internal action plans to achieve these goals.

The Railcare share

Railcare Group AB's share has been listed since 2007 and was, in April 2018, listed on the Small Cap list of the Nasdaq Stockholm exchange under the ticker "RAIL" and ISIN code SE0010441139.

Turnover and price trend

Between 1 January and 31 December 2019, approximately 8 million Railcare shares were traded on Nasdaq Stockholm for a total value of approximately SEK 162 million.

Over the year, the share price fluctuated between SEK 11.80 at the lowest on 21 February and SEK 30.00 at the highest on 3 December. The closing price on the last trading day in December 2019 was SEK 26.60.

Shareholders

As of 31 December 2019, Railcare Group AB had 4,553 shareholders. The ten largest shareholders represented 59.3 per cent of the total shareholding. On 31 June 2019, Norra Västerbotten Fastighets AB was Railcare's largest shareholder with a holding representing 11.1 per cent of the company's share capital. Some of Railcare's shareholders are registered abroad or in mutual funds and are therefore not visible by name in the register of shareholders.

Source: Euroclear and Railcare

Shareholder structure

Ten largest shareholders 31 December 2019	Number of shares	Proportion of share capital and votes (%)
Norra Västerbotten Fastighets AB	2,521,335	11.0
Marklund family* through companies	2,433,905	10.6
TREAC Aktiebolag	2,415,000	10.5
Dahlqvist family through companies	2,002,155	8.7
Ålandsbanken AB	1,095,965	4.7
BNY Mellon NA, W9	806,796	3.5
NTC IEDP AIF Clients S Non Treaty 30 % Account	741,569	3.2
Bernt Larsson	557,264	2.4
Avanza Pension insurance company	543,466	2.4
RBC Investor Services Bank S.A., W8IMY	401,808	1.7
Ten largest shareholders	**13,519,236**	**58.7**
Other shareholders	9,493,793	41.3
Total	**23,013,056**	**100.0**

* No single individual holds shares corresponding to more than 10 per cent of the votes.

Sources: Euroclear and Railcare

4,553

Number of shareholders in Railcare Group AB As per 31 December 2019.

Source: Euroclear

Distribution by size category

31 December 2019

Holding	Number of shareholders	Number of shares	% of votes and capital
1 – 500	2,957	458,794	1.99
501 – 1,000	620	507,822	2.21
1,001 – 5,000	748	1,798,795	7.78
5,001 – 10,000	106	789,242	3.43
10,001 – 15,000	22	271,741	1.18
15,001 – 20,000	21	397,041	1.73
20,000 –	79	18,807,921	81.73
Total	**4,554**	**23,013,056**	**100.00**

Source: Euroclear

Share capital and capital structure

The share capital amounted to approximately SEK 9.4 million and the quota value is SEK 0.41 per share as of 31 December 2019. Each share carries one vote at the Annual General Meeting. According to the Articles of Association, the share capital shall amount to a minimum of SEK 8,979,000 and a maximum of SEK 35,916,000, distributed between at least 21,900,000 and at most 87,600,000 shares.

Share capital development in Railcare Group AB

Year	Transaction	Change in share capital	Change in number of shares	Total number of shares	Quota value	Total share capital, SEK
2007	Formation	121,500	12,150,000	12,150,000	0.01	121,500
2007	New share issue with capital contributed in kind	5,953,500	595,350,000	607,500,000	0.01	6,075,000
2007	Private placement	1,300,000	130,000,000	737,500,000	0.01	7,375,000
2007	Private placement	124,240	12,424,000	749,924,000	0.01	7,499,240
2008	New share issue with capital contributed in kind	461,538	46,153,846	796,077,846	0.01	7,960,778
2009	Reverse split 200:1	0	-792,097,457	3,980,389	2.00	7,960,778
2011	Private placement	800,000	400,000	4,380,389	2.00	8,760,779
2017	Bonus issue for non-restricted equity	219,019	-	4,380,389	2.05	8,979,797
2017	Split 5:1	0	17,521,556	21,901,945	0.41	8,979,797
2018	Conversion	455,556	1,111,111	23,013,056	0.41	9,435,353

Dividend

The Company's dividend policy is to distribute 30-40 per cent of profit after tax, up to the Company's required equity/assets ratio of 25 per cent following payment of dividends.

The Board of Directors intends to propose that the 2020 Annual General Meeting approve a dividend of SEK 0.30 (0.00) per share, totalling SEK 7,237,250 (0), for the 2019 financial year.

Persons discharging managerial responsibilities

Under Article 19 of Regulation (EU) No 596/2014 of the European Parliament and of the Council (the EU Market Abuse Regulation (MAR)), persons discharging managerial responsibilities (PDMR) and their closely related parties are required to notify Railcare and Finansinspektionen (FI – Swedish Financial Supervisory Authority) without delay and no later than three (3) business days of each transaction conducted on their own account involving shares or debt instruments issued by Railcare or involving derivatives or other financial instruments associated with these when a total transaction amount of EUR 5,000 has been reached during the calendar year.

Information on persons discharging managerial responsibilities can be found on Finansinspektionen's website.

Investor relations

Railcare's publishes information for shareholders and other stakeholders through press releases, interim reports, year-end reports and annual reports, which can be accessed from the company's website. Railcare seeks to provide information openly and clearly and accessibly for all stakeholders.

RAIL

Ticker for Railcare Group AB's share traded on Nasdaq Stockholm since 3 April 2018.

(ISIN SE0010441139)

Administration Report

The Board of Directors and CEO of Railcare Group AB (publ), Reg. No. 556730-7813, hereby submits the annual accounts for the Parent Company and the Group for the financial year 1 January – 31 December 2019.

Operations

The Railcare Group offers innovative system solutions in vacuum technology, culvert renovation and special transports for the railway industry. The company also offers workshop services and ongoing maintenance of locomotives and wagons, as well as some sales of spare parts. Sales and exports of machinery outside Europe also form an important part of Railcare's offering. In Europe, marketing focuses on commissioning new machinery in connection with railway construction and maintenance work. More information about the Railcare Group can be found at www.railcare.se.

Railcare's operations are divided into four segments: *Construction Sweden, Construction Abroad, Transport Scandinavia* and *Machine Sales.*

Construction Sweden

Within the Construction Sweden segment, Railcare offers the railway industry contracting using innovative machines developed in-house and where vacuum technology is fundamental. During the winter season, the segment mainly works with snow removal using snow removal vehicles developed in-house.

Within Construction Sweden, Railcare also offers renovation of culverts beneath rail tracks, roads and industrial facilities. Culvert renovations are performed using a fibreglass lining adapted to the existing culvert and the installation equipment used is not track-bound, but carried on caterpillar-tracked vehicles, minimising traffic disruption.

Construction Abroad

Railcare's Construction Abroad segment offers contracting with machines and personnel on railways in the UK and Scandinavia. The segment's largest market is currently the UK, where railway maintenance largely involves reballasting beneath tracks and switches.

Transport Scandinavia

In the Transport Scandinavia segment, customers are offered special transport services, including locomotives, wagons and personnel. In Sweden, Railcare conducts both construction and project transports, as well as heavy transports and special transports requiring traffic permits. In connection with major maintenance contracts, Railcare is on hand to provide locomotives, wagons and personnel, either as a turnkey solution or for the supply of individual resources, including personnel, locomotives, wagons or machines.

Transport Scandinavia also offers workshop services for locomotives and wagons, such as repairs, upgrades, ongoing maintenance and installation of radio control and safety systems.

Machine Sales
Railcare's *Machine Sales* segment works with machine sales and marketing focused on machines and services being made use of in new areas.

Outside Europe, Railcare markets and sells the Railvac 16,000, Tubevac 14,000, Minevac 8,000 machines, as well as the SR 700 snowmelter and the SR 200 snow plough. Within Europe, Railcare works to sell in, in new markets, methods and technologies that apply the Company's machines and services.

Financial summary – Railcare Group

SEK thousands	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2016	Jan-Dec 2015
Net sales	370,610	270,147	292,579	353,110	290,180
Operating profit/loss (EBIT)	31,977	1,543	16,661	50,003	31,212
Net financial items	-5,757	-5,334	-4,933	-5,201	-5,216
Profit for the year	20,760	-1,419	8,990	34,673	20,420
Total assets	459,166	413,170	420,089	410,588	400,908
Earnings per share after dilution, SEK	0.87	-0.06	0.39	1.46*	0.87*
Equity per share, SEK	6.69	5.81	6.08	6.32*	5.33*
Operating margin %	8.63	0.57	5.69	14.16	10.76
Equity/assets ratio %	33.51	32.34	31.72	33.73	29.11
Dividend, SEK per share	0.30**	-	0.15	0.66*	0.60*

*) At the end of September 2017 a 5:1 share split was implemented, increasing the number of shares from 4,380,389 to 21,901,945. The comparative figures for earlier periods have been recalculated to achieve comparability between the periods.
**) Board of Directors' proposal to the 2020 Annual General Meeting

For definitions, see Note K34.

Net sales and profit

Net sales for 2019 increased by 37.2 per cent to SEK 370.6 million compared with SEK 270.1 million for 2018. The increase in net sales is mainly due to an increase in the Transport Scandinavia segment, where the transport assignment for Kaunis Iron commenced in August 2018, thereby affecting all of 2019 but only part of 2018. The increased sales also derive partly from Entreprenad Sweden, where demand has been high for preparatory work ahead of upcoming track replacements. The company also experienced increased sales in Construction Abroad, with the new budget period in the UK commencing in April 2019.

Operating profit (EBIT) for 2019 increased by SEK 30.5 million to SEK 32.0 million, compared with the outcome of SEK 1.5 million for 2018. The operating margin increased from 0.6 per cent for 2018 to 8.6 per cent for 2019, of which 0.2 percentage points were a positive effect of IFRS 16. The improved profit is mainly attributable to the increased utilisation of machines in the Construction Abroad segment, driven by the new budget period in the UK and the increased utilisation of machines in the Transport Scandinavia segment resulting from the assignment for Kaunis Iron.

Construction Sweden

Net sales increased by 18.4 per cent over 2019, compared with 2018 and amounted to SEK 171.1 million (144.5). Profit after financial items increased somewhat compared with the previous year and amounted to SEK 21.8 million (21.7).

The high level of business over the year led to increased deployment, mainly of subcontractors, but also of employees, resulting in increased costs in relation to sales compared with 2018.

The culvert re-lining operations saw a relatively low utilisation of capacity over the year, which impacted earnings negatively to a certain extent.

Key financial ratios and figures – Construction Sweden

Amounts in SEK thousands, unless otherwise stated	**2019**	2018	Change
(A) Net sales	171,104	144,473	26,631
(B) Profit/loss after financial items	21,841	21,697	144
(B / A) Net margin, %	12.8	15.0	-2.3

Construction Abroad

Net sales increased by 36.9 per cent over 2019, compared with 2018 and amounted to SEK 67.9 million (49.6). The loss after financial items increased compared with the preceding year and amounted to SEK 1.1 million (12.9).

The increased sales and improved profit are mainly explained by the new budget period CP6 commencing in April 2019, enabling more work to be carried out than in 2018.

Key financial ratios and figures – Construction Abroad

Amounts in SEK thousands, unless otherwise stated	**2019**	2018	Change
(A) Net sales	67,932	49,631	18,301
(B) Profit/loss after financial items	-1,084	-12,851	11,767
(B / A) Net margin, %	-1.6	-25.9	24.3

Transport Scandinavia

Net sales increased by 38.6 per cent over 2019, compared with 2018 and amounted to SEK 158.0 million (114.1). Profit after financial items increased compared with the preceding year and amounted to SEK 5.4 million (loss 4.1).

The higher sales derive primarily from the transport assignment for Kaunis Iron. The improvement in profit is primarily an effect of the increased utilisation of machines.

Key financial ratios and figures – Transport Scandinavia

Amounts in SEK thousands, unless otherwise stated	**2019**	2018	Change
(A) Net sales	158,027	114,057	43,970
(B) Profit/loss after financial items	5,393	-4,124	9,517
(B / A) Net margin, %	3.4	-3.6	7.0

Machine Sales

Net sales for 2019 amounted to SEK 19.0 million (7.4). Profit after financial items amounted to SEK 0.7 million (loss 1.0). The increase in sales and improved profit is mainly attributable to the delivery of two generator wagons ordered by Infranord.

The three remaining generator wagons ordered by Infranord are currently being built and are scheduled for delivery in the first half of 2020. The development and building of the innovative MPV (Multi-Purpose Vehicle) is in progress – an emissions-free battery-powered unit with several areas of application. The MPV is being reported under Construction in progress until ready for use.

Key financial ratios and figures – Machine Sales

Amounts in SEK thousands, unless otherwise stated	**2019**	2018	Change
(A) Net sales	18,956	7,429	11,527
(B) Profit/loss after financial items	686	-993	1,679
(B / A) Net margin, %	3.6	-13.4	17.0

Significant events in 2019

Railcare builds generator wagons for Infranord
In January, the Company received an order from Infranord to build five generator wagons for delivery starting in the autumn and with delivery to be completed in 2020. The order value amounted to approximately SEK 30 million.

Railcare signs strategic agreement with Trafikverket
In February, Railcare signed a framework agreement with Trafikverket regarding track work throughout Sweden. The agreement is valid for a period of two years with an option for an extension by two additional years. The framework agreement includes preparatory work for upcoming track upgrades included in the Swedish Transport Administration's adopted plans, with sub-orders being placed on an ongoing basis.

Railcare is developing a battery-powered version of the railway vehicles developed in-house by the Company
In February, the company also announced plans to develop emission-free battery-powered work vehicles for railway maintenance. Railcare has partnered with mining equipment company Epiroc in developing the world's largest battery-powered rail vehicle. A prototype was built and tested during the year at Railcare's workshop in Skelleftehamn, Sweden.

Railcare extends framework agreement with Network Rail
In April, Network Rail extended its framework agreement with Railcare. The extension applies from 1 April 2019 to 31 March 2020 with sub-orders being placed on an ongoing basis.

Railcare signs agreement to acquire Elpro i Skellefteå AB
In November, the company signed an agreement to acquire the company Elpro i Skellefteå AB for SEK 4.1 million. The transaction will be financed using Railcare's own funds and came into effect on 3 February 2020.

Events after the end of the reporting period

On 3 February, the acquisition of electricity company Elpro i Skellefteå AB was completed, with the acquired operations being consolidated as of the same date. Elpro i Skellefteå AB will be part of the Machine Sales segment. See further details in Note K36.

After the end of the reporting period, Norrlandsfonden has requested conversion of the second half of its convertible debenture. The convertible debenture was originally for an amount of SEK 10 million, with SEK 5 million thus having being converted into 1,111,111 shares at the agreed price of SEK 4.50 per share. The share increase was registered with the Swedish Companies Registration Office on 30 January 2020. The number of shares and votes in Railcare Group AB (publ) has therefore changed, amounting to 24,124,167 shares and votes as of the last trading day in January.

Railcare is monitoring closely the developing events surrounding the coronavirus and COVID-19. The company is not currently able to assess what impact the virus may have and the possible consequences for societal functions on the Group's operations, financial results and position. Railcare follows the recommendations of the Public Health Agency of Sweden and the Ministry for Foreign Affairs.

No significant events, outside of the company's ordinary operations, occurred following the balance sheet date.

Liquidity, cash flow and financial position

Cash flow for the year resulted in an outflow of SEK 2.4 million (11.7). The reduced outflow is mainly attributable to improved profit.

The introduction of IFRS 16 has meant that cash flow from operating activities improved by SEK 24.1 million as a result of lease expenses being eliminated from operating profit/loss and interest on the lease liability being added to interest paid. Cash flow from financing activities has been negatively affected by the amortisation of lease liabilities by SEK 24.2 million.

Cash flow from operating activities amounted to an inflow of SEK 72.0 million (28.0), mainly with improved operating profit of SEK 30.4 million and the aforementioned effect of IFRS 16 having a positive effect. An increase in inventories has impacted cash flow negatively.

Cash flow from investing activities amounted to an outflow of SEK 27.8 million (28.3) and related mainly to the building of two Ballast Feeder vehicles and an MPV (Multi Purpose Vehicle) for the Company's own production operations.

Cash flow from financing activities amounted to an outflow of SEK 46.5 million (11.4). During the year, loans were amortised in the amount of SEK 52.5 million (28.4), of which SEK 24.2 million is attributable to the effect of IFRS 16 described above, relating to the amortisation of lease liabilities. During 2019, the Group raised SEK 6.0 million (20.2) in bank loans. Dividends paid during the year amounted to SEK 0 million (3.3).

According to Railcare's financial targets, the equity/assets ratio should amount to at least 25 per cent. At the end of the year, the equity/assets ratio was 33.5 per cent (36.9 per cent excluding IFRS 16), compared with 32.3 per cent on 31 December 2018.

Investments

Consolidated investments for the full year amounted to SEK 28.4 million (27.9), divided between SEK 0.7 million (0.2) in intangible assets and SEK 27.7 million (27.7) in tangible fixed assets. Investments have mainly been made in proprietary development of machines.

Innovation and design

With the objective of being at the forefront of innovation in the railway industry, developing new machines and methods is prioritised in the Group's operations. All development projects are based on a problem or need faced by Railcare's employees or customers on or around the railways.

Innovation & Design is the Railcare Group's department for the development of technologies and innovations and consists of five individuals, including two designers. The department works to recognise and analyse ideas generated by employees and customers and their problems or needs. Projects with commercial potential are then prioritised and pursued.

Parent Company

Railcare Group AB (publ), Reg. No. 556730–7813 is a Parent Company registered in Sweden and with its registered office in Skellefteå, Sweden. The Parent Company's operations focus primarily on Group-wide operations/administration, including Group management, finance and IT.

The Parent Company's net sales for the full year amounted to SEK 27.6 million (23.2) and profit after tax amounted to SEK 5.6 million (0.5). The Parent Company's profit was affected positively by dividends of SEK 4.3 million (2.5) from the Danish subsidiary.

Risks and risk management

Through its operations, the Group is exposed to various types of risks, including operational, external and financial risks. The Group's work with risk management and internal control is described in the Corporate Governance Report on pages 32-50. Described below are the risks in the business considered by Railcare as significant.

External
The railway market is substantially affected by economic fluctuations and political decisions and priorities, which in turn affect demand for Railcare's products and services. The Group works to minimise the effects of these fluctuations by, for example, signing long-term agreements with strategically important customers, by being active in different countries, by monitoring political discussions and decisions and by participating in the industry's reference groups.

One of Railcare's home markets is the UK. The country's withdrawal from the EU, Brexit, may affect Railcare's operations to some extent. The Group's operations in the UK are conducted primarily through a local subsidiary, serving local customers and using local currency. The effect of the withdrawal is expected to be limited. To some extent, the operations are conducted by employees who are not UK citizens, which may cause a greater administrative burden following the UK withdrawal. To lessen the possible negative impact, Railcare trained local operators in 2019.

Railcare expects demand for the Group's services to persist following the withdrawal, with the greatest impact deriving from any fluctuations in the SEK/GBP exchange rate.

Permits
Railcare's operations and machines require permits and government approvals in the various countries where operations are conducted. Safety is of the utmost importance in the rail industry and there are major regulatory compliance risks linked to safety and the working environment. Attracting and retaining skilled employees is central to being able to comply with the rules and requirements imposed and Railcare focuses strongly on the working environment, safety and corporate culture. The internal business system includes established processes for managing requirements linked to current conditions.

Customers
The Group's customers are relatively large and few in number, with relations with government actors playing a significant role. Delivering high-quality products and services is crucial to building and maintaining long-term customer relations and Railcare therefore strives to exceed customers' expectations of what the company provides. With customers being large organisations and often government actors, the Group's credit risk is therefore limited.

Both Sweden and the UK have announced major investments in the maintenance of the railway over the upcoming years. Railcare's organisation is dimensioned for a higher order volume than we have seen in previous years, and we intend to maintain a high degree of flexibility to meet increasing demand for delivery capacity.

Valuation of non-current assets
Railcare holds substantial value in the form of non-current assets, such as machines for railway maintenance, snow removal on railways and railway areas, as well as locomotives and wagons. These non-current assets are recognised at cost less depreciation and any impairment. There is a risk that these assets are overvalued, for which reason, the Group performs annual impairment testing where the future discounted cash flow of the fixed assets is set against its carrying amount. Historically, these tests have not indicated any impairment needs.

In addition to non-current assets held, as of 1 January 2019, the Group also reports right-of-use assets attributable to leasing agreements in the balance sheet. Just as for other non-current assets, there is a risk that these right-of-assets have decreased in value. Where there are indications of decreased value, such assets are also tested for impairment.

Financial risks
Its operations expose the Group is to various financial risks, including currency risks, credit risks and liquidity risks. However, Railcare considers these risks to be relatively limited. For more information on risk management and for a sensitivity analysis, see Note K3.

Sustainability

Policies and guidelines
Sustainability efforts permeate all of the work conducted throughout the Railcare Group. Examples of policies and guidelines are the *Corporate Governance Policy,* the *Work Environment Policy,* the *Electrical and Traffic Safety Policy, HR Policy, Quality Policy, Environmental Policy* and the *Code of Conduct.*

Railcare's *Code of Conduct* provides guidance for the company's employees and other stakeholders, including suppliers, consultants, sub-contractors and others. The Code of Conduct describes Railcare's core values and ethics, as well as presenting the guidelines that the company expects its employees and stakeholders to follow.

Employees
Railcare's employees are the Group's most important resource and considerable focus is placed on ensuring that the right people are attracted and retained, facilitating the development of the operations. As of 31 December 2019, 130 people were employed by Railcare, of whom 12 per cent were women and 88 per cent men. Health and safety is a very important issue for Railcare. The Group conducts ongoing training in working on and around the railway, and offers health and wellness opportunities for all employees.

Permits and environment
Railcare Group AB holds necessary permits and licences in the jurisdictions in which operations are conducted. For the operations in Sweden, licences are held for the transport of waste in the form of used railway ties and to handle flammable goods, and the requirements are met for conducting welding work. Railcare T AB is a railway company approved by the Swedish Transport Agency with a licence and safety certificate part A+B, administrator of own infrastructure in Skelleftehamn and Långsele, Sweden, Entity in Charge of Maintenance (ECM) for freight wagons and an ECM-certified provider of freight wagon maintenance. Railcare Sweden Ltd. Railcare Sweden Ltd. is approved by the industry organisation Railway Industry Supplier Qualification Scheme (RISQS) to provide services to the railway network in the UK. The Group conducts operations in other jurisdictions without special requirements on permits or licences.

Demands are also imposed with regard to health and safety requirements. Employees are offered regular health checks and undergo the training required for their work, including ongoing training in safety on the railways in accordance with a fixed plan. Railcare conducts no environmentally hazardous activities.

Read more about Railcare's sustainability work on pages 16-17.

Outlook

Based on the Group's favourable relations with significant key customers in Sweden, the other Nordic countries and the UK, Railcare assesses the market outlook as favourable. The market conditions are strengthened by the major investments planned to be made in these countries' infrastructures over the next several years. Railcare's innovative development of technologies is expected to continue to be a strong competitive advantage, with new vehicles and working methods being developed that strengthen the position of the railways in the logistics market.

The Group's employees and other key resources have the capacity to meet anticipated high demand, generating conditions for continued profitable growth in 2020.

Proposed distribution of profit

The following profit is at the disposal the Annual General Meeting:

Amounts in SEK	
Share premium reserve	18,637,036
Retained earnings	5,757,592
Profit for the year	5,619,542
Total	**30,014,170**

The Board of Directors proposes that the profit be appropriated as follows:

A dividend of SEK 0.30 per share to be paid to shareholders, totalling	7,237,250
to be carried forward to a new account	22,776,920
Total	**30,014,170**

A word from the Chairman of the Board

A proud company with a strong culture that also contributes a sustainable society

Catharina Elmsäter-Svärd
Chairman of the Board

Railcare is the railway specialist that contributes to a sustainable society by offering products and services that enhance customers' operational reliability, punctuality and profitability, primarily in Scandinavia and the UK. Skill and innovation have carried Railcare to a strong market position. Being involved in railway operations, safety and the working environment are always in focus. The Group's pride in being somewhat "divergent" or headstrong, in always finding solutions combined with clear corporate governance, goes a long way towards explaining why Railcare has been so successful.

Our visions is that Railcare shall develop with satisfied customers and favourable profitability, thereby growing shareholder value. In this way, we also generate value for all of our employees, suppliers and other key stakeholders. Railcare also contributes solutions for reducing emissions that impact the climate. The initiative to develop battery-powered multi-purpose vehicles (MPV's), is one of our contributions to the transformation of the transport sector in becoming more independent of fossil fuels. Similarly, the framework agreement with Trafikverket (the Swedish Transport Administration) on strategic machines for maintenance and snow removal is important in securing key societal functions, as well as in safeguarding Railcare's operations in the long term.

Railcare operates in an industry of the future, developing key infrastructure in a sustainable society and determined to meet more stringent environmental requirements. The Board of Directors has been further strengthened in this work by the railway expertise of our new Board member, Björn Östlund. Building a sustainable society is not only important for Sweden. Despite Brexit, we see demand for functioning railways also increasing in the UK, which we view as our second home market.

My foremost task on the Board of Directors is to ensure that we have good internal control and combine this with managing and further developing the entrepreneurship that has carried Railcare to a market-leading position in selected niches. The Board of Directors is highly ambitious regarding corporate governance. Over the year, good work was done by the Audit Committee, with the strategic issues being afforded increasing attention. It is also gratifying to see more people believing in what is being done. Over the year, the number of shareholders increased by about 2,000.

On behalf of the Board of Directors, I would like to thank all employees and stakeholders who have contributed to Railcare's continued success. Thank you!

Catharina Elmsäter-Svärd
Chairman of the Board, Railcare Group AB

Corporate Governance Report

Railcare Group AB (publ), with Reg. No. 556730-7813, is a Swedish public company subject to Swedish law, primarily the Companies Act and the Annual Accounts Act. The company's registered office is domiciled in Skellefteå, Sweden, and the company also has offices in Skelleftehamn and Stockholm. The shares of Railcare Group AB are listed on the Nasdaq Stockholm exchange. Railcare's Articles of Association, its internal guidelines and policies, Nasdaq's rules for issuers and the Swedish Code of Corporate Governance form the basis for Railcare's corporate governance.

Articles of Association

The name of the company is Railcare Group AB and the company is a public limited liability company. The Board of Directors shall have its registered office in the Municipality of Skellefteå. The operations of the company shall be to conduct construction operations and sell expert knowledge in the civil engineering industry, as well as other related operations. Amendments to Railcare's Articles of Association are made in accordance with the provisions of the Companies Act. The Articles of Association, which also include information on, share capital, the number of Board members and auditors, for example, as well as provisions on the announcement and agenda of the Annual General Meeting, are available in their entirety at the company's website, www.railcare.se or https://www.railcare.se/en/.

Swedish Code of Corporate Governance

Railcare's Corporate Governance Report has been prepared in accordance with the Swedish Code of Corporate Governance, the "Code", and, during the 2019 financial year, Railcare followed the Code without deviation.

Shareholders

Railcare's share has been listed on Nasdaq Stockholm Small Cap under the ticker "RAIL" since April 2018. According to the share register maintained by Euroclear Sweden, Railcare had 23,013,056 shares as of 31 December 2019. The share capital amounted to approximately SEK 9.4 million and the quota value is SEK 0.41 per share. All shares are of the same class and have the same voting value. The largest shareholder as of 31 December 2019 was Norra Västerbotten Fastighets AB with 11.1 per cent. Some of Railcare's shareholders are registered abroad or in mutual funds and are therefore not visible by name in the register of shareholders. For more information on the share and shareholders, see pages 18-20.

Annual General Meeting

In accordance with Railcare's Articles of Association, the Annual General Meeting shall be announced by means of an advertisement in Post- och Inrikes Tidningar (Swedish official gazette) and by making the announcement available on the company's website, www.railcare.se, and by advertising it in Dagens Industri (Swedish financial newspaper). In accordance with the Swedish Companies Act, a General Meeting (Annual General Meeting) shall be announced no earlier than six weeks, and no later than four weeks, prior to the Meeting. An Extraordinary General Meeting at which an amendment to the Articles of Association is to be addressed shall be announced no earlier than six weeks, and no later than four weeks, prior to the Meeting, while other Extraordinary General Meetings shall be announced no earlier than six weeks, and no later than three weeks, prior to the Meeting.

Shareholders entitled to attend and vote at the Annual General Meeting, either in person or by proxy with a power of attorney, are those entered in the company's share register maintained by Euroclear Sweden five working days prior to the Annual General Meeting (that is, on the record date) and who notify the company of their intention to participate no later than the date stated in the announcement of the Meeting. A shareholder may be accompanied by an assistant at the General Meeting if the shareholders notifies the company thereof in advance. Each shareholder in the company registering a matter sufficiently early, is entitled to have that matter addressed by the Annual General Meeting.

Upon written request to the Board of Directors, shareholders are entitled to have matters addressed by the Annual General Meeting. Such requests must have been received by the Board of Directors no later than seven weeks prior to the Meeting. The request shall be addressed to the Board of Directors, but sent to Railcare Group AB, att. Catharina Elmsäter-Svärd, Box 34, SE-932 21 Skelleftehamn, Sweden.

At the Annual General Meeting, information is provided regarding the company's development over the preceding year and resolutions are made on key matters. At the Annual General Meeting, shareholders have the opportunity to ask questions about the company and its earnings for the year in question. To be entitled to participate at the Annual General Meeting and vote in accordance with their shareholdings, shareholders must have been included in the share register and submitted notification of their participation within a certain period.
Shareholders unable to attend in person may vote by proxy.

Annual General Meeting 2019

Railcare's Annual General Meeting 2019 took place on 8 May at 1:00 p.m. at the Company's premises at Näsuddsvägen 10, SE-932 32 Skelleftehamn, Sweden. All Board members, members of company management, the company's auditor and the majority of the members of the Nomination Committee attended the Meeting. At the Annual General Meeting, 43.28 per cent of all shares and votes were represented. The full minutes of the Annual General Meeting and other information regarding the Meeting is available at www.railcare.se. Among other matters, the Annual General Meeting resolved:

- to adopt the Balance sheet, Income Statement and Audit Report, as well as the consolidated Income Statement and consolidated Balance Sheet for the 2018 financial year,
- that no dividend would be paid for the 2018 financial year,
- to discharge the Board members and CEO from liability,
- to approve the remuneration of the Board of Directors and the auditors in accordance with the proposal by the Nomination Committee,
- to re-elect Board members Catharina Elmsäter-Svärd, Ulf Marklund, Anna Weiner Jiffer, Adam Ådin and Anders Westermark and to newly elect Björn Östlund as a Board member. Catharina Elmsäter-Svärd was re-elected as Chairman of the Board,
- to re-elect audit firm Ernst & Young Aktiebolag, with authorised auditor Fredrik Lundgren as principal auditor,
- to approve guidelines for the appointment of Nomination Committee members, as well as for the Nomination Committee's assignment, and
- to adopt guidelines for the remuneration of senior executives in accordance with the proposal of the Board of Directors.

Annual General Meeting 2020

Railcare's Annual General Meeting 2020 will take place on 6 May 2020 at 1:00 p.m. at the Company's premises at Näsuddsvägen 10 in Skelleftehamn, Sweden. For further information on the Annual General Meeting, please see the Railcare website, www.railcare.se or https://www.railcare.se/en/.

Nomination Committee

The most recently approved guidelines for how the Nomination Committee is to be appointed and is to work were approved by the Annual General Meeting on 8 May 2019.

The Company shall have a Nomination Committee that consists of one member appointed by each of the three largest shareholders by votes based on the ownership statistics the Company receives from Euroclear Sweden AB at the end of the second quarter of the respective year. If the shareholder does not exercise its right to appoint a member, the next largest shareholder by votes shall have the right to appoint a member to the Nomination Committee, and so on. However, no more than a maximum of five other shareholders need to be contacted unless the Chairman of the Board finds special reasons for this to exist. In connection with a new Nomination Committee being appointed, the Chairman of the Board shall contact the three largest identified shareholders in an appropriate manner and encourage them to name the person in writing that the shareholder wants to appoint as a member of the Nomination Committee within a period of time that is reasonable considering the circumstances that may not exceed 30 days.

The majority of the members of the Nomination Committee shall be independent with regard to the Company and Company Management. The CEO or another person from Company Management shall not be a member of the Nomination Committee. At least one of the Nomination Committee's members must be independent in relation to the largest shareholder in the Company by votes or group of shareholders that collaborate on the Company's management. Board members can be members of the Nomination Committee, but shall not constitute a majority of the Nomination Committee's members. The Chairman of the Board or another Board member shall not be the Chairman of the Nomination Committee. If more than one Board member is a member of the Nomination Committee, a maximum of one of them may be dependent in relation to the Company's largest shareholder.

Information on the ultimately appointed Nomination Committee must include names of the three appointed members, together with the names of the shareholders who appointed them, and shall be made public no later than six months before the planned Annual General Meeting. The Nomination Committee's term in office extends until a new Nomination Committee has been appointed. The Chairman of the Nomination Committee shall be the member appointed by the largest shareholder by votes unless the members agree otherwise.

If one or more of the shareholders that appointed members to the Nomination Committee are no longer among the largest shareholders by votes, members appointed by these shareholders shall relinquish their seats on the committee and shareholders that have joined the three largest shareholders by votes shall have the right to appoint their members. However, unless special reason exists, no changes shall be made to the composition of the Nomination Committee if only marginal changes in voting numbers have taken place or if the change occurs after more than two months prior to the Annual General Meeting. Shareholders who appointed a member to the Nomination Committee have the right to release such a member and appoint a new member to the Nomination Committee, as well as appoint a new member if the member appointed by the shareholder chooses to withdraw from the Nomination Committee. Changes to the composition of the Nomination Committee are to be made public as soon as such changes have been made.

The Company's Chairman of the Board is the convener of the first meeting, and shall ensure that the Nomination Committee promptly receives relevant information on the results of the Board's completed evaluation of their work. Such information shall be provided no later than the month of January and shall include information on the Board's working methods and the effectiveness of its work. In addition, the Chairman of the Board shall also serve as an adjunct to the Nomination Committee's meetings when necessary.

The Nomination Committee shall otherwise have the composition and perform the tasks pursuant to the Swedish Corporate Governance Code at any time. The Nomination Committee's members shall not receive remuneration from the Company. Any overhead costs that arise in connection with the Nomination Committee's work shall be paid by the Company on condition that they have been approved by the Chairman of the Board. Upon request by the Nomination Committee, the Company shall provide human resources, such as a secretary function, in the Nomination Committee to facilitate its work.

Nomination Committee in preparation for Railcare Group AB's Annual General Meeting 2020

In consultation with the largest shareholders, the Chairman of the Board of Railcare Group AB has established a Nomination Committee in preparation for the Annual General Meeting in 2020. The Nomination Committee comprises Åke Elveros, appointed by Norra Västerbotten Fastighets AB, Per-Martin Holmgren, appointed by TREAC AB, and Kjell Lindskog, appointed by the Marklund and Dahlqvist family. The Nomination Committee has appointed Åke Elveros as its chairman. Combined, the members of the Nomination Committee represent 40.8 per cent of the total number of shares and votes in the company (as of 30 September 2019).

Åke Elveros is not independent to major shareholders according to the Code's criteria; both of the other members, Per-Martin Holmgren and Kjell Lindskog are independent in relation to the Company and Company Management and in relation to the largest shareholder in the Company by votes or group of shareholders who collaborate on the Company's management. Railcare's Nomination Committee thereby complies with the Code's criteria where the majority of the Nomination Committee's members shall be independent.

The Nomination Committee is tasked with submitting a proposal to the Annual General Meeting regarding the Chairman of the Board and other members of the Board of Directors, and regarding fees and other compensation to each of the Board members for their Board assignments. The Nomination Committee shall also submit a proposal regarding the election and remuneration of auditors. In addition, the Nomination Committee shall submit a proposal regarding the process for appointing a Nomination Committee in preparation for the Annual General Meeting in 2021.

The Nomination Committee has also taken into account that the Board members shall be able to allocate enough time to their assignments in the Company, which is the case.

The Nomination Committee held one minuted meeting in 2019. No remuneration was paid to the Nomination Committee.

Board of Directors

The Chairman of the Board and the Board members are elected annually at the Annual General Meeting for the period until the next Annual General Meeting has been held. The nomination work is done by the Nomination Committee consisting of three representatives appointed by Railcare Group AB's largest shareholders and according to the Articles of Association, the Board of Directors shall consist of five to seven members.

The Board of Directors is the second highest decision-making body after the General Meeting. Chapter 8 of the Swedish Companies Act describes the Board's responsibilities, which include the Company's organisation and management of the Company's affairs, as well as continuously assessing the Company's and, if the Company is the Parent Company in a Group, the Group's financial situation. Two of six members of Railcare Group AB's Board of Directors are women.

For more information on the Board, see pages 37-38.

Diversity Policy

The Company complies with the Code and thereby applies rule 4.1 in the Code. The Company has also prepared a Diversity Policy that the Nomination Committee also follows for proposals on Board members.

<u>Excerpts from Railcare's Diversity Policy:</u>
According to the Articles of Association of Railcare Group AB (publ), the Board must consist of five to seven members. The Nomination Committee shall provide proposals on the election or re-election of Board members prior to the General Meeting. The Nomination Committee shall take into account age, gender, education and professional background, and provide proposals on a Board that has a size and composition that ensures its ability to manage the Company's affairs with integrity and efficiency. The Board of Directors, which the Nomination Committee provides proposals on, shall have a suitable composition considering the Company's operations, phase of development and conditions otherwise that is characterised by diversity and breadth in terms of the competence, experience and background of the members elected by the General Meeting. An even gender distribution shall be strived for in the elections to the Board.

The Nomination Committee shall also take consideration of *Guidelines for suitability assessments of members in management bodies and senior executives* (EBA/GL/2012/06) and other specific regulatory requirements regarding the composition of the Board.

Independence of the Board of Directors

According to the Code, a majority of the Board's members shall be independent in relation to the Company and Group Management and at least two of these Board members shall also be independent in relation to the Company's large shareholders. A majority of Railcare's Board members are independent. Of the Board's six members, four members are independent in relation to major shareholders and five members are independent in relation to Railcare and its senior executives.

Board of Directors

Name	Catarina Elmsäter-Svärd	Anna Weiner Jiffer	Adam Ådin
Role on the Board of Directors	Chairman of the Board, elected 2016	Board Member, elected 2016	Board Member, elected 2017
Born	1965	1971	1980
Position	Chairman of the Board of the Company and chairman of the Remuneration Committee.	Board Member of the Company and member of the Remunerations Committee.	Board Member of the Company, chairman of the Audit Committee and member of the Remunerations Committee.
Education	Graduate market economist from RMI-Berghs.	Master of Science in Civil Engineering and Innovation Management and Entrepreneurship from Chalmers University of Technology.	MA in Business Administration from Umeå University.
Other significant assignments in progress	Catharina is Chairman of the Board of Elmsäters i Enhörna. She is the CEO of Sveriges Byggindustrier Service AB.	Anna is Chairman of the Board of HållbarTillväxt Sverige AB and Beans in Cup Holding AB. She is a Board Member of, among others, LC-Tec Holding AB, Serendipity AB, Berotec AB and Hejmo Kredit AB, and also works as a Management Consultant at Serendipity AB.	Adam is Chairman of the Board of Ambra Nord AB, Ambra AB, Extena AB and Maud & Samme Lindmarks Familjestiftelse and Karlfast AB. He is a Board Member of, among others, TREAC Aktiebolag, Zone Systems AB, Transforma Invest Aktiebolag, Transforma Företag AB, Ljuslådan AB, AC Invest AB, Treac Innovation AB and Handelskammarföreningen i Västerbotten. He is the CEO of TREAC Aktiebolag. He is a Deputy Board Member of Bjurbacka AB.
Other experience	Catharina has been a Member of the Riksdag (Swedish parliament) for 11 years and was Minister for Infrastructure between 2010 and 2014. She is Chairman of the Board of the Institute for Future Studies and of the Swedish Council for Higher Education.	Anna was previously a Board Member and CEO of Real Holding i Sverige AB (publ), CEO and Founder of Ellen AB and Q-Sense AB, as well as Global Business Area Manager at IKEA of Sweden. She was also a Board Member of the Company between 2007 and 2011.	Adam has experience in financial management, financing, management and business development in the role of senior executive.
Independent in relation to Railcare and its senior executives	Yes	Yes	Yes
Independent in relation to major shareholders	Yes	Yes	No
Shareholding in Railcare Group AB (including related parties)	Catharina holds 1,000 shares in Railcare Group AB (publ) through AB Elmsäters i Enhörna.	Anna holds 5,000 shares in Railcare Group AB (publ).	Adam directly holds 75,000 shares in Railcare Group AB (publ) and represents 2,415,000 shares through TREAC Aktiebolag.
Attendance at Board meetings	7/7	7/7	7/7
Attendance at Annual General Meeting	Yes	Yes	Yes
Audit Committee	-	3/6[1]	6/6[2], chairman
Remuneration Committee	1/1, chairman	1/1	1/1
Remuneration 2019	SEK 200,000	SEK 100,000	SEK 100,000

1) Not included in the Audit Committee following the statutory Board meeting on 8 May 2019.
2) Elected as chairman during the statutory Board meeting on 8 May 2019.

Board of Directors, cont.

Name	Anders Westermark	Björn Östlund	Ulf Marklund
Role on the Board of Directors	Board Member, elected 2018	Board Member, elected 2019	Board Member, elected 2007
Born	1959	1957	1954
Position	Board Member of the Company and member of the Audit Committee and the Remunerations Committees.	Board Member of the Company and member of the Audit Committee and the Remunerations Committees.	Board Member and Deputy CEO of the Company.
Education	Graduate economist from Linköping University and has completed the Stockholm School of Economics' "Executive Education" programme.	Graduate civil engineer in industrial economics from Linköping University.	Training from construction engineering programme at two-year vocational school.
Other significant assignments in progress	Anders is the Investments Manager for Norra Västerbotten Förvaltning AB and has been the Chairman of the Board of TREAC AB, Grit Media AB and Samköpsgruppen TU and Board Member of several media, property and investment companies.	Björn is the CEO of AFRY Infrastructure Division and Chairman of the Board of Gröna Städer.	Ulf is Chairman of the Board and CEO of Matech Marin AB. He is Chairman of the Board of ATUMO AB. He is a Board Member of UAM Invest AB and Kurjovikens Havsmarina AB. He is a Deputy Board Member of Deinceps AB.
Other experience	Anders has previous experience as CEO in the areas of interior design, construction and financial control.	Björn's previous experience includes senior positions within ÅF and the Swedish Transport Administration. He has been Deputy Director General of Banverket (former Swedish Rail Administration), Head of Traffic, Head of the Delivery Division at Banverket, Head of Banverket Planning and Head of Banverket Production (now Infranord). He has worked in transport infrastructure since 1994, with board assignments for Botniabanan (Bothnia Line) and the Tågoperatörerna (train operators) trade organisation.	Ulf is an innovator and developer. Ulf co-founded Railcare Group AB and was previously its CEO). He was a Board Member of UAM Foundation AB until June 2016.
Independent in relation to Railcare and its senior executives	Yes	Yes	No
Independent in relation to major shareholders	No	Yes	Yes
Shareholding in Railcare Group AB (including related parties)	Anders holds 107,000 shares directly in Railcare Group AB (publ). Anders represents Norra Västerbotten Fastighets AB with 2,521,335 shares in Railcare Group AB (publ).	0	Ulf holds 1,708,905 shares through Fuersson Management Ltd. and 125,000 shares through Deinceps AB, a company he owns jointly with Daniel Öholm.
Attendance at Board meetings	7/7	4/7[4]	6/7
Attendance at Annual General Meeting	Yes	Yes	Yes
Audit Committee	2/6[3]	2/6[5]	-
Remuneration Committee	1/2	0/1	-
Remuneration 2019	SEK 100,000	SEK 100,000	-

3) Elected at the statutory Board meeting on 8 May 2019.
4) Elected at the Annual General Meeting on 8 May 2019.
5) Elected at the statutory Board meeting on 8 May 2019.

Work of the Board of Directors

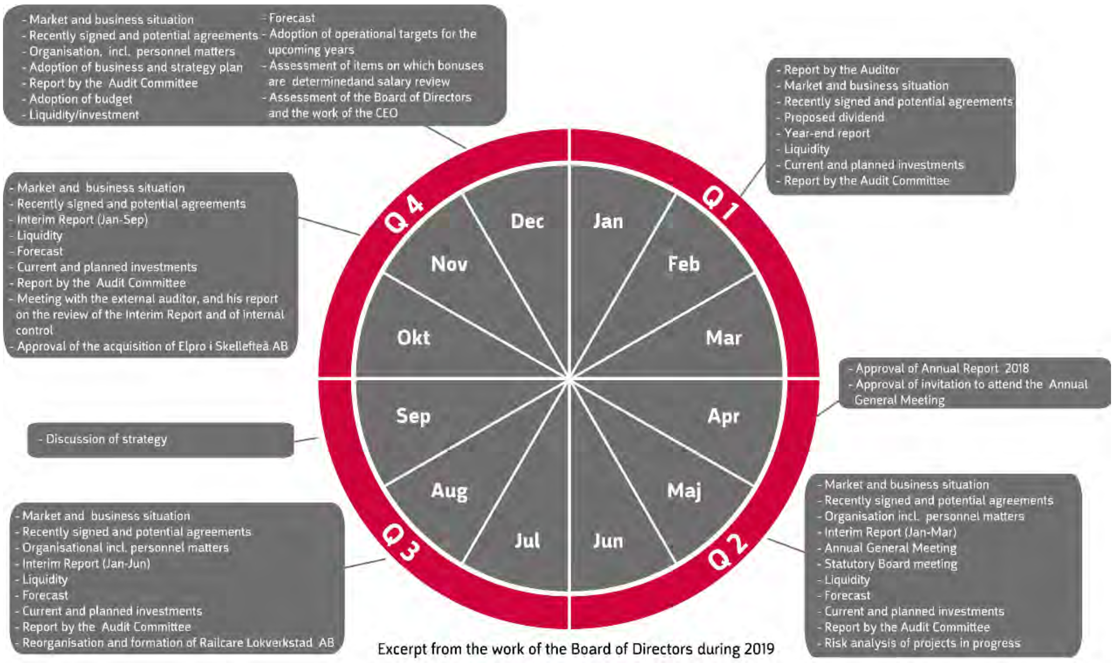
In 2019, Railcare's Board of Directors comprised *Catharina Elmsäter-Svärd* (Chairman), *Ulf Marklund, Anna Weiner Jiffer, Adam Ådin, Anders Westermark* and *Björn Östlund.*

The Board held seven minuted Board meetings. The CEO and CFO participate in each Board meeting and report the Company's current situation which includes the market and business situation. Other employees of the Company may participate during Board meetings when necessary. In the parts where the Board discusses the CEO, the CEO, Deputy CEO and CFO do not participate. Once a year, the work of the CEO is evaluated. Attendance of Board members at Board meetings during the year is presented on pages 37-38

The Board's formal work plan is established at the statutory Board meeting held directly after the Annual General Meeting. The Board's formal work plan presents the duties that the Board is to perform and when each agenda item shall be addressed, depending on the Board meeting and quarter. Examples of duties are establishing the Company's business plan including budget, overall goals and strategies, appointing, evaluating and when necessary dismissing the CEO, adopting interim reports, the year-end report and annual report and ensuring that the Company has good internal control. The Board has also adopted terms of reference for the CEO that describe the CEO's responsibilities and duties.

The Chairman of the Board is responsible among other things for ensuring that the Board's members, through the care of the CEO, continuously receive the information necessary to be able to monitor the company's position, performance, liquidity, financial planning and development. It is incumbent on the Chairman to fulfil the Annual General Meeting's assignment regarding the establishment of a Nomination Committee.

In addition to the statutory Board meeting, the Board of Railcare Group AB shall hold at least eight meetings per calendar year and extraordinary meetings shall be held if a Board member or the CEO so request. Prior to each Board meeting, information and documentation is distributed over a digital system. For Board members elected by the Annual General Meeting who are not employees and members of the Board's various committees who are not employees, Board fees were paid in an amount of SEK 200,000 to the Chairman of the Board and SEK 100,000 to each of the other Board members.



Excerpt from the work of the Board of Directors during 2019

Audit Committee

In 2019, the Audit Committee, a committee of the Board of Directors, comprised *Adam Ådin,* (chairman), *Anders Westermark* and *Björn Östlund.* The Audit Committee is a preparatory body within the Company's Board of Directors that shall, for example, safeguard that the Board of Directors meets its supervisory responsibilities with regard to internal control, risk management, accounting and financial reporting, as well as compliance. The work of the Audit Committee is regulated by special instructions adopted by the Board of Directors as part of its Rules of Procedure. In this connection, the Audit Committee shall contribute in particular to good financial reporting and to maintaining the market's confidence in the company. The Audit Committee shall ensure that qualified, efficient and independent external audits of the company are performed and that effective communications are maintained between the Board of Directors and the external auditor.

The Audit Committee shall normally meet at least five times per calendar year. Once a year, a meeting should be held at which no member of company management is present. Minutes shall be kept of the meetings of the Audit Committee. The Audit Committee shall inform the Board of Directors of what has been discussed by the Committee. In 2019, the Audit Committee held six meetings, four of which were held in connection with the quarterly closing of the accounts. Discussions have primarily concerned the company's profits and financial position, internal control, risk management, quarterly reports, new accounting standards, etc.

Remuneration Committee

The Board of Directors has decided not to set up a specific Remunerations Committee, finding it more appropriate to have the entire Board perform the tasks of the Remunerations Committee (excluding Board members who are also members of Group Management).

The duties of the Remunerations Committee are:

- to approve proposals for guidelines for the remuneration of senior executives, for subsequent adoption by the Annual General Meeting,
- to decide on guidelines for individual remuneration for the CEO, and propose guidelines to the CEO for the individual remuneration of other senior executives, thereby ensuring that these proposals are in accordance with the company's remuneration principles established by the Annual General Meeting, and
- to monitor the system by which the company complies with the law, applicable stock exchange regulations and the Swedish Code of Corporate Governance regarding regulations on the disclosure of information related to remuneration to senior executives.

During 2019, the members of the Remunerations Committee were *Catharina Elmsäter-Svärd* (chairman), *Anna Weiner Jiffer, Adam Ådin, Anders Westermark* and *Björn Östlund.* The Remunerations Committee consists of the entire Railcare Board of Directors, excluding *Ulf Marklund,* as follows of Item 9.2 of the Code. The Remunerations Committee is convened as necessary and held one minuted meeting in 2019.

Assessment of the work of the Board of Directors

At the end of the year, the work of the Board of Directors is assessed to develop the efforts and efficiency of the Board of Directors. The Chairman of the Board of Railcare, *Catharina Elmsäter-Svärd,* is responsible for the assessment and for it then being presented to the Nomination Committee. At the end of 2019, the Chairman of the Board distributed a questionnaire to which all members were required to respond. The responses were collected and presented to the full Board of Directors. The results of the assessment were then submitted to the Nomination Committee at a minuted meeting.

CEO and Group Management

In 2019, the Group Management of Railcare consisted of *Daniel Öholm* (CEO), *Ulf Marklund* (Deputy CEO), *Mikael Forsfjäll* (CFO) and *Sofie Dåversjö* (IR and Communications Manager). For more information on Group Management, see pages 42-43.

The CEO leads the operating activities according to internal and external steering documents and is responsible for reporting on the Group's development to the Board of Directors. The CEO and CFO participate at each Board meeting and Audit Committee meeting to report and present the Group's information according to the decided steering documents. Group Management meets once a month, except in July, with a focus on operational governance of the operations, and follow-up of the budget and strategic issues.

Group Management meetings are in conjunction with meetings that the CEO and CFO hold together with Railcare's operational managers, who report what is taking place in each operation (company). Group Management then receives this information via the CEO and CFO and makes decisions in issues concerning the entire Group. Group Management has standing agenda items for its meetings, of which one is addressing any insider matters. Potential insider matters can also be taken up continuously and when necessary, separate meetings are held for Group Management linked to the insider matters. The information considered necessary to address in the Board is taken there.

Group Management[3]

Name	Daniel Öholm	Ulf Marklund
Born	1971	1954
Position	CEO	Deputy CEO
Education	Technical college graduate with construction focus.	Training from construction engineering programme at two-year vocational school.
Other significant assignments in progress	Daniel is a Board Member of Deinceps AB and Sveriges Järnvägsentreprenörer AB.	Ulf is Chairman of the Board and CEO of Matech Marin AB. He is Chairman of the Board of ATUMO AB. He is a Board member of UAM Invest AB and Kurjovikens Havsmarina AB. He is a Deputy Board Member of Deinceps AB.
Other experience	Daniel has worked at Banverket and NCC and has more than 20 years of experience in the railway industry, both in private business and as a government commissioner. He has extensive and solid experience of maintenance, new construction and contracting, and as a company manager.	Ulf is an innovator and developer. Ulf co-founded Railcare Group AB and was previously its CEO. He was a Board Member of UAM Foundation AB until June 2016.
Shareholding in Railcare Group AB (including related parties)	Daniel directly holds 135,000 shares in Railcare Group AB (publ) and 125,000 shares through Deinceps AB, a company he owns jointly with Ulf Marklund.	Ulf holds 1,708,905 shares in Railcare Group AB (publ) through Fuersson Management Ltd. and 125,000 shares through Deinceps AB, a company he owns jointly with Daniel Öholm.
Employed	2010	1992
Member of Group Management since	2010	1992

[3]Continues on page 43.

Group Management, cont.

Name	Mikael Forsfjäll	Sofie Dåversjö
Born	1969	1988
Position	CFO	IR and Communications Manager
Education	Degree of Master in economics with a focus on accounting and financing from Uppsala University.	Degree of Master of Science in Business and Economics with a focus on organisation and management from Örebro University.
Other significant assignments in progress	Mikael has no other ongoing assignments as a member of any administrative, management, or control bodies or as a shareholder.	Sofie has no other ongoing assignments as a member of any administrative, management, or control bodies or as a shareholder.
Other experience	Mikael has previously been Business Controller at Metso Sweden AB, CFO at Midroc Miljöteknik AB, Senior Consultant at AGL Treasury Support AB, Financial Controller Group Accounting Scania, Accountancy Manager at Corporate Treasury Scania and Auditing at Grant Thornton.	Sofie has worked with the management and Board of Directors of Enea AB (publ), listed on the Nasdaq Stockholm exchange (Small Cap). During her time at Enea, Sofie worked as Communications Manager, Investor Relations, Investor Relations Coordinator and Executive Assistant.
Shareholding in Railcare Group AB (including related parties)	Mikael holds 1,675 shares in Railcare Group AB (publ).	0
Employed	2017	2017
Member of Group Management since	2017	2017

Auditors

According to Railcare's Articles of Association, the company shall have one or two auditors, or an authorised firm of auditors examine the company's annual accounts and the administration by the Board of Directors and the CEO. The company's current auditor is the registered audit firm Ernst & Young Aktiebolag. The audit firm was elected as auditor in 2007 and was re-elected at the 2019 Annual General Meeting. Fredrik Lundgren, Authorised Public Accountant and member of FAR (industry organisation for accounting consultants, auditors and advisers in Sweden), was re-elected as auditor in charge at the Annual General Meeting on 8 May 2019 for the period until the 2020 Annual General Meeting.

Each year, the company's auditors report their observations from the audit to the entire Board in connection with the closing of the annual accounts. The Board also meets with the company's auditors at least once a year, without the presence of Group Management, to learn about the direction and scope of the audit and to discuss the coordination between the external audit and internal control and the view regarding the company's risks.

In 2019, the company's auditors participated in a meeting with the Audit Committee, primarily addressing the audit plan for 2019, and in a meeting with the Board of Directors, primarily addressing the review of the interim report for January-September 2019.

Remunerations for senior executives

The 2019 Annual General Meeting adopted guidelines for remuneration and other terms of employment for senior executives, which can be found in Note K8 on page 70. Presented below are the Board of Directors' proposed guidelines presented to the 2020 Annual General Meeting for resolution.

The Board of Directors of Railcare Group AB (publ), Reg.No. 556730-7813, proposes that the Annual General Meeting adopt guidelines for the remuneration and other terms of employment for senior executives as follows. The guidelines shall apply to remunerations agreed after the 2020 Annual General Meeting and to changes to remunerations already agreed made after that time. The guidelines do not include remunerations determined by the Annual General Meeting. Regarding employment conditions governed under non-Swedish regulations, in so far as pension benefits and other benefits are concerned, appropriate adjustments are made to comply with compulsory rules or fixed local practice, whereby the general purpose of these guidelines should be met as far as possible. The guidelines also apply to Board Members to the extent that they receive remuneration for services performed for the company in addition to their board assignments. The provisions regarding the company also apply to the Group where appropriate.

How the guidelines support the company's business strategy, long-term interests and sustainability

The successful implementation of the company's business strategy and the fostering of its long-term interests, including its sustainability, require the company to be able to recruit and retain qualified employees. To achieve this, the company must be able to offer competitive overall remuneration, which these guidelines make possible. Overall remuneration must be market-based and competitive, and shall reflect the responsibilities and authorisations of the employee.

Remuneration formats, etc.

Remunerations shall be market-based and comprise the following components: fixed salary, any variable salary in accordance with a separate agreement, pension and other benefits. In addition, the Annual General Meeting may, regardless of these guidelines, approve, for example, share and share price-related remunerations.

Fixed salary

Fixed salary shall consist of a fixed cash salary and shall be reviewed annually. The fixed salary must be competitive and reflect the demands placed on the position in terms of skill, responsibility, complexity and how it helps achieve business objectives. The fixed salary must also reflect the performance achieved by the executive and shall therefore be individual and differentiated.

Variable salary

In addition to fixed salary, the CEO and other senior executives may, from time to time, in accordance with a separate agreement, receive variable remuneration when meeting specified criteria. Any variable salary can be paid either as a cash salary or as a one-time pension provision. When disbursed as a one-time pension provision, a certain upward adjustment is applied so that the total cost for the company becomes neutral. The basic principle is that the variable salary component per year may amount to a maximum of 20 per cent of the fixed annual salary. To avoid unsound risk-taking, there shall be a fundamental balance between fixed and variable salary. The fixed salaries shall make up a sufficiently large portion of the senior executives' total remuneration to make it possible to set the variable portion to zero.

The variable salary must be linked to one or more predetermined and measurable criteria set by the Board and that may be financial, such as the Group's profit growth, profitability and cash flow or non-financial, such as sustainability, customer satisfaction, quality and corporate culture. By linking the remuneration of the senior executives with the company's profits and sustainability, the targets promote the implementation of the company's business strategy, long-term value creation and competitiveness. The terms for variable salary and the data on which it is calculated are to be established for each financial year. The fulfilment of criteria for the payment of variable salary must be measurable during a period of one financial year. Variable salary is settled in the year following the year in which it was earned.

When the measurement period for fulfilling the criteria for payment of variable salary has been completed, the extent to which the criteria have been met shall be assessed. As far as financial targets are concerned, the assessment shall be based on the latest financial information published by the company.

The conditions for variable salary are to be designed such that the Board of Directors, if exceptional economic conditions prevail, has the option of limiting or omitting payment of variable salary if such a measure is deemed reasonable. In designing variable remunerations for Company Management, the Board of Directors shall consider introducing reservations that (i) make payment of a certain portion of such remuneration conditional on the performance on which the earnings are based proves to be sustainable over time, and (ii) allow the company to recover such remunerations paid on the basis of information later proving to be manifestly incorrect.

Additional variable cash benefits may be paid in exceptional circumstances, provided that such extraordinary arrangements are limited in terms of time and are implemented only at the individual level, either for the purpose of recruiting or retaining executives, or as compensation for extraordinary efforts beyond the regular duties of the individual. Such remuneration may not exceed an amount corresponding to 30 per cent of fixed annual salary and shall not be disbursed more than once annually and per individual. Decisions regarding such remuneration are to be made by the Board of Directors based on a proposal from the Remunerations Committee.

Pension
For the CEO and other senior executives, pension benefits, including health insurance, must be defined contribution benefits, unless the employee is covered by a defined benefit pension plan under the provisions of a compulsory collective agreement. Variable salary shall as a main rule be pensionable salary. Premiums for defined contribution pension plans should not exceed 35 per cent of pensionable salary (including any pensionable variable salary). Salary waivers may be used for reinforced occupational pensions through one-off pension provisions, provided that the total cost for the company is neutral. The pensionable salary corresponds to the fixed monthly salary multiplied by a factor of 12.2, plus any variable salary.

Other benefits
Other benefits, which may include a company car, travel benefit, extra health and medical insurance and occupational healthcare, must be market-based and only constitute a limited part of the total remuneration. Premiums and other costs arising from such benefits may amount to at most 15 per cent of fixed annual salary.

Terms of termination
A mutual notice period of 12 months applies between the company and the CEO. In the event of termination of the CEO by the company, severance pay shall be payable in an amount corresponding to a maximum of 12 months' fixed salary. Other income is not deductible from this severance pay. No severance pay is payable on the resignation of the employee. A mutual notice period of six months applies between the company and other senior executives.
In addition, compensation may be payable for any competition-restricting undertaking. Such remuneration shall compensate for any loss of income and shall only be paid to the extent that the former executive is not entitled to severance pay. This remuneration shall be based on the fixed salary at the time of termination and shall amount to at most 60 per cent of the fixed salary at the time of termination, unless otherwise provided by mandatory collective agreement provisions, and shall be payable during the period in which competition is restricted, which shall not exceed 12 months following the termination of employment.

Fees to Board members
In specific cases, Board members of Railcare elected by the Annual General Meeting, may, for a limited time, be paid fees for services they render within their individual areas of expertise and that do not constitute board work. For these services (including services performed by a company wholly-owned by a board member), a market-based fee shall be paid provided that such services contribute to the implementation of Railcare's business strategy and the safeguarding of the company's long-term interests, including its sustainability. Such consultancy fees may never exceed the annual board fees for each Board member.

Salary and terms of employment for employees
Employees' salaries and terms of employment have been taken into account when preparing the Board's proposal for these guidelines, with employees' total remuneration, the components of that remuneration, as well as the increase in remuneration and the increase over time having been included when the Remuneration Committee and the Board of Directors assess the reasonableness of the guidelines and the limitations they entail.

Preparation and decision-making process
The Board of Directors has resolved to establish a Remuneration Committee. The Committee's tasks include: preparing principles for the remuneration of senior executives and the Board's decision on proposed guidelines for remuneration of senior executives. The Board of Directors shall prepare proposals for new guidelines at least every four years and submit its proposals for adoption by the Annual General Meeting. The guidelines shall apply until new guidelines have been adopted by the Annual General Meeting. The Remuneration Committee shall also monitor and assess programmes of variable remuneration for senior executives, the application of guidelines for the remuneration of senior executives, as well as current remuneration structures and remuneration levels in the company. The CEO's remuneration shall be decided within the framework of principles approved by the Board of Directors based on a recommendation prepared by the Remunerations Committee. Remunerations for other senior executives shall be determined by the CEO within the framework of established principles and following consultation with the Board of Directors. Board meetings addressing and determining matters of remuneration, shall not be attended by the CEO or other senior executives insofar as these matters affect them.

Share-related incentive programmes determined by the Annual General Meeting.
Each year, the Board shall assess the need for share-related incentive programmes and, if necessary, submit proposals for resolution by the Annual General Meeting. Any share and share price-related incentive programmes aimed at senior executives shall be approved by the Annual General Meeting and shall aid long-term growth in value. It shall be possible to offer senior executives an incentive similar to that offered under a share or share price-related incentive programme, in the event that such a programme should prove practically infeasible in the tax residence of those senior executives, or as a result of such participation not being possible, in the Company's assessment, for reasonable administrative costs or financial investment. The cost and investment for the company, as well as the incentive and financial outcome for such senior executives, must, in such circumstances correspond essentially to the share or share price related incentive programme.

Deviations from the guidelines
The Board of Directors may decide to deviate from the guidelines in whole or in part if there are specific reasons for this in an individual case and a deviation is necessary to fulfil the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As stated above, the tasks of the Remuneration Committee include preparing decisions by the Board of Directors on remuneration issues, which includes decisions regarding deviations from the guidelines.

Information regarding approved remuneration yet to be paid
On 10 June 2019, new regulations were introduced under the Companies Act regarding the formulation of the compensation guidelines. According to the transitional provisions of the new regulations, the proposal for compensation guidelines must contain information on previously approved benefits yet to be paid. In addition to the undertakings to pay ongoing remunerations, including salary, pension and other benefits, no previously determined remunerations to any senior executives exist that have not fallen due for payment. For further information on remunerations for senior executives, please see Note K8 on page 70.

Internal control of financial reporting

Railcare's Board of Directors and CEO are responsible for internal control, which is regulated by the Companies Act, the Annual Accounts Act and the Swedish Code of Corporate Governance. The Audit Committee is tasked with monitoring Railcare's internal control, primarily so that external reports are prepared in accordance with applicable legislation, but also so that Railcare's internal regulations are complied with.

The purpose of the internal control of financial reporting is to ensure that the external financial reporting is reasonably reliable and prepared in accordance with generally accepted accounting principles, that applicable laws and regulations are followed, and that the requirements imposed on listed companies are complied with.

Railcare's internal control model is based on frameworks developed by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"). The framework has five basic components, which are presented below.

Control environment

The control environment forms the basis for the internal control of financial reporting and a key role in maintaining good internal control is that decision paths, authorisations and responsibilities are clearly distributed and communicated within the organisation. Examples of documents regulating this are *Rules of procedure for the Board of Railcare Group AB, Instructions for the CEO of Railcare Group AB, Instructions to the Audit Committee, Finance Policy* and the *Financial Handbook*.

The Group is divided into business units. Within each business unit, there is a business manager who is responsible for the fulfilment of targets and budgets, as well as governance issues. Railcare's organisational structure is communicated in the Group's operating system, QMS, so that responsibilities and roles are clear to all who work with financial information. The *Financial Handbook for Railcare Group* establishes the division of roles and responsibilities for the employees who work with the financial reporting. Among other things, the Financial Handbook includes the Group's accounting principles, as well as reporting schedules and instructions to ensure that the accounting is uniform and conducted in a timely manner.

The *Financial Policy* sets overarching targets and guidelines for financial risk and for how the financial activities are to be conducted. The Financial Policy also sets out how the responsibility for the financial activities is distributed and how the risks are to be managed and reported. The Financial Policy includes instructions on how the ongoing operations are to be conducted.

Risk assessment and risk management

Within Railcare, systematic efforts are conducted with regard to how risks are to be assessed and managed with regard to operational, strategic and financial risks alike. The Group streamlined these efforts in 2017, in preparation for change of list implemented in the spring of 2018. This makes 2019 the second year in which Railcare followed, for a full year, the new framework linked to a regulatory market and in which it conducted its first review in accordance with internally set processes linked to the financial reporting.

It is the Board of Directors that establishes principles and guidelines for the company's risk management, while the operational responsibility lies with the CEO. The Board of Directors has established an Audit Committee that continuously addresses matters of risk management and of the internal control of financial reporting. The Audit Committee bears a responsibility delegated from the Board of Directors to prepare matters related to the internal control of financial reporting and to follow up on measures connected to risk management.

Risks identified within the Group are assessed annually by the operational management with the aim of identifying new risks and updating the company's view on risks identified previously.

This assessment maps and evaluates the risks identified based on their impact and probability. This evaluation is presented to the Audit Committee and the Board of Directors annually.

Significant risks that may affect the financial reporting are items based on estimates and assessments, such as tangible fixed assets and revenue recognition. Financial risks such as liquidity, currency and credit risk are managed by Group Management and the Board of Directors based on the adopted *Financial Policy*.

Each month, the Board of Directors receives a report package from the CEO and CFO to be able to follow up and evaluate the Group on an ongoing basis. These report packages are distributed via the Group's operating system, with different levels of authorisation, preventing unauthorised individuals from accessing confidential materials.

Control activities

Railcare's control structure is designed to manage the risks considered by the Board of Directors to be significant for the internal control of financial reporting. The control activities are to manage the risks considered by the Board of Directors to be of significance for the internal control and the control activities are also designed to enable employees to detect or prevent risks of errors in the reporting sufficiently early. The efficiency of the controls is assessed by individuals selected from throughout the organisation, and the results are compiled annually at the Group level and presented to the Audit Committee and the Board of Directors.

Examples of control activities include monthly follow-up meetings with managers within the various business units, with profit forecasts being continuously followed up and updated. Other control activities are aimed at ensuring that the company's non-current assets are correctly valued and include reviewing the investment budget and quarterly matching of the asset registers. Intangible assets that have an indefinite useful life (goodwill) or intangible assets that are not ready for use (capitalised development expenditures) are not amortised, but are tested annually for impairment. Assets that are depreciated or amortised are assessed for a reduction in value whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is applied in the amount with which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and the value in use. When assessing impairment requirements, assets are grouped at the lowest level at which there are essentially independent cash flows (cash-generating units).

The company's CFO is responsible for ensuring that measures to control the financial reporting are maintained and followed, and he works with and monitors the control activities together with the finance department throughout the year. Railcare works continuously to improve and develop its internal control of the financial reporting.

The Board of Directors has made the assessment that Railcare does not need a specific internal audit function. Given the size and character of the operations, combined with the existing reporting to the Board of Directors and the Audit Committee, this is not considered financially justifiable. The established control system is deemed sufficient to safeguard the quality of the financial reporting.

Information and communications
Railcare's governing documents, in the form of policies, are adopted annually by the Board of Directors. Guidelines and instructions are updated on an ongoing basis and as needed by the relevant individual responsible in accordance with *Guidelines for managing governing documents*. All governing documents are kept available via QMS and this accessibility is regulated based on specific levels of authorisation to ensure that employees have access to necessary and relevant information.

Railcare's *Communications Policy* and *Insider Policy* describe how the Group should handle matters connected with internal and external communications, how insider information should be handled and how responsibilities are distributed within the company.

Internal communications are conducted on an ongoing basis throughout the Group. Information letters are distributed to all Group employees by e-mail a number of times a year. This is to keep all employees updated and informed about what is happening within the Group and in all of its operations. Although Railcare's employees do hold meetings in person, meetings are also held digitally via Microsoft Teams and over the phone.

Railcare's external communications are conducted predominantly via the company's website. The website is constantly updated with essential information for external stakeholders and updated in accordance with the laws and regulations and guidelines that Railcare follows as a company listed on the Nasdaq Stockholm exchange. Examples include updating documents relating to investor relations, such as interim reports, annual reports, materials for general meetings, etc.

Review
Compliance with, and the efficiency of, internal controls are monitored on an ongoing basis by operations manager who reports to the CEO and CFO who then reports to Group Management. Group Management meets monthly focusing on the operational governance of the operations and, where necessary, discusses what measures are necessary for good internal control. Together with the CFO, the CEO also submits a monthly overall report to the Board of Directors via QMS with information on the profits, key financial ratios and figures and utilisation of machines of the Group and the segment and including comparisons with the preceding year and the budget. Prior to each ordinary Board meeting, the Board of Directors receives a more comprehensive and detailed report and, based on these reports, ordinary Board meetings review market conditions, risks in ongoing projects and any deviations from the forecast and budget.

The CFO is responsible for ensuring that analyses and comments presented to the Board of Directors are accurate and that the Board of Directors and the Audit Committee receive all relevant information and material, so that the Board of Directors and the Audit Committee gain a timely and accurate picture of the internal control of the financial reporting.

The Board of Directors assesses the risks associated with the internal control of the financial reporting on an ongoing basis and then reports this to the company's CEO and CFO, who then communicate the observations made by the Board of Directors to the organisation and ensuring that measures are implemented. In this work, the Board of Directors is given guidance on the principles and guidelines, the compliance with which is followed up by means of the company's "year wheel" and through ongoing dialogue in connection with Audit Committee meetings and Board meetings. The internal control is considered favourable.

Financial statements – Group

Consolidated statement of comprehensive income

Amounts in SEK thousands	Note	Jan-Dec 2019	Jan-Dec 2018
Net sales	K5	370,610	270,147
Capitalised work for own account		7,548	5,453
Other operating income	K6,K12	1,775	1,204
Total		**379,933**	**276,804**
Raw materials and consumables		-129,593	-70,532
Other external costs	K9,K10	-47,142	-71,272
Personnel costs	K8	-120,357	-108,443
Depreciation, amortisation and impairment of tangible and intangible assets and ROU assets		-49,654	-24,096
Other operating expenses	K7,K12	-1,210	-918
Total operating expenses		**-347,956**	**-275,261**
Operating profit/loss (EBIT)		**31,977**	**1,543**
Financial income		6	29
Financial expenses		-5,763	-5,363
Net financial items	K11,K12	**-5,757**	**-5,334**
Share of profit after tax from associated companies reported according to the equity method	K17	284	184
Profit/loss before tax		**26,504**	**-3,607**
Income tax	K13	-5,744	2,188
Profit for the year		**20,760**	**-1,419**
Other comprehensive income:			
Items that may be reclassified to the profit/loss for the period			
Exchange rate differences from the translation of foreign operations		355	425
Other comprehensive income for the year,		**355**	**425**
Total comprehensive income for the year		**21,115**	**-994**

The profit/loss for the year and the total comprehensive income are entirely attributable to the Parent Company's shareholders

Amounts in SEK	Note	Jan-Dec 2019	Jan-Dec 2018
Earnings per share before dilution	K14	0.90	-0.06
Earnings per share after dilution	K14	0.87	-0.06
Average number of shares		23,013,056	22,032,843
Number of shares outstanding on the balance sheet date		23,013,056	23,013,056

The notes on pages 55-105 constitute an integrated part of these consolidated financial statements.

Consolidated statement of financial position

Amounts in SEK thousands	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Intangible assets	K15		
Capitalised development costs		2,471	2,502
Patents		377	501
Goodwill		3,554	3,796
Transportation licence		547	684
Total intangible assets		**6,949**	**7,483**
Tangible assets	K16		
Buildings and land		30,790	5,534
Locomotives and wagons		129,169	111,773
Mobile machinery		165,405	161,517
Vehicles		7,604	10,299
Equipment, tools, fixtures and fittings		5,545	5,385
Construction in progress		31,912	31,586
Total tangible assets		**370,425**	**326,094**
Financial non-current assets			
Holdings reported according to the equity method	K17	686	595
Deposits	K18	658	658
Deferred tax assets		97	-
Other non-current receivables	K18	3,954	3,954
Total financial non-current assets		**5,395**	**5,207**
Total non-current assets		**382,769**	**338,784**
Current assets			
Inventories	K20		
Raw materials and consumables		11,805	10,349
Work in progress		10,765	-
Total inventories		**22,570**	**10,349**
Current receivables			
Accounts receivable	K19	15,928	20,172
Current tax receivables		1,750	1,329
Other current receivables	K21	6,775	8,271
Prepaid expenses and accrued income	K22	7,362	10,184
Total current receivables		**31,815**	**39,956**
Cash and cash equivalents	K23	22,012	24,081
Total current assets		**76,397**	**74,386**
TOTAL ASSETS		**459,166**	**413,170**

The notes on pages 55-105 constitute an integrated part of these consolidated financial statements.

Consolidated statement of financial position, cont.

Amounts in SEK thousands	Note	31/12/2019	31/12/2018
EQUITY	K24		
Share capital		9,435	9,435
Other capital provided		32,178	32,178
Reserves		1,669	1,314
Retained earnings (profit/loss for the year included)		110,589	90,677
Total equity attributable to Parent Company shareholders		**153,871**	**133,604**
LIABILITIES			
Non-current liabilities	K25		
Deferred tax liabilities	K26	27,670	23,464
Convertible loans		-	4,563
Liabilities to credit institutions		106,979	127,135
Lease liability *		24,712	14,856
Total non-current liabilities		**159,361**	**170,018**
Current liabilities	K25		
Lease liability *		31,567	5,742
Liabilities to credit institutions		50,162	48,171
Convertible loans		4,782	-
Accounts payable		24,537	26,551
Prepayments from customers		4,162	-
Current tax liabilities		931	1,135
Other liabilities	K27	4,475	4,462
Accrued expenses and deferred income	K28	25,318	23,487
Total current liabilities		**145,934**	**109,548**
TOTAL EQUITY AND LIABILITIES		**459,166**	**413,170**

*) Comparative figures for 2018 relate to Liability financial leasing agreements, in accordance with the former accounting principle.

The notes on pages 55-105 constitute an integrated part of these consolidated financial statements.

Consolidated statement of changes in equity

		Attributable to the Parent Company's shareholders				
Amounts in SEK thousands	Note	Share capital	Other capital provided	Reserves	Retained earnings including profit/loss for year	Total equity
Opening balance as per 1 January 2018	K24	**8,980**	**27,994**	**889**	**95,380**	**133,243**
Profit for the year		-	-	-	-1,419	-1,419
Other comprehensive income		-	-	425		425
Total comprehensive income		-	-	**425**	**-1,419**	**-994**
Transactions with shareholders						
Conversion of debenture		456	4,184	-	-	4,640
Dividend		-	-	-	-3,285	-3,285
Closing balance as per 31 December 2018		**9,435**	**32,178**	**1,314**	**90,677**	**133,604**
Opening balance as per 1 January 2019	K24	**9,435**	**32,178**	**1,314**	**90,677**	**133,604**
Adjustment on transition to IFRS 16	K35	-	-	-	-849	-849
Profit for the year		-	-	-	20,760	20,760
Other comprehensive income		-	-	355	-	355
Total comprehensive income		-	-	**355**	**19,911**	**20,266**
Closing balance as per 31 December 2019		**9,435**	**32,178**	**1,669**	**110,589**	**153,871**

The notes on pages 55-105 constitute an integrated part of these consolidated financial statements.

Consolidated statement of cash flows

Amounts in SEK thousands	Note	Jan-Dec 2019	Jan-Dec 2018
Cash flow from operating activities			
Operating profit/loss (EBIT)		31,977	1,543
Adjustment for non-cash items	K32	50,993	24,112
Interest paid		-5,544	-4,951
Interest received		6	29
Income tax paid		-2,041	-639
Cash flow from operating activities before changes in working capital		**75,391**	**20,094**
Cash flow from changes in working capital			
Increase/decrease in inventories		-12,244	1,446
Increase/decrease in operating receivables		5,017	1,624
Increase/decrease in operating liabilities		3,798	4,875
Total changes in working capital		**-3,429**	7,945
Cash flow from operating activities		**71,962**	**28,039**
Cash flow from investment activities			
Investments in intangible assets	K15	-704	-226
Investments in tangible assets	K16	-27,732	-27,671
Investments in other financial non-current assets		-	-658
Withdrawals from associated companies		193	133
Divestment of tangible assets		420	112
Cash flow from investment activities		**-27,823**	**-28,310**
Cash flow from financing activities	K33		
Loans raised		6,030	20,220
Amortisation of loans		-24,196	-28,354
Amortisation of lease liabilities		-28,350	-
Dividends paid		-	-3,285
Cash flow from financing activities		**-46,516**	**-11,419**
Cash flow for the period		**-2,377**	**-11,690**
Cash and cash equivalents at the beginning of the period		24,081	35,656
Exchange rate difference in cash and cash equivalents		308	115
Cash and cash equivalents at the end of the period	K23	**22,012**	**24,081**

The notes on pages 55-105 constitute an integrated part of these consolidated financial statements.

Notes - Group

Note 1 General information

Railcare Group AB (publ), (”Railcare”), Reg. No. 556730–7813 is a Parent Company registered in Sweden and domiciled in Skellefteå, with the address Näsuddsvägen 10, SE-932 32 Skelleftehamn, Sweden. Railcare’s share has been listed on Nasdaq Stockholm Small Cap under the ticker ”RAIL” since April 2018. This Annual Report and consolidated financial statements have been approved by the Board of Directors for publication on 31 March 2020 and will be submitted to the Annual General Meeting on 6 May 2020 for adoption.

Unless otherwise stated, all amounts are given in SEK thousands. Disclosures in parentheses pertain to the comparison year.

NOTES - GROUP

Note K2 Summary of significant accounting principles

The most important accounting principles applied in preparing these consolidated financial statements are described below. These principles have been applied consistently to all the periods presented, unless otherwise stated.

Basis for preparation of statements

Railcare's consolidated accounts for have been prepared in accordance with the Annual Accounts Act, recommendation RFR 1 *Supplementary Accounting Rules for Groups* from the Swedish Financial Reporting Board, International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee (IFRS IC) as adopted by the EU.

The preparation of financial statements in compliance with IFRS requires the use of a number of critical accounting estimates. It also requires Group Management to exercise its judgment in the process of applying the Group’s accounting principles. The areas that involve a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are indicated in Note K4.

New and amended standards applied by the Group

In 2019, the Group applied IFRS 16 Leases for the first time. The implementation of the standard entails a certain effect on the financial statements, which is described further in Note K35.

IFRS 16 Leases
IFRS 16 Leases replaced IAS 17 Leases and associated interpretations for financial years beginning on or after 1 January 2019. The Group has applied IFRS 16 since 1 January 2019 and comparative information has not been restated.

The new standard mainly affects the lessee's accounting and generally entails all leases previously reported as operating leases being reported in a manner similar to how financial leases were previously reported - that is, both an asset (corresponding to the right of use), as well as a financial liability (corresponding to future payment commitments) are reported.

Railcare applies the simplified transition method but electing to recalculate all right-of-use assets as if the standard had been applied from starting dates of the agreements. This means that the right-of-use assets are reported as if the standard had been applied since the opening date, but discounted at the Group's marginal borrowing rate on the initial date of application, while the leasing liability consists of the discounted future cash flows from the transition to IFRS 16, which has had a minor impact on equity in the opening balance as per 1 January 2019. Comparison figures have not been recalculated. Contracts previously reported as financial leases have not been revalued, but are reported, in accordance with the previously applied accounting principles, as part of the lease liability and the right-of-use assets in connection with the transition to IFRS 16. Leases with short maturities (less than 12 months) and leases for which the underlying asset is of lower value (less than USD 5,000) will continue to be expensed on a straight-line basis over the term of the lease.

New standards and interpretations not yet applied by the Group
No IFRS or IFRIC interpretations that are not yet in force are expected to have any significant impact on the consolidated financial statements.

Consolidated financial statements

Basic accounting principles

Subsidiaries
Subsidiaries are all companies over which the Group has a controlling influence. The Group controls a company when the Group is exposed to, or has rights to, variable returns from its holdings in the company and has the ability to affect those returns through its influence over the company. Subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group. They are excluded from the consolidated financial statements from the date on which the controlling influence ceases.

The purchase method is used for reporting the Group's business combinations. The purchase consideration for the acquisition of a subsidiary is the fair value of the transferred assets, the liabilities assumed by the Group to the former owners of the acquired company and the shares issued by the Group. The consideration also includes the fair value of all liabilities that are a consequence of a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are initially valued at fair value at the acquisition date. The Group determines separately for each acquisition whether non-controlling interests in the acquired company are recognised at fair value or the holdings' proportionate share of the carrying amount of the identifiable net assets of the acquired company.

Acquisition-related costs are expensed as they arise.

Goodwill is initially valued as the amount by which the total purchase price and any fair value of non-controlling interests at the date of acquisition exceeds the fair value of identifiable net assets acquired. If the purchase price is lower than the fair value of the acquired company's net assets, the difference is recognised directly in profit and loss.

Intra-Group transactions, balance sheet items, income and expenses for intra-Group transactions are eliminated. Gains and losses resulting from intra-Group transactions and which are recognised as assets are also eliminated. Where applicable, the accounting principles of subsidiaries have been amended to guarantee a consistent application of the Group's principles.

Associated companies
Associated companies are all companies in which the Group has a significant, but not controlling influence, which generally applies to shareholdings of between 20 per cent and 50 per cent of votes. Holdings in associated companies are reported according to the equity method. According to the equity method, holdings in associated companies are initially recognised in the consolidated balance sheet at cost. The carrying amount is thereafter increased or decreased to take into account the Group's share of the profit/loss from its associated companies after the acquisition date. The Group's share of profit/loss is included in the Group's profit/loss. Dividends from associated companies are recognised as a decrease in the investment's carrying amount.

When the Group's share of the losses in an associated company is as large as or larger than the holding in this associated company (including all non-current receivables that in reality constitute a part of the Group's net investments in this associated company), the Group recognises no further losses as long as the Group has not undertaken obligations or made payments on the behalf of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated in proportion to the Group's holding in the associated company. Unrealised losses are also eliminated insofar as the transaction does not constitute an indication of impairment of the asset transferred. The accounting principles for associated companies have been adjusted if necessary to ensure agreement with the Group's accounting principles.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Railcare's Group Management, comprising the Chief Executive Officer (CEO), Chief Financial Officer (CFO), IR and Communications Manager, is the highest executive decision-making body in the Railcare Group and assesses the Group's financial position and earnings and makes strategic decisions. The company has determined the operating segments based on the data processed by Group Management and used as a basis for allocating resources and assessing earnings.

Group Management assesses the operations based on the four operating segments: *Construction Sweden, Construction Abroad, Transport Scandinavia* and *Machine Sales*. Group Management primarily uses profit after financial items in assessing consolidated earnings.

Foreign currency translation

Functional currency and presentation currency
The different units of the Group have the local currency as their functional currency, as the local currency has been defined as the currency used in the primary economic environment in which the unit mainly operates. Swedish kronor (SEK), the functional currency of the Parent Company and the presentation currency of the Group, is used in the consolidated financial statements.

Transactions and balance sheet items
Transactions in foreign currency are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Any gain or loss arising from the payment of such transactions and in the restatement of monetary assets and liabilities in foreign currencies at the rate on the balance sheet date is recognised in operating profit in the statement of comprehensive income.

Foreign exchange gains and losses relating to loans and cash and cash equivalents are recognised in the statement of comprehensive income as financial income or expenses. All other exchange rate gains and losses are recognised in the items “Other operating expenses” and “Other operating income” in the statement of comprehensive income.

Translation of foreign Group companies
The financial position and performance of all Group companies with a functional currency different than the presentation currency are translated to the Group’s presentation currency. The assets and liabilities on each balance sheet are translated from the functional currency of the foreign operation to the Group’s presentation currency, Swedish kronor (SEK), at the exchange rate prevailing on the balance sheet date. The income and expenses in each income statement are translated to Swedish kronor at the average exchange rate for the period. Translation differences arising on the translation of foreign operations are recognised in other comprehensive income.

Revenue recognition

Revenue from contracts with customers
In order for the Group to be able to recognise income from contracts with customers, each customer contract is analysed in accordance with the five-step model as per below:

Step 1: Identify a contract between at least two parties where there is a right and a commitment.
Step 2: Identify the different commitments.
Step 3: Determine the transaction price, meaning the compensation amount that the Company is expected to receive in exchange for the promised goods or services. The transaction price shall be adjusted for variable components, such as any discounts.
Step 4: Allocate the transaction price to the various performance commitments.
Step 5: Recognise an income when the performance commitments are fulfilled, meaning control has transferred to the customer. This is done at one time or over time if any of the criteria stated in the standard are met.

The Group’s income is comprised of sales of both goods and services. Sales of goods consists of sales of machinery produced in-house and spare parts for export and spare parts for locomotives and wagons via Railcare’s wagon workshops. Every separate product in the order is considered to constitute a separate performance commitment. The sale is recognised as income at the time when control of the goods is transferred, which occurs when the customer has received the machinery, test driven and approved it.

The Group’s commitment to repair or replace defective machinery according to normal warranty rules is recognised as a provision in accordance with IAS 37 and is not seen as a distinct service and is accordingly no separate performance commitment.

The sale of services consists of construction contracts involving machinery and personnel on railways within Sweden and abroad, culvert renovations, special transports and workshop services for repairs and upgrades of locomotives and wagons. Construction contracts involving machinery and personnel on railways are deemed to consist of a performance commitment since Railcare’s personnel mans the machinery. If the agreements contain several performance commitments, the transaction price is distributed to each separate performance commitment based on their standalone selling prices.

For service assignments where the transaction price is comprised of a fixed amount, mainly snow clearing services and transport assignments for iron ore, the income is recognised over time based on the degree of completion. The degree of completion is determined based on the production method that is based on the value of work done in relation to what is to be done in total.

The Group's income from most of the service assignments, such as service agreements and the letting of personnel, are on current account based on the price per hour or shift. Railcare applies the practical exception of recognising such income in an amount that the Group has a right to invoice as this corresponds to the value for the customer of the Group's performance, which has been achieved by that date. The customers are invoiced monthly.

Letting income
The Group lets personnel mainly in the form of train drivers. The contracts are on current account based on the price per hour or shift. The income is recognised to the extent that Railcare has a right to invoice.

Interest income
Interest income is recognised using the effective interest method.

Leasing

The Group is both a lessee (office premises, mobile machinery, locomotives and wagons and vehicles) and a lessor (locomotives and wagons).

Leasing income from operating leases where the Group is the lessor is recognised as income in the statement of comprehensive income straight-line over the term of the lease.

The Group's accounting principles as a lessee are presented below.

Applied principles from 1 January 2019
Railcare Group's leases predominantly involve locomotives, cars, machinery and premises. Leases are normally signed for fixed periods of one to eight years, although extension options are available, as described below. The terms are negotiated separately for each contract and include a large number of different contract terms.

From the date on which the leased assets are placed at the disposal of the Group, leases are reported as rights-of-use assets with corresponding liabilities. Each lease payment is divided between an amortisation of the liability and financial expense. The financial expenses are to be distributed over the lease period so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability recognised for the period concerned. The right-of-use asset is depreciated on a straight-line basis across the useful life of the asset or the length of the lease, whichever is shorter.

Assets and liabilities arising from leasing agreements are initially recognised at present value. As this is the first financial year in accordance with IFRS 16, the lease debt consists of the discounted future cash flows from the date of transition to IFRS 16, while all rights-of-use assets were recalculated as if the standard had been applied from the starting dates of the contracts. This means that the rights-of-use assets are reported as if the standard had been applied since the start date, although discounted by Railcare Group's marginal borrowing rate on the initial date of application.

The lease liabilities include the present value of the following lease payments:

- fixed fees
- variable lease fees, determined by an index or interest rate

The lease payments are discounted at the marginal loan rate.

The right-of-use assets are valued at cost and include the following:

- the initial valuation of the lease liability,
- payments made at or before the time at which the lease assets were made available to the lessee,

Leases of short maturity (briefer than 12 months) and leases where the underlying asset is of lesser value are expensed on a straight-line basis in the Income Statement.

Options to extend or terminate agreements
Options to extend or terminate contracts are included in the asset and the liability where it is reasonably certain that they will be used. Extension options are taken into account based on a model for agreement extensions based on the probability that agreement will be extended. Extension options are mainly included in agreements associated with premises and, in certain agreements regarding locomotives.

Comparison data included in this annual report have not been restated in accordance with IFRS 16, and leases are, instead, reported as described in the 2018 Annual Report.

Accounting principles applied in 2018 or earlier
Leases, where the lessor substantially retains the risks and rewards of ownership, are classified as operating leases (office premises). Payments made during the lease term (net of any incentives received from the lessor) are expensed in the statement of comprehensive income on a straight-line basis over the lease period.

Leases of fixed assets where the Group essentially takes all the financial risks and benefits associated with ownership are classified as finance leases (locomotives and wagons, mobile machinery and vehicles). At the beginning of the lease period, finance leases are recognised in the balance sheet at the lower of the fair value of the leased asset and the present value of the minimum lease fees. Corresponding payment obligations, less financial expenses, are included in the balance sheet items "Liability financial leasing agreements" (non-current and current). Every leasing payment is divided between interest and repayment of the debt. Interest is recognised in the statement of comprehensive income distributed over the lease period so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability recognised for the period concerned. Non-current assets held according to finance leases are depreciated over the useful life or the shorter of the asset's useful life and the leasing period, unless it can be determined with reasonable certainty that ownership is transferred to the lessee at the end of the leasing period.

Employee benefits

Current benefits
Liabilities for salaries and benefits, including non-monetary benefits and paid leave, which are expected to be settled within 12 months of the end of the financial year, are recognised as current liabilities in the undiscounted amount expected to be paid when the liabilities are settled. The expense is recognised as the services are rendered by the employees. The liability is recognised as an obligation for employee benefits in the statement of financial position.

Post-employment benefits
Group companies only have defined-contribution pension plans. A defined-contribution pension plan is a pension plan under which the Group pays fixed contributions to a separate legal entity. The Group has no legal or constructive obligations to pay additional contributions if this legal entity does not have sufficient assets to pay all employee benefits associated with the employees' service during the current or previous periods. The contributions are recognised as a cost in the profit or loss for the year at the rate they are earned by employees providing service to the Company during the period.

Current and deferred income tax

Tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except when the tax concerns items that are recognised in other comprehensive income or directly in equity. In such cases, the tax is also recognised in other comprehensive income or equity.

Current tax is calculated on the period's taxable profit according to the applicable tax rate. The current tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. The Company regularly evaluates statements made in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. When deemed appropriate, it makes provisions for amounts expected to be paid to the tax authorities.

Deferred tax is recognised on all temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Nor is deferred tax recognised if it arises as a result of a transaction that constitutes the initial recognition of an asset or liability in a business combination that, at the time of the transaction, affects neither the recognised profit or loss nor the profit or loss for tax purposes. Deferred income tax is calculated using tax rates (and legislation) that have been enacted or announced by the closing date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future tax surpluses will be available, against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority and relate to either the same taxable entity or different taxable entities where there is an intention to settle balances by net payments.

Intangible assets

Goodwill
Goodwill arises in the acquisition of subsidiaries and pertains to the amount by which the purchase consideration, any non-controlling interests in the acquired company and the fair value on the acquisition date of an earlier share of equity in the acquired company exceeds the fair value of identifiable acquired net assets. If the amount is less than fair value of the acquired subsidiary's net assets, in the event of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill has been allocated corresponds to the lowest level in the Group at which the goodwill in question is monitored for internal management. Goodwill is monitored at operating segment level.

Goodwill is impairment tested annually or more often if events or changes in circumstances indicate a possible decrease in value. The carrying amount of the cash-generating unit to which the goodwill has been attributed is compared with the recoverable amount, which is the higher of the value in use and fair value less selling expenses. Any impairment is recognised immediately as an expense and is not reversed.

Capitalised development expenditures
Costs for maintenance are expensed as they arise. Development costs, which are directly attributable to development of stability tests in the lining operations and planning tools that are controlled by the Group, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete them so they are available for use,
- the Company intends to complete them and to use or sell them,
- there are conditions to use or sell them,
- it can be demonstrated how they generate probable future economic benefits,
- adequate technical, financial and other resources to complete development and to use or sell them are available, and
- the expenses directly attributable to them during their development can be measured reliably.

Directly attributable expenses that are capitalised as part of the development work regarding stability tests in the lining operations and planning tools include costs for employees and external consultants.

Other development expenditures, which do not fulfil these criteria, are expensed when they arise. Development expenditures that were previously expensed are not reported as an asset in the ensuing period.

Capitalised development expenditures are recognised as intangible assets and amortised from the time that the asset is ready to be used.

Patents
Patents acquired separately are recognised at cost. Patents have a definable useful life and are recognised at cost less accumulated amortisation and impairment.

Transportation licence
Transportation licences acquired separately are recognised at cost. Transportation licences have a definable useful life and are recognised at cost less accumulated amortisation and impairment.

Useful lives for the Group's intangible assets

Capitalised development costs	5 years
Patents	5 years
Transportation licence	5 years

Tangible assets

Tangible assets are recognised at cost less depreciation and any impairment losses. Cost includes expenses directly attributable to the acquisition of the asset and putting it into place and in a condition to be fit for use in accordance with the intention of the acquisition.

Subsequent expenses are added to the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow to the Group and that the cost of the asset can be measured reliably. The carrying amount of a replaced part is removed from the statement of financial position. All other forms of repairs and maintenance are expensed in the statement of comprehensive income in the period in which they occur.

Depreciation is applied on a straight-line basis, less the estimated residual value, over the estimated useful life.

The useful lives are as follows:

Buildings and land:	
Land improvements	20 years
Mobile machinery:	
Chassis	20-40 years
Ploughs and cabs	30 years
Containers	16-30 years
Burners	25 years
Snow blower	25 years
Driving	13-20 years
Power packs	20 years
Conveyor belts/hydraulics	20 years
Other components	5-16 years
Locomotives and wagons:	
Chassis	8-60 years
Diesel engines	8-50 years
Generators and turbo	4-50 years
Other components	4-10 years
Vehicles	6 years
Equipment, tools, fixtures and fittings	5-10 years

The assets' residual values and useful lives are reviewed annually and adjusted if necessary.

For right of use periods for assets recognised according to IFRS 16 Leases, refer to the note with the heading Leases above.

If an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is immediately written down to its recoverable amount.

Gains and losses on the sale of tangible assets are determined by comparing the sale proceeds and the carrying amount, whereby the difference is recognised in Other operating income or Other operating expenses in the statement of comprehensive income.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life (goodwill) or intangible assets that are not ready for use (capitalised development expenditures) are not amortised, but are tested annually for impairment. Assets that are depreciated or amortised are assessed for a reduction in value whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is applied in the amount with which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and the value in use. When assessing impairment requirements, assets are grouped at the lowest level at which there are essentially independent cash flows (cash-generating units). Assets (other than goodwill) that have previously been impaired are tested on each closing date for possible reversal.

Financial instruments

A financial instrument is any form of agreement that gives rise to a financial asset at one company and a financial liability or an equity instrument at another company. Financial instruments are classified at initial recognition based in part on the purpose for which the instrument was acquired and managed. This classification determines the valuation of the instruments.

Recognition and derecognition
A financial asset or financial liability is recognised in the balance sheet when the Company becomes party to the instrument's contractual terms. Accounts receivable are taken up on the balance sheet when an invoice has been sent and the Company's right to compensation is unconditional. Liabilities are recognised when the counterparty has performed and a contractual obligation to pay exists, even if an invoice has not yet been received. Accounts payable are entered as invoices are received.

Financial assets and liabilities are offset and recognised as net amounts in the balance sheet, only when there is a legally enforceable right to offset the amounts and that there is an intention to settle the items as a net amount or to realise the asset and settle the liability. A financial asset is removed from the balance sheet when the rights in the agreement are realised, expire or the Company loses control over them. A financial liability is removed from the balance sheet when the contractual obligation has been discharged or otherwise extinguished. The same applies to parts of financial assets and financial liabilities.

Gains and losses from removal from the balance sheet and modification are recognised in profits or loss insofar as hedge accounting is not applied.

Classification and measurement of financial assets
Debt instruments: classification of financial assets as debt instruments is based on the Group's business model for management of the asset and the nature of the asset's contractual cash flows. The instruments are classified at:

- Amortised cost,
- Fair value through profit or loss, or
- Fair value through other comprehensive income

Financial assets classified at amortised cost are initially measured at fair value plus transaction expenses. After initial recognition, the assets are measured at amortised cost less a loss provision for expected credit losses. According to the business model, assets classified at amortised cost are held to collect contractual cash flows that are only payments of principal and interest on the outstanding principal.

The Group's financial assets are comprised of accounts receivable, cash and cash equivalents, other current receivables, other non-current receivables and deposits. All of them are classified at amortised cost. The Group does not apply hedge accounting.

Impairment of financial assets
The Group's impairment model is based on expected credit losses, and takes prospective information into account. A loss provision is made when there is an exposure to credit risk, usually at initial recognition of an asset or receivable. A loss provision is recognised in the simplified model for the remaining maturity period of the receivable or asset. The simplified model is applied for accounts receivable and contract assets and based on historical customer bad debts combined with prospective factors.

For other items that are comprised by expected credit losses, an impairment model with three stages is applied. Initially, and on each balance sheet date, a loss provision is recognised for the next 12 months or for a shorter period depending on the remaining duration (stage 1). The Group's assets have been deemed to be in stage 1, meaning there has been no material increase in the credit risk.

Other receivables and assets are impaired based on the likelihood of insolvency. For the credit-impaired assets and receivables, an individual assessment is done where consideration is taken to historical, current and prospective information. The valuation of expected credit losses takes into account any collateral and other credit reinforcements in the form of guarantees.

Classification and measurement of financial liabilities
The Group's financial liabilities classified as at amortised cost. Financial liabilities classified at amortised cost are initially measured at fair value including transaction expenses. After initial recognition, they are carried at amortised cost according to the effective rate method.
The Group's financial liabilities (liabilities to credit institutions, accounts payable, convertible loans and other current liabilities) are classified as at amortised cost.

Inventories

Inventory is recognised, in accordance with the first-in/first-out principle, at the lower of cost and net realisable value. The net realisable value is the estimated selling price in the operating activities less applicable variable selling expenses. The cost of work in progress consists of materials, direct wages and other direct expenses. Borrowing costs are not included.

Accounts receivable

Accounts receivable are financial instruments that consist of amounts due from customers for goods and services sold in operating activities. If payment is expected within one year or less, they are classified as current assets. Otherwise, they are recognised as non-current assets.

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment, using the effective interest rate method.

Cash and cash equivalents

In both the statement of financial position and the statement of cash flows, cash and cash equivalents include cash and bank balances.

Share capital

Ordinary shares are classified as equity. Transaction costs that can be directly attributed to the issue of new ordinary shares are recognised net after tax in equity as a deduction from the issue proceeds.

Borrowing

Borrowing is initially recognised at fair value, net of transaction expenses. Borrowing is subsequently recognised at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the borrowing period using the effective interest method.

The liability is classified as a current item in the statement of financial position if the Company does not have an unconditional right to postpone the settlement of the liability for at least 12 months after the reporting period.

Borrowing is removed from the statement of financial position when the obligations have been settled, annulled or otherwise expired. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

The composite financial instruments that the Group issued comprise convertible debentures where the holder can demand that they be converted into shares and where the number of shares to be issued is not affected by changes in the shares' fair value.

The fair value of the liability component in a convertible debenture is calculated with a discount rate that is comprised of the market interest rate for a liability with the same terms, but without the conversion right to shares. The amount is recognised as a liability at amortised cost until the liability is converted or expires. The conversion right, initially recognised as the difference between fair value of the entire composite financial instrument and the liability component's fair value. This is recognised in equity net after tax. Directly attributable transaction expenses are allocated to the liability and equity component in proportion to their initial carrying amounts.

Borrowing expenses

Borrowing costs are expensed in the period to which they refer. The Group does not have any qualified assets for which borrowing expenses shall be capitalised, i.e. assets that out of necessity take significant time to complete for the intended use or sale.

Accounts payable

Accounts payable are financial instruments and relate to obligations to pay for goods and services purchased from suppliers as part of the operating activities. These liabilities are most often paid within 30 days. Accounts payable are classified as current liabilities if they fall due within one year. Otherwise, they are recognised as non-current liabilities.

Cash flow statement

The cash flow statement is prepared using the indirect method. The recognised cash flow only includes transactions that have involved payments in or out.

Note K3 Financial risk management

Financial risk factors

The Group's activities expose it to many different financial risks: market risk (currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial results. The Group does not use derivative instruments to financially hedge certain risk exposures.

Risk management is handled by the finance department in accordance with policies approved by the Board. When necessary, the finance department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board establishes written policies both for overall risk management and specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) *Market risk*

(i) Currency risk

The Group is active within Scandinavia and the UK, and is exposed to currency risks that arise from different currency exposures, such as the British pound (GBP) and Danish krona (DKK). Currency risk arises from future business transactions, recognised assets and liabilities and net investments in foreign operations.

Currency risk arises when future business transactions are denominated in a currency that is not the functional currency of the unit. The Group's sales take place to some extent in GBP and to a lesser extent in NOK, DKK and EUR. The Group has chosen to not hedge the currency risk in these transactions.

The Group has a number of holdings in foreign operations, the net assets of which are exposed to currency risks. Currency exposure that arises from net assets in the Group's operations abroad is not material, which is why the Group has chosen to not currency hedge them.

The Group is mainly exposed to changes in the exchange rate for GBP.
If the SEK had weakened/strengthened by 1% relative to the GBP with all other variables constant, the translated profit after tax for financial years 2019 and 2018 would not have any material impact.

(ii) Interest rate risk

The Group's foremost interest rate risk arises through long-term borrowing with variable interest, which exposes the Group to interest rate risk for the cash flows. During the 2018 and 2019 financial years, the Group's borrowing was in SEK and with variable interest.

If interest rates on borrowing in SEK as of 31 December 2019 had been 50 reference points (0.5 percentage points) higher/lower, but all other variables had been constant, then profit after tax for the 2019 financial year would have been SEK 839 thousand (782) lower/higher, primarily as an effect of higher/lower interest expenses for borrowings with variable interest rates.

(b) *Credit risk*

Credit risk is the risk that the counterparty in a transaction cannot fulfil its financial contractual obligations and that possible collateral does not cover the Company's receivable. The overwhelming majority of the credit risk for Railcare pertains to receivables from customers. The majority of Railcare's sales take place to large customers with high credit ratings. The Group has historically had very low bad debt losses. This limits the Group's credit risk. Credit risk also arises when the Company places surplus liquidity with banks. These placements only take place with selected counterparties with high credit ratings.

Credit risk is managed at Group level except for credit risk regarding outstanding accounts receivable. Each Group company is responsible for examining and analysing the credit risk of each new customer before the standard terms of payment and delivery are offered.

Railcare does not have any loss provision for financial assets as the Company does not expect any losses due to unrealised payment from the counterparties described above. This assumption is based on Company Management's own assessments for the assumptions and selection of input data for the calculations of the impairment requirements. These are based on history, known market conditions and prospective calculations at the end of each reporting period.

Railcare has a receivable from Rail Test Nordic (RTN) for preliminary study work to lay a train test track between Jörn and Arvidsjaur. The receivable amounts to SEK 4.0 million and by agreement shall be paid in connection with project start. Railcare considers the receivable to be secure, but a credit risk exists nonetheless until the project start has occurred and payment has been made.

(c) *Liquidity risk*

Liquidity risk is defined as the risk of not being able to meet payment obligations on maturity without the cost for securing payment funds increasing significantly.

Group Management continually monitors forecasts for the Group's cash flows and liquidity reserve to ensure that the Group has adequate liquid funds to meet its operational requirements. At the same time, it maintains sufficient latitude in its unutilised contractual credit facilities to ensure that the Group does not breach borrowing limits or borrowing terms (where applicable) on any of the Group's loan facilities. Such forecasts take into account the Group's fulfilment of loan conditions and fulfilment of internal balance sheet-based earnings measurements.

The table below provides an analysis of the Group's non-derivative financial liabilities, distributed by the contractual time to maturity at the balance sheet date. The amounts presented in the table are the contractual, undiscounted cash flows.

As per 31 December 2019	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Convertible loans		5,000			
Liabilities to credit institutions	6,956	43,446	40,393	65,102	1,243
Lease liability	9,101	25,974	11,512	8,928	764
Accounts payable	24,537				
Other liabilities	4,475				
Total	**45,070**	**74,202**	**51,905**	**74,030**	**2,007**

As per 31 December 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Convertible loans			5,000		
Liabilities to credit institutions	8,891	39,280	35,647	62,667	28,820
Liability financial leasing agreements	1,300	4,442	10,699	4,157	0
Accounts payable	26,551				
Other liabilities	4,462				
Total	**41,204**	**43,722**	**51,346**	**66,824**	**28,820**

Capital management

The Group's objective with regard to the capital structure is to safeguard the Group's ability to continue its operations so it can continue to generate a return for its shareholders and benefits for other stakeholders and to maintain an optimum capital structure in order to keep capital costs down.

In order to maintain or adjust the capital structure, the Group can change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

In the same way as other companies in the industry, the Group assesses the capital on the basis of the equity/assets ratio. This key ratio is calculated as equity divided by total assets.

During the 2019 financial year, the Group's strategy, which was unchanged compared with the previous financial year, was to maintain an equity/assets ratio of at least 25 per cent. The equity/assets ratio was 33.5 per cent (32.3) at year-end 2019. Without the IFRS 16 effect, the equity/assets ratio amounted to 36.9 per cent.

Note K4 Critical accounting estimates and assessments

The preparation of financial statements in compliance with IFRS requires the use of certain key estimates for accounting purposes. The Company is also required to make certain judgments in applying the accounting principles. These estimates and assessments affect asset and liability items recognised in the statements and income and expense items as well as information provided otherwise.

Estimates and assessments are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the current circumstances. Conclusions drawn form the basis for the determinations regarding carrying amounts of assets and liabilities in the cases that they cannot be determined easily through information from other sources. Actual outcomes can differ from these estimates if other assumptions are made or other circumstances exist. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are presented below.

Useful life
The useful life of the Group's non-current assets, mainly for locomotives and wagons, is assessed based on the assets' assessed remaining useful lives. Supplementary investments have an assessed useful life based on the respective main unit's remaining assessed useful life.

Lease length
When the lease's length is determined, all available information is taken into account that provides a financial incentive to use an extension option, or to not use an option to terminate an agreement. Extension options are mainly included in agreements associated with premises and, in certain agreements regarding locomotives. The factors that are most material in the determination of the length of the lease is how important the asset is to be able to conduct the Group's operations, and the expenses and disruptions to operations that would be required to replace the leased asset.

Additional expenses
Capitalisation shall take place of expenditures for measures that likely entail a financial benefit in the future and if the asset's cost can be reliably calculated. Future financial benefit arises if a measure leads to the Group being able to obtain larger income or another benefit than would have been received if the measure had not been implemented.

Other expenses for maintenance are recognised as expenses in the income statement in the period in which they are incurred.

Goodwill
Goodwill has an indefinite useful life. This means that no annual amortisation is done; annual impairment testing is done instead. No impairment requirements were identified; also refer to Note K15.

Note K5 Segment information and income from contracts with customers

Description of the segments and their principal activities:

Railcare's Group Management, comprising the Chief Executive Officer (CEO), the Deputy CEO, the Chief Financial Officer (CFO), the IR and Communications Manager, is the highest executive decision-making body in the Railcare Group and assesses the Group's financial position and earnings and makes strategic decisions. The company has determined the operating segments based on the data processed by Group Management and used as a basis for allocating resources and assessing earnings.

Group Management has identified four reportable segments in the Group's operations:

Construction Sweden
Railway construction work involving machinery and personnel and renovation of glass-fibre lined culverts beneath railways, roads and industrial areas in Sweden.

Construction Abroad

Railway construction work involving machinery and personnel in countries other than Sweden, currently predominantly in the UK.

Transport Scandinavia
Special transports involving locomotives, wagons and personnel, as well as repair and upgrading services for locomotives and wagons performed in workshops.

Machine Sales
Sales of machines primarily outside Sweden, as well as marketing focused on new areas in which Railcare's construction services can be implemented.

The Group common item is used for reconciliation purposes and includes Group Management and other Group common services.

Although the Machine Sales segment does not meet the quantitative limits required for segments for which information is to be disclosed in accordance with IFRS 8, company management has determined that this segment should nonetheless be reported as it is monitored closely by Group Management as a possible area of growth and is expected to contribute significantly to consolidate income in the future.

Group Management primarily uses profit after financial items in assessing consolidated earnings.

Income

Sales between segments are conducted on market terms. Income from external customers reported to Group Management is valued in the same way as in the Consolidated statement of comprehensive income.

	Jan-Dec 2019			Jan-Dec 2018		
	Segment income	**Sales between segments**	**Income from external customers**	**Segment income**	**Sales between segments**	**Income from external customers**
Construction Sweden	171,104	16,988	154,113	144,473	14,665	129,807
Construction Abroad	67,932	9,183	58,749	49,631	10,431	39,200
Transport Scandinavia	158,027	16,793	141,232	114,057	17,873	96,184
Machine Sales	18,956	4,040	14,916	7,429	4,064	3,365
Group common	27,620	26,020	1,600	23,191	21,600	1,591
Total	**443,639**	**73,025**	**370,610**	**338,781**	**68,634**	**270,147**

Loss after financial items

	Jan-Dec 2019	Jan-Dec 2018
Construction Sweden	21,841	21,697
Construction Abroad	-1,084	-12,851
Transport Scandinavia	5,393	-4,124
Machine Sales	686	-993
Group common	-616	-7,520
Total	**26,220**	**-3,791**

Profit/loss after financial items for the Group's operating segments are reconciled against consolidated profit/loss before tax in accordance with the following:

Loss after financial items	26,220	-3,791
Share of profit after tax from associated companies reported according to the equity method	284	184
Profit/loss before tax	**26,504**	**-3,607**

Other profit/loss information

Segment	Income from services Jan-Dec 2019	Income from services Jan-Dec 2018	Sales of goods Jan-Dec 2019	Sales of goods Jan-Dec 2018	Leasing Jan-Dec 2019	Leasing Jan-Dec 2018	Total Jan-Dec 2019	Total Jan-Dec 2018
Construction Sweden	154,113	129,807	–	–	–	–	154,113	129,807
Construction Abroad	58,511	37,682	–	–	238	1,517	58,749	39,199
Transport Scandinavia	118,566	74,276	7,355	5,815	15,311	16,093	141,232	96,184
Machine Sales	877	–	14,039	3,365	–	–	14,916	3,365
Group common	1,600	1,591	–	–	–	–	1,600	1,591
	333,667	**243,356**	**21,394**	**9,180**	**15,549**	**17,610**	**370,610**	**270,147**

	Depreciation Jan-Dec 2019	Depreciation Jan-Dec 2018	Interest income Jan-Dec 2019	Interest income Jan-Dec 2018	Interest expenses Jan-Dec 2019	Interest expenses Jan-Dec 2018
Construction Sweden	-16,069	-12,169	–	–	-2,478	-2,583
Construction Abroad	-2,683	-1,661	–	–	-352	-81
Transport Scandinavia	-27,131	-9,662	–	–	-2,527	-1,913
Machine Sales	-598	-118	6	–	-104	-36
Group common	-3,176	-486	–	–	-302	-648
Total	**-49,657**	**-24,096**	**6**	–	**-5,763**	**-5,261**

Depreciation and interest expenses for 2019 increased due to the Group applying IFRS 16 Leases from 1 January 2019. The comparative figures for 2018 have not been restated. For further information on how the accounts were affected by the introduction of IFRS 16 Leases, see Note K35.

Group-wide information

Income from external customers by country, based on customer location:

	Jan-Dec 2019	Jan-Dec 2018
Sweden	295,471	209,551
Denmark	238	1,361
Norway	17,617	22,561
UK	54,979	32,915
Other	2,305	3,759
Total	**370,610**	**270,147**

Non-current assets, other than financial instruments*, are distributed by country as follows:

	Jan-Dec 2019	Jan-Dec 2018
Sweden	364,703	322,966
Denmark	11,545	10,922
UK	1,810	284
Total	**378,059**	**334,172**

*) There are no assets in connection with benefits after concluded employment or rights according to insurance agreements.

The Group's customers are both private and public players in the railway industry and vary according to area of operations. The Group's customers are largely recurring and its customer relationships are long term. Most of the Group's income derives from the three segments Construction Sweden, Construction Abroad and Transport Scandinavia.

The five largest customers in the Group account for a large part of the Group's income, SEK 278,505 thousand (166,548).

Outstanding non-current construction contracts
The combined amount of the transaction price allocated to non-current construction contracts that are unfulfilled or partially unfulfilled at 31 December 2019 is SEK 0 thousand (48,971).

All other agreements for construction contracts have an original expected maturity of no more than one year or are invoiced based on time spent. In accordance with the rules in IFRS 15, information has not been provided regarding the transaction price for these unfulfilled commitments. For further information on the Group's performance commitments, see the accounting principles in Note K2.

Note K6 Other operating income

	Jan-Dec 2019	Jan-Dec 2018
Profit from sales of machinery/equipment	390	20
Foreign exchange gains	669	950
Recovered bad debts		195
Other income	715	39
Total	**1,775**	**1,204**

Note K7 Other operating expenses

	Jan-Dec 2019	Jan-Dec 2018
Loss from sales of machinery/equipment	-48	-25
Foreign exchange losses	-1,162	-892
Total	**-1,210**	**-918**

Note K8 Employee benefits, etc.

Salaries, other remuneration and social security contributions	**Jan-Dec 2019**	**Jan-Dec 2018**
Salaries and other benefits	79,246	74,795
of which CEO and other senior executives	5,923	6,334
Pension expenses – defined contribution plans	8,733	7,549
of which CEO and other senior executives	1,074	676
Other social security expenses	26,475	24,325
of which CEO and other senior executives	1,469	1,320

Average number of employees with geographic distribution by country

	Jan-Dec 2019		Jan-Dec 2018	
	Average number of employees	**Of which men**	**Average number of employees**	**Of which men**
Sweden	118	105	119	106
UK	3	2	4	2
Denmark	-	-	–	–
Group total	121	107	123	108

Gender distribution in the Group for Board members and other senior executives

The Board of Directors of the Parent Company consists of six members, two of whom are women. Group Management consists of four people (five), one of whom is a woman (one). The subsidiaries' Boards consist of three to four people, none of whom are women.

Remuneration of senior executives

Senior executives refer to Group Management. This includes Daniel Öholm (CEO), Ulf Marklund (Deputy CEO), Mikael Forsfjäll (CFO), Sofie Dåversjö (IR and Communications Manager). Ulf Marklund is engaged on a consulting basis. In 2018, Anders Antonsson (IR Manager) was a member of Group Management, and he too was engaged on a consulting basis. More information about transactions with related parties can be found in Note K31.

Only fixed remuneration is provided to employed senior executives and the distribution of this is presented below.

Remuneration and other benefits during the year 2019

	Fixed salary	Other benefits	Consulting fee	Total salaries and remuneration
Daniel Öholm, President and CEO	1,755	77	-	1,833
Other senior executives	1,411	77	1,935	3,422
Group total	**3,166**	**154**	**1,935**	**5,255**

Remuneration and other benefits during the year 2018

	Fixed salary	Other benefits	Consulting fee	Total salaries and remuneration
Daniel Öholm, President and CEO	1,556	75	–	1,631
Other senior executives	1,376	71	2,802	4,249
Group total	**2,932**	**146**	**2,802**	**5,880**

Other benefits refer to a company car.

Fees to Board members in the Parent Company

	Jan-Dec 2019			Jan-Dec 2018		
	Board fees	Consulting fee	Total	Board fees	Consulting fee	Total
Catharina Elmsäter Svärd (Chair)	200		200	200		200
Anna Weiner Jiffer	100		100	100		100
Lars Stenlund	-		-	100		100
Adam Ådin	100		100	100		100
Anders Westermark	100		100	100		100
Ulf Marklund (Deputy CEO)	-	1,935	1,935	-	1,800	1,800
Björn Östlund	100		100	-		-
Total	**600**	**1,935**	**2,535**	**600**	**1,800**	**2,400**

Guidelines

Remuneration is payable to the Chairman of the Board and the Board members according to the General Meeting's resolution: SEK 200,000 to the Chairman of the Board and SEK 100,000 each to the other Board members. For Board members who receive salary in the form of employment in a Group company, no Board fees are paid.

The General Meeting decided on the guidelines regarding remuneration of management. The guidelines for remuneration and other terms of employment essentially entail that the company shall offer its senior executives market-based remuneration, with the criteria accordingly being the responsibilities, role, skills and position of the senior executive. The guidelines also apply to Board Members to the extent that they receive remuneration for services performed for the Group in addition to their board assignments.

Senior executives may be offered variable salary at any time. Variable salary shall have an outcome ceiling. To avoid unsound risk-taking, there shall be a fundamental balance between fixed and variable salary. The fixed salaries shall make up a sufficiently large portion of the senior executives' total remuneration to make it possible to set the variable portion to zero. The basic principle is that the variable salary component per year shall amount to a maximum of 20 per cent of the fixed annual salary.

Senior executives are entitled to market-based pension solutions in relation to the situation in the country in which the senior executives permanently reside. All pension commitments shall be defined contribution. Variable salary shall as a main rule be pensionable salary.

Other benefits, such as a company car, extra healthcare insurance or occupational health services, shall be limited in value in relation to other remuneration and be able to be provided insofar as it is deemed to be market based for senior executives in equivalent positions in the current labour market.

The period of notice by the Company shall be a maximum of 12 months for the CEO and a maximum of six months for other senior executives. The period of notice by the CEO shall be a minimum of 12 months and for other senior executives a minimum of six months. In addition to the period of notice, severance pay may also be payable in an amount of no more than 12 months' salary and employment benefits for the CEO.

Defined-contribution pension

The Group only has defined-contribution pension plans. The pension expense refers to the cost affecting the profit for the year.

The pensionable age for the CEO is 65 years. The pension premium is to amount to 35 per cent of the pensionable salary. Pensionable salary refers to the fixed monthly salary adjusted upwards by a factor of 12.2. For other senior executives, the pensionable age is 65 and the pension premium is determined from a premium ladder depending on age. For salaries up to 7.5 price base amounts (PBA), the pension premium shall amount to 5.5-6.5 per cent of the pensionable salary, and for salaries between 7.5 and 30 PBA, the pension premium shall amount to 20-30 per cent of the pensionable salary.

Severance pay

A mutual notice period of 12 months applies between the company and the CEO. On termination by the company, severance pay is disbursed amounting to 12 months' salary. Other income is not deductible from this severance pay. On the resignation of the CEO, no severance pay is disbursed.

A mutual notice period of six months applies between the company and other senior executives.

Note K9 Auditor's remuneration

	Jan-Dec 2019	Jan-Dec 2018
Ernst & Young		
– Auditing assignment	633	738
– Other services	53	13
Total	**686**	**751**
Kallerman Revision A/S		
– Auditing assignment	58	61
– Other services	66	50
Total	**123**	**111**
Burrows Scarborough		
– Auditing assignment	68	-
– Other services	11	-
Total	**79**	-
Dains		
– Auditing assignment		88
– Other services	7	2
Total	**7**	**90**
Total	**817**	**952**

Note K10 Leases

Lessee

Disclosures for the 2019 financial year

In the statement of financial position, the following amounts are presented related to leases:

Right of use assets	Balance per 31/12/2019	Of which right of use asset
Buildings and land	30,790	24,482
Locomotives and wagons	129,169	25,983
Mobile machinery	165,405	2,456
Vehicles	7,604	7,514
Equipment, tools, fixtures and fittings	5,545	52
Total	**338,513**	**60,487**

Lease liabilities	31/12/2019
Non-current	24,712
Current	31,567
Total	**56,279**

Additional rights of use (ROUs) during 2019 totalled SEK 23,858 thousand.

In the Consolidated Statement of Comprehensive Income, the following amounts are reported pertaining to leases.

	Jan-Dec 2019
Depreciation, amortisation and impairment of tangible and intangible assets	
Depreciation of Buildings and land	7,217
Depreciation of Locomotives and wagons	17,366
Depreciation of Mobile machinery	376
Depreciation of Vehicles	2,447
Depreciation of Equipment, tools, fixtures and fittings	73
Total	**27,478**
Other external costs	
Expenses attributable to short-term leases	3,597
Expenses attributable to leases for which the underlying asset is of low value, which are not short-term leases	955
Expenses attributable to variable leasing payments that are not included in lease liabilities	3,726
Financial expenses	
Interest expenses	**1,761**

The total cash outflow for leases in 2019 amounted to SEK 37,452 thousand.

Disclosures for the 2018 financial year

Operating leases
The Group leases premises, locomotives and office equipment according to what was previously defined as interminable operating leases. The lease terms vary from 1 to 8 years. Most of the leases can be extended at the end of the term of the lease for a fee at the market rate.

Future total minimum leasing fees for interminable operating leases are as follows:

	31/12/2018
Within 1 year	19,789
Between 1 and 5 years	31,896
More than 5 years	365
Total	**52,049**

Expensed lease fees during 2018 amounted to SEK 7,082 thousand and are included in the item Other external expenses in the statement of comprehensive income.

The largest agreement in terms of premises relates to Railcare's head office in Skelleftehamn, where the Company leases both office and workshop premises. The lease period is 8 years and expires in 2023. In 2018, the Group signed an agreement for four locomotives, which are used in the large iron ore transport assignment. The agreement has a duration of five years, but there is a possibility for Railcare to cancel two of the locomotives with six months' notice and the other two locomotives can be cancelled with 12 months' notice after no less than two years. Minimum lease fees for the shortest possible time have been included in the table above.

Lessor

The Group lets locomotives and wagons under interminable operating leases. The leasing term amounts to 3 to 5 years. The leases can be extended at the end of the term of the lease for a fee at the market rate.

Future total minimum leasing fees for interminable operating leases are as follows:

	31/12/2019	31/12/2018
Within 1 year	6,555	6,949
Between 1 and 5 years	5,895	11,680
More than 5 years		-
Total	**12,450**	**18,629**

Rental income during 2019 totalled SEK 9,610 thousand. Combined variable fees recognised as income amount to SEK 463 thousand (0).

The largest least where the Group is the lessor pertains to two locomotives of model Vossloh Euro4000 T68. The original agreement was signed in 2012 and extended with options until 2018. A new agreement was signed and began to apply on 1 January 2019. The new agreement comprises three years, with a possibility of extension of a maximum of four years thereafter. Minimum lease fees for the agreed years were included in the table above, without the possible extension.

Note K11 Financial income and expenses

	Jan-Dec 2019	Jan-Dec 2018
Foreign exchange gains	6	29
Total financial income	**6**	**29**
Interest expenses on:		
- liabilities to credit institutions	-3,514	-3,364
- convertible loans	-318	-601
- lease liabilities	-1,761	-
- liabilities for finance leases		-1,296
Foreign exchange losses	-65	-22
Other financial expenses	-104	-80
Total financial expenses	**-5,763**	**-5,363**
Net financial items	**-5,757**	**-5,334**

The above items pertain to assets and liabilities measured at amortised cost according to IFRS 9 except lease liabilities that are measured in accordance with IFRS 16.

Note K12 Exchange rate differences – net

	Jan-Dec 2019	Jan-Dec 2018
Other operating income (Note K6)	669	950
Other operating expenses (Note K7)	-1,158	-892
Net financial items (Note K11)	-59	8
Exchange-rate differences – net	**-548**	**66**

Above items originate from financial instruments.

Note K13 Income tax

	Jan-Dec 2019	Jan-Dec 2018
Current tax:		
Current tax on net profit/loss for the year	-1,494	-1,636
Adjustments for previous years	14	-
Total current tax	**-1,480**	**-1,636**
Deferred tax (Note K26)		
Occurrence and reversal of temporary differences	-4,264	3,824
Total deferred tax	**-4,264**	**3,824**
Total income tax	**-5,744**	**2,188**

The income tax on pre-tax profit differs from the theoretical amount that would have been produced from the use of the tax rate in Sweden for profit at the consolidated companies as described below:

	Jan-Dec 2019	Jan-Dec 2018
Profit/loss before tax	26,509	-3,607
Income tax calculated in accordance with tax rate in Sweden, 21.4% (22%)	-5,673	794
Revaluation of taxes due to changes in tax rates*	-	1,679
Effect of foreign tax rates	-73	-9
Non-deductible expenses	-275	-407
Remeasurement of deferred tax	202	91
Adjustments for previous years	14	-
Share of profit/loss from associated companies	61	40
Tax expense	**-5,744**	**2,188**

The weighted average tax rate for the Group was 21.7 per cent (60.7).

*) In June 2018, it was decided that the tax rate for corporate tax in Sweden will be reduced. The change will take place in two steps; for financial years beginning on or after 1 January 2019, the corporate tax rate is 21.4 per cent and from financial years beginning on or after 1 January 2021, the corporate tax rate is 20.6 per cent.

The Group's deferred tax relates largely to untaxed reserves, which are not expected to be reversed until the lower tax rate enters into effect at the earliest. Recognised amounts for deferred tax have therefore been restated using the tax rate of 20.6 per cent. The effect of the changed tax rate has been presented in the item income tax in the income statement.

Note K14 Earnings per share

Earnings measurements used in the calculation of earnings per share	Jan-Dec 2019	Jan-Dec 2018
Earnings per share before dilution		
Profit attributable to Parent Company shareholders:	20,766	-1,419
Earnings per share after dilution		
Profit attributable to Parent Company shareholders:		
- Used in the calculation of earnings before dilution	20,766	-1,419
- Interest expense for convertible debentures	250	468
Profit attributable to Parent Company shareholders was used in the calculation of earnings per share after dilution	**21,016**	**-951**

Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in calculating earnings per share after dilution (thousands)	23,013	22,033
Adjustments for calculation of earnings per share after dilution:		
Convertible debentures	1,111	1,111
Weighted average number of ordinary shares and potential ordinary shares were used as the denominator in the calculation of earnings per share after dilution	**24,124**	**23,144**

In November 2018, 1,111,111 new shares were issued through conversion of debentures. The conversion affects the calculation of the weighted average number of ordinary shares and potential ordinary shares as per above.

Before dilution
Earnings per share before dilution is calculated by dividing the profit attributable to the Parent Company's shareholders by a weighted average number of ordinary shares outstanding during the period.

After dilution
To calculate earnings per share after dilution, the weighted average number of ordinary shares outstanding is adjusted for the dilution effect of all potential ordinary shares. The Parent Company has a category of potential common shares with a dilution effect: convertible debentures. The convertible debentures are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate interest expenses less the tax effect. Convertible debentures do not give rise to a dilution effect when the interest per ordinary share that may be received on conversion exceeds earnings per share before dilution.

Note K15 Intangible assets

	Capitalised development costs	Patents	Goodwill	Transportation licences	Total
Financial year 2018					
Opening carrying amount	**3,194**	**449**	**3,681**	**822**	**8,146**
Exchange rate differences			115		115
Purchases/activated expenses for the year		226			226
Depreciation	-692	-174		-138	-1,004
Closing carrying amount	**2,502**	**501**	**3,796**	**684**	7,483
As per 31 December 2018					
Cost	3,464	1,096	8,851	1,534	14,945
Accumulated amortisation and impairment	-962	-595	-5,055	-850	-7,462
Carrying amount	**2,502**	**501**	**3,796**	**684**	**7,483**
Financial year 2019					
Opening carrying amount	**2,502**	**501**	**3,796**	**684**	**7,483**
Exchange rate differences			-242	0	-242
Purchases/activated expenses for the year	663	41			704
Disposals and scrappings		-48			-48
Depreciation	-693	-117	0	-137	-946
Closing carrying amount	**2,471**	**377**	**3,554**	**547**	**6,949**
As per 31 December 2019					
Cost	4,127	1,040	8,609	1,537	15,313
Accumulated amortisation and impairment	-1,655	-663	-5,055	-990	-8,362
Carrying amount	**2,471**	**377**	**3,554**	**547**	**6,949**

Impairment testing of goodwill

Goodwill has an indefinite useful life. This means that no annual amortisation is done; annual impairment testing is done instead. The following is a compilation of goodwill broken down by cash-generating unit:

Goodwill	31/12/2019	31/12/2018
Railcare T AB, Segment Transport Scandinavia	2,546	2,546
Railcare Danmark A/S, Segment Entreprenad Abroad	1,008	1,250
Total	**3,554**	**3,796**

The recoverable amount for goodwill, which has an indefinite useful life, has been determined by calculating the value in use. These calculations are based on estimated future cash flows after tax based on financial budgets that cover a 3-year period. Cash flows beyond the 3-year period are extrapolated using an estimated rate of growth as explained below. The rate of growth does not exceed the long-term rate of growth for the market in which the Group operates. The foremost assumptions, besides those below, pertain to volume growth, margins and investment requirements. The calculation is based on the operating management's experience and historical data.

Significant assumptions in the calculation: long-term growth rate 2 per cent (2), discount interest rate 6 per cent (7). In the calculation, the same assumptions were made for both of the units and for both years, except for a lower discount rate in 2019.

An implemented impairment testing of goodwill shows that no impairment requirement exists.

Sensitivity analyses of the calculation of the value in use in connection with the impairment assessment were done where the sales growth was reduced by 2 percentage points in the forecast period, the operating margin was reduced by 2 percentage points, the discount rate was raised by 2 percentage points and long-term growth was reduced by 2 percentage points. The sensitivity analyses showed that none of the adjustments individually generate an impairment requirement for any of the cash-generating units.

Note K16 Tangible assets

	Buildings and land	Locomotives and wagons	Mobile machinery	Vehicles	Equipment, tools, fixtures and fittings	Construction in progress	Total
Financial year 2018							
Opening carrying amount	6,056	115,447	130,227	9,110	5,053	50,512	316,405
Exchange rate differences		97	201	4	-6		296
Purchases/activated expenses for the year	39	5,738	3,158	5,900	1,352	19,331	35,518
Reclassifications	-365		38,622			-38,257	0
Disposals and scrappings		-456		-2,454	-132		-3,042
Depreciation	-196	-9,053	-10,691	-2,261	-882		-23,083
Closing carrying amount	**5,534**	**111,773**	**161,517**	**10,299**	**5,385**	**31,586**	**326,094**
As per 31 December 2018							
Cost	6,474	188,904	220,552	14,406	8,651	31,586	470,573
Accumulated depreciation	-940	-77,131	-59,035	-4,107	-3,266	0	-144,479
Carrying amount	**5,534**	**111,773**	**161,517**	**10,299**	**5,385**	**31,586**	**326,094**
Financial year 2019							
Opening carrying amount	5,534	111,773	161,517	10,299	5,385	31,586	326,094
Adjustment on transition to IFRS 16	15,946	27,223	0	0	66	0	43,235
Exchange rate differences	253	59	70	53	39	0	474
Purchases/activated expenses for the year	15,500	7,202	1,467	1,215	1,465	25,224	52,073
Reclassifications	970	8,315	15,283	-213	-347	-24,898	-890
Disposals and scrappings	0	0	-624	-1,199	-30	0	-1,853
Depreciation	-7,413	-25,403	-12,308	-2,551	-1,033	0	-48,708
Closing carrying amount	**30,790**	**129,169**	**165,405**	**7,604**	**5,545**	**31,912**	**370,425**
As per 31 December 2019							
Cost	37,247	227,521	230,043	11,787	7,343	31,912	545,853
Accumulated depreciation	-6,457	-98,352	-64,638	-4,183	-1,798		-175,428
Carrying amount	**30,790**	**129,169**	**165,405**	**7,604**	**5,545**	**31,912**	**370,425**

Tangible assets are recognised at cost less depreciation and any impairment losses. To ensure that there are no impairment requirements, an impairment test is done for the respective cash-generating unit every year. These calculations are based on estimated future cash flows after tax based on financial budgets that cover a 3-year period. Cash flows beyond the 3-year period are extrapolated using an estimated rate of growth as explained below. The rate of growth does not exceed the long-term rate of growth for the market in which the Group operates. The foremost assumptions, besides those below, pertain to volume growth, margins and investment requirements. The calculation is based on the operating management's experience and historical data.

Significant assumptions in the calculation: long-term growth rate 2 per cent (2), discount interest rate 6 per cent (7). In the calculation, the same assumptions were made for all of the cash-generating units and for both years, except for a lower discount rate in 2019.

An implemented impairment testing of tangible assets shows that no impairment requirement exists.

For information on leases for the 2019 financial year, refer to Note K10. From 1 January 2019, leased assets are recognised s Right of use assets; see Note K35 for information on changed accounting principles.

Information only for the 2018 financial year

The Group leases certain tangible assets through finance leases. There are primarily two large finance leases in the Group. The one pertains to a mobile machine and the other locomotives and wagons. Other finance leases pertain mainly to vehicles. These leases expire in 1-5 years and their carrying amounts amount to SEK 21,876 thousand (21,945).

According to the terms in the leases, the Group has a possibility to either extent the contract for mobile machinery by one year at a time or acquire the mobile machinery at market price, although no less than the booked residual value. Locomotives and wagons shall according to the contract be redeemed at a guaranteed residual value after the end of the term.

The item locomotives and wagons includes locomotives and wagons held by the Group under finance leases in the following amounts:

	31/12/2018
Cost	20,210
Accumulated depreciation	-11,170
Carrying amount	**9,040**

The item mobile machinery includes vacuum suctions held by the Group under finance leases in the following amounts:	31/12/2018
Cost	4,400
Accumulated depreciation	-1,666
Carrying amount	**2,734**

The item vehicles includes vehicles held by the Group under finance leases in the following amounts:

	31/12/2018
Cost	13,795
Accumulated depreciation	-3,693
Carrying amount	**10,102**

Note K17 Participations in associated companies

The Group holds participations in one associated company that the Board does not deem to be material for the Group at 31 December 2019. The holding has been recognised according to the equity method and the participating interest is the same as the proportion of votes.

			Participating interest (%)	
Company name	**Corp. ID no.**	**Domicile**	**31/12/2019**	**31/12/2018**
Atumo AB	556670-3962	Skelleftehamn	40	40

	31/12/2019	31/12/2018
Carrying amount in Group	685	595
Carrying amount in Parent Company	204	204
Amounts for Group's share of:		
Profit/loss	284	184
Other comprehensive income	-	-
Total comprehensive income	284	184

Atumo AB is a consulting firm active within the railway industry. Its services consist, for example, of safety specialists, construction management, document management and studies.

Railcare Group AB has provided a general guarantor commitment with credit institutions for Atumo AB, limited to SEK 500 thousand.

Note K18 Financial instruments by category

The table below presents the Group's financial assets and liabilities, taken up at the carrying amount or fair value, classified into the categories according to IFRS 9. For current and non-current receivables and liabilities, the carrying amount is considered to constitute a reasonable estimate of the fair value whereby these values agree in the table below. Information on fair value for financial lease liabilities is not provided in accordance with IFRS 7.

Measurement of financial assets and liabilities measured at amortised cost

Financial assets	31/12/2019	31/12/2018
Accounts receivable	15,929	20,172
Other current receivables	3,175	2,772
Other non-current receivables	3,954	3,954
Deposits	658	658
Cash and cash equivalents	22,011	24,081
Total	**45,727**	**51,637**

Financial liabilities	31/12/2019	31/12/2018
Liabilities to credit institutions	106,979	127,135
Convertible loans	4,782	4,563
Non-current liability finance leases	–	14,856
Current liability finance leases	–	5,742
Current liabilities to credit institutions	50,162	48,171
Accounts payable	24,538	26,551
Other current liabilities	4,475	4,462
Total	**190,935**	**231,480**

In addition to the financial instruments stated in the tables above, the Group has financial liabilities in the form of lease liabilities, which are recognised and measured in accordance with IFRS 16.

Note K19 Accounts receivable

	31/12/2019	31/12/2018
Accounts receivable	15,929	20,172
Less: Provision for doubtful receivables	–	–
Accounts receivable – net	**15,929**	**20,172**

The fair value of accounts receivable corresponds to their carrying amounts since the discount effect is not material.

At 31 December 2019, satisfactory accounts receivable amounted to SEK 15,929 thousand (20,172) for the Group.

At 31 December 2019, overdue accounts receivable amounted to SEK 6,025 thousand (5,364), but the Group determined that no indicators of impairment were present. The overdue receivables pertain to a number of customers that have not previously had any payment difficulties. The Group's accounting principles for impairment losses and calculations of the provision for doubtful receivables are described in Note K3 (b).

The age analysis of these accounts receivable is shown below:

	31/12/2019	31/12/2018
1-30 days	4,945	4,566
31-60	571	363
> 61 days	508	435
Total overdue accounts receivable	**6,025**	**5,364**

Expected credit losses, simplified method

Receivables mainly comprise accounts receivable for which the Group has chosen to apply the simplified method for recognition of expected credit losses. This means that provisions are made for expected credit losses for the remaining duration, which is expected to be less than one year for all receivables. The Group makes provisions for expected credit losses based on historical credit losses and prospective information. The majority of the Group's customers comprise a homogeneous group with similar risk profiles, which is why the credit risk is initially assessed collectively for all customers. Any large individual receivables are assessed per counterparty. The Group writes off a receivable when there is no longer an expectation of obtaining payment and when active measures for obtaining payment have been concluded.

Expected credit losses, general method

The financial assets covered by provisions for expected credit losses according to the general method are comprised of cash and cash equivalents. Railcare applies a rating-based method combined with other known information and prospective factors for the assessment of expected credit losses. The Group has defined default as when payment of the receivable is 90 days late or more, or if other factors that indicate that suspension of payments exists. In the cases the amounts are not deemed to be immaterial, a provision for expected credit losses is also recognised for these financial instruments. At present, the Group has deemed that no credit losses exist for cash and cash equivalents.

Accounts receivable are classified in the simplified method in the category Without credit risk rating/accounts receivable, and cash and cash equivalents are classified in the general method as Stage 1 with credit risk rating of A+.

Recognised amounts, per currency, for the Group's accounts receivable are as follows:

	31/12/2019	**31/12/2018**
SEK	12,422	17,627
DKK	-	268
NOK	596	511
GBP	2,900	1,303
USD	9	462
Total	**15,929**	**20,172**

Note K20 Inventories

Product costs are included in the item Raw materials and consumables in the statement of comprehensive income and amount to SEK 30,610 thousand (14,631).

Note K21 Other current receivables

	31/12/2019	**31/12/2018**
VAT receivables	3,307	4,475
Deduction taxes and social security contributions	293	1,024
Other receivables	3,175	2,772
Total	**6,775**	**8,271**

Note K22 Prepaid expenses and accrued income

	31/12/2019	**31/12/2018**
Accrued income	4,133	2,132
Prepaid leasing rents	697	2,307
Prepaid rent for premises	221	2,372
Prepaid insurance policies	1,105	655
Other items	1,206	2,718
Total	**7,362**	**10,184**

Note K23 Cash and cash equivalents

Cash and cash equivalents, both on the balance sheet and in the cash flow statement, consist of:

	31/12/2019	31/12/2018
Bank balances	21,849	23,919
Restricted bank funds	162	162
Total	**22,011**	**24,081**

Note K24 Equity

Share capital

In November 2018, convertible holder Norrlandsfonden requested conversion of SEK 5,000 thousand of its total holding of SEK 10,000 thousand. The conversion means that 1,111,111 new shares were issued whereby the number of shares increased to 23,013,056 ordinary shares and share capital increased by SEK 456 thousand.

The shares entitle the holder to one vote per share. All shares issued by the Parent Company are fully paid.

Other capital provided
This item consists of premiums upon a new share issue, shareholders' contributions and equity components of convertible loans net after tax. The conversion that occurred in November 2018 meant that Other capital provided increased by SEK 4,185 thousand.

Reserves
This item consists of exchange-rate differences in the translation of foreign subsidiaries.

Note K25 Borrowing

	31/12/2019	31/12/2018
Non-current		
Convertible loans	–	4,563
Liabilities to credit institutions	106,979	127,135
Lease liabilities	24,712	–
Liability financial leasing agreements	–	14,856
Total non-current borrowing	**131,691**	**146,554**
Current		
Lease liabilities	31,567	–
Liability financial leasing agreements	–	5,742
Liabilities to credit institutions	50,162	48,171
Convertible loans	4,782	–
Total current borrowing	**86,511**	**53,913**

Liabilities to credit institutions
Liabilities to credit institutions are subject to an average interest rate of 2.1 per cent per year (2.2) and variable interest.

The Group must fulfil a covenant for a large part of the borrowing. The loan terms that must be met are that the net debt/EBITDA may not exceed 4.0 up to 30 December 2020, 3.0 from 31 December 2020 and 2.5 from 31 December 2021 and at any time thereafter. Until 30 September 2019, the Group had a covenant for certain borrowing with the loan term that the net debt/equity could not exceed 3.0. The Group fulfilled the loan terms during the 2018 and 2019 financial years.

For liabilities to credit institutions, collateral has been provided in the form of chattel mortgages at a value of SEK 75,400 thousand (109,000) and machinery at a book value of SEK 226,206 thousand (91,216). For liabilities at 31 December 2019, collateral had also been provided in the form of pledged shares in subsidiaries to a value of SEK 88,567 thousand.

The fair value of short-term borrowing corresponds to its carrying amount since the discount effect is not material. Fair value for non-current liabilities to credit institutions and finance leases is based on discounted cash flows with an interest rate based on the loan interest rate of 1.9 per cent (2.2) and is in level 2 in the fair value hierarchy. As the Company has all borrowing in variable interest, the carrying amount and fair value are essentially the same.

Fair value for the convertible loan is essentially the same as the carrying amount and is in level 2 in the fair value hierarchy.

All of the Group's borrowing is in SEK.

Bank overdraft facility
The Group has a granted bank overdraft facility in SEK of SEK 20,000 thousand (19,000), which is renegotiated annually with an extension period of 12 months. Of the granted overdraft facilities, SEK 0 thousand has been utilised as of 31 December 2019 (0). The bank overdraft facility is subject upon utilisation to an interest rate of 1.55 per cent as per 31 December 2019, which is paid quarterly.

Liabilities for finance leases

The information below pertains only to the 2018 financial year. For information on the lease liability for the 2019 financial year, refer to Note K10.

Future combined minimum lease fees due with regard to finance leases:	**Nominal amount**
	31/12/2018
Within 1 year	4,745
Between 1 and 5 years	3,380
More than 5 years	-
Total	**8,125**

Nominal value and present value are essentially in agreement with each other.

Convertible debentures
The Parent Company issued a convertible debenture with a nominal value of SEK 10,000 thousand on 19 December 2013. The convertible debenture will mature seven years from the date of issue, 31 December 2020, if it has not previously been converted into shares at the request of the holder. The conversion price is SEK 4.50 per share, which corresponds to the average trading price for the Company's shares during the period 2 December 2013 to 13 December 2013 recalculated for the 5:1 split conducted in 2017. Holdings may be converted into shares between 31 December 2016 and 31 December 2020.

In September 2018, the holder requested conversion of SEK 5,000 thousand, which meant that 1,111,111 new shares were issued and registered on 19 November. Of the issued convertible debenture, SEK 5,000 thousand remains according to the same terms as described above.

In January 2020, after the end of the financial year, the holder requested conversion of the remainder of the debenture, which meant that 1,111,111 new shares were issued and registered on 30 January 2020.

The convertible loan is recognised in the balance sheet according to the following:

	31/12/2019	**31/12/2018**
Nominal value of convertible debentures	5,000	5,000
Equity component – value of the conversion right	-2,595	-2,595
	2,405	**2,405**
Interest expenses	3,548	3,230
Interest paid	-1,172	-1,072
Liability component	**4,782**	**4,563**

The values of the liability component and equity component (the conversion right) were determined at issue. The initial fair value for the convertible debentures' liability component was calculated using the market interest rate on the issue date for an equivalent non-convertible bond. After initial recognition, the liability is recognised at amortised cost until it is converted or expires. The remainder of the proceeds is allocated to the conversion right and recognised net after tax in equity and is not revalued. The loan is subject to an annual interest rate equivalent to Stibor 90 plus two per cent and with a duration of 90 days.

Note K26 Deferred income tax

Deferred tax assets (net)

Carrying amounts pertain to temporary differences attributable to:

	31/12/2019	31/12/2018
Tax loss carry-forwards	135	390
Internal gains in non-current assets	112	147
	247	**536**
Amounts offset against deferred tax liabilities according to the offset rules*)	-150	-536
Net deferred tax assets	**97**	**0**

Deferred tax liabilities (net)

Carrying amounts pertain to temporary differences attributable to:

	31/12/2019	31/12/2018
Leases	500	-
Finance leases	-	652
Untaxed reserves	26,553	22,557
Convertible debentures	47	96
Temporary difference at foreign subsidiaries	720	695
	27,820	**24,000**
Amounts offset against deferred tax assets according to the offset rules*)	-150	-536
Net deferred tax liabilities	**27,670**	**23,464**

*) Railcare Group AB and its wholly owned subsidiaries can, through a possibility of Group contributions, offset deferred tax assets and deferred tax liabilities for these units in the consolidated financial statements. As a result of this, deferred tax assets and deferred tax liabilities are offset for these units in the consolidated financial statements.

The gross change regarding deferred taxes is as follows:

Other tax assets and liabilities	Deferred tax assets Loss carry-forwards	Internal gains in non-current assets	Leases	Deferred tax liabilities Untaxed reserves	Convertible debenture	Temporary difference in foreign subsidiaries	Total
As per 1 January 2018	**0**	**0**	**707**	**25,850**	**288**	**544**	**27,389**
Recognised in the statement of comprehensive income	-390	-147	-55	-3,293	-91	130	-3,846
Recognised in other comprehensive income							–
Recognised directly in equity					-101		-101
Exchange rate differences						21	21
As per 31 December 2018	**-390**	**-147**	**652**	**22,557**	**96**	**695**	**23,464**
Recognised in the statement of comprehensive income	257	35	11	3,996	-49	13	4,264
Recognised in other comprehensive income							0
Recognised directly in equity			-163				-163
Exchange rate differences	-2					13	11
As per 31 December 2019	**-135**	**-112**	**500**	**26,553**	**47**	**721**	**27,573**

Note K27 Other current liabilities

	31/12/2019	**31/12/2018**
Employee withholding taxes and social security contributions	1,445	1,843
Advance payments/Expenses	–	21
VAT	2,041	1,804
Other current liabilities	989	793
Total	**4,475**	**4,462**

The fair value of other current liabilities corresponds to their carrying amounts, as they are current by nature.

Note K28 Accrued expenses and deferred income

	31/12/2019	**31/12/2018**
Accrued salaries	5,143	4,645
Accrued social security contributions	8,192	6,583
Accrued holiday pay	9,196	8,651
Other items	2,787	3,607
Total	**25,318**	**23,487**

Note K29 Contingent liabilities

	31/12/2019	**31/12/2018**
Guarantees for associated companies	500	500
Total	**500**	**500**

Note K30 Pledged assets

	31/12/2019	31/12/2018
Liabilities to credit institutions		
Chattel mortgages	75,400	108,200
Shares in subsidiaries	-	88,567
Machinery and equipment	226,206	91,216
*Leases**		
Locomotives and wagons	8,140	9,040
Mobile machinery	2,456	2,734
Vehicles	7,514	10,102
Total	**319,715**	**309,859**

*) For 2018, refers to pledged assets linked to liabilities for finance leases.

The Group has provided collateral to creditors in the form of corporate and chattel mortgages on certain locomotives, wagons and mobile machinery. As collateral for the lessor's financing, the Group has provided collateral in the form of ownership reservations in the leased objects.

Note K31 Related parties

Related parties are all companies within the Group and senior executives in the Group, i.e. the Board and Group management, and their family members. Transactions with related parties have been based on normal and generally accepted commercial terms.

The Group buys consulting services mainly for traffic safety and vehicle approval in the railway industry from the associated company Atumo AB. Compensation for services rendered was paid during the year in an amount of SEK 1,598 thousand (1,395). The Group also has a guarantor commitment for Atumo AB's bank overdraft facility. The guarantor commitment is limited to SEK 500 thousand (500).

The Group has been provided with consulting services by Board members in the Parent Company, which are described below and also presented in Note K8.

Ulf Marklund, Board member of the Parent Company and all subsidiaries and Deputy CEO in the Parent Company, owns together with close family members the company Matech Marin AB. Ulf Marklund is active on a consulting basis equivalent to half-time in the Group and Matech Marin AB charges the Parent Company a consulting fee per day for these services. In 2019, this compensation amounted to SEK 1,935 thousand (1,800). The agreement regarding these services was renewed in March 2019, with essentially the same terms as before. The new agreement has a term of one year, with a mutual period of notice of six months. In the agreement, there is also an option for Railcare to extend the agreement by another year, until 31 March 2021, which has been exercised.

In addition to this, Matech Marin AB performs workshop work, machine service and project management for some of the subsidiaries. This is charged per day and in 2019, this compensation amounted to SEK 1,526 thousand (1,441).

There are no outstanding loans, guarantees or guarantor commitments from the Group for Board members or senior executives. Receivables and liabilities from and to related parties originate from sales and purchase transactions and mature within one month after the sales date. The Group has no provisions for doubtful receivables attributable to related parties. Nor does the Group have any expenses regarding doubtful receivables from related parties during the period. No collateral is pledged for the receivables.

Note K32 Adjustment for non-cash items

	31/12/2019	31/12/2018
Depreciation	49,657	24,096
Disposal and profit/loss from sale of tangible and intangible assets	1,337	16
Total	**50,993**	**24,112**

Note K33 Changes in liabilities that belong to the financing activities

	01/01/2018	Cash inflow	Cash outflow	Non-cash items Unrealised value changes	Conversion of debenture	Finance leases	31/12/2018
Convertible loans	8,690			412	-4,539		4,563
Liabilities to credit institutions	179,757	20,220	-24,671				175,306
Liability financial leasing agreements	20,896		-3,683			3,385	20,598
Total liabilities attributable to financing activities	**209,343**	**20,220**	**-28,354**	**412**	**-4,539**	**3,385**	**200,467**

	01/01/2019	Cash inflow	Cash outflow	Non-cash items Unrealised value changes	Introduction of IFRS 16	Leases	31/12/2019
Convertible loans	4,563			219			4,782
Liabilities to credit institutions	175,306	6,030	-24,195				157,141
Lease liabilities	20,598		-28,350		40,442	23,589	56,279
Total liabilities attributable to financing activities	**200,467**	**6,030**	**-52,545**	**219**	**40,442**	**23,589**	**218,202**

Note K34 Alternative performance measures

The alternative performance measures that have not been calculated according to IFRS and are presented in this report do not constitute recognised valuation principles for financial position or liquidity according to IFRS, but rather are used by Railcare to monitor the financial outcome of the Group's operations and the Group's financial position. Evaluation of the alternative performance measures that are presented in the report shall always be done together with the information presented by the income statement, statement of financial position, cash flow statement and key performance indicators, which have been prepared in accordance with IFRS.

Railcare recognises these alternative financial measurements since the company considers them to be important supplementary measurements of profitability and financial position and that these measurements are often used by external stakeholders to assess and compare companies' financial outcomes and position. In comparisons of the alternative financial measurements presented here, the calculation for other companies may have been done with different definitions, which means that the outcome is not directly comparable.

Calculations of the Group's alternative performance measures

Calculation of Operating margin

(Amounts in SEK thousands)	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2016
(A) Operating profit/loss (EBIT)	31,977	1,543	16,661	50,003
(B) Net sales	370,610	270,147	292,579	353,110
(A / B) Operating margin, %	**8.63**	**0.57**	**5.69**	**14.16**

Calculation of Equity per share

(Amounts in SEK thousands)	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2016
(A) Equity	153,871	133,604	133,243	138,490
(B) No. of shares, 000s	23,013	23,013	21,902	21,902*
(A / B) Equity per share, SEK	6.69	**5.81**	**6.08**	**6.32***

Calculation of Equity/assets ratio

(Amounts in SEK thousands)	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2016
(A) Equity	153,871	133,604	133,243	138,490
(B) Total assets	459,166	413,170	420,089	410,588
(A / B) Equity assets ratio, %	**33.51**	**32.34**	**31.72**	**33.73**

Calculation of Dividend per share

(Amounts in SEK thousands)	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2016
(A) Decided total dividend	7,237**	0	3,285	14,455
(B) No. of shares, 000s	24,124**	23,013	21,902	21,902*
(A / B) Dividend per share, SEK	**0.30****	**0.00**	**0.15**	**0.66***

Calculation of Sales growth

(Amounts in SEK thousands)	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2016
(A) Net sales	370,610	270,147	292,579	353,110
(B) Comparative figure from previous period	270,147	292,579	353,110	290,180
((A - B) / B) Sales growth, %	**37.2**	**-7.7**	**-17.1**	**21.7**

*) At the end of September 2017 a 5:1 share split was implemented, increasing the number of shares from 4,380,389 to 21,901,945. The comparative figures for earlier periods have been recalculated to achieve comparability between the periods.
**) Board of Directors' proposal to the 2020 Annual General Meeting. The number of shares is after conversion of 1,111,111 new shares in January 2020 as these are entitled to dividend at the 2020 General Meeting.

Extrapolation of the alternative performance measure Net margin is in the tables on pages 24-25. Definitions and purpose of the Company's alternative performance measures are on page 112.

Note K35 Changed accounting principles

This note explains the effects on the Group's financial statements upon the transition to IFRS 16 Leases.

As described in Note K2, the Group applies IFRS 16 Leases from 1 January 2019. In accordance with the transition rules, the comparative figures for 2018 have not been restated. Reclassification and adjustments that arose due to the new leasing rules are therefore recognised in the opening balance at 1 January 2019. The new accounting principles are described in Note K2.

Effects of IFRS 16 on the Group's key financial ratios

Amounts in SEK thousands, unless otherwise stated	**2019 incl. IFRS 16**	**2019 excl. IFRS 16**
Operating profit/loss (EBIT)	31,977	31,117
Operating margin, %	8.6	8.4
Profit for the year	20,760	20,900
Net financial items	-5,757	-4,724
Total assets	459,166	418,910
Equity/assets ratio, %	33.5	36.9
Key financial ratios and figures per share, SEK		
Earnings per share before dilution*	0.90	0.91
Earnings per share after dilution*	0.87	0.88
Equity per share	6.69	6.72

Effects of IFRS 16 on the consolidated statement of comprehensive income

Consolidated summary Income Statement, Amounts in SEK thousands	**2019 incl. IFRS 16**	**2019 IFRS 16 effect**	**2019 excl. IFRS 16**
Operating income	379,933	-	379,933
Operating expenses excl. amortisation and depreciation	-298,302	25,094	-323,396
Depreciation	-49,654	-24,234	-25,420
Operating profit/loss	**31,977**	**860**	**31,117**
Net financial items	-5,757	-1,033	-4,724
Share of profit after tax from associated companies reported according to the equity method	284	-	284
Profit/loss before tax	**26,504**	**-173**	**26,677**
Taxes	-5,744	33	-5,777
Profit for the year	**20,760**	**-140**	**20,900**

Effects of IFRS 16 on the consolidated statement of financial position

Consolidated summary balance sheet, Amounts in SEK thousands	31/12/2019 incl. IFRS 16	31/12/2019 Effect of IFRS 16	31/12/2019 excl. IFRS 16	CB 31/12/2018	OB/CB analysis IFRS 16 effect	OB 01/01/2019
ASSETS						
Intangible assets	6,949	-	6,949	7,483	-	7,483
Tangible assets	370,425	43,724	326,701	326,094	43,235	369,329
Financial non-current assets	5,395	-	5,395	5,207	-	5,207
Current assets	76,397	-3,468	79,865	74,386	-3,864	70,522
Total assets	**459,166**	**40,256**	**418,910**	**413,170**	**39,371**	**452,541**
EQUITY AND LIABILITIES						
Equity	153,871	-672	154,543	133,604	-849	132,755
Non-current liabilities	159,361	20,302	139,059	170,018	21,000	191,018
Current liabilities	145,934	20,626	125,308	109,548	19,220	128,768
Total equity and liabilities	**459,166**	**40,256**	**418,910**	**413,170**	**39,371**	**452,541**

Effects of IFRS 16 on the consolidated cash flow statement

The transition to IFRS 16 has had an effect on cash flow for 2019 since the amortisation of the lease liability is reported as part of the financing activities rather than being included in the operating activities. This means that cash flow from operating activities for 2019 is approximately SEK 24.1 million higher, while cash flow from financing activities is approximately SEK 24.1 million lower than if the previous accounting principles had been applied.

Reconciliation of lease liabilities against commitment for operating leases

Reconciliation commitments operating leases (SEK million)	Jan-Dec 2018
Commitments for operating leases at 31 December 2018	52.1
Agreements for short-term leasing that are expensed	-0.8
Agreements for leasing of assets of low value that are expensed	-0.7
Adjustment for agreements reclassified	-13.6
Adjustment for extension options or termination clauses	5.0
Discounting with application of the Group's marginal interest on loans	-1.6
Liabilities for finance leases at 31 December 2018	20.6
Lease liability at 1 January 2019	**61.0**

In the valuation of the lease liabilities, the Group discounted the lease fees to the marginal borrowing rate as per 1 January 2019. The weighted average interest rate used is approx. 2.8%.

Note K36 Events after the end of the financial year

Railcare is monitoring closely the developing events surrounding the coronavirus and COVID-19. The company is not currently able to assess what impact the virus may have and the possible consequences for societal functions on the Group's operations, financial results and position. Railcare follows the recommendations of the Public Health Agency of Sweden and the Ministry for Foreign Affairs.

Railcare Group AB has acquired 100 per cent of the shares in Elpro i Skellefteå AB, control of the acquired company being transferred on 3 February 2020. Elpro is an electricity company employing five electricians who are also skilled in circuit design. Elpro offers services including electrical maintenance and installation for companies, design and installation of machines, as well as programming of new or rebuilt machines. The company's customers are private individuals, property owners, companies and industries.

The goodwill arising from the acquisition is attributable to Elpro's future profitability and the synergies expected from merging Elpro's operations with those of the Group. The goodwill arising from the acquisition is not expected to be tax deductible.

Amounts in SEK thousands	
Purchase consideration on date of acquisition, 3 February 2020	
Cash and cash equivalents	4,100
Total purchase consideration	**4,100**
Carrying amounts of identifiable acquired assets and liabilities in Elpro i Skellefteå AB as of the date of acquisition:	
Cash and cash equivalents	1,483
Tangible assets	53
Rights-of-use assets in lease agreements (vehicles)	143
Inventories	364
Accounts receivable and other receivables	1,582
Lease liabilities	-104
Accounts payable and other liabilities	-3,175
Total identifiable net assets	**346**
Goodwill	**3,754**

Financial statements – Parent Company

Parent Company income statement

Amounts in SEK thousands	Note	Jan-Dec 2019	Jan-Dec 2018
Net sales	M3	27,620	23,191
Other operating income	M4	44	32
Total operating income		**27,664**	**23,223**
Operating expenses			
Raw materials and consumables		-2,748	-3,180
Other external costs	M6, M7	-14,130	-16,688
Personnel costs	M8	-11,683	-10,400
Depreciation of tangible and amortization of intangible assets		-197	-271
Other operating expenses	M5	-77	-36
Total operating expenses	M3	**-28,835**	**-30,575**
Profit from participations in associated companies and jointly controlled companies		193	133
Operating profit/loss (EBIT)		**-978**	**-7,219**
Profit from financial items			
Profit from participations in Group companies		4,296	2,491
Other interest income and similar profit/loss items	M9	778	593
Interest expenses and similar profit/loss items	M9	-392	-721
Total profit/loss from financial items		**4,682**	**2,363**
Profit/loss after financial items		**3,704**	**-4,856**
Appropriations	M10	2,300	4,900
Tax on net profit/loss for the year	M11	-384	481
Profit for the year		**5,620**	**525**

The Parent Company has no items recognised as other comprehensive income, which is why total comprehensive income is the same as profit/loss for the year.

The notes on pages 55 to 105 are an integral part of this Annual Report.

Parent Company balance sheet

Amounts in SEK thousands	Note	31/12/2019	31/12/2018
ASSETS			
Intangible assets			
Patents	M12	377	501
Total intangible assets		**377**	**501**
Tangible assets			
Equipment, tools, fixtures and fittings	M13	168	179
Total tangible assets		**168**	**179**
Financial non-current assets			
Participations in Group companies	M14	34,236	34,236
Participations in associated companies	K17	204	204
Deferred tax assets	M19	-	294
Total financial non-current assets		**34,440**	**34,734**
Total non-current assets		**34,985**	**35,414**
Current assets			
Current receivables	M15		
Accounts receivable		-	7
Receivables from Group companies		23,348	25,346
Current tax receivables		337	183
Other receivables	M16	183	2
Prepaid expenses and accrued income	M17	1,021	1,053
Total current receivables		**24,889**	**26,591**
Cash and bank balances	M18	5,099	738
Total current assets		**29,988**	**27,329**
TOTAL ASSETS		**64,973**	**62,743**

The notes on pages 55 to 105 are an integral part of this Annual Report.

Parent Company balance sheet, cont.

Amounts in SEK thousands	Note	31/12/2019	31/12/2018
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		9,435	9,435
Total restricted equity		**9,435**	**9,435**
Non-restricted equity			
Share premium reserve		18,638	18,638
Retained earnings		5,757	5,232
Profit for the year		5,620	525
Total non-restricted equity		**30,015**	**24,395**
Total equity		**39,450**	**33,830**
Provisions			
Deferred tax liabilities	M19	47	-
Total provisions		**47**	-
Non-current liabilities			
Convertible loans	M20	-	4,563
Total non-current liabilities		**0**	**4,563**
Current liabilities	M15		
Convertible loans	M20	4,782	
Accounts payable		1,005	1,301
Liabilities to Group companies		16,911	20,527
Other current liabilities	M21	555	323
Accrued expenses and deferred income	M22	2,223	2,199
Total current liabilities		**25,476**	**24,350**
TOTAL EQUITY AND LIABILITIES		**64,973**	**62,743**

The notes on pages 55 to 105 are an integral part of this Annual Report.

Parent Company statement of changes in equity

		Restricted equity	Non-restricted equity		
Amounts in SEK thousands	Note	Share capital	Share premium reserve	Retained earnings including profit/loss for the year	Total equity
Opening balance on 1 January 2018		**8,980**	**14,453**	**8,518**	**31,951**
Profit for the year				525	525
Total comprehensive income		**-**	**-**	**525**	**525**
Transactions with shareholders					
Conversion of debenture		456	4,184		4640
Dividend				-3,285	-3,285
Closing balance as per 31 December 2018		**9,435**	**18,638**	**5,757**	**33,830**
Opening balance as per 1 January 2019		**9,435**	**18,638**	**5,757**	**33,830**
Profit for the year				5,620	5,620
Total comprehensive income		**-**	**-**	**5,620**	**5620**
Closing balance as per 31 December 2019		**9,435**	**18,638**	**11,377**	**39,450**

The notes on pages 55 to 105 are an integral part of this Annual Report.

Consolidated statement of cash flows

Amounts in SEK thousands	Note	Jan-Dec 2019	Jan-Dec 2018
Cash flow from operating activities			
Operating profit/loss (EBIT)		-978	-7,219
Adjustment for non-cash items	M24	244	271
Interest received		778	593
Interest paid		-173	-310
Income tax paid		-197	1,409
Cash flow from operating activities before changes in working capital		**-326**	**-5,256**
Cash flow from changes in working capital			
Increase/decrease in operating receivables		-144	1,046
Increase/decrease in operating liabilities		-256	-6,345
Total changes in working capital		**-400**	**-5,299**
Cash flow from operating activities		**-726**	**-10,555**
Cash flow from investment activities			
Investments in intangible assets	M12	-41	-226
Investments in tangible assets	M13	-68	0
Received dividend from Group companies		4,296	2,491
Cash flow from investment activities		**4,187**	**2,265**
Cash flow from financing activities	M25		
Group contributions received		25,200	23,000
Group contributions paid		-24,300	-10,700
Dividends paid		-	-3,285
Cash flow from financing activities		**900**	**9,015**
Cash flow for the year		**4,361**	**725**
Cash and cash equivalents at the beginning of the period		738	13
Cash and cash equivalents at the end of the period		**5,099**	**738**

The notes on pages 55 to 105 are an integral part of this Annual Report.

Notes – Parent Company

Note M2 Summary of significant accounting principles

The Parent Company applies RFR 2 Accounting for Legal Entities and the Swedish Annual Accounts Act. The application of RFR 2 means that the Parent Company, in the Annual Report for the legal entity, applies all IFRS and statements adopted by the EU to the furthest extent possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act and taking into account the relationship between accounting and taxation.

In connection with the transition to accounting according to IFRS in the consolidated financial statements, the Parent Company transitioned to apply RFR 2 Accounting for Legal Entities. The transition from previously applied accounting principles to RFR 2 has not had any effects on the income statement and balance sheet, equity or cash flow.

The Annual Report has been prepared using the cost method.

The preparation of financial statements in conformity with RFR 2 requires the use of certain critical accounting estimates. The Company is also required to make certain judgments in applying the accounting principles. Those areas that involve a high degree of judgment or complexity, or areas where assumptions and estimates are significant for the Annual Report are indicated in Note K4 of the consolidated financial statements.

The Parent Company applies different accounting principles than the Group in the cases stated below:

Presentation
The income statement and balance sheet are presented in accordance with the form of presentation prescribed in the Swedish Annual Accounts Act. Moreover, there is a difference in terms, compared with the consolidated financial statements, mainly with regard to financial income and expense, and equity.

Financial instruments
Because of the connection between accounting and taxation, the rules for financial instruments in IFRS 9 are not applied in the Parent Company as a legal entity, but rather the Parent Company applies the cost method in accordance with the Swedish Annual Accounts Act. In the Parent Company, financial non-current assets are thereby measured at cost and financial current assets according to the lower of cost or market principle, with application of impairment for expected credit losses according to IFRS 9 for assets that are debt instruments. For other financial assets, impairment losses are based on the market value.

The Parent Company applies the exception to not value financial guarantee agreements on behalf of subsidiaries and associated companies and joint ventures in accordance with the rules in IFRS 9, but rather instead applies the principles for valuation according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Leases
The Parent Company has chosen not to apply IFRS 16 Leases but has, effective 1 January 2019, applied the points stated in RFR 2 (IFRS 16 Leases, pp. 2-12).

Leasing income from operating leases where the Company is the lessor is recognised as income straight-line over the term of the lease.

Shares in subsidiaries
Participations in subsidiaries are recognised at cost less potential impairment losses. Cost includes acquisition-related expenses and any additional considerations.

Where there is an indication that participations in Group companies have decreased in value, their recoverable amount is calculated. An impairment loss is recognised if the recoverable amount is less than the carrying amount. Impairment losses are recognised in the item "Profit/loss from participations in Group companies".

Accounting for associated companies
In the Parent Company's annual accounts, participations in associated companies are recognised at cost less any impairment losses. Only dividends earned after the time of acquisition are recognised as income from associated companies.

Appropriations
Group contributions are recognised as appropriations.

Note M3 Income and expenses between Group companies

The Parent Company's net sales include invoicing of Group companies in an amount of SEK 26,020 thousand (21,600), which corresponds to 94.2 per cent (93.1) and in operating expenses in an amount of SEK 1,721 thousand (1,941), which corresponds 6.0 per cent (6.3).

Note M4 Other operating income

	Jan-Dec 2019	Jan-Dec 2018
Foreign exchange gains	44	32
Total	**44**	**32**

Exchange rate gains originate from financial instruments.

Note M5 Other operating expenses

	Jan-Dec 2019	Jan-Dec 2018
Foreign exchange losses	-32	-36
Losses upon divestment/disposal of non-current assets	-45	
Total	**-77**	**-36**

Exchange rate losses originate from financial instruments.

Note M6 Leases

The Company leases premises, vehicles and office equipment under interminable operating leases. The lease terms vary from 2 to 8 years. Most of the leases can be extended at the end of the term of the lease for a fee at the market rate.

Future total minimum leasing fees for interminable operating leases are as follows:

	Jan-Dec 2019	Jan-Dec 2018
Within 1 year	2,250	1,759
Between 1 and 5 years	3,824	5,655
More than 5 years	-	-
Total	**6,074**	**7,414**

Expensed lease fees during the year amounted to SEK 2,591 thousand (2,544) and are included in the item Other external expenses in the statement of comprehensive income.

The largest agreement relates to Railcare's head office in Skelleftehamn, where the Company leases both office and workshop premises. The lease period is 8 years and expires in 2023.

Note M7 Auditor's remuneration

	Jan-Dec 2019	Jan-Dec 2018
Ernst & Young		
– Auditing assignment	408	508
– Other services	53	13
Total	**461**	**521**

Note M8 Employee benefits, etc.

Salaries, other remuneration and social security contributions	Jan-Dec 2019	Jan-Dec 2018
Salaries and other benefits	7,067	9,959
of which CEO and other senior executives	5,923	6,480
Pension expenses – defined contribution plans	1,394	954
of which CEO and other senior executives	1,074	676
Other social security expenses	2,633	2,372
of which CEO and other senior executives	1,469	1,356

Average number of employees	Jan-Dec 2019	Jan-Dec 2018
Women	7	8
Men	3	3
Total	**10**	**11**

For further information on remuneration of senior executives and the Board, refer to the Group's Note K8.

Note M9 Financial income and expenses

The carrying amounts pertain to profit/loss from assets and liabilities measured at amortised cost as per IFRS 9.

Note M10 Appropriations

	Jan-Dec 2019	Jan-Dec 2018
Group contributions received	23,200	25,200
Group contributions paid	-20,900	-20,300
Total	**2,300**	**4,900**

Note M11 Income tax

	Jan-Dec 2019	Jan-Dec 2018
Current tax:		
Current tax on net profit/loss for the year	-43	-
Total current tax	**-43**	-
Deferred tax (Note M19)		
Occurrence and reversal of temporary differences	-341	481
Total deferred tax	**-341**	**481**
Total income tax	**-384**	**481**

The income tax on pre-tax profit differs from the theoretical amount that would have been produced from the use of the tax rate in Sweden as follows:

	Jan-Dec 2019	Jan-Dec 2018
Profit/loss before tax	**6,004**	**44**
Income tax calculated in accordance with tax rate in Sweden, 21.4% (22.0)	-1,285	-10
Non-deductible expenses	-109	-165
Non-taxable dividends from subsidiaries	961	577
Effect of dissolution of deferred tax for convertible	49	91
Effect of changed tax rates		-13
Tax expense	**-384**	**481**

The weighted average tax rate for the Parent Company was 6 per cent (1,093). The change is due to the tax-free dividend from the Danish subsidiary being large relative to the Company's profit in 2018.

Note M12 Patents

	31/12/2019	31/12/2018
Opening cost	1,096	870
Sales/disposals for the year	-97	-
Purchases for the year	41	226
Closing accumulated cost	**1,040**	**1,096**
Opening depreciation	-595	-421
Sales/disposals for the year	49	-
Depreciation for the year	-117	-174
Closing accumulated depreciation	**-663**	**-595**
Closing residual value according to plan	**377**	**501**

Note M13 Equipment, tools, fixtures and fittings

	31/12/2019	31/12/2018
Opening cost	649	649
Purchases for the year	69	-
Closing accumulated cost	**717**	**649**
Opening depreciation	-469	-373
Depreciation for the year	-80	-97
Closing accumulated depreciation	**-549**	**-470**
Closing residual value according to plan	**168**	**179**

Note M14 Participations in Group companies

Name	Corp. ID no.	Domicile	Primary operations
Railcare AB	556600-2514	Skellefteå, Sweden	Railway maintenance
Railcare Machine AB	556502-3925	Skellefteå, Sweden	Machine Sales
Railcare T AB	556904-6674	Skellefteå, Sweden	Special transports, letting of locomotives and wagons
Railcare Lining AB	556873-4817	Skellefteå, Sweden	Railway maintenance
Railcare Sweden Ltd	8687106	Derby, UK	Railway maintenance
Railcare Production AB	556980-8586	Skellefteå, Sweden	Railway maintenance

All subsidiaries are consolidated in the Group. The subsidiaries have a share capital consisting solely of ordinary shares, which are held directly by the Group, and the participating interest is the same as the share of votes.

Name	Participating interest 31/12/2019 (%)	Participating interest 31/12/2018 (%)	Carrying amount, 31 Dec 2019	Carrying amount, 31 Dec 2018
Railcare AB	100	100	10,505	10,505
Railcare Machine AB	100	100	1,971	1,971
Railcare T AB	100	100	12,100	12,100
Railcare Danmark A/S	100	100	9,449	9,449
Railcare Lining AB	100	100	100	100
Railcare Sweden Ltd	100	100	11	11
Railcare Production AB	100	100	100	100
			34,236	**34,236**

Note M15 Financial instruments

The table below presents the Parent Company's financial assets and liabilities classified based on the cost. For current and non-current receivables and liabilities, the carrying amount is considered to constitute a reasonable estimate of the fair value whereby these values agree in the table below.

Financial assets measured at cost	31/12/2019	31/12/2018
Accounts receivable	-	7
Receivables from Group companies	27,349	25,346
Cash and bank balances	5,099	738
Total	**32,448**	**26,091**

Financial liabilities measured at cost	31/12/2019	31/12/2018
Convertible loans	4,782	4,563
Accounts payable	1,006	1,301
Liabilities to Group companies	20,911	20,527
Other current liabilities	86	73
Total	**26,785**	**26,464**

Note M16 Other current receivables

	31/12/2019	31/12/2018
Deduction taxes and social security contributions	183	2
Total	**183**	**2**

Note M17 Prepaid expenses and accrued income

	31/12/2019	31/12/2018
Accrued income	-	13
Prepaid leasing rents	22	22
Prepaid rent for premises	576	566
Prepaid insurance policies	51	75
Other items	373	376
Total	**1,021**	**1,053**

Note M18 Cash and cash equivalents

Cash and cash equivalents, both on the balance sheet and in the cash flow statement, consist of:

	31/12/2019	31/12/2018
Bank balances	5,099	738
Total	**5099**	**738**

Note M19 Deferred tax

The gross change regarding deferred taxes is as follows:

For temporary differences attributable to convertible debentures.

	31/12/2019	31/12/2018
Opening balance	-96	-288
Recognised in profit or loss	49	91
Recognised directly against equity		101
Closing balance	**-47**	**-96**

For loss carry-forwards

	31/12/2019	31/12/2018
Opening balance	390	-
Recognised in profit or loss	-390	390
Closing balance	**0**	**390**
Total deferred tax asset (+) or tax liability (-)	**-47**	**294**

Note M20 Convertible loans

The Parent Company issued a convertible debenture with a nominal value of SEK 10,000 thousand on 19 December 2013. The convertible debenture will mature seven years from the date of issue, 31 December 2020, if it has not previously been converted into shares at the request of the holder. The conversion price is SEK 4.50 per debenture, which corresponds to the average trading price for the Company's shares during the period 2 December 2013 to 13 December 2013 recalculated for the 5:1 split conducted in 2017. Holdings may be converted into shares between 31 December 2016 and 31 December 2020.

In September 2018, the holder requested conversion of SEK 5,000 thousand, which meant that 1,111,111 new shares were issued and registered on 19 November. Of the issued convertible debenture, SEK 5,000 thousand remains according to the same terms as described above.

In January 2020, after the end of the financial year, the holder requested conversion of the remainder of the debenture, which meant that 1,111,111 new shares were issued and registered on 30 January 2020.

The convertible loan is recognised in the balance sheet according to the following:

	31/12/2019	31/12/2018
Nominal value of convertible debentures	5,000	5,000
Equity component – value of the conversion right	-2,595	-2,595
	2,405	**2,405**
Interest expenses	3,548	3,230
Interest paid	-1,172	-1,072
Liability component	**4,782**	**4,563**

The values of the liability component and equity component (the conversion right) were determined at issue. The initial fair value for the convertible debentures' liability component was calculated using the market interest rate on the issue date for an equivalent non-convertible bond. After initial recognition, the liability is recognised at amortised cost until it is converted or expires. The remainder of the proceeds is allocated to the conversion right and recognised net after tax in equity and is not revalued. The loan is subject to an annual interest rate equivalent to Stibor 90 plus two per cent and with a duration of 90 days.

Note M21 Other current liabilities

	31/12/2019	31/12/2018
Employee withholding taxes	191	194
VAT	278	55
Other current liabilities	86	73
Total	**555**	**323**

Note M22 Accrued expenses and deferred income

	31/12/2019	31/12/2018
Accrued holiday pay	1,110	1,351
Accrued social security contributions	852	592
Other items	260	256
Total	**2,223**	**2,199**

Note M23 Contingent liabilities and pledged assets

Contingent liabilities

	31/12/2019	31/12/2018
Guarantees for subsidiaries	166,053	186,328
Guarantees for associated companies	500	500
Total	**166,553**	**186,828**

The Parent Company stood surety in relation to the Group's financing with credit institutions for the situation that any of the companies cannot fulfil their commitments. The guarantor commitment for the subsidiaries is unlimited in amount and for the associated company, it is limited to SEK 500 thousand.

The Group must fulfil a covenant for a large part of the borrowing. The loan terms that must be met are that the net debt/EBITDA may not exceed 4.0 up to 30 December 2020, 3.0 from 31 December 2020 and 2.5 from 31 December 2021 and at any time thereafter. Until 30 September 2019, the Group had a covenant for certain borrowing with the loan term that indebtedness could not exceed 3.0. The Group fulfilled the loan terms during the 2018 and 2019 financial years.

Pledged assets

	31/12/2019	31/12/2018
Shares in subsidiaries	-	24,676
Total	**-**	**24,676**

As per 31 December 2018, the Parent Company had provided shares in subsidiaries as collateral for these loans with creditors.

Note M24 Adjustment for non-cash items

	31/12/2019	31/12/2018
Depreciation	197	271
Gains/losses upon sales of tangible and intangible assets	48	-
Total	**245**	**271**

Note M25 Financing activities that do not entail payments

	31/12/2019	31/12/2018
Unrealised changes in value of convertible debentures	218	411
Conversion of convertible debenture	-	-4,539
Total	**218**	**-4,128**

Note M26 Related parties

Related parties are all subsidiaries and senior executives, i.e. the Board and Group management, and their family members. Transactions with related parties have been based on normal and generally accepted commercial terms.

See Note M3 for information on purchases and sales between Group companies.

Transactions with related parties are described in the Group's Notes K8 and K31. Most of these transactions are implemented in the Parent Company. Where the transactions are implemented in a subsidiary, it is explicitly noted in text.

The receivables from and liabilities to Group companies that are in the Parent Company balance sheet are all current and not interest bearing.

Note M27 Proposed appropriation of profits

The following profit is at the disposal the Annual General Meeting:	**SEK**
Share premium reserve	18,637,036
Retained earnings	5,757,592
Profit for the year	5,619,542
Total	**30,014,170**

The Board of Directors proposes that the profit be appropriated as follows:	
A dividend of SEK 0.30 per share to be paid to shareholders, totalling	7,237,250
To be carried forward to a new account	22,776,920
Total	**30,014,170**

Board signatures

The Consolidated Income Statement and Balance Sheet and the Parent Company Income Statement and Balance Sheet will be presented to the Annual General Meeting on 6 May 2020.

The Board of Directors and the CEO hereby provide their assurance that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a true and fair view of the Group's position and earnings. The Parent Company's financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and provide a true and fair view of the Parent Company's financial position and earnings. The Administration Report for the Group and the Parent Company provides a true and fair view of the development of the operations, financial position and earnings of the Group and the Parent Company, addressing significant risks and uncertainties affecting the Parent Company and the companies within the Group.

Skelleftehamn, Sweden, 31 March 2020

Catharina Elmsäter-Svärd
Chairman of the Board

Ulf Marklund
Board member,
Deputy CEO

Anna Weiner Jiffer
Board member

Adam Ådin
Board member

Anders Westermark
Board member

Björn Östlund
Board member

Daniel Öholm
CEO

Our auditor's report was submitted on 3 April 2020.
Ernst & Young AB

Fredrik Lundgren
Authorised Public Accountant

Auditor’s report

To the general meeting of the shareholders of Railcare Group AB (publ), corporate identity number 556730-7813

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Railcare Group AB (publ) except for the corporate governance statement on pages 31-48 for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 21-29 and 49-104 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 31-48. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of Property, plant and equipment’s: railway sets, machinery and construction in progress.

Description	*How our audit addressed this key audit matter*
The valuation of railway sets, machinery and construction in progress has a book value of 326 486 KSEK and make up circa 71% of the total assets of the group. The valuation is carried at cost less accumulated depreciations and possible amortizations. Capitalization of additional expenses are made when it is probable that the future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably. The valuation is impaired annually. The presentation of property plant and equipment's are considered a key audit matter due to a misrepresentation or invalid judgement in following three areas may have a significant effect on the Group's result and financial position: - Assessment of possible impairment recognition and considerations and assumptions; as future cash flows, discount rate and growth rate - Assessment of the asset's useful life - An assessment of what to expense as repair and maintenance and what to capitalize Impairment test made by the Group can be found in note K16 and significant assumptions and judgments by the Group in note K4	Our audit covered, but was not limited to: - audit of the process for recognition of property, plant and equipment as well as the process after initial measurement - Assessment of fairness and reasonableness regarding assumptions made for impairment testing, such as the company's required return on investment and future forecasts made. Also audit of required disclosures made in the annual report - Audit of the company's assumptions regarding useful life for a key sample of assets - Audit of a key sample of capitalized assets as well as a key sample of made repairs and maintenance cost for the fiscal year

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 2-20, 30 and 109-113. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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 skepticism throughout the audit. We also:

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

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements r

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Railcare Group AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

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. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 31-48 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 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 accounts and are in accordance with the Annual Accounts Act.

Ernst & Young AB, Jakobsbergsgatan 24, 103 99 Stockholm, was appointed auditor of Railcare Group AB publ) by the general meeting of the shareholders on the 2019-05-08 and has been the company's auditor since the 2009-10-19.

Skellefteå 3 April 2020

Ernst & Young AB

Fredrik Lundgren
Authorized Public Accountant

Multi-year summary

Amounts in SEK million	2019	2018	2017	2016	2015
Net sales	370.6	270.1	292.6	353.1	290.2
Capitalised work for own account	7.5	5.5	2.2	1.3	1.0
Other operating income	1.8	1.2	1.8	2.0	3.0
Total operating income	**379.9**	**276.8**	**296.6**	**356.4**	**294.2**
Raw materials and consumables	-129.6	-70.5	-99.3	-130.6	-109.1
Other external costs	-47.1	-71.3	-61.5	-58.7	-54.3
Personnel costs	-120.4	-108.4	-92.9	-92.2	-78.7
Depreciation and impairment of tangible assets	-49.7	-24.1	-23.2	-21.5	-20.2
Other operating expenses	-1.2	-0.9	-3.1	-3.5	-0.7
Total operating expenses	**-348.0**	**-275.3**	**-280.0**	**-306.4**	**-263.0**
Operating profit/loss (EBIT)	**32.0**	**1.5**	**16.7**	**50.0**	**31.2**
Financial income	0.0	0.0	0.0	0.6	2.0
Financial expenses	-5.8	-5.4	-5.0	-5.8	-7.2
Net financial items	**-5.8**	**-5.3**	**-4.9**	**-5.2**	**-5.2**
Share of profit after tax from associated companies reported according to the equity method	0.3	0.2	0.2	0.0	-0.1
Profit/loss before tax	**26.5**	**-3.6**	**12.0**	**44.9**	**25.9**
Taxes	-5.7	2.2	-3.0	-10.2	-5.5
Net profit/loss for the period	**20.8**	**-1.4**	**9.0**	**34.7**	**20.4**
Equity/assets ratio, %	33.5	32.3	31.7	33.7	29.1

Definitions

General	All amounts in tables are in SEK thousands unless otherwise stated. All values in parentheses are comparative figures for the corresponding period in the preceding year unless otherwise stated. Amounts in tables and other summaries have been rounded off individually. Accordingly, minor rounding differences can be found in totals.
Alternative key financial ratios and figures	This annual report refers to a number of financial measures not defined in accordance with IFRS, so-called alternative key financial ratios and figures. These key financial ratios and figures are used by Railcare to monitor and analyse the financial outcome of the Group's operations and its financial position. These alternative key financial ratios and figures are intended to supplement, not replace, the financial measures presented in accordance with IFRS. See definitions and further information below.

Key financial ratios and figures	Definition/calculation	Purpose
Operating profit/loss (EBIT)	Calculated as net profit/loss for the period before tax, participations in the earnings of associated companies and financial items.	This key financial ratio shows the Company's profit/loss generated by operating activities.
Net financial items	Net financial items are calculated as financial income less financial expenses.	This key financial figure shows the net amount resulting from the Company's financial activities.
Net margin	The net margin is calculated as income after financial items divided by net sales.	This key financial figure shows how much of the Company's earnings remain after all of its expenses, except for corporation tax, have been deducted.
Total assets	Calculated as the total of the Company's assets at the end of the period.	
Equity per share, SEK	Calculated as equity divided by the number of shares outstanding at the end of the period.	This key financial figure shows the Company's net worth per share.
Sales growth, %	Calculated as the difference between net sales for the period and net sales for the preceding period, divided by net sales for the preceding period.	This key financial figure shows the Company's growth and its historical trend, contributing to an understanding of the Company's development.
Operating margin, %	Calculated as operating income divided by net sales.	This key financial figure shows how much of the Company's profit/loss is generated by its operating activities.
Equity/assets ratio, %	Calculated as equity divided by total assets.	This key financial ratio shows the Company's financial position and its long-term ability to pay.
Dividend per share, SEK	Dividend per share approved by a General Meeting at which the Annual Report for the specified financial year is adopted.	
Earnings per share before dilution, SEK	Calculated as profit/loss attributable to the Parent Company's shareholders divided by the weighted average number of shares outstanding over the period.	This key financial figure shows the Company's earnings per share, regardless of any dilution effect from convertibles outstanding.
Earnings per share after dilution, SEK	To calculate earnings per share after dilution, the weighted average number of shares outstanding is adjusted for the dilution effect of all potential shares. The Parent Company has a category of potential common shares with a dilution effect: convertible debentures. The convertible debentures are assumed to have been converted into shares and the net profit is adjusted to eliminate interest expenses less the tax effect. Convertible debentures do not give rise to a dilution effect when the interest per share that may be received on conversion exceeds earnings per share before dilution.	This key financial figure shows the Company's earnings per share, regardless of any dilution effect from convertibles outstanding.

Glossary

Reballasting
Replacement of the top layer of the rail embankment in which the sleepers are set.

CP6
Control Period 6. The UK government has earmarked funds of approximately GBP 47.9 billion for the railways between 2019 and 2024.

ECM
Unit responsible for maintenance for freight wagons.

MPV
Multi-Purpose Vehicle – a versatile working vehicle in rail maintenance. During 2019 and 2020, Railcare will develop a battery-powered version of an MPV.

National Plan
On 31 May 2018, the Swedish government adopted a national plan for the transport system for the period 2018–2029. The plan includes measures, representing an important step towards a modern and sustainable transport system.

Railvac 16,000
Maintenance contracts with Railvac 16,000-machines that are able to perform various types of track maintenance on the railways using vacuum technology.

Sleeper replacement
Replacement of the sleepers distributing the load of the tracks across the rail embankment.

Shareholder information

Annual General Meeting 2020

Railcare's Annual General Meeting 2020 will take place on 6 May at 1:00 p.m. at the Company's premises at Näsuddsvägen 10, SE-932 32 Skelleftehamn, Sweden.

Notification of participation

Shareholders wishing to participate in the Annual General Meeting must be included in the share register maintained by Euroclear Sweden AB by Wednesday 29 April 2020 and should notify the Company in writing of their participation by Wednesday 29 April 2020, addressing this notification to Railcare Group AB, Att: Annual General Meeting, Box 34, SE-932 21 Skelleftehamn, Sweden. Notification may also be provided by calling +46 (0)72-528 00 09 or by email to ir@railcare.se. The notification must state the shareholder's full name, personal ID number or registration number, number of shares held, address, daytime telephone number and, where applicable, details of any deputies or assistants (maximum 2). Where applicable, the notification should be accompanied by any power of attorney, registration certificates and other authorisation documents.

Financial calendar

- The interim report for January-March 2020 will be published on 5 May 2020.
- The 2020 Annual General Meeting will take place on 6 May 2020 at Railcare's headquarters in Skelleftehamn, Sweden.
- The interim report for January-June 2020 will be published on 20 August 2020.
- The interim report for January-September 2020 will be published on 5 November 2020.
- The year-end report for 2020 will be published on 18 February 2021.

www.railcare.se

Railcare launched its new website in the autumn of 2019. The English version was also re-launched.

The site is now up-to-date with current digital platforms and provides a place at which our stakeholders can access information and ongoing updates from the Group.

For further information, see www.railcare.se and https://www.railcare.se/en/.

Railcare

Railway Specialist Railcare Group AB offers products and services that enhance customers' reliability, punctuality and profitability, primarily in Scandinavia and the UK. The railway industry is in a period of positive development, with increasing traffic volumes and extensive investment programmes, as well as rapid development of cost-efficient freight and passenger transport and increasing environmental awareness. Railcare has unique opportunities to deliver effective solutions that help the railways increase their share of the total transport market. The shares of Railcare Group AB (publ) have been listed on the Small Cap list of the Nasdaq Stockholm exchange since April 2018. The Group has some 130 employees and annual sales of approximately SEK 400 million. The Company's registered office is domiciled in Skellefteå, Sweden.

Addresses

Headquarters

Skelleftehamn
Railcare Group AB
Box 34
SE-932 21 Skelleftehamn, Sweden
Tel: +46 (0)910-43 88 00
Fax: +46 (0)910-333 75
info@railcare.se
Visitors: Näsuddsvägen 10

Operations offices

Stockholm
Railcare AB
Kungsbroplan 2
SE-112 27 Stockholm, Sweden

Postal address:
Railcare AB
Box 187
SE-101 23 Stockholm, Sweden

Långsele
Railcare T AB
Stationsgatan 23
SE-882 30 Långsele, Sweden

UK
Railcare Sweden Ltd.
Unit 1 Derwent Park
214 – 216 London Road
Derby, DE1 2SX, UK