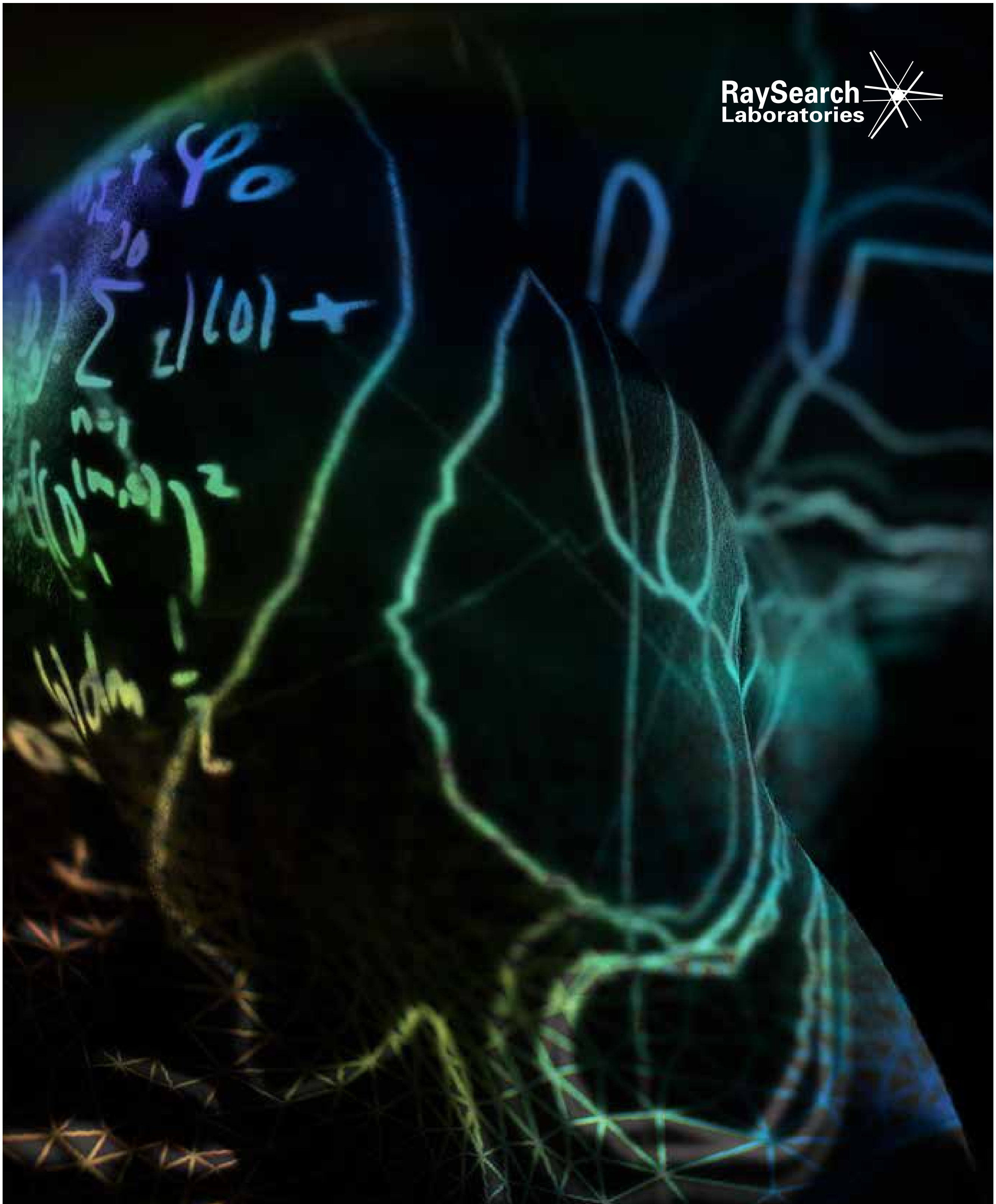

ANNUAL REPORT | 2016

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MAKING COMPREHENSIVE CANCER CARE A REALITY

2016 WAS A GROUNDBREAKING YEAR FOR RAYSEARCH. WE ACHIEVED SIGNIFICANT GROWTH, ENTERED NEW MARKETS AND MADE OUTSTANDING PROGRESS IN DEVELOPING THE NEXT-GENERATION ONCOLOGY INFORMATION SYSTEM – TOGETHER WITH OUR GROWING LIST OF WORLD-LEADING CLINICAL PARTNERS.

THE NEXT GENERATION OF ONCOLOGY SOFTWARE

RaySearch's purpose is to advance cancer treatment through innovative software. Improving treatment outcomes and quality of life for patients around the world is the motivation behind everything we create and every action we take. Today, we are in the ideal position to have a major impact on cancer treatment through enabling a truly integrated approach across oncology disciplines.

During 2016, we made tremendous progress in bringing the next-generation oncology information system to the clinical world. The launch of RayCare®* in 2017 will be a great milestone – for RaySearch and for oncology departments.

RayCare will bring comprehensive cancer treatment into reach for many centers and create clinical possibilities that existing systems simply cannot deliver. Many cancer patients receive a combination of treatment approaches, and RayCare is designed to reflect this reality. It goes beyond the possibilities of any other system in modeling the patient's reality and supporting a combined workflow, efficiently coordinating activities in radiation therapy, chemotherapy and surgery.

The feedback we have received from the clinical world has been overwhelmingly positive, and the need for this system is clear.

WORLD-LEADING PARTNERSHIPS

We are developing RayCare together with some of the world's leading cancer centers. I would like to take this opportunity to thank our original clinical partners, UMC Groningen, UCSF and Iridium Kankernetwerk, for their support in bringing RayCare to its current mature stage. The expertise of our partners is vital in developing an OIS that truly supports the treatment aims of clinicians. We now have a range of partnerships that cover the full spectrum of clinical excellence for RayCare, and more will come on board.

We have also established commercial partnerships with several leading hardware manufacturers. Our strategic alliance with IBA combines our respective technologies to advance adaptive proton therapy. We also have a strong cooperation with Accuray, which has resulted in RayStation's® unique position as the only treatment planning system to support both conventional linacs and TomoTherapy systems. In addition, we have extended our cooperation with Mevion Medical Systems to include RayCare and to take full advantage of the advanced treatment capabilities of the Mevion S250i with Hyperscan and Adaptive Aperture, effectively providing a turnkey solution for proton therapy.

RAYSTATION: POWERFUL MOMENTUM

Alongside the development of RayCare, we have continued to build on the success of RayStation, the most innovative treatment planning system on the market. Sales growth was excellent during 2016, and we are on track to achieve our goal of a 30% global market share within 10 years.

Proton therapy is an important focus area for RaySearch, and we are continuing to strengthen our market share. Sales in this segment increased significantly during 2016; we received an additional 12 RayStation orders for proton therapy, which reflects our commitment and strong offering.

PROFITABLE EXPANSION

Demand for our innovative software is increasing worldwide, and RaySearch has grown in order to meet the needs of customers and patients. We recruited an additional 29 people during 2016, taking our workforce to over 200 staff. Development and support roles were a particular focus for these recruitments, enabling us to accelerate the development of RayCare and to ensure the highest levels of customer service wherever we operate.

We established subsidiaries in Japan and Korea during the year and began recruiting key staff. We also strengthened our subsidiary in China with the addition of sales and support functions and the appointment of a business director. It is very satisfying that we have been able to make this significant expansion and investment in our organization while staying highly profitable.

* Subject to regulatory clearance in some markets

JOHAN LÖF
CEO AND FOUNDER
RAYSEARCH LABORATORIES

THE FUTURE IS IN SIGHT

During 2017, we will substantially grow our organization in development, sales and support to meet the growing worldwide demand for our innovative software. With the launch of RayCare, we are extending our activities to include surgery and chemotherapy in addition to radiation therapy.

Since RayCare is designed to be a learning system, it has also led to a new technology focus area for RaySearch: machine learning. To advance our position in this cutting-edge sector, we have established a special machine learning group. I believe machine learning will be a driving force in the future of medical software systems, and it is exciting to be among the pioneers of this technology when it comes to cancer treatment.

We are establishing additional development offices in two key locations: Toronto and San Francisco. Both areas have huge talent pools, which will increase our capability to recruit personnel with the right expertise.

People are at the heart of everything we do, and I would like to take this opportunity to thank all of our talented co-workers, who have helped to bring about RaySearch's success. We now have a strong organization in place around the world. It's a great team, and I'm proud of what we have achieved together. Your creativity and dedication are driving forces behind RaySearch's world-leading software and our contribution to the lives of cancer patients. Software is driving innovation in oncology today and has the power to transform cancer treatment. RaySearch is in a unique position to deliver on this promise. Together, we are heading into an exciting new phase.

Johan Löf, CEO and founder,
RaySearch Laboratories

ADMINISTRATION REPORT

The Board of Directors and the CEO of RaySearch Laboratories AB (publ), organization number 556322-6157, hereby issue the Annual Report and consolidated financial statements for the financial year 1 January–31 December 2016.

OPERATIONS

RaySearch is a medical technology company that develops innovative software solutions for improved cancer care. The company develops and markets the proprietary treatment planning system RayStation® to clinics all over the world and distributes software products via licensing agreements with leading medical technology companies. The company also develops the next-generation oncology information system, RayCare®, which constitutes a new product area for RaySearch, and will be launched in December 2017. RaySearch's software is used by over 2,600 clinics in more than 65 countries. The company was founded in 2000 as a spin-off from Karolinska Institutet in Stockholm and has been listed on Nasdaq Stockholm since 2003.

Sales success for RayStation continues, and the system is now firmly established in all major markets around the world and acknowledged as one of the most advanced treatment planning systems for radiation therapy. Success factors include RayStation's high calculation speed, support for adaptive radiation therapy, automated workflow, unique multi-criteria optimization and user-friendly interface. Another strength of RayStation is that it supports more treatment delivery machines than any other treatment planning system. RayStation contributes to enhanced radiation therapy processes, extends the lifespan of radiation equipment and ensures it can be used more effectively. This means that clinics can often achieve optimal treatment quality without the need to purchase the latest hardware. More and more highly regarded cancer clinics confirm that RayStation helps them improve treatment processes and utilize existing treatment delivery equipment more effectively.

At the end of 2016, more than 375 cancer clinics in 25 countries had purchased RayStation. At the same time, since there are more than 8,000 radiation therapy clinics worldwide, the company's growth potential remains strong. During the year, the company continued to expand its global marketing organization, increased the number of sales and support employees in its European and US subsidiaries, and established more subsidiaries in Asia, for example in Japan and South Korea.

However, the greatest proportion of our employees still work with research and development. Research activities are future-oriented and form the basis for next-generation products. Research is mainly focused on the following areas: adaptive radiation therapy, automated planning, multi-criteria optimization, MR-based treatment planning, optimization of clinic resources, and tools for robust optimization against issues that can occur during treatment. Research is conducted in close cooperation with such organizations as the KTH Royal Institute of Technology in Stockholm, Princess Margaret Hospital in Canada, UMC Groningen in the Netherlands, as well as the Massachusetts General Hospital and Stanford University in the US.

Development work is focused on products that reflect market requirements, customer demands and research results in commercial products. This takes the form of the development of new products and the refinement and maintenance of existing ones. Development activities in 2016 were focused on RayStation 6 and RayCare. RayStation 6 was launched at the end of 2016 and is the only treatment planning system that can plan for both conventional linear accelerators and Accuray's TomoTherapy™ System. During 2016, RaySearch noted increased interest in RayCare, the next-generation oncology information system. When RayCare is launched in December 2017, the world's cancer clinics will have access to a comprehensive information system covering the main oncology disciplines – radiation therapy, chemotherapy and surgery. RayCare will be able to handle workflows and store information about a cancer patient's entire treatment plan, which presents new opportunities for data analysis and evaluation of treatment results. In order to ensure that the company meets the needs of clinics, development work takes place in close cooperation with prominent cancer centers. Currently, RaySearch collaborates with the University of California, San Francisco and the University of Texas MD Anderson Cancer Center in the US, UMC Groningen in the Netherlands and Iridium Kankernetwerk in Belgium. The company intends to embark on further partnerships with world-leading centers during 2017. Solving the coordination, security and efficiency needs of the world's largest cancer clinics is one of RaySearch's most exciting challenges so far. The company's partnership model provides good opportunities to succeed, thanks to the extensive clinical knowledge and resources of partner clinics, as well as RaySearch's ability to develop innovative software solutions.

The parent company and the Group present their financial statements in Swedish kronor (SEK).

SIGNIFICANT EVENTS DURING THE YEAR

RaySearch moved to Mid Cap at Nasdaq Stockholm

On 4 January 2016, RaySearch's Series B (RAY B) share was transferred from the Small Cap to the Mid Cap segment of Nasdaq Stockholm as a result of Nasdaq's annual review of market values for the Nordic markets.

RayStation 5 launched, with support for carbon ion planning

In February 2016, version 5 of the RayStation treatment planning system was launched for clinical use in the UK, Australia and New Zealand, and it was then launched on most major markets in the first half of 2016. RayStation is the only commercially available system that supports treatment planning for carbon ion therapy, the most advanced form of radiation therapy. RayStation 5 also introduced several other new features, such as robust optimization based on 4D-CT images, as well as Plan Explorer, a tool that automatically generates a large number of plans for defined clinical goals and combinations of treatment techniques and machines, providing an efficient way to filter and browse among plan candidates to evaluate the best option.

Long-term partnership agreement concluded with the University of California, San Francisco (UCSF), regarding RayCare

In February 2016, RaySearch announced a long-term cooperation agreement with UCSF regarding RayCare. "UCSF is an ideal partner for this development. It is a world-leading cancer treatment institution, and offers a comprehensive and heterogeneous set of treatment machines and other systems, which represent a challenging and excellent environment for developing RayCare," said RaySearch CEO Johan Löf.

RayStation selected by several prominent cancer clinics

During 2016, several of the world's largest and most respected cancer clinics chose RayStation as their treatment planning system, including:

- The University of California, San Francisco (UCSF), which greatly expanded its installation, adopting RayStation as the treatment planning system for all linac-based treatments
- Miami Cancer Institute, which became the first proton therapy center in southern Florida
- University of Washington Medical Center, University of Wisconsin-Madison

– University of Arizona Department of Radiation Oncology (Tucson)
– Holland Particle Therapy Centre, the Netherlands' first proton center
– UMC Groningen in the Netherlands, which chose RayStation for its new proton therapy center and to replace the hospital's existing treatment planning systems for radiation therapy with photons
– UZ Leuven, UCL Saint-Luc and AZ Sint-Jan Brugge-Oostende AV in Belgium
– Queen Elizabeth Hospital Birmingham in the United Kingdom
– Chang Gung Memorial Hospital in Taiwan
– Several new proton therapy centers in Japan: Tsuyama Chuo Hospital, Medical Corporation HAKUHOKAI Osaka Proton Therapy Clinic and Hyogo Ion Beam Medical Center/Kobe Proton Center

Strategic Alliance with IBA

In September 2016, it was announced that IBA and RaySearch, global leaders in proton treatment solutions and treatment planning software, had entered into a long-term strategic alliance to combine their respective technologies and take adaptive radiation therapy with protons to the next level. As part of the collaboration, RayCare will be customized for optimal use together with the IBA's delivery solutions. In both RayStation and RayCare, as well as in IBA proton therapy systems, joint features, dedicated software interfaces and modified graphical user interface components will allow for a close and seamless workflow integration with optimized performance. The result will be a complete turnkey solution for all software and hardware needed to deliver outstanding adaptive proton therapy treatment.

Extended cooperation with Mevion

In September 2016, RaySearch and Mevion announced an extension of their collaboration to include RayCare and to fully exploit the advanced features of the Mevion S250i proton therapy system with Hyperscan and Adaptive Aperture.

Extended credit line

In September 2016, an agreement was signed to expand the company's credit framework from SEK 50 M to SEK 100 M, with corporate subscriptions increasing to SEK 100 M. The credit facility runs for three years until September 2019 and consists of an overdraft facility of SEK 25 M and a revolving credit facility of up to SEK 75 M.

Change in the Board of Directors

In November 2016, Erik Hedlund resigned as Chairman of the Board and left the Board on 17 November 2016. Carl Filip Bergendal was elected as new Chairman of the Board until the Annual General Meeting, which will be held on 23 May 2017.

Change in RaySearch's Group Management

Victoria Sörving, General Counsel, left the company in September 2016. Petra Jansson has been recruited as the new General Counsel with effect from 1 July 2017. Petra's previous positions include General Counsel at EKN and Assistant General Counsel at Gambro.

EVENTS AFTER THE REPORT PERIOD

RayStation 6 launched

Launched in January 2017, RayStation 6 was announced as the only system to support treatment planning for both conventional linacs and Accuray's TomoTherapy™ System. RayStation 6 introduced other new functionality, such as Monte Carlo dose planning for active proton pencil-beam scanning (PBS), PBS planning with block apertures, simultaneous co-optimization of multiple beam sets, MR-based planning and auto-recovery. Support for clinical use with TomoTherapy systems was included in a service pack that was released in April 2017.

New AI technology for automated treatment planning

In February 2017, it was announced that the University Health Network (UHN) in Canada had licensed a new AI technology for automated radiation therapy treatment (AutoPlanning) in an exclusive agreement with RaySearch.

Johan Löf named Sweden's foremost entrepreneur

In February 2017, Johan Löf, RaySearch's CEO and founder, was named Sweden's foremost entrepreneur in the national final of the EY Entrepreneur of the Year award. The jury's motivation explained: "Johan Löf has created a company that benefits both individuals and society. Advanced products and strong personal and commercial drive make his business stand out. Continued expansion is on the agenda for this entrepreneur, who improves quality of life for millions of people."

Collaboration with MD Anderson regarding RayCare

In March 2017, RaySearch announced a long-term collaboration agreement with the University of Texas MD Anderson Cancer Center in Houston, Texas, regarding the development of RayCare. "I am proud that MD Anderson Cancer Center has joined us in the RayCare project. Solving the coordination, safety and efficiency needs of one of the world's largest cancer care providers is one of our most exciting challenges to date. This collaboration has a strong foundation for success, building on the vast clinical knowledge and resources of MD Anderson and the innovative development capabilities of RaySearch." said Johan Löf, CEO of RaySearch.

Order bookings

In 2016, the total order bookings excluding service contracts increased by 30.1 percent compared with the previous year and amounted to SEK 501.1 M (385.2), of which orders received excluding service contracts for RayStation increased by 45.5 percent to SEK 461.0 M (316.9). As of 31 December 2016, the order book for RayStation amounted to SEK 67.6 M (49.1).

Revenue

In 2016, net sales increased by 33.7 percent compared with the previous year and amounted to SEK 531.5 M (397.6). Net sales consist of license and support revenues, partly through direct sales of RayStation and partly through the sale of software modules via partners. Revenue from RayStation increased by 58.4 percent to SEK 476.0 M (300.4), which represented 90 (76) percent of the company's net sales. Revenue from sales of software modules via partners decreased by 43 percent to SEK 55.5 M (97.2), and therefore accounted for only 10 (24) percent of net sales in 2016. In 2 016, 23 (24) percent of RayStation license revenues came from existing customers. Recurring support revenues from RayStation increased by 147 percent to SEK 31.1 M (12.6), which represented 6.5 (4.2) percent of the total revenue from RayStation.

ADMINISTRATION REPORT, cont.

	2016	2015
License revenue – RayStation	443.4	285.0
License revenue – Partner	40.1	68.3
Support revenue – RayStation	31.1	12.6
Support revenue – Partner	15.4	28.9
Training and other revenue – RayStation	1.5	2.8
Net Revenue	**531.5**	**397.6**
Revenue growth, %, during the reporting period	33.7	39.5
Organic revenue growth, %, during the reporting period	31.6	32.9

In 2016, net revenue had the following geographical distribution: North America 42 (41) percent, Asia 15 (22) percent, Europe and rest of the world 43 (37) percent.

OPERATING RESULTS

In 2016, operating income increased to SEK 199.6 M (95.3), which corresponds to an operating margin of 37.5 (24.0) percent. RaySearch continues to expand its global marketing organization, which has led to higher costs for marketing and sales personnel, service and administration. However, this cost increase has been more than compensated for by the increased turnover in 2016.

Currency effects

The company is affected by the development of the US dollar and euro against the Swedish krona, as invoicing is primarily done in US dollars and euros, while most of the costs are in Swedish kronor. With unchanged exchange rates, organic revenue growth amounted to 31.6 percent in 2016. Currency exchange rates have thus had a positive impact on net sales and operating profit in 2016.

A sensitivity analysis of currency exposure shows that the effect on operating profit in 2016 of a change in the US dollar rate by +/– 10 percent is approximately +/– SEK 30.2 M and that the corresponding effect of a change in the euro rate by +/– 10 percent amounts to around +/– SEK 15.5 M.

The company adheres to a financial policy adopted by the Board not to hedge against exchange rate fluctuations. See the sensitivity analysis in Note 28 on page 31.

Activation of development costs

As of 31 December 2016, 111 (100) employees worked with research and development. Research and development costs include costs for salaries, consultancy fees, computer equipment and premises. From 2016, costs for the quality department, patents, internal IT support, etc. have been moved from the development department to the central administration. Increased capitalization of development expenses primarily refers to RayCare, which is scheduled to be launched in December 2017.

In 2016, research and development expenses increased to SEK 141.3 M (132.5). Development expenses amounting to SEK 104.4 M (81.0) were capitalized and the amortization of capitalized development expenses amounted to SEK 56.3 M (50.0). Research and development costs, after adjustment for capitalization and the amortization of development expenses, amounted to SEK 93.2 M (101.5). See Note 16.

Capitalization of development costs	2016
Research and development expenditure	141.3
Capitalization of development expenditure	–104.4
Amortization of capitalized development expenditure	56.3
Research and development expenditure after adjustments for capitalization and amortization of development expenditure	93.2

Depreciation

In 2016, the total depreciation amounted to SEK 67.3 M (56.5), of which depreciation of intangible fixed assets amounted to SEK 56.3 M (50.0), mainly related to capitalized development expenses, and the depreciation of fixed assets amounted to SEK 11.0 (6.5) M.

PROFIT AND EARNINGS PER SHARE

Profit after tax in 2016 amounted to SEK 151.4 M (70.2), which signifies that earnings per share before and after dilution increased to SEK 4.42 (2.05). The tax expense for the year amounted to SEK –46.7 M (–23.3), which corresponds to an effective tax rate of 23.6 (24.9) percent.

CASH FLOW AND LIQUIDITY

Cash flow from operating activities in 2016 increased to SEK 120.8 M (111.4), mainly due to strongly improved earnings. However, this was counteracted by significantly increased working capital. The increased operating capital is largely explained by increased accounts receivable due to higher turnover and the fact that a large part of the sales occurred at the end of the year. Accounts receivable have increased significantly in 2016 and amounted to 53 (42) percent of the net sales at the end of the period. A number of measures have been taken to shorten the time from delivery to payment.

Cash flow from investing activities amounted to SEK –106.9 M (–103.9), of which investments in intangible fixed assets amounted to SEK –104.4 M (–81.0) and consisted of capitalized development costs for RayStation and RayCare. Investments in fixed assets amounted to SEK –5.0 M (–35.7), of which SEK –2.5 M was financed by financial leasing. Cash flow from financing activities amounted to SEK 12.3 M (–3.9), which was mainly attributable to the fact that another SEK 25 M was borrowed in 2016 within the framework of the company's revolving loans.

Cash flow for the year amounted to SEK 26.2 M (3.6) and at 31 December 2016, the Group's liquid assets amounted to SEK 87.7 M (59.7).

FINANCIAL STANDING

RaySearch's balance sheet amounted to SEK 717 M (484) as of 31 December 2016 and the equity ratio was 64.2 (65.9) percent.

The Group's net debt amounted to SEK –26.2 M (–21.5) as of 31 December 2016. Short-term accounts receivable amounted to SEK 347.9 M (187.8). Accounts receivable consisted mainly of customer receivables and the increase is largely explained by a sharp increase in sales.

In September 2016, the company's credit was increased from SEK 50 M to SEK 100 M, with corporate subscriptions increasing to SEK 100 M. The credit facility runs until September 2019 and consists of an overdraft facility of SEK 25 M and a revolving loan of up to SEK 75 M. As of 31 December 2016, SEK 50 M had been borrowed as a revolving loan. Of the company's overdraft of SEK 25 M, SEK 17.7 M has been designated as collateral for bank guarantees.

Current debt relating to the settlement with Prowess of SEK 14.4 M (USD 1.6 M) was finalized in October 2016.

EMPLOYEES

The average number of employees in the RaySearch Group was 184 (157) in 2016, and at year-end, the number of employees was 193 (175), of whom 158 were employed in Sweden and 35 in foreign subsidiaries.

Employees have a high level of education, with 96.6 percent holding bachelor degrees or equivalent and 15.2 percent holding doctoral degrees. Of the company's employees at the end of the year, 35.8 percent were women and 64.2 percent men.

RaySearch strives to maintain an outstanding working environment with stimulating development opportunities for its employees. Competent, committed and creative employees provide the foundation for the company to continue developing high-quality software solutions. In addition, RaySearch has high standards in the workplace regarding environment, health, safety and individualized working conditions.

RaySearch works actively with diversity and gender issues and has clear goals to increase the proportion of women in technical and management positions. The company aims, among other things, to make it easy for employees to combine work and family life and cater for flexible working solutions as much as possible.

To ensure all employees have a fair salary, regular payroll mapping is carried out in Sweden in order to detect, remedy and prevent unreasonable pay differences. The survey showed that in 2016, there were no unrealistic or material salary differences in the company.

All employees of the RaySearch Group have the right to join a union or similar organization.

ENVIRONMENT AND SUSTAINABILITY

RaySearch works actively to minimize environmental impact and to develop as a sustainable company. The company's products, which consist of software for cancer treatment, have a limited negative environmental impact. The company's environmental impact instead lies in the procurement of goods and services, energy use and transport. RaySearch aims to contribute to sustainable development and therefore actively works to improve environmental performance as far as is economically reasonable. RaySearch has a dedicated Environmental Policy. The company prioritizes corporate social responsibility and contributes to long-term sustainable development based on good social, ethical and environmental considerations.

SEASONAL VARIATIONS

RaySearch's revenue has a typical seasonal variation for the industry, with the fourth quarter usually the strongest quarter, and a somewhat weaker second quarter.

FUTURE PROSPECTS

Each year, more than 14 million new cases of cancer are reported worldwide, and this number is expected to increase to over 24 million by 2030. RaySearch has successfully established RayStation as a leading treatment planning system in all major markets worldwide. Sales with high volume growth continue for RayStation and the company is still benefiting from a strong US dollar. The company continues to expand its global marketing organization and still has a small market share globally, which means that RayStation has very good growth opportunities.

In parallel, marketing and sales cooperation continue with three partners. These collaborations are still significant for the company's earnings and financial position, but relative sales from partner sales have decreased and are expected to continue to decline.

RaySearch sees great interest in RayCare, the oncology information system the company is developing. A cancer clinic generally needs two software platforms for its operations: an information system and a treatment system. With RayCare and RayStation, RaySearch will be able to provide a clinic's entire information management and treatment planning infrastructure. The launch of RayCare in December 2017 is expected to provide RaySearch with new opportunities, both clinically and commercially, which is confirmed by the company's long-term cooperation agreement with several prominent cancer clinics, including the University of California, San Francisco and the University of Texas MD Anderson Cancer Center in the US, UMC Groningen in the Netherlands and Iridium Kankernetwerk in Belgium, as well as several leading equipment suppliers, including IBA, Accuray and Mevion.

Overall, the outlook is very good for RaySearch.

RISKS AND UNCERTAINTIES

As a global Group with operations in different parts of the world, RaySearch is exposed to various risks and uncertainties, such as market risks, operational risks and financial risks. Risk management within RaySearch aims to identify, assess and mitigate risks related to the Group's business and operations.

Market risks

RaySearch's presence in a large number of geographic markets involves exposure to political and economic risks both globally and in individual countries or regions. Weak economic development and strained finances can, in some markets, lead to a negative impact on government investment in cancer care and make it more difficult for private customers to arrange funding.

Operational risks

Competition

RaySearch operates in a competitive arena and mainly competes with Varian, Elekta and Philips, which invest significant resources in developing systems and technology solutions that compete with RaySearch's products. RaySearch only sells software, and in some situations there is a risk that the company's competitors will utilize their position as hardware suppliers to sell packaged, complete solutions including both software and hardware to customers.

Product development

New products and improved treatment methods are being launched continuously, and future developments in the medical technology market can affect RaySearch's competitiveness. RaySearch develops highly advanced systems and technical solutions and takes the risk of development efforts up until launch, which can lead to higher costs than expected. This is mitigated by continuous project monitoring and quality assurance.

It is also important that the new systems and technical solutions developed by RaySearch are protected from unlawful use by competitors. RaySearch's

ADMINISTRATION REPORT, cont.

advanced software products are, in most cases, protected by copyright and, if possible, RaySearch also protects its products through patent and trademark registration.

Strategic partnerships

The medical technology industry is characterized by relatively rapid technological development with advances in industrial knowledge and competence. RaySearch's systems and software products are developed in close cooperation with leading cancer clinics and research institutions. It is crucial for RaySearch to maintain these long-term and close relationships in order to meet customer needs.

RaySearch also has strategic partnerships with a number of equipment suppliers, such as IBA, Accuray, Mevion, etc., as well as partnerships with Philips, Varian and IBA Dosimetry, which sell the company's products. If RaySearch were to lose one or more of its strategic partners, this could have a negative impact on the company's sales, results and position.

Alternative treatment methods

Of the three primary forms of cancer treatment – surgery, radiation therapy and chemotherapy – radiation therapy is the form that has increased most over the past 20 years. RaySearch estimates that radiation therapy will continue to be an important treatment option in the future.

Sales organization

RaySearch sells its systems and products through its own sales organization and through an external network of distributors and partners. The company's continued success is dependent on the ability to build and maintain successful customer relations as well as to establish and maintain an effective market organization and successful partnerships with external sales channels.

Corruption

Corruption is an obstacle to development and growth in some countries where RaySearch operates. RaySearch has anti-corruption policies and processes to manage third-party risks and prevent corrupt behavior.

Authority approvals and regulatory processes

RaySearch operates in several geographic markets, which exposes the Group to a large number of laws, rules, policies and guidelines, such as health, safety, environmental issues, trade barriers, competition, currency control and the delivery of systems and products. As a developer of medical devices, RaySearch's operations are governed by the requirements and standards determined by regulatory authorities. Consequently, regulatory changes may result in increased costs or barriers to sales of RaySearch's systems and products. Regulatory processes can also affect the ability to introduce new systems and products.

RaySearch, like other companies in the industry, is dependent on assessments and decisions by relevant authorities, such as the Food and Drug Administration (FDA) in the USA. Such assessments include, for example, product safety and permission to market and sell medical devices. Applications to such authorities require extensive documentation and unforeseen circumstances may delay the opportunity to introduce, market, sell and deliver systems and products as well as prevent or restrict the commercial benefit and / or cause substantial additional costs.

RaySearch must comply with rigorous regulatory requirements from all markets in which business is conducted, such as the EU regulatory framework for medical devices (Directive 93/42 / EEC), US FDA requirements for Quality System Regulation (QSR) and Canadian Health Canada's regulatory framework for medical devices. RaySearch's operations are conducted according to a quality system that also complies with international regulations and product safety standards from the International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). The quality system is evaluated and certified by external regulatory authorities and inspected regularly. For example, if safety precautions are not met, this could result in delays and discontinued deliveries of RaySearch's systems and products.

RaySearch is constantly evaluating the conditions for entering new markets. The opportunities and risks involved are taken into account. Each market has its own regulatory requirements for registration, which may potentially delay product launches and certification.

Dependent on qualified personnel and key personnel

RaySearch is dependent on the skills to develop its advanced medical technology systems, which requires highly qualified employees. The company's ability to attract, recruit and retain qualified personnel, key personnel with specialist competence, and management are crucial to the Group's future success.

Changes in compensation systems

RaySearch's ability to commercialize its solutions depends on the level of remuneration that hospitals and clinics can receive. Compensation systems vary between countries and changes in current remuneration systems related to healthcare products or the implementation of new rules may have a direct impact on the demand for RaySearch's products.

Legal disputes

Through RaySearch's business, the company risks occasionally being involved in disputes related to its ongoing operations. Such disputes may involve product liability, contractual matters, intellectual property rights and alleged shortcomings in the delivery of goods and services. Disputes can be costly, time-consuming and impede ongoing operations. Disputes relating to intellectual property rights are costly and may have a material impact on RaySearch's business and financial position. In addition, it may be difficult to predict the outcome of complex disputes. Disputes related to RaySearch's product liability may include alleged negligence, warranty breach or malpractice, which can lead to substantial costs regardless of whether RaySearch is ultimately held liable or not. RaySearch has product liability insurance, but there is a risk that future claims may exceed or fall outside the insurance coverage.

Changes in tax system

RaySearch's business includes the development and delivery of software solutions and services in a wide range of jurisdictions. The business is taxed according to laws in the jurisdiction in which the business is conducted. Changes in tax systems may affect the Group's tax liabilities and tax costs, which may result in an increase or decrease in the financial result depending on the type of change that occurs.

International regulations governing the global tax environment are also subject to regular changes. The OECD (Organization for Economic Co-operation and Development) has proposed a number of changes through the introduction of BEPS (Base Erosion and Profit Shifting). The implementation of these changes can result in a reallocation of profits between different jurisdictions and an increase or decrease in related tax expense and cash flows.

Financial risks

The RaySearch Group is exposed to various financial risks such as currency risk, interest rate risk, credit risk and liquidity risk.

Currency risk is the risk of fluctuations in the value of future business transactions and reported assets and liabilities in foreign currency due to changes in exchange rates. Interest rate risk refers to the risk that changes in interest rates affect RaySearch's earnings negatively. Credit risk arises partly through financial credit risk related to liquid assets and balances with banks and financial institutions, as well as credit exposures with regard to customers and distributors. Liquidity risk refers to the risk of not being able to meet payment obligations as a result of insufficient liquidity or difficulty in securing external loans. Some of RaySearch's financing agreements include financial covenants, such as net debt / EBITDA and equity. A development of financial measures in a way that impacts net debt / EBITDA and equity can negatively result in violations of the company's financial covenants and lead to the renegotiation of financing agreements or existing financing needs to be repaid.

RaySearch's risk management is managed by the Group's Finance Department, which identifies, evaluates and hedges financial risks. The work is carried out in accordance with the Board's overall risk management policies and the Group's financial policy, which forms a framework of guidelines and rules in the form of risk mandates and limits for financial activities.

RaySearch has significant exposure to exchange rate fluctuations through its international business and structure. Exposure is mainly due to having costs in Swedish kronor while the majority of revenues are US dollars and euros.

Some currency hedging has not been made in accordance with the established financial policy. The finance policy is updated at least once a year.

For more information on financial risks and financial risk management, see Note 28 on page 31.

PARENT COMPANY

RaySearch Laboratories AB (publ) is the parent company of the RaySearch Group. The operations and accounts of the parent company are essentially consistent with the operations and accounts of the Group, so the comments for the Group to a large extent also apply to the parent company. Capitalization of development costs and adjustments related to financial leasing are reported for the Group, but not in the parent company. The parent company's current receivables consist primarily of receivables from the Group company and customer receivables. The parent company's pre-tax profit amounted to SEK 103.2 M (42.8) and at 31 December 2016, the parent company had liquid assets of SEK 67.0 M (25.8).

HOLDING OF OWN SHARES

The company did not hold any of its own shares in 2016.

SHARES AND OWNERSHIP

In 2016, at the request of shareholders, 1,567,839 shares were converted to Series B shares. The total number of registered shares in RaySearch amounted to 34,282,773 as of 31 January 2016, of which 8,694,975 were Series A shares and 25,587,798 Series B shares. The quota value is SEK 0.50 and the share capital of the company amounted to SEK 17,141,386.50. Each Series A share entitles ten votes and each Series B share entitles one vote at the Annual General Meeting. The total number of votes in RaySearch amounted to 112,537,548 at 31 December 2016. At the Annual General Meeting, each voter may vote for the full number of shares held or represented without restriction in the votes. The number of shareholders in RaySearch amounted to 5,383 as of 31 December 2016 and the largest shareholders according to Euroclear are:

Name	Class A-shares	Class B-shares	Total shares	Capital %	Votes %
Johan Löf	6,243,084	618,393	6,861,477	20.0	56.0
Lannebo fonder	0	4,774,147	4,774,147	13.9	4.3
Montanaro fonder	0	2,880,000	2,880,000	8.4	2.6
Andra AP-fonden	0	1,891,775	1,891,775	5.5	1.7
Erik Hedlund	0	1,695,788	1,695,788	5.0	1.5
Swedbank Robur fonder	0	1,511,702	1,511,702	4.4	1.3
Första AP-fonden	0	1,409,118	1,409,118	4.1	1.1
Anders Brahme	1,390,161	10,000	1,400,161	4.1	12.4
Carl Filip Bergendal	1,061,577	144,920	1,206,497	3.5	9.6
JPMorgan Chase (UK)	0	1,026,467	1,026,467	3.0	0.9
Total 10 largest owners	**8,694,822**	**15,962,310**	**24,657,132**	**71.9**	**91.5**
Other	153	9,625,488	9,625,641	28.1	8.5
Total	**8,694,975**	**25,587,798**	**34,282,773**	**100**	**100**

The Annual General Meeting has authorized the Board to decide whether the company will issue new shares. The number of shares that may be issued on the basis of the authorization shall not exceed the equivalent of 10 percent of the share capital. Emissions may be made with or without deviation from shareholders' pre-emptive rights, as well as with or without provision for a consideration or offset or other terms. The authorization is valid until the next AGM.

As far as the RaySearch Board is aware, no shareholder agreement exists for either the A or B shares. The Articles of Association do not contain any special provisions regarding the appointment and resignation of board members or the amendment of the Articles of Association. There are no agreements between the company and board members or employees who, in the event of an unambiguous takeover bid for the shares in the company, provide compensation if these persons resign, are terminated without reasonable grounds or if their employment ends.

BONUS AND PROFIT SHARING FOUNDATION

Of the employees of the Swedish parent company, RaySearch Laboratories AB (publ), only the CEO, the Director of Sales and Marketing and the Director of Sales for Asia & Pacific and Sales Manager for the Nordic region are covered by a bonus program.

The profit sharing foundation RayFoundation covers all employees of the parent company, including senior executives, except for the CEO. An allocation to the profit-sharing foundation is made in a given year if consolidated operating profit for the preceding year reached a level in excess of an operating margin of 20 percent. In such a case, the amount reserved is 10 percent of that part of operating profit above the limit. Allocations are calculated on the operating margin before the allocation to the profit sharing foundation and the CEO's variable remuneration.

Regarding the 2016 profit, allocation to the profit sharing foundation RayFoundation was made during the year with a total of SEK 10.9 M (2.0), of which SEK 2.1 M (0.4) relates to special salary tax.

Sales staff in RaySearch's international sales companies, RaySearch Americas, RaySearch Asia, RaySearch Belgium, RaySearch France, RaySearch UK and

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RaySearch Germany, are covered by bonus programs based on sales-related targets for their respective sales company.

GUIDELINES FOR REMUNERATION FOR MANAGING EXECUTIVES

The starting point for the Board is that remuneration and other terms of employment for company management should be market-related. How the principles for remuneration and other employment terms have been applied in 2016 for senior executives in RaySearch Laboratories AB (publ) are described below.

Salary and other remuneration

The CEO receives a fixed basic salary plus variable remuneration. The variable remuneration amounts to 2.0 percent of the Group's profit before tax after allocation to the profit sharing foundation RayFoundation, up to a maximum of 12 months' salary. In addition, the CEO may have other benefits of a customary nature, such as a company car.

The CEO's salary is revised annually. This is through negotiations between the CEO and the Chairman of the Board, after which the Chairman will make a proposal to other Board members. The CEO shall not attend when the Board deliberates and decides on this matter.

At the beginning of 2016, other senior executives included the Deputy CEO, CFO, Chief Science Officer, Director of Development, Director of Sales and Marketing, Director of Sales for Asia & Pacifc and General Counsel. In 2016, the General Counsel left the company.

The Director of Sales and Marketing has a fixed basic salary plus variable remuneration, which corresponds to a certain proportion of sales by RayStation in Europe. The Director of Sales for Asia & Pacific is to have a fixed basic salary plus variable remuneration, which corresponds to a certain proportion of sales of RayStation in the Asia & Pacific region. The Deputy CEO, CFO, Chief Science Officer, Director of Development, Director of Technology and General Counsel are to have a fixed basic salary but no variable remuneration.

Other senior executives' salaries are reviewed annually. This is through negotiations between the CEO and the individual employee.

Incentive program

There is no specific incentive program for senior executives and no such program has been proposed. However, senior executives, with the exception of the CEO, and other employees are entitled to participate in the options and profit sharing programs applied by the company.

Pension

All pension undertakings are defined-contribution plans. The retirement age for the CEO and other senior executives is 65, and the pension premium is equivalent to the Swedish ITP plan.

Termination of employment

If the CEO resigns, a notice period of six months applies, and if the company terminates the CEO's employment, a notice period of 12 months applies. In both cases, the CEO is entitled to pay during the term of notice. Other senior executives are subject to a mutual notice period of three months, during which salary is paid.

Severance pay

Neither the CEO nor other senior executives are entitled to severance pay in the formal sense if their employment ceases. However, as stated above, the CEO and other senior executives are entitled to salary during the notice period.

Deviations

The Board proposes that it be permitted to deviate from the above guidelines if special reasons for doing so arise.

Proposed guidelines for 2016

For 2017, the same guidelines are proposed as for 2016.

INTERNAL CONTROL

Refer to Disclosures in the Corporate Governance Report on page 40.

DIVIDEND POLICY AND EXPLANATORY STATEMENT

In accordance with the Board's dividend policy, RaySearch is to distribute approximately 20 percent of the Group's profit after tax to shareholders, provided that a healthy capital structure can be maintained. However, since RaySearch has entered an expansive and capital-intensive phase of development, the Board has proposed that no dividend payment shall be made for 2016. For the fiscal year 2015, a dividend of SEK 8.6 M was paid, corresponding to SEK 0.25 per share.

The Group's earnings and financial position are presented in the following income statements, balance sheets and financial position and cash flow statements, with accompanying notes to the financial statements.

PROPOSED ALLOCATION OF THE COMPANY'S PROFIT

The following is at the disposal of the AGM:

SEK 000s	
Retained earnings	99,962
Profit for the year	77,428
Total	**177,390**

The Board and the CEO propose that SEK 177,390,000 be carried forward.

MULTI-YEAR OVERVIEW

CONSOLIDATED INCOME STATEMENTS					
SEK 000s	2016	2015	2014	2013	2012
Net sales	531,468	397,600	285,217	204,470	182,087
Cost of goods sold	–26,872	–23,690	–11,627	–6,059	–3,029
Gross profit	**504,596**	**373,910**	**273,590**	**198,411**	**179,058**
Research and development expenditure	–93,207	–101,514	–95,069	–90,720	–78,657
Other operating expenses	–211,830	–177,052	–99,161	–133,412	–77,855
Operating profit	**199,559**	**95,344**	**79,360**	**–25,721**	**22,546**
Net financial items	–1,474	–1,854	–659	754	1,018
Profit before tax	**198,085**	**93,490**	**78,701**	**–24,967**	**23,564**
Tax	–46,677	–23,281	–18,869	4,126	–3,701
Profit/loss for the year	**151,408**	**70,209**	**59,832**	**–20,841**	**19,863**
Earnings per share after dilution	4.42	2.05	1.75	–0.61	0.58
Earnings per share after dilution	4.42	2.05	1.75	–0.61	0.58

CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
SEK 000s	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
ASSETS					
Intangible fixed assets	243,219	195,114	164,081	166,678	165,926
Other fixed assets	38,446	41,817	12,951	5,970	3,711
Total fixed assets	**281,665**	**236,931**	**177,032**	**172,648**	**169,637**
Total current assets	**435,589**	**247,559**	**212,721**	**126,514**	**123,390**
TOTAL ASSETS	**717,254**	**484,490**	**389,753**	**299,162**	**293,027**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity attributable to parent company shareholders	460,188	319,517	251,548	196,601	217,553
Liabilities	257,066	164,973	138,205	102,561	75,474
TOTAL EQUITY AND LIABILITIES	**717,254**	**484,490**	**389,753**	**299,162**	**293,027**

CONSOLIDATED CASH-FLOW STATEMENTS					
SEK 000s	2016	2015	2014	2013	2012
Cash flow from operating activities	120,848	111,426	50,273	31,282	87,451
Cash flow from investing activities	–106,949	–103,855	–57,844	–56,542	–54,165
Cash flow from financing activities	12,291	–3,946	24,345	1,563	–
Cash flow for the year	**26,190**	**3,625**	**16,774**	**–23,697**	**33,286**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK 000s	NOTE	2016	2015
Net sales	2, 3	531,468	397,600
Cost of goods sold[1]		–26,872	–23,690
Gross profit	7	**504,596**	**373,910**
Other operating income	8	17,369	13,682
Selling expenses		–156,841	–138,360
Administrative expenses	10	–66,291	–43,240
Research and development expenditure	10	–93,207	–101,514
Other operating expenses	9	–6,067	–9,134
Operating profit/loss	4, 5, 7, 11	**199,559**	**95,344**
Financial income		35	274
Financial expense		–1,509	–2,128
Net financial items	12	**–1,474**	**–1,854**
Profit/loss before tax		**198,085**	**93,490**
Tax	14	–46,677	–23,281
Net profit for the year[2]		**151,408**	**70,209**
Other comprehensive income			
Items to be reclassified to profit or loss			
Translation difference of foreign operations for the year		–2,167	–2,240
Items not to be reclassified to profit or loss		–	–
Comprehensive income for the year[2]		**149,241**	**67,969**
Earnings per share before and after dilution	15	4.42	2.05

[1] Does not include amortization of capitalized development costs. Amortization and capitalization of development expenditure are included in research and development expenses.
[2] 100 percent attributable to parent company shareholders.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK 000s	NOTE	31 Dec 2016	31 Dec 2015
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalized development expenditure	16	243,219	195,114
Other intangeble assets	17	0	0
		243,219	**195,114**
Tangible fixed assets			
Equipment, fixtures and fittings	18	35,667	41,760
		35,667	**41,760**
Other fixed assets			
Other long-term receivables	24	2,267	–
Deferred tax asset	23	512	57
Total fixed assets		**281,665**	**236,931**
Current assets			
Accounts receivable	20	282,535	168,973
Tax receivable		249	149
Other receivables		3,342	2,338
Prepaid expenses and accrued income	21	61,743	16,394
Cash and cash equivalents	22	87,720	59,705
Total current assets		**435,589**	**247,559**
TOTAL ASSETS	29	**717,254**	**484,490**

SEK 000s	NOTE	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY			
Share capital		17,141	17,141
Other paid-in capital		1,975	1,975
Reserves		–8 323	–6,156
Retained earnings, including profit/loss for the year		449 395	306,557
Shareholders' equity attributable to parent company shareholders		**460,188**	**319,517**
Total shareholders' equity		**460,188**	**319,517**
LIABILITIES			
Deferred tax liabilities	23	70,601	51,349
Other long-term liabilities	6, 26	61,527	38,164
Total long-term liabilities		**132,128**	**89,513**
Accounts payable		11,943	9,514
Income tax liabilities		11,148	5,855
Other liabilities		12,231	17,461
Accrued expenses and prepaid income	27	89,616	42,630
Total current liabilities		**124,938**	**75,460**
Total liabilities		**257,066**	**164,973**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**29, 30**	**717,254**	**484,490**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK 000s	Share capital	Other paid-in capital	Translation reserves	Retained earnings incl. net profit for the year	Total
Opening equity, 1 Jan 2015	**17,141**	**1,975**	**–3,916**	**236,348**	**251,548**
Profit for the year				70,209	70,209
Other comprehensive income for the year			–2,240		–2,240
Total comprehensive income for the year			**–2,240**	**70,209**	**67,969**
Closing shareholders' equity, 31 Dec 2015	**17,141**	**1,975**	**–6,156**	**306,557**	**319,517**
Opening shareholders' equity, 1 Jan 2015	**17,141**	**1,975**	**–6,156**	**306,557**	**319,517**
Profit for the year				151,408	151,408
Dividend paid				–8,570	–8,570
Other comprehensive income for the year			–2,167		–2,167
Total comprehensive income for the year			**–2,167**	**142,838**	**140,671**
Closing shareholders' equity, 31 Dec 2016	**17,141**	**1,975**	**–8,323**	**449,395**	**460,188**

CAPITAL MANAGEMENT

RaySearch's managed capital is comprised of shareholders' equity. Changes in managed equity are described above. For information on the terms and conditions for the Group's external borrowing, refer to Note 25. RaySearch's long-term financial target is to have high sales growth, with an operating margin exceeding 40 percent. This target will be achieved by establishing RaySearch as the leading global provider of treatment planning systems and information systems for cancer treatment. RaySearch has the following dividend policy: the Board of Directors' intention is to pay as dividends to the shareholders approximately 20 percent of consolidated profit after tax on condition that a healthy capital structure is retained.

TRANSLATION RESERVE

Translation reserve includes all exchange-rate differences arising in conversion of financial statements from foreign operations that have been prepared in a currency other than the currency used in the consolidated financial statements. The parent company and the Group present their financial statements in SEK.

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK 000s	NOTE	2016	2015
Operating activities			
Profit before tax		198,085	93,490
Adjusted for non-cash items[1]	10, 26	75,238	46,857
Taxes paid		–19,218	–13,595
Cash flow from operating activities before changes in working capital		**254,105**	**126,752**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		–158,083	–17,461
Increase (+)/Decrease (–) in operating liabilities		24,826	2,135
Cash flow from operating activities		**120,848**	**111,426**
Investing activities			
Capitalized development expenditure	16	–104,408	–81,006
Acquisition of tangible fixed assets	18	–2,541	–22,849
Cash flow from investing activities		**–106,949**	**–103,855**
Financing activities			
Loans raised		25,000	–
Dividend paid		–8,570	–
Amortization of financial leasing	6, 26	–4,139	–3,946
Cash flow from financing activities		**12,291**	**–3,946**
Cash flow for the year		**26,190**	**3,625**
Cash and cash equivalents at the beginning of the year		59,705	56,085
Exchange rate differences		1,825	–5
Cash and cash equivalents on 31 December		**87,720**	**59,705**

[1] These amounts include amortization of capitalized development expenditure of SEK 56 M (50), depreciation of fixed assets of SEK 11 M (7) and unrealized exchange rate losses of SEK 7.1 M (–10.0).

Cash and cash equivalents consist of bank deposits.

SUPPLEMENTARY DISCLOSURES TO CASH-FLOW STATEMENT

	GROUP	
SEK 000s	31 Dec 2016	31 Dec 2015
Interest received	217	274
Interest paid	–1,691	–2,128

PARENT COMPANY

INCOME STATEMENT SEK 000s	NOTE	2016	2015
Net sales	2, 3	460,728	337,060
Cost of goods sold		–15,418	–12,040
Gross profit	28	**445,310**	**325,020**
Other operating income	8	17,369	13,682
Selling expenses		–106,745	–94,992
Administrative expenses	10	–67,178	–44,166
Research and development expenditure	10	–141,312	–132,547
Other operating expenses	9	–6,067	–9,134
Operating profit	4, 5, 7, 11	**141,377**	**57,863**
Interest income and similar items		3,125	2,989
Interest expense and similar items		–1,113	–1,519
Profit after financial items	12	**143,389**	**59,333**
Appropriations	13	–40,144	–16,521
Profit before tax		**103,245**	**42,812**
Tax	14	**–25,817**	**–10,217**
Profit for the year		**77,428**	**32,595**

COMPREHENSIVE INCOME SEK 000s	2016	2015
Profit for the year	77,428	32,595
Other comprehensive income	–	–
Total comprehensive income for the year	**77,428**	**32,595**

BALANCE SHEET SEK 000s	NOTE	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Tangible fixed assets			
Equipment, fixtures and fittings	18	21,316	26,272
Financial fixed assets			
Participations in Group companies	19	640	485
Deferred tax asset	23	512	57
Other long-term receivables	24	2,267	–
Total fixed assets		**24,735**	**26,814**
CURRENT ASSETS			
Current receivables			
Accounts receivable	20	118,504	106,781
Receivables from Group companies		161,270	109,405
Other receivables		3,625	2,272
Prepaid expenses and accrued income	21	66,750	23,070
Total current receivables		**350,149**	**241,528**
Cash and bank balances	22	66,984	25,831
Total current assets		**417,133**	**267,359**
TOTAL ASSETS		**441,868**	**294,173**

SHAREHOLDERS' EQUITY AND LIABILITIES SEK 000s	NOTE	31 Dec 2016	31 Dec 2015
EQUITY			
Restricted equity			
Share capital[1]		17,141	17,141
Statutory reserve		43,630	43,630
Total restricted equity		**60,771**	**60,771**
Unrestricted equity			
Loss carried forward		99,962	75,936
Profit for the year		77,428	32,595
Total non-restricted equity		**177,390**	**108,531**
Total shareholders' equity		**238,161**	**169,302**
Untaxed reserves	25	**77,695**	**37,551**
Deferred tax liabilities		**0**	**163**
Long-term liabilities			
Bank loans		50,000	25,000
Total long-term liabilities	26	**50,000**	**25,000**
Current liabilities			
Accounts payable		11,578	7,010
Liabilities to Group companies		4,671	2,919
Income tax liabilities		10,600	2,851
Other liabilities		11,649	17,326
Accrued expenses and deferred income	27	37,514	32,051
Total current liabilities		**76,012**	**62,157**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**441,868**	**294,173**

[1] Ordinary shares at 31 Dec 2015: 10,262,814 Class A shares, 24,019,959 Class B shares.

CASH FLOW STATEMENT SEK 000s	NOTE	2016	2015
Operating activities			
Profit after financial items		143,389	59,333
Adjusted for non-cash items	10, 26	7,409	6,981
Taxes paid		–18,686	–9,255
Cash flow from operating activities before changes in working capital		**132,112**	**57,059**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		–110,888	–53,867
Increase (–)/Decrease (+) in operating liabilities		6,106	898
Cash flow from operating activities		**27,330**	**4,090**
Investing activities	19		
Acquisition of subsidiaries		–154	–
Funds contributed by subsidiaries		–	84
Acquisition of tangible fixed assets	18	–2,453	–26,278
Cash flow from investing activities		**–2,607**	**–26,194**
Financing activities			
Loans raised		25,000	–
Dividend paid		–8,570	–
Cash flow from financing activities	26	**16,430**	**0**
Cash flow for the year		**41,153**	**–22,104**
Cash and cash equivalents at the beginning of the year		25,831	47,935
Cash and cash equivalents on 31 December		66,984	25,831

SUPPLEMENTARY DISCLOSURES TO THE CASH-FLOW STATEMENT	31 Dec 2016	31 Dec 2015
Interest received	3,125	19
Interest paid	–1,113	–1,519

STATEMENT OF CHANGES IN EQUITY SEK 000s	NOTE	Share capital	Statutory reserve	Profit carried forward, including net profit for the year	Total
Opening equity, 1 Jan 2015		**17,141**	**43,630**	**75,443**	**136,214**
Subsidiary contribution difference	19			494	494
Total comprehensive income for the year				32,595	32,595
Closing shareholders' equity, 31 Dec 2015		**17,141**	**43,630**	**108,532**	**169,303**
Opening equity, 1 Jan 2016		**17,141**	**43,630**	**108,532**	**169,303**
Dividend paid				–8,570	–8,570
Total comprehensive income for the year				77,428	77,428
Closing shareholders' equity, 31 Dec 2016		**17,141**	**43,630**	**177,390**	**238,161**

NOTES

NOTE 1 ACCOUNTING POLICIES

COMPLIANCE WITH STANDARDS AND LAWS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. RFR 1, supplementary accounting rules for corporate Groups issued by the Swedish Financial Reporting Council, have also been applied.

The parent company applies the same accounting policies as the Group except in the cases listed below in the section 'parent company accounting policies.'

INFORMATION REGARDING THE PARENT COMPANY

RaySearch Laboratories AB (publ) is a Swedish registered limited liability company headquartered in Stockholm. The parent company's shares have been listed on Nasdaq Stockholm since 2003 and were moved to the Mid Cap segment in 2016. The street address of the head office is Sveavägen 44, SE-111 34 Stockholm, Sweden.

ASSUMPTIONS WHEN PREPARING THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The parent company's functional currency is the Swedish krona (SEK), which also constitutes the reporting currency for the parent company and the Group. This means that the financial statements are presented in SEK. All amounts, unless otherwise specified, are rounded to the nearest thousand.

Assets and liabilities are recognized at their historical cost. Preparing financial statements in accordance with IFRS requires that the company management make assessments and estimates as well as assumptions that impact the application of the accounting policies and the recognized amounts of assets, liabilities, revenues and expenses. Actual results may vary from these estimates and assumptions.

The estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period during which the change is made, if the change only affects this period; or both in the period the change is made and future periods if the change affects both the current period and future periods.

The accounting policies for the Group below have been applied consistently for all periods presented in the Group's financial statements, unless specified below. The Group's accounting policies have been applied consistently in regard to the recognition and consolidation of the parent company and the subsidiaries.

Assessments made by company management in the application of IFRSs, which have a significant impact on the financial statements, and estimates that could require substantial adjustments in the financial statements of future years are described in greater detail below.

NEW ACCOUNTING POLICIES

None of the new or revised accounting standards and interpretations have any material influence on the Group's financial statements from 1 January 2016. No new or revised IFRS rules have been applied.

NEW IFRS AND INTERPRETATIONS NOT YET APPLIED

A number of new and revised IFRSs have not yet come into effect and have not been applied in the preparation of the consolidated and parent company financial statements. IFRSs are described below that may affect the Group's or parent company's financial reports. Other new or amended standards or interpretations that the IASB has published are not expected to have any material impact on the Group's or parent company's financial reports.

IFRS 9 Financial Instruments comprises accounting for financial assets and liabilities and replaces IAS 39. As with IAS 39, financial assets are classified in various categories, some of which are valued at accrued acquisition value and others at fair value. In order to assess how financial instruments are to be reported in accordance with IFRS 9, a company must check the contractual cash flows as well as the equity method under which the instrument is held. IFRS 9 also introduces a new model for the impairment of financial assets. The aim of the new model is that credit losses should be reported earlier than under IAS 39. For financial liabilities, IFRS 9 complies broadly with IAS 39. Changed criteria for hedge accounting can lead to more financial hedging strategies meeting the requirements for hedge accounting according to IFRS 9 than IAS 39. IFRS 9 will come into force on 1 January 2018. The standard will be applied by the Group and the parent company as of 1 January 2018. The standard is expected to have no material impact on the Group's or the parent company's financial reports.

IFRS 15 Revenue from Contracts with Customers replaces all previously published standards and interpretations that deal with revenue with a combined model for revenue recognition. The standard is based on the principle that income should be reported when a promised product or service is transferred to a customer, i.e., when the customer has gained control, which may happen over time. The income shall consist of the amount that the company expects to be replaced in return for the goods or services delivered. IFRS 15 comes into force for the fiscal year beginning 1 January 2018 or later. The standard will be applied by the Group and the parent company from 1 January 2018. Evaluation of the standard's impact on the financial statements is ongoing.

IFRS 16 Leasing will replace IAS 17. According to the new standard, most leased assets shall be reported in the balance sheet and leasers shall break down the cost of interest payments and depreciation of the asset. The EU is expected to approve the standard in 2017. IFRS 16 is expected to come into force for fiscal years from 1 January 2019 and beyond, but early application is expected to be possible even if IFRS 15 is applied. The standard is expected to be applied by the Group and the parent company as of 1 January 2019. During the year, the Group began an evaluation of the benefits of the standard. The standard is expected to provisionally mean that most of the leases will be reported in these financial statements as operating leases in the balance sheet. This will also result in reporting the cost of these broken down into interest payments and depreciation.

SEGMENT REPORTING

An operating segment is a part of the Group that conducts business activities from which it generates income and incurs costs, and for which independent financial information is available. The results of an operating segment are also monitored by the company's chief operating decision-maker. In accordance with IFRS 8, segment information is provided for the Group only. Identifying reportable segments is based on the internal reporting to the highest ranking decision-maker, which is the CEO at RaySearch. In the internal reporting, the Group is a segment.

CLASSIFICATION

Fixed assets and long-term liabilities in the parent company and the Group essentially comprise amounts that are expected to be recovered or paid more than 12 months after the balance sheet date. Current assets and current liabilities in the parent company and the Group essentially comprise amounts that the company expects to recover or receive payment for within 12 months of the balance sheet date.

NOTE 1 ACCOUNTING POLICIES, cont.

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are companies that are under the controlling influence of the parent company, RaySearch Laboratories (publ). Controlling influence means that RaySearch is exposed to a variable return on its investments and can impact this return through its influence over the company. When determining whether a controlling influence exists, factors such as shares carrying potential voting rights are taken into consideration.

CONSOLIDATION PRINCIPLES

Participations in subsidiaries are recognized by the parent company in accordance with the cost method. This entails that transaction expenses are included in the carrying amount.

Transactions to be eliminated on consolidation

Receivables and liabilities, and revenues or costs and unrealized gains and losses arising from intra-Group transactions, are eliminated in the consolidated financial statements. Unrealized losses are eliminated in the same manner as unrealized gains but only insofar as no impairment requirement exists.

FOREIGN CURRENCY

Transactions in foreign currency

Transactions in foreign currency are translated into the functional currency using the exchange rate prevailing on the transaction date. The functional currency is the currency in the primary economic environments in which the companies conduct their operations. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency using the exchange rate prevailing on the balance sheet date. Exchange-rate differences arising from currency translations are recognized in the profit and loss. Non-monetary assets and liabilities that are recognized at historic costs are translated according to the exchange rate prevailing on the transaction date.

Financial statements of foreign operations

All translation differences that arise from currency translation of the results and financial position of Group companies from the company's functional currency to the Group's reporting currency are recognized in other comprehensive income and accrued in a separate component in equity. Assets and liabilities in foreign operations are translated to SEK based on the exchange rates applying at the balance sheet date, while revenue and cost items are translated using an average exchange rate for the year.

REVENUES

Licenses and support sales

Two types of revenue are included in net sales: license and support sales. Licenses and support are sold both via partners and directly to end customers. For license sales via partners, the partner is responsible for the end user's installation. For license sales directly to end customers, RaySearch is responsible for the customer's installation.

Revenue is recognized in profit and loss when it is probable that the future economic benefits will flow to the company and that these benefits can be reliably measured. All revenues are recognized at the fair value of the consideration received or receivable, minus discounts granted, VAT and after the elimination of intra-Group transactions. Revenue is recognized as follows:

- In cases where licenses are sold via partners, the Group reports its license revenue when software is delivered.
- In cases where RaySearch sells software directly to end customers, the Group reports its license revenue when software is delivered or installed. Support revenues are accrued on a direct basis throughout the support period.

COST OF GOODS SOLD

Cost of goods sold comprises of costs of sold hardware and royalties for licensed software included in the company's software. Amortization of capitalized development expenditure is not included in the cost of goods sold.

OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSE

Government assistance

The company has received contributions from the EU for a research project, and from Västerbotten County Council pertaining to a joint research project. The contributions are recognized net against research and development expenditure. The contributions received do not add up to significant amounts. The government assistance is not subject to any repayment obligation.

Financial income and expense

Financial income and expense comprise interest income on bank accounts and receivables and interest-bearing securities, dividend income and exchange rate differences.

FINANCIAL INSTRUMENTS

Financial instruments are measured and recognized in the Group in accordance with the regulations of IAS 39.

Financial assets are recognized initially at the cost corresponding to the instrument's fair value plus transaction costs for all financial instruments. Subsequent recognition is based on how they are classified as below.

A financial asset or financial liability is recognized in the statement of financial position when the company becomes a party in accordance with the contractual terms and conditions of the instrument. Accounts receivable are recognized in the statement of financial position when the invoice is sent. Liabilities are recognized when the counterparty has performed and there is a contractual obligation to pay, even though the invoice has not yet been received. Accounts payable are recognized when the invoice is received.

A financial asset is derecognized from the statement of financial position when the rights of the contract are realized, expire or the company loses control over them. The same applies for components of a financial asset. A financial liability is derecognized from the statement of financial position when the obligation in the contract is fulfilled or extinguished in some other manner. The same applies for components of a financial liability.

The fair value of listed financial assets corresponds to the listed bid price on the balance sheet date. At each reporting date, the company performs tests to determine if there is any objective indication that a financial asset or a Group of financial assets requires impairment.

IAS 39 classifies financial instruments in categories. The classification depends on the intention behind the acquisition of the financial instrument. Company management determines the classification at the original time of acquisition. The following categories are held by the company:

Loans and accounts receivable

"Loan receivables and accounts receivable" are financial assets that have determined or determinable payments that are not listed on an active market. These items are measured at cost. Accounts receivable are recognized at the amount expected to flow in, involving a deduction for doubtful receivables.

Other financial liabilities

Comprises financial liabilities not held for trading. The Group's accounts payable are included in this category. These items are measured at cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash funds and on-demand deposits with banks and similar institutions as well as short-term liquid investments with maturities of less than three months, which are subject to only an insignificant risk of value fluctuations. Changes in value are recognized in net financial items. Short-term liquid investments are recognized in the category "Financial assets measured at fair value in profit and loss."

TANGIBLE FIXED ASSETS

Assets owned

Property, plant and equipment are stated on a consolidated basis at cost after the deduction of accumulated depreciation and amortization, and potential impairment. Cost includes the purchase price and any expenses that are directly attributable to the asset to put it in place and in the condition to be utilized for the purpose for which it was acquired. Accounting policies for impairment are described below.

The carrying amount of a tangible fixed asset is derecognized from the statement of financial position upon disposal or divestment or when no future economic benefit is expected from the use or disposal/divestment of the asset. The gain or loss arising from the disposal or divestment of an asset is the difference between the selling price and the asset's carrying amount minus direct selling expenses. Gains and losses are recognized as "Other operating income/expenses."

Leased assets

Lease agreements are classified in the consolidated financial statements as a finance or operating lease. A finance lease is a lease that essentially transfers all the risks and rewards associated with ownership of an asset to the lessee. If this is not the case, it is an operating lease.

Under an operating lease, the leasing fee is expensed over the term based on use, which can differ from what is paid de facto as leasing fees during the year.

Assets held under financial lease agreements are recognized as fixed assets and commitments for future payments are recognized as a liability in the balance sheet.

The Group has both operating and financial lease agreements in accordance with these rules.

Depreciation principles

Depreciation is based on the original cost minus any residual value. Depreciation is applied directly over the estimated useful life. The estimated useful lives are as follows:

- computers 3–5 years
- equipment, tools, fixtures and fittings 5 years
- building equipment 5 years

The residual value and useful life of an asset are tested annually.

INTANGIBLE FIXED ASSETS

Research and development

Expenditure for research activities that relate to obtaining new scientific or technical knowledge is recognized as an expense as incurred.

Expenditure for development activities, whereby the research results or other knowledge is applied to achieve new or improved products or processes, is recognized as an intangible asset in the statement of financial position, provided the product or process is technically and commercially feasible and the company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The carrying amount includes all directly attributable expenses, such as personnel costs and cost of premises. Other expenses for development are expensed in profit for the year as they arise. In the statement of financial position, capitalized development expenditure is recognized at cost minus accumulated amortization and any impairment losses.

Other intangible assets

Other intangible assets acquired by the company are recognized at cost minus accumulated amortization and any impairment losses.

Amortization principles

Amortization is recognized in profit for the year on a direct basis over the estimated useful lifespan of intangible assets. The useful lifespan is reviewed at least once annually. Capitalized development expenditure for which amortization has not commenced is tested for impairment annually or whenever circumstances indicate that the asset may be impaired. Intangible assets with determinable useful lives are amortized from the date on which the assets are available for use. The estimated useful lives are:

- capitalized development expenditure 5 years
- software 3–5 years

IMPAIRMENT LOSSES

The carrying amounts of the Group's assets are tested on each balance sheet date to determine whether there is any indication of impairment. If any such indication is found, the recoverable amount of the asset is calculated as the higher of the value in use and the fair value minus selling costs. An impairment loss is recognized if the recoverable amount is less than the carrying amount. The recoverable amount is determined based on discounted estimated future cash flow from the cash-generating units.

SHARE CAPITAL

Treasury stock

Holdings of own shares (treasury stock) and other equity instruments are recognized as a reduction of shareholders' equity. Acquisitions of such instruments are recognized as deductions from retained earnings. Proceeds from the divestment of equity instruments are recognized as an increase in retained earnings. Any transaction costs are charged directly against shareholders' equity.

Dividends

Dividends are recognized as liabilities after the Annual General Meeting has approved the dividend.

Earnings per share

Earnings per share are calculated on the basis of consolidated earnings attributable to the parent company's shareholders and on the weighted average number of shares outstanding during the year. When calculating earnings per share after dilution, profit and the average number of shares are adjusted to take into account the impact of dilutive potential common shares, which during the reported periods originate from options issued to employees. Dilution resulting from options affects the number of shares and arises only when the exercise

NOTE 1 ACCOUNTING POLICIES, cont..

price is lower than the share price. Dilution increases as the difference between the exercise price and the share price rises.

REMUNERATION TO EMPLOYEES

Short-term remuneration

Short-term remuneration to employees is estimated without discounting and is expensed when the related services have been received.

A provision is recognized for the expected cost of the profit-sharing and bonus payments when the Group becomes subject to a legal or informal obligation to make such payments because the services performed by the employees and the obligation can be measured reliably.

Defined-contribution plans

Plans in which the company's commitment is limited to the fees the company has undertaken to pay are classified as defined-contribution plans. In such cases, the size of the employee's pension depends on the contributions paid by the company to the plan or to an insurance company plus the capital return that the contributions yield. Consequently, it is the employee who bears the actuarial risk (that remuneration can be lower than expected) and the investment risk (that the invested assets will be insufficient for the expected remuneration). The company's commitments to the plans are expensed against profit for the year as they are vested by the employees performing the services for the company over a period of time. The Group only has defined-contribution pensions. The Group's obligation for each period is determined by the amounts that the Group is to contribute for the actual period.

Termination of employment

An expense associated with the termination of employment is only recognized when the company is obliged to terminate an employment before the normal date.

Profit sharing foundation, RayFoundation

The profit-sharing foundation covers all employees of the parent company, including senior executives, except the CEO. An allocation to the profit-sharing foundation is made in a given year if operating profit exceeds an operating margin of 20 percent. In such a case, the amount reserved is 10 percent of the part of the operating profit above the limit. The allocation has a maximum outcome of 30 percent of the dividend paid. If a dividend is not paid, or if the operating margin does not reach 20 percent, then no allocation is made. The allocation is recognized as a pension cost. For further information, refer to Note 4.

TAXES

Income taxes consist of current tax and deferred tax. Income tax is recognized in profit or loss for the year except when the underlying transactions are recognized in other comprehensive income or in shareholders' equity, whereby the associated tax effect is recognized in other comprehensive income or in shareholders' equity.

Current tax is the tax to be paid or received for the current year, applying the tax rate decided or decided in practice on the balance sheet date. Current tax also includes adjustments of current tax attributable to prior periods.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences in subsidiaries and associated companies are not taken into account when they are not likely to be reversed in the foreseeable future. The valuation of deferred tax is based on how the underlying assets or liabilities are expected to be realized or settled. Deferred tax is calculated with the application of the tax rates and tax rules established or decided in practice on the balance sheet date.

Deferred tax assets pertaining to deductible temporary differences and tax loss carryforwards are only recognized insofar as they are likely to be utilized in the future. The value of deferred tax assets is reduced when it is no longer considered probable that they will be utilized.

PROVISIONS

Provisions are recognized in the balance sheet when the Group has an obligation (legal or constructive) due to a past event and since it is probable that an outflow of resources associated with economic benefits will be required to settle the obligation and that the amount can be reliably estimated. Provisions are also made for events after the balance sheet date to the extent they provide evidence of conditions that existed at the balance sheet date, such as court rulings on disputes. If the Group expects to receive compensation corresponding to a provision made, through an insurance contract for example, the compensation is recognized as an asset in the balance sheet when it is virtually certain that compensation will be received. If the effect of the time value for the future payment is considered significant, the provision's value is determined by calculating the present value of the expected future payment using a discount rate before tax that reflects the current market assessment of the time value and any risks associated with the obligation. The gradual increase in the provisional amount entailed by the present value calculation is recognized as an interest expense in profit and loss.

CONTINGENT LIABILITIES

A contingent liability is recognized when there is a possible obligation that arises from past events and whose existence will only be confirmed by one or more uncertain future events, or when there is an obligation that is not recognized as a liability or provision because it is not probable that an outflow of resources will be required.

PARENT COMPANY'S ACCOUNTING POLICIES

The parent company prepared its Annual Report in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The Swedish Financial Reporting Board's statements pertaining to listed companies were also applied. Under RFR 2, the parent company in its Annual Report for the legal entity shall apply all the IFRS and interpretations adopted by the EU to the extent possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act, also considering the relationship between financial reporting and taxation. The recommendation states the exceptions from and additions to IFRS that should be made. The differences between the accounting policies applied in the consolidated financial statements and those applied by the parent company are presented below. The accounting policies for the parent company stated below have been consistently applied in all periods presented in the financial statements of the parent company.

Classification and presentation

For the parent company, the term's income statement, balance sheet and cash flow statement are used for the statements that the Group designates as statement of comprehensive income, statement of financial position and cash flow statement. The income statement and balance sheet for the parent company are presented in the manner specified in the Annual Accounts Act, while the statement of comprehensive income, the statement of changes in equity and the cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows, respectively.

Research and development

All expenditure for research and development is recognized in the parent company's income statement. Such reporting is permitted in accordance with RFR 2. In the consolidated financial statements, these development expenditures are recognized as assets in accordance with IAS 38.

Taxes

In contrast to the Group, untaxed reserves in the parent company are recognized without being divided into shareholders' equity and deferred tax liabilities. Similarly in the income statement, the parent company does not report part of appropriations as a deferred tax expense.

Leased assets

In the parent company, all leasing agreements are recognized according to the rule for operational leasing.

Subsidiaries

Participations in subsidiaries are recognized in the parent company financial statements in accordance with the cost method. This entails that transaction expenses are included in the carrying amount.

Conditional purchase considerations are measured on the basis of the probability of the purchase consideration being paid. Possible changes to the provision/receivable are added/deducted from the cost.

In the case of a low-price purchase that represents future anticipated losses and costs, these losses and costs are reversed during the periods when the losses and costs are expected to arise.

SIGNIFICANT ESTIMATES AND ASSESSMENTS

Recovering the value of development expenditure

The Group invests considerable amounts in research and development, part of which is recognized as intangible assets, refer also to Note 10. Recognition of future development expenditure as an asset requires assumptions that the product is expected to become technically and commercially viable and that future economic benefits are probable. The accounting for capitalized development costs also requires an assessment of the costs that are attributable to the development. Amortization of capitalized development costs takes place over an estimated useful life of a maximum of 5 years. The estimated sales volume and the useful life period may be re-examined, which may lead to impairment.

Revenue from licensing agreements

Revenue accounting occurs when it is probable that the future financial benefits will accrue to the company and these benefits can be calculated reliably. Revenue from license agreements with end-customers is reported in connection with delivery or installation depending on the contract's design, and revenues from license agreements in relation to partner companies are reported in connection with delivery. Revenue accounting linked to the reimbursement of licenses with end customers requires that assessments be made regarding when delivery or respective sub-deliveries have been conducted.

Accounts receivable

The Group's and the parent company's overdue accounts receivable equate to significant amounts, and the recognition of a bad customer debt reserve requires an assessment of which of these are considered insecure. The valuation of bad debts is based on ongoing updated forecasts and assumptions regarding the customer's ability to pay.

NOTE 2 INFORMATION ABOUT GEOGRAPHIC AREAS

Identifying reportable segments is based on the internal reporting to the main decision-maker, which is the CEO at RaySearch. In this internal reporting, the Group is a segment.

DISTRIBUTION OF FIXED ASSETS, GROUP

	Tangible fixed assets		Intangible fixed assets	
SEK 000s	2016	2015	2016	2015
Sweden	21,316	39,789	243,219	195,114
US	1,658	1,586	–	–
Belgium	129	227	–	–
France	184	41	–	–
UK	10	19	–	–
Germany	187	99	–	–
Singapore	–	–	–	–
Japan	–	–	–	–
Korea	–	–	–	–
	23,484	**41,760**	**243,219**	**195,114**

The distribution is broken down among the registered offices of the Group's legal entities.

Sales

RaySearch's products are sold directly to end customers and via partners. The information presented regarding segment revenues refers to the geographic areas Grouped by where end customers are located:

	Sweden		North America		Asia		Europe and the rest of the world	
%	2016	2015	2016	2015	2016	2015	2016	2015
Sales	0.2	2.3	41.6	44.9	15.1	24	43.1	28.8

The division of sales is based solely on license revenues and not on support revenues since no regional information is available for support revenues, which only comprise a small portion of the total.

Sales of RayStation directly to end customers and via distributors amounted to SEK 475.9 M (300.4), corresponding to 89.55 percent of the company's total sales. During 2016, sales via partners totaled SEK 55.5 M (97.2).

NOTE 3 INCOME DISTRIBUTION

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
License revenues	483,522	353,355	278,590	211,914
Support revenues	47,946	44,245	29,008	32,812
Intra-Group revenues	–	–	153,131	92,334
	531,469	**397,600**	**460,728**	**337,060**

NOTE 4 EMPLOYEES, PERSONNEL COSTS AND REMUNERATION TO SENIOR EXECUTIVES

EXPENSES FOR REMUNERATION OF EMPLOYEES IN THE PARENT COMPANY AND THE GROUP

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Salaries, benefits and social security costs	155,474	119,555	103,483	81,665
Pension costs, defined-contribution plans	21,876	16,227	19,826	15,989
Social security contributions	30,644	26,282	27,084	22,566
	207,994	**162,065**	**150,393**	**120,221**

AVERAGE NUMBER OF EMPLOYEES

In the parent company, the average number of employees was 154 (131), of whom 99 (84) were men and 55 (47) women.

In the Group, the average number of employees was 184 (157), of whom 120 (103) were men and 64 (55) women.

The average number of employees per country in the Group was 154 (131) in Sweden, 17 (17) in the US, 3 (3) in Belgium, 3 (3) in France, 2 (2) in the UK, 3 (1) in Germany and 2 (1) in Singapore.

GENDER DISTRIBUTION IN COMPANY MANAGEMENT.

In 2016, there was one female senior executive, but no women on the Board.

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES TO SENIOR EXECUTIVES AND OTHER EMPLOYEES

	2016		2015	
GROUP	Senior executives and Board members (12)	Other employees	Senior executives and Board members (14)	Other employees
Salaries and other remuneration	20,488	134,986	18,396	101,158
(of which, bonus)	5,740	3,259	2,679	2,148
Social security costs	9,915	42,168	9,016	33,493
(of which pension costs)	3,258	18,618	3,027	13,200
Group total	**30,403**	**177,154**	**27,413**	**134,652**

SALARIES AND OTHER REMUNERATION TO SENIOR EXECUTIVES AND OTHER EMPLOYEES, AND SOCIAL SECURITY EXPENSES IN THE PARENT COMPANY

	2016		2015	
PARENT COMPANY	Senior executives and Board members (12)	Other employees	Senior executives and Board members (14)	Other employees
Salaries and other remuneration	20,488	82,995	18,396	63,268
(of which, bonus)	5,740	0	2,679	0
Social security costs	9,915	36,995	9,016	29,540
(of which pension costs)	3,258	16,567	3,027	12,962
Parent company total	**30,403**	**119,990**	**27,413**	**92,808**

Senior executives who resigned during the year:	Senior executives who were appointed during the year:
Victoria Sörving, General Counsel (up to 28 Sep 2016)	Petra Jansson was appointed in 2016, but does not assume her position until July 2017
Erik Hedlund, Chairman of the Board (up to 17 Nov 2016)	

NOTE 4 EMPLOYEES, PERSONNEL COSTS AND REMUNERATION, cont.

SALARIES AND OTHER REMUNERATION OF BOARD MEMBERS AND GROUP MANAGEMENT

2016	Basic salary, board fees	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Erik Hedlund[1]	414	–	7	–	421
Board member Carl Filip Bergendal[2]	211	–	–	–	211
Board member Hans Wigzell	176	–	–	–	176
CEO Johan Löf	4,761	3,963	405	582	9,710
Other senior executives (8)	8,496	1,777	285	2,677	13,235
Total	**14,058**	**5,740**	**697**	**3,259**	**23,753**

2015	Basic salary, board fees	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Erik Hedlund	451	–	–	–	451
Board member Carl Filip Bergendal	165	–	–	–	165
Board member Hans Wigzell	165	–	–	–	165
CEO Johan Löf	4,539	1,870	404	569	7,383
Other senior executives (10)	9,730	809	258	2,458	13,257
Total	**15,053**	**2,679**	**663**	**3,027**	**21,424**

[1] Stepped down 17 November 2016

[2] Chairman of the Board from 17 November 2016 to the Annual General Meeting 23 May 2017

No financial instruments or other share-related remuneration have been paid.

Variable remuneration

Variable remuneration payable to the CEO is based on the Group's earnings and amounts to 2 percent of consolidated profit before tax and is capped at 12 months' pay. The Marketing and Sales Manager and Sales Manager for the Asia & Pacific region receive variable remuneration based on sales in their respective regions. All employees of the Swedish parent company, except the CEO, are covered by a profit-sharing foundation. Provisions for the profit-sharing foundation expire in a given year if operating profit in the previous year amounted to a level above an operating margin of 20 percent. The amount allocated will then amount to 10 percent of the part of operating profit that exceeds the limit. For employees in the foreign subsidiaries, variable remuneration related to sales and set targets are deducted.

Pensions

All pension undertakings are defined-contribution plans. The retirement age for the CEO and senior executives is 65, and the pension premium is equivalent to the Swedish ITP plan. No other pension obligations exist.

Severance pay

If the CEO chooses to terminate his employment, the term of notice is six months; if the employer terminates his employment, the term of notice is 12 months. In either case, the CEO is not entitled to any special severance pay, but in both cases the CEO receives salary during the term of notice. The company and other senior executives have a mutual term of notice of three months during which salary is paid. Members of the Board do not receive any severance pay.

Decision-making process

The decision-making process regarding remuneration and benefits is described in greater detail in the Administration Report.

NOTE 5 AUDITORS' FEES AND COMPENSATION FOR EXPENSES

GROUP, SEK 000s	2016	2015
EY		
Auditing assignments	937	734
Audit activities other than audit assignment	270	250
Tax advice	45	206
Other services	105	122
	1,357	**1,312**
PARENT COMPANY, SEK 000s		
EY		
Auditing assignments	771	679
Audit activities other than audit assignment	230	200
Tax advice	45	206
Other services	105	122
	1,151	**1,207**

NOTE 6 FINANCIAL LEASING DEBT

SEK 000s Financial leasing debt falls due for payment as follows:	Future minimum leasing fees	Interest	Present value of minimum leasing fees
Within 1 year	5,485	483	5,008
2–5 years	7,081	562	6,519
	12,566	**1,045**	**11,527**

	GROUP	
SEK 000s	2016	2015
Opening balance	13,164	4,243
Acquisitions during the year	2,502	12,867
Amortization	–4,139	–3,946
Closing balance	**11,527**	**13,164**
	11,527	**13,164**

At 31 December 2016, earnings in the Group were charged with costs attributable to financial leasing, with amortization accounting of –3,830 (–3,401) and interest expenses of –578 (–609).

SIGNIFICANT LEASES

Significant leases include leasing of furniture and other office equipment (lease expires on 31 Jan 2020), computer equipment and company cars.

NOTE 7 OPERATING EXPENSES SPECIFIED BY TYPE OF COSTS

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Cost of goods sold[1]	–26,872	–23,690	–15,418	–12,040
Personnel expenses	–147,551	–130,375	–165,872	–141,118
Depreciation, amortization and impairment charges[2]	–67,339	–56,504	–7,404	–6,936
Exchange-rate losses	–6,067	–9,134	–6,067	–9,134
Other expenses	–101,449	–96,235	–141,958	–123,653
	–349,278	**–315,938**	**–336,719**	**–292,882**

[1] Cost of goods sold comprises costs of sold hardware and royalties for licensed software included in the company's software. Amortization of capitalized development expenditure is not included in cost of goods sold. Amortization and capitalization of development expenditure are included in research and development expenses.

[2] Amortization of capitalized development expenditure is included in amortization and impairment losses in the table above.

NOTE 8 OTHER OPERATING INCOME

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Exchange-rate gains on operating receivables/ liabilities	17,369	13,682	17,369	13,682
	17,369	**13,682**	**17,369**	**13,682**

NOTE 9 OTHER OPERATING EXPENSES

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Exchange-rate gains on operating receivables/ liabilities	–6,067	–9,134	–6,067	–9,134
	–6,067	**–9,134**	**–6,067**	**–9,134**

NOTE 10 DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF TANGIBLE AND INTANGIBLE FIXED ASSETS

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Intangible fixed assets				
Depreciation/amortization and impairment according to function				
Administrative expenses	–	–	–	–
Research and development	–56,303	–49,973	–	–
	–56,303	**–49,973**	**0**	**0**
Tangible fixed assets				
Depreciation according to function				
Administrative expenses	–11,036	–6,531	–3,199	–2,732
Research and development	–	–	–791	–803
	–11,036	**–6,531**	**–3,990**	**–3,535**
Total depreciation/ amortization	**–67,339**	**–56,504**	**–3,990**	**–3,535**

NOTE 11 OPERATIONAL LEASING

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Leasing costs for the year	22,503	19,050	23,802	18,103
Contractual future lease fees for leases that mature:				
Within one year	25,249	17,167	23,776	16,149
Later than one but within five years	77,346	50,076	72,928	50,094
Later than five years	–	–	–	–
	102,695	**67,243**	**96,704**	**66,242**

Significant operating leases pertain to rental leases for the headquarters in Stockholm, which runs from 1 Dec 2014, until 31 Dec 2019. The baseline rent is indexed annually.

NOTE 12 FINANCIAL INCOME AND EXPENSES

	GROUP		PARENT COMPANY	
SEK 000s	2016	2015	2016	2015
Interest income on cash and cash equivalents	–	4	–	4
Interest income on accounts receivable and loan receivables	18	241	18	–
Other interest income/ expenses	1	15	1	15
Other financial income	16	14	16	–
Interest income Group companies	–	–	3,090	2,970
	35	**274**	**3,125**	**2,989**
Interest expense on other liabilities[1]	–1,509	–2,128	–1,120	–1,519
	–1,509	**–2,128**	**–1,120**	**–1,519**
Net	**–1,474**	**–1,854**	**2,005**	**1,470**

[1] The interest expense for the credit facility is based on STIBOR + 2.5% with a STIBOR limit of 0%.

NOTE 13 APPROPRIATIONS

	PARENT COMPANY	
SEK 000s	2016	2015
Tax allocation reserve, provision during the year	–40,000	–15,349
Tax allocation reserve, reversal during the year	–	–
Accelerated depreciation for tax purposes, equipment	–144	–1,172
	–40,144	**–16,521**

NOTE 14 TAX ON PROFIT FOR THE YEAR

	GROUP	
SEK 000s	2016	2015
Current tax expense		
Tax expense for the period	–27,880	–12,714
	–27,880	**–12,714**
Deferred tax expense/income		
Deferred tax for temporary differences regarding capitalized development expenditure	–10,583	–6,827
Untaxed reserves/deferred tax attributable to loss carryforwards	–8,832	–3,635
Other deferred tax expenses	618	–106
	–18,797	**–10,568**
Total tax expense/income recognized in the Group	**–46,677**	**–23,281**
Reconciliation of effective tax		
Recognized profit before tax	198,085	93,490
Tax at current tax rate of 22%	–43,579	–20,568
Effect of other tax rates for non-Swedish companies	442	–1,864
Effect of non-taxable income	149	9
Effect of non-deductible costs	–3,523	–829
Standard interest on tax allocation reserve	–166	–29
Reported effective tax	**–46,677**	**–23,281**

	PARENT COMPANY	
SEK 000s	2016	2015
Current tax expense		
Tax expense for the period	–26,435	–10,111
Change in deferred tax	618	–106
Total tax expense recognized in the parent company	**–25,817**	**–10,217**
Reconciliation of effective tax		
Recognized profit before tax	103,245	42,812
Tax at current tax rate of 22%	–22,714	–9,419
Effect of non-taxable income	149	3
Effect of non-deductible costs	–3,086	–772
Standard interest on tax allocation reserve	–166	–29
Reported effective tax	**–25,817**	**–10,217**

NOTE 15 DIVIDEND PER SHARE, EARNINGS PER SHARE AND NUMBER OF SHARES

SEK 000s	2016	2015
Proposed dividend per share	–	0.25
Total number of shares at beginning of the year	34,282,773	34,282,773
Of which treasury stock	–	–
Number of shares outstanding at beginning of the year	34,282,773	34,282,773
Number of shares outstanding at year-end	34,282,773	34,282,773
Average number of shares outstanding during the period	34,282,773	34,282,773
Earnings per share before/after dilution	4.42	2.05
Profit/loss for the year attributable to parent company shareholders (before and after dilution)	**151,408**	**70,209**

NOTE 16 CAPITALIZED DEVELOPMENT EXPENDITURE

	GROUP	
SEK 000s	31 Dec 2016	31 Dec 2015
Accumulated cost		
Opening balance	509,033	428,027
Internally developed assets	104,408	81,006
Closing balance	**613,441**	**509,033**
Accumulated amortization and impairment losses		
Opening balance	–313,919	–263,946
Amortization for the year	–56,303	–49,973
Impairment for the year	–	–
Closing balance	**–370,222**	**–313,919**
Closing carrying amount	**243,219**	**195,114**

Capitalized development expenditure relates to the development of new versions of RaySearch's software products. This development expenditure is capitalized and amortized over a period of five years from the time when the products are released on the market and the asset is therefore regarded as starting to contribute to the company's revenues.

IMPAIRMENT TESTING OF PROPRIETARILY DEVELOPED INTANGIBLE ASSETS

Impairment testing of proprietarily developed intangible assets is conducted annually as well as when indications of an impairment loss prevail. The recoverable amount of all cash-generating units (CGUs) has been determined based on value-in-use.

An annual impairment test of proprietarily developed intangible assets has been conducted. The value in use of the CGUs has been calculated based on estimated future cash flows. Cash flows are based on budget forecasts, assessments and market plans prepared by management. Cash flows beyond this period are extrapolated using a growth rate estimated at three percent based on the company management's expectations of the future market trend. The assessment of operating margin is based on previously achieved earnings weighted by company management's expectations of the future market trend. Future cash flows before tax have been discounted to present value using an interest rate before tax of 14.5 percent. The discount rate is determined on the basis of risk-free interest with a surcharge for the risk premium for the particular operating segment. The estimated value in use comfortably exceeds the carrying amount with a reasonable margin that Board estimates that there are no reasonable changes in assumptions that would lead to write-downs.

NOTE 17 SOFTWARE

	GROUP AND PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015
Accumulated cost		
Opening balance	3,658	3,658
New acquisitions	–	–
Year's asset disposals	–2,493	–
Closing balance	**1,165**	**3,658**
Accumulated amortization		
Opening balance	–3,658	–3,658
Amortization during the year	–	–
Year's asset disposals	2,493	–
Closing balance	**–1,165**	**–3,658**
Closing carrying amount	**0**	**0**

NOTE 18 TANGIBLE FIXED ASSETS

	GROUP		PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Equipment, fixtures and fittings				
Accumulated cost				
Opening balance	55,082	26,866	36,159	21,102
New acquisitions	5,839	39,878	2,453	26,277
Divestments and scrappage	–5	–11,662	–5	–11,221
Closing balance	**60,916**	**55,082**	**38,608**	**36,159**
Accumulated amortization				
Opening balance	–13,322	–13,915	–9,887	–14,127
Divestments and scrappage	0	11,103	0	10,662
Amortization for the year[1]	–11,927	–10,510	–7,404	–6,422
Closing balance	**–25,249**	**–13,322**	**–17,291**	**–9,887**
Closing carrying amount	**35,667**	**41,760**	**21,317**	**26,272**

[1] Of the Group's depreciation, capitalized development expenditure accounted for SEK 791,000 (803,000).

Tangible fixed assets include financial leasing with a carrying amount of SEK 12,183 (13,511).

NOTE 19 PARTICIPATIONS IN GROUP COMPANIES

	PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015
Accumulated cost		
Opening balance	485	2,493
Acquisition	155	1
Merger of subsidiaries	–	–2,009
Closing balance	**640**	**485**

SPECIFICATION OF PARENT COMPANY'S AND GROUP'S HOLDINGS OF PARTICIPATIONS IN GROUP COMPANIES

Group company/ Corp. Reg. No./Reg. office/Country	Number/ Proportion, %	Adjusted equity/ profit for the year[1]	Carrying amount
RaySearch Americas Inc, Delaware, USA	100	–32,577[2]/3,004	0
RaySearch Belgium Sprl, 0838.244.504, Brussels, Belgium	99.0[3]	798/211	170
RaySearch France SAS, RCS Paris 794,582,841, Paris, France	100	1,558/1,085	87
RaySearch UK Ltd, 8579149, London, UK	100	303/75	0
RaySearch Germany GmbH, HRB 157539, Berlin, Germany	100	814/326	228
RaySearch Singapore Pte Ltd, 201S508409H, Singapore	100	186/133	1
RaySearch Japan K.K., 010401124903, Tokyo, Japan	100	75/0	75
RaySearch Korea LLC., 1101140177029, Seoul, South Korea	100	79/0	79
			640

[1] Adjusted equity refers to the owned share of the company's equity, including the equity component of untaxed reserves. Profit for the year refers to the ownership share of the company's profit after tax, including the equity share in the change for the year in untaxed reserves.

[2] The negative equity from the formation of the subsidiary in the USA.

[3] SAS RaySearch France owns the remaining 1.0 percent of this Group company.

NOTE 20 ACCOUNTS RECEIVABLE

At 31 December 2016, the company had no provisions for doubtful debts. In view of the customers' creditworthiness and other circumstances, the company assesses that this very low level of credit risk will continue and that there is no uncertainty concerning past due accounts receivable.

Accounts receivable, gross:	289,357
Reserve for doubtful debts:	–6,822
Net accounts receivable:	**282,535**

	GROUP		PARENT COMPANY	
Age analysis Carrying amount	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Not overdue	179,699	104,846	71,642	83,084
Past due 0 – 30 days	40,424	15,427	12373	7,407
Past due 30 – 90 days	28,043	3,361	12415	265
Past due more than 90 days	41,191	45,339	28,897	16,026
Total	**289,357**	**168,973**	**125,326**	**106,781**

At 31 March 2017, SEK 154,360,000 of accounts receivable had been paid to the Group.

	PARENT COMPANY	
Age analysis of receivables from Group companies	31 Dec 2016	31 Dec 2015
Not overdue	73,456	12,740
Past due 0 – 30 days	21,465	27,837
Past due 30 – 90 days	–	16,511
Past due more than 90 days	66,349	52,317
Total	**161,270**	**109,405**

NOTE 21 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Prepaid rent	4,996	4,493	4,826	4,337
Prepaid insurance	1,311	1,336	1,229	1,194
Accrued interest income	–	–	5778	7,043
Accrued income	47,576	3,804	47,576	3,804
Other items	7,860	6,761	7,342	6,692
	61,743	**16,394**	**66,750**	**23,070**

NOTE 22 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
The following sub-components are included in cash and cash equivalents:				
Cash and bank balances	87,720	59,705	66,984	25,831
	87,720	**59,705**	**66,984**	**25,831**

Cash and cash equivalents consist of bank deposits. In addition to this, the company has an overdraft facility of SEK 25 M, of which SEK 17.7 M has been blocked as collateral for bank guarantees.

NOTE 23 DEFERRED TAX ASSETS AND TAX LIABILITIES

	GROUP	
SEK 000s	31 Dec 2016	31 Dec 2015
Deferred tax liabilities for:		
Intangible assets		
Opening balance	42,925	36,098
Change during the year	10,583	6,827
Closing balance	**53,508**	**42,925**
Tangible assets		
Opening balance	163	0
Change during the year	–163	163
Closing balance	**0**	**163**
Attributable to untaxed reserves		
Opening balance	8,261	4,626
Change during the year	8,832	3,635
Closing balance	**17,093**	**8,261**
Carrying amount	**70,601**	**51,349**
Deferred tax assets		
Opening balance	57	0
Change during the year	455	57
Closing balance	**512**	**57**

Valuation is based on the nominal tax rate.

NOTE 24 LONG-TERM RECEIVABLES

	GROUP AND PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015
Opening balance	0	0
Added during the year	2,267	0
Closing balance	**2,267**	**0**

Long-term receivables consist of customer receivables due longer than 12 months into the future.

NOTE 25 UNTAXED RESERVES

	PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015
Accumulated depreciation/ amortization in excess of plan:		
Opening balance, 1 January	2,129	956
Reversals/depreciation/amortization in excess of plan for the year	143	1,173
Closing balance 31 December	**2,272**	**2,129**
Tax-allocation reserves		
Allocated at taxation in 2014	20,073	20,073
Allocated at taxation in 2015	15,349	15,349
Allocated at taxation in 2016	40,000	–
	75,422	**37,551**
Sum untaxed reserves	**77,694**	**39,680**

NOTE 26 LONG-TERM LIABILITIES

	GROUP AND PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015
Opening balance	38,164	41,096
Raising of bank loans	25,000	–
Amortization of financial leasing	–4,139	–3,946
New financial leasing	2,502	12,867
Reclassification of current liabilities	–	–11,853
Closing balance Group	**61,527**	**38,164**
Leases financial leasing	–11,527	–13,164
Closing balance parent company	**50,000**	**25,000**

	GROUP AND PARENT COMPANY					
	Within one month	1–3 months	3–12 mån	1–2 years	2–5 years	TOTAL
Interest 2016						
Bank loans	0	308	925	1 250	2 158	4 641
Interest 2015						
Bank loans	0	163	489	652	1 304	2 608

The loan extends until 1 September 2019. In the table, the revolving loan is expected to continue and the prevailing interest rate has been used. For more information about financial leasing, see Note 6.

NOTE 27 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
SEK 000s	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Social security expenses and vacation costs	31,324	13,747	16,452	12,645
Other personnel-related costs	5,519	4,387	4,410	2,210
Deferred income	39,975	9,548	4,827	3,226
Other items	12,798	14,948	11,825	13,970
	89,616	**42,630**	**37 514**	**32,051**

NOTE 28 FINANCIAL RISKS AND RISK MANAGEMENT

FINANCIAL RISKS

Through its operations, the RaySearch Group is exposed to various types of financial risks such as currency risk, interest rate risk, credit risk and liquidity risk.

Risk management is managed by the Group's Finance Department, which identifies, evaluates and hedges financial risks. The work is carried out in accordance with the Board's overall risk management policies and the Group's financial policy, which forms a framework of guidelines and rules in the form of risk mandates and limits for financial activities.

Currency risk

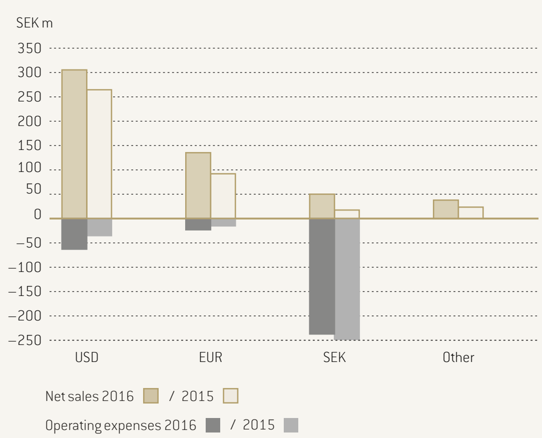
Currency risk is the risk of changes in value due to changes in exchange rates. With an international business, the Group is exposed to currency risks in the form of transaction and translation exposure. Transaction exposure arises through future business transactions and translation exposure arises from reported assets and liabilities in foreign currency.

The RaySearch Group's currency risk is primarily due to the fact that the company has the majority of its revenues in US dollars and euros against most of the costs in Swedish kronor (SEK). Some currency hedging has not been made in accordance with the established financial policy. The finance policy is updated at least once a year.

Transaction exposure

The Group's net sales and operating expenses per currency are shown in the following graph:

NET SALES AND OPERATING EXPENSES PER CURRENCY



NOTE 28 FINANCIAL RISKS AND RISK MANAGEMENT, cont.

Based on the revenue, cost and currency structure of the year (transaction exposure), a general change in the rate of SEK against other currencies by one percentage point would affect the Group's operating profit by approximately +/– SEK 3.9 M (3.3). A change in the US dollar exchange rate against the Swedish krona by one percentage point would affect the Group's operating profit by +/– SEK 2.4 M (2.3) and the corresponding change in the euro exchange rate would affect the Group's operating profit by +/– SEK 1.1 M (0.8).

Conversion exposure

The Group's translation exposure relating to balance sheet items in foreign currency is distributed among the following currencies:

	31 Dec 2016	31 Dec 2015
USD		
Accounts receivable	222,203	218,348
Accounts payable	–1,440	–3,200
	220,763	**215,148**
EUR		
Accounts receivable	44,326	39,599
Accounts payable	–1,513	–5,051
	42,813	**34,548**
Other currencies		
Accounts receivable	13,171	10,445
Accounts payable	–2,011	–292
	11,160	**10,153**

Based on the credit, debt and currency structure of the year (translation exposure), a general change in the rate of SEK against other currencies by one percentage point would affect the Group's operating profit by approximately +/– SEK 2.7 M (2.6). A change in the US Dollar exchange rate against the Swedish krona by one percentage point would affect the Group's operating profit by +/– SEK 2.2 M (2.2) and the corresponding change in the euro exchange rate would affect the Group's operating profit by approximately +/– SEK 0.4 M (0.3).

Interest rate risk

Interest rate risk refers to the risk that changes in interest rates affect RaySearch's earnings negatively, for example through increased costs for the company's borrowing with floating interest rates. Interest-bearing liabilities amounted to SEK 61.5 M (38.2) on 31 December 2016, of which SEK 11.5 M (13.2) was financial leasing, and liquid assets and interest-bearing receivables amounted to SEK 87.7 M (59.7). Consequently, the Group had a negative interest-bearing net debt.

Based on the balance sheet structure at the end of the year and assuming that all other variables were constant, a general change in the interest rate on loans and investments by one percentage point would affect the Group's operating profit by approximately +/– SEK 0.3 M (0.2).

Credit risk

Credit risk arises through financial credit risk related to liquid assets and balances with banks and financial institutions as well as credit exposures relating to customers and distributors. Credit risks are mainly managed at Group level.

RaySearch's liquidity is invested in accordance with established financial policy with Swedish banks or the Swedish state with the objective of maintaining high liquidity with low credit risk.

Credit risk in accounts receivable, including accrued income, is mainly managed at Group level, but fully coordinated with individual Group companies. The credit risk for each new customer is analyzed before payment and delivery terms are offered, and follow-up is ongoing on credit risk in outstanding receivables and agreed transactions. A risk assessment is carried out on a continuous basis by considering the customer's financial position and other influencing factors as well as previous experience. The Group's credit risks are usually limited because customers' operations are largely financed, either directly or indirectly, through public funds and credit losses have historically been very low. No single customer accounts for 10 percent or more of RaySearch's net sales.

An ongoing assessment is made of the credit risk in outstanding receivables and at the end of the financial year 2016, the reserve for bad debts amounted to SEK 6.8 M. For a historical analysis of accounts receivable and reserve for doubtful accounts receivable, see Note 20.

Liquidity risk

Liquidity risk refers to the risk of not being able to meet payment obligations as a result of insufficient liquidity or difficulty in borrowing external loans. At Group level, rolling forecasts for the Group's liquidity reserve are monitored to ensure that the Group has sufficient cash to meet the current business needs while maintaining a sufficient amount of unutilized credit facilities. Surplus liquidity in the Group companies is transferred centrally and managed by the Group's financial function.

Placement takes place in accordance with the defined financial policy on interest-bearing accounts in Swedish banks or the Swedish state.

In order to reduce liquidity risk, RaySearch strives to have available liquid funds equivalent to at least 10 percent of net sales. On 31 December 2016, liquid assets amounted to SEK 87.7 M (59.7), corresponding to 17 (15) percent of net sales. In addition, RaySearch had SEK 32 M (21) in unutilized credit.

NOTE 29 DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE GROUP

CLASSIFICATION AND CATEGORIZATION OF GROUP ASSETS AND LIABILITIES, 31 DEC 2016

SEK 000s 31 Dec 2016	Loan receivables/ accounts receivable	Total financial assets	Non-financial assets	Total
Assets				
Intangible assets	–	**0**	243,219	**243,219**
Tangible assets	–	**0**	35,667	**35,667**
Accounts receivable	284,802	**284,802**	–	**284,802**
Tax receivable	–	**0**	249	**249**
Other receivables	–	**0**	3,854	**3,854**
Prepaid expenses and accrued income	47,576	**47,576**	14,167	**61,743**
Cash and cash equivalents	87,720	**87,720**	–	**87,720**
	420,098	**420,098**	**297,156**	**717,254**

SEK 000s 31 Dec 2016	Financial liabilities measured at amortized cost	Non-financial liabilities	Total
Equity and liabilities			
Shareholders' equity	–	460,188	**460,188**
Deferred tax liabilities	–	70,601	**70,601**
Other long-term interest-bearing liabilities	61,527	–	**61,527**
Accounts payable	11,943	–	**11,943**
Income tax liabilities	–	11,148	**11,148**
Other liabilities	9,596	2,635	**12,231**
Accrued expenses and prepaid income	51,734	37,882	**89,616**
	134,800	**582,454**	**717,254**

NOTE 29 DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE GROUP, cont.

SEK 000s 31 Dec 2015	Loan receivables/ accounts receivable	Total financial assets	Non-financial assets	Total
Assets				
Intangible assets	–	**0**	195,114	**195,114**
Tangible assets	–	**0**	41,760	**41,760**
Accounts receivable	168,973	**168,973**	–	**168,973**
Tax receivable	–	**0**	149	**149**
Other receivables	724	**724**	1,671	**2,395**
Prepaid expenses and accrued income	3,804	**3,804**	12,590	**16,394**
Cash and cash equivalents	59,705	**59,705**	–	**59,705**
	233,206	**233,206**	**251,284**	**484,490**

SEK 000s 31 Dec 2015	Financial liabilities measured at amortized cost	Non-financial liabilities	Total
Equity and liabilities			
Shareholders' equity	–	319,517	**319,517**
Deferred tax liabilities	–	51,349	**51,349**
Other long-term interest-bearing liabilities	38,164	–	**38,164**
Accounts payable	9,514	–	**9,514**
Income tax liabilities	–	5,855	**5,855**
Other liabilities	13,029	4,432	**17,461**
Accrued expenses and prepaid income	24,004	18,626	**42,630**
	84,711	**399,779**	**484,490**

Fair value measurement contains a measurement hierarchy for the inputs used to measure fair value. The three levels are as follows:

Level 1: Listed prices (unadjusted) in active markets for identical assets or liabilities to which the company has access at the time of measurement.
Level 2: Input data other than the listed prices included in Level 1, which is directly or indirectly observable for the asset or liability. This may even pertain to input data other than the listed prices that are observable for the asset or liability, such as interest rates, yield curves, volatility and multiples.
Level 3: Non-observable input data for the asset or liability. At this level, the assumption that market players would use for pricing of the asset or liability, including risk taking, must be taken into account.

For all of the above items, with the exception of borrowing, the carrying amount is an approximation of the fair value, which is why these items have not been divided into levels according to the measurement hierarchy. Since the loans carry variable interest and other external borrowing carries fixed interest, which in all significant respects is adjudged to correspond to prevailing market interest rates, the assessment is that the carrying amounts of loans essentially matches the fair value.

NOTE 30 PLEDGED ASSETS

SEK 000s	31 Dec 2016	31 Dec 2015
Pledged assets		
Chattel mortgages	100,000	50,000
Restricted credit facility	17,700	4,000
Total	**117,700**	**54,000**

Chattel mortgages comprise of an overdraft facility of SEK 25 M and a revolving loan of up to SEK 75 M, and SEK 50 M has been borrowed and extended until 20 February 2018. Of the company's overdraft facility of SEK 25 M, SEK 17.7 M has been blocked as collateral for bank guarantees.

There are no contingent liabilities for the Group or parent company.

NOTE 31 RELATED PARTIES

For a description of transactions with senior executives, refer to Note 4. The parent company has a related-party relationship with its subsidiaries, see Note 19.

	SUMMARY PARENT COMPANY				
SEK 000s	Sale of goods/ services to related parties	Purchase of goods/services from related parties	Dividend paid	Receivable from related parties, 31 Dec	Liabilities to related parties 31 Dec,
2016	153,131	–30,748	–	161,270	4,671
2015	92,334	–19,800	–	109,076	2,919

Sales to related parties primarily concerned sales of licenses to foreign subsidiaries and purchases from related parties primarily concerned the purchase of services from foreign subsidiaries. Receivables from related parties primarily concerned receivables from the US subsidiary.

NOTE 32 EVENTS AFTER BALANCE SHEET DATE

RayStation 6 launched

Launched in January 2017, RayStation 6 was announced as the only system to support treatment planning for both conventional linacs and Accuray's TomoTherapy™ System. RayStation 6 introduced other new functionality, such as Monte Carlo dose planning for active proton pencil-beam scanning (PBS), PBS planning with block apertures, simultaneous co-optimization of multiple beam sets, MR-based planning and auto-recovery.

New AI technology for automated treatment planning

In February 2017, it was announced that the University Health Network (UHN) in Canada had licensed a new AI technology for automated radiation therapy treatment (AutoPlanning) in an exclusive agreement with RaySearch.

Johan Löf named Sweden's foremost entrepreneur

In February 2017, Johan Löf, RaySearch's CEO and founder, was named Sweden's foremost entrepreneur in the national final of the EY Entrepreneur of the Year award. The jury's motivation explained: "Johan Löf has created a company that benefits both individuals and society. Advanced products and strong personal and commercial drive make his business stand out. Continued expansion is on the agenda for this entrepreneur, who improves quality of life for millions of people."

Collaboration with MD Anderson regarding RayCare

In March 2017, RaySearch announced a long-term collaboration agreement with the University of Texas MD Anderson Cancer Center in Houston, Texas, regarding the development of RayCare. "I am proud that MD Anderson Cancer Center has joined us in the RayCare project. Solving the coordination, safety and efficiency needs of one of the world's largest cancer care providers is one of our most exciting challenges to date. This collaboration has a strong foundation for success, building on the vast clinical knowledge and resources of MD Anderson and the innovative development capabilities of RaySearch." said Johan Löf, CEO of RaySearch.

NOTE 33 PROPOSAL ON DISPOSITION OF THE PARENT COMPANY'S RESULTS

The following is at the disposal of the AGM:

SEK 000s	
Retained earnings	99,962
Profit for the year	77,428
Dividend	0
Total	**177,390**

The Board and the CEO propose that SEK 177,390,000 be carried forward.

The undersigned certify that the consolidated financial statements and the Annual Report have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, and with generally accepted accounting practices, and give a true and fair view of the financial position and results of the Group and the parent company and that the Administration Report provides a fair overview of the development of the Group's and the parent company's operations, financial position and results, as well as a fair description of significant risks and uncertainties faced by the companies included in the Group. The Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 28 April 2017. The statement of comprehensive income and statement of financial position, the parent company's income statement and balance sheet will be submitted for adoption to the Annual General Meeting on 23 May 2017.

Stockholm 28 April 2017

Johan Löf
President/CEO and
Board member

Carl Filip Bergendal
Board member

Hans Wigzell
Board member

Our audit report was submitted on 28 April 2017

Ernst & Young AB

Per Hedström
Authorized Public Accountant

AUDITOR'S REPORT

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF RAYSEARCH LABORATORIES AB (PUBL), CORPORATE IDENTITY NUMBER 556322-6157

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of RaySearch Laboratories AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 4–36 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 2016 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 2016 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. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Key Audit Matters

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

Revenue from license agreements

Revenue from license agreements of SEK 484 M is recorded in the consolidated statement of comprehensive income, and revenue from license agreements of SEK 279 M is recorded in the parent company income statement. Revenue is recognized when it is probable that the company will derive future economic benefits and these benefits can be calculated in a reliable manner. Revenue from license agreements to end customers is recognized at delivery or installation depending on the underlying contract terms, and revenue from license agreements to partners is recognized at delivery. Support revenue is recognized linearly over the service period.

Revenue recognition related to licenses to end customers requires management to make judgments regarding at which point in time delivery or partial deliveries have occurred. This means that revenue recognition for the group and parent company contains significant elements of judgment, and for this reason revenue recognition is considered a key audit matter. A description of the judgments on which revenue recognition is based is provided under the section "Significant judgments and estimates" under Note 1, and disclosures regarding the distribution of revenue are provided under Note 3.

We have reviewed the company's processes for revenue recognition, significant agreements towards customers, and have performed sample testing of year-end accruals to assess the correctness of revenue recognition. We have focused in particular on the review of more complex agreements. We have assessed whether disclosures in the annual report are adequate.

Capitalized development costs

Capitalized development costs of SEK 243 M is recorded in the consolidated statement of financial position as of 31 December 2016. Capitalized development costs are recorded as an asset in the report of financial position, if the product or process is technically feasible and commercially useful for the company, and the group has sufficient resources to complete development and use the asset, or to sell the intangible asset.

The accounting for capitalized development costs at the acquisition point in time requires management to assess which development costs are related to a particular product under development, and to which degree these are recoverable. RaySearch tests at least annually, and on indication of impairment, that recorded values do not exceed calculated recoverable values for assets which the company has not yet started using. Recoverable values are determined using a present value calculation of future cash flows and are based on the expected outcome of a number of factors which are based on management's experience-based assessment of future cash receipts and disbursements. A description of the judgments on which recognition of capitalized development costs for the group is based is provided under the section "Significant judgments and estimates" under Note 1.

The initial accounting of capitalized development costs and the impairment tests which are performed are based on management's judgments, and for this reason capitalized development costs is considered a key audit matter. A description of the impairment test is provided under Note 16 and in the section "Significant judgments and estimates" under Note 1.

In our audit we have assessed and tested management's process for determining which development costs fulfill the requirements for recognition as capitalized development costs. We have also assessed and tested management's process for performing the impairment test, partly by evaluating the historical precision of forecasts and assumptions. We have also performed comparisons with other companies and industries to assess the reasonableness of assessed future cash flows and growth assumptions. We have, with the support of our valuation specialists, reviewed the company's model and method for performing the impairment test and have evaluated the company's own sensitivity analyses mathematically, and have performed sensitivity analyses of key assumptions and possible factors which could affect these. With the support of our valuation specialists we have also assessed the reasonableness of assumptions regarding discount rate and long-term growth. We have assessed whether disclosures in the annual report are adequate.

Bad debt

Accounts receivable of SEK 283 M are recorded in the consolidated statement of financial position as of 31 December 2016 and consists of gross receivables of SEK 289 M after deduction of bad debt reserve of SEK 6 M. Accounts receivable of SEK 119 M are recorded in the parent company balance sheet as of 31 December 2016 and consists of gross receivables of SEK 125 M after deduction of bad debt reserve of SEK 6 M. The total amount of overdue receivables for the group and parent company is significant, and the accounting for bad debt reserves requires management to determine which of these receivables are to be considered bad debt. The valuation of bad debt is based on continuously updated forecasts and assumptions regarding counterparties' ability to pay.

For 2016, management has determined that accounts receivable of SEK 6 M are to be considered bad debt. Changes in the judgments and assumptions made by management regarding forecasts and assumptions of counterparties' ability to pay could lead to further credit losses, and for this reason bad debt is considered a key audit matter. A description of the judgments on which the determination of bad debt reserves is based is provided under the section "Significant judgments and estimates" under Note 1, and disclosures regarding accounts receivables are provided under Note 20.

In our audit we have assessed and tested management's process for determining whether to classify receivables as bad debt, partly by evaluating the historical precision of forecasts and assumptions, and reviewed routines for collection of accounts receivables and the treatment of bad debt. We have assessed whether disclosures in the annual report are adequate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–3, 40–42 and 44–56. 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.

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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of RaySearch Laboratories AB (publ) for the year 2016 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 whether the proposal is in accordance with the Companies Act.

Stockholm, 28 April 2017
Ernst & Young AB

Per Hedström
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

GENERAL

Corporate governance at RaySearch is based on the Swedish Companies Act, the Swedish Annual Accounts Act, the Swedish Stock Exchange Rules, the company's Articles of Association and RaySearch's application of the Swedish Code of Corporate Governance ('Code'). All companies whose shares are listed on Nasdaq Stockholm are obligated to apply the Code. The aim of the Code is to improve the governance of Swedish companies and, in particular to ensure that companies are managed in the best interests of their shareholders. In turn, a high level of corporate governance enhances confidence in listed companies among capital market players and the public at large. For more information on the Code, see www.bolagsstyrning.se.

Applying the Code entails that companies must actively make a decision regarding their approach to the various regulations of the Code. If a company chooses to deviate from the Code's rules, it must explain why in accordance with the principle of 'comply or explain.'

Since the Code's rules are primarily designed for larger companies with diversified ownership, they may be unnecessarily burdensome and difficult to apply for smaller companies with a more concentrated ownership structure. RaySearch is a small company with a majority shareholder who is also actively involved in the company in his role as CEO. In most cases, this is the reason why RaySearch has opted not to observe certain Code regulations.

RaySearch submits Corporate Governance Reports in connection with the submission of an Annual Report for each fiscal year.

ANNUAL GENERAL MEETING

Following motions by the shareholders, the Board of Directors and the audit firm (with an auditor-in-charge) are elected at the Annual General Meeting (AGM) for a term of office until the close of the following AGM. The date of the AGM is announced no later than in conjunction with the third-quarter interim report and is simultaneously published on the company's website. At RaySearch's Annual General Meeting held on 17 May 2016 in Stockholm, shareholders represented 66.9 percent of the total number of shares and 80.5 percent of the total number of votes in the company. RaySearch's CEO, Chairman Erik Hedlund and Board member Carl Filip Bergendal and RaySearch's auditors attended the AGM.

FUNCTION OF THE AGM

RaySearch is permitted to issue shares in two class, known as Class A and Class B. In voting at the AGM, each Class A share carries ten votes and each Class B share carries one vote. As of 31 December 2016, the total number of RaySearch shares was 34,282,773, of which 8,694,975 were Class A and 25,587,798 Class B shares. There are no special provisions regarding the function of the AGM in either the Articles of Association or, to the knowledge of RaySearch, in shareholder agreements.

AUTHORIZATION PROVIDED BY THE AGM

The AGM on 17 May 2016 resolved, in accordance with the Board's motion to authorize the Board, on one or several occasions during the period up to the next AGM, to make decisions on the issue of new Class B shares and/or the issue of convertible debentures that can be converted into Class B shares. The Board's decision concerning the issuance of shares and/or convertible debentures that are issuable with the support of the authorization may not exceed the equivalent, on the date of the official notice of the AGM, of 10 percent of the registered share capital, which was SEK 17,141,386.50. The shares may be issued with or without disapplication of the preemption rights of the shareholders and, except for cash, with or without consideration in kind, set-off or other conditions. The purpose of the authorization is to increase the company's financial flexibility. In case of deviation from the existing shareholders' preferential rights, the subscription price is to be the market price. Other terms and conditions may be decided by the Board of Directors.

NOMINATION COMMITTEE

The company deviates from the rules of the Code by not appointing a Nomination Committee. In view of the ownership structure, the Board believes that such a committee would not fulfill any function, but would simply give rise to additional costs.

BOARD OF DIRECTORS

RaySearch's Board of Directors makes decisions on matters regarding the company's strategic direction, structure and organization, and research and development.

BOARD'S INDEPENDENCE Name	Assignment'	Independent in relation to the Company	Independent in relation to shareholders with at least 10% of the votes
Carl Filip Bergendal	Board member, Chairman	Yes	Yes
Erik Hedlund	Former Board Member, Chairman	Yes	No (previously a shareholder)
Johan Löf	Board Member	No, CEO of company	No (is a shareholder)
Hans Wigzell	Board Member	Yes	Yes

OWNERSHIP STRUCTURE – SHAREHOLDERS WITH AT LEAST 10% OF TOTAL VOTES Name	Class A shares	Class B shares	Total shareholding	Share capital %	Votes %
Johan Löf	6,243,084	618,393	6,861,477	20.0	56.0
Anders Brahme	1,390,161	10,000	1,400,161	4.1	12.4
Others	1,061,730	24,959,405	26,021,135	75.9	31.6
Total	**8,694,975**	**25,587,798**	**34,282,773**	**100.0**	**100.0**

The Board also addresses partnership agreements, interim reports, the annual accounts, auditing issues, budget and key policies. Moreover, it is the Board's duty to ensure that correct information is provided to the stock market. The Board's work is regulated in such documents as the Companies Act, the Articles of Association and the formal work plan adopted by the Board. Under the Articles of Association, the Board shall comprise of no fewer than three and no more than eight members, with no more than three deputies.

After the AGM on 17 May 2016 and until November 2016, the Board of RaySearch comprised of four members elected by the AGM, and no deputies.

The AGM on 17 May 2016 elected Erik Hedlund as Chairman of the Board until the next AGM, but in November 2016 he resigned from the Board. Thereafter, the Board consisted of Carl Filip Bergendal, Chairman, Johan Löf, CEO, and Hans Wigzell. The Board meets the requirements of the Code in terms of being independent.

Once per fiscal year, the Board performs a systematic and structured process, which involves an evaluation of the Board's work. The review will form the basis for the Board's future working methods. An evaluation of the Board has not taken place in 2016. The Board also evaluates the CEO's work, but in that case, the company deviates from the Code in so far as the CEO can attend the evaluation. The reason for this is that the CEO is a member of the board and that the Board believes that the CEO's presence does not adversely affect an evaluation.

BOARD OF DIRECTORS WORK DURING 2016

The Board's work is governed by a formal work plan that is adopted annually and regulates such issues as the decision-making structure in the company, the Board meeting schedule and the duties of the Chairman. The Board as a whole addresses internal control issues that are its responsibility. In addition, the company's auditors personally report their observations from their audit and their assessment of the internal control to the Board each year. The Board held nine meetings during the year. Considering the size of the Board, it was not deemed necessary to introduce a separate delegation of duties among Board members. For the same reason, no committees were established.

2016 BOARD MEETING ATTENDANCE

Name	Total number of Board meetings held	Board meeting attendance
Carl Filip Bergendal	9	8
Erik Hedlund	9	(resigned in November 2016) 7
Johan Löf	9	9
Hans Wigzell	9	8

REMUNERATION COMMITTEE

RaySearch deviates from the Code by not establishing a Remuneration Committee. This is because the size of the Board and the company does not warrant such a committee. The remuneration of the CEO is determined by the Board (without the participation of the CEO) following negotiations between the CEO and the Chairman of the Board, while remuneration of other senior executives is determined following negotiations between the CEO and the individual employees.

MAJOR DIRECT OR INDIRECT SHAREHOLDINGS

Shareholders with a direct or indirect shareholding in RaySearch who represent at least one-tenth of the votes in the company are listed in the table on the preceding page.

PROVISIONS OF THE ARTICLES OF ASSOCIATION

RaySearch's Articles of Association do not contain any restrictions on how many votes each shareholder may cast at the AGM. Nor do RaySearch's Articles of Association contain any specific provisions on the appointment and dismissal of Board members, or amendments to the Articles of Association.

AUDIT COMMITTEE

RaySearch also deviates from the Code by not appointing an Audit Committee. This is because of the size of the Board and the company does not warrant any such committee. The Board as a whole performs the duties of an Audit Committee.

INTERNAL CONTROL

Under the Swedish Code of Corporate Governance, the Board is to ensure that RaySearch has sound internal control and continuously remains informed of, and evaluates, the effectiveness of the company's internal control system. A key feature of the control environment is that the organization, decision-making procedures, responsibility and authority are clearly defined and communicated in governance documentation. In view of the limited size of the company, the Board, in its annual assessment of the possible need for a separate function to review the company's internal financial controls, has concluded that there is no need for an internal audit function.

CONTROL ENVIRONMENT

As part of the effort to create and maintain an effective control environment, the Board has established a number of fundamental and significant documents for financial reporting, including special rules of procedure for the Board and instructions for the CEO. The Board has delegated to the CEO to maintain the control environment as directed by the Board. The Board also determines the authorization instructions that delegate the CEO's authorization responsibilities to other senior executives at RaySearch. The CEO submits regular reports to the Board and the executive management of RaySearch containing comments on the business situation and the financial performance compared with the budget and forecast. In addition, reports are also submitted by RaySearch's auditor. The internal control also builds upon a management system based on RaySearch's organization and manner of conducting business with clearly defined roles and areas of responsibility, and delegated authority. Governing documents, such as policies and guidelines, also have an important function in the control structure.

RISK ASSESSMENT

RaySearch's executive management performs regular risk assessments to identify significant risks relating to financial reporting. With regard to financial reporting, the primary risk is deemed to be the material misstatement of the financial statements, such as the recognition and measurement of assets, liabilities, income and expenses or other abnormalities. Fraud and loss through embezzlement is another risk. Risk management is incorporated into each process and various methods are used to measure and minimize risks and to ensure that the risks to which RaySearch is exposed are managed in line with established regulations, instructions and monitoring procedures. The purpose of this is to reduce potential risks and promote accurate accounting, reporting and disclosures.

CONTROL ACTIVITIES

The purpose of the control activities is to manage the risks that the Board and the company's executive management consider significant for the operations, internal control and financial reporting. The control structure includes distinct roles that permit the effective allocation of responsibility of specific control functions aimed at the timely identification and prevention of the risk of reporting errors. Such control functions include clear decision-making procedures for major decisions such as acquisitions, and other types of major investments, divestments, agreements and analytical monitoring. Another significant task for RaySearch's management is to implement, further develop and maintain the company's control procedures as well as conducting internal checks aimed at critical business issues. Process managers at various levels are responsible for the implementation of controls in respect to financial reporting. The closing accounts and reporting processes include checks in respect to valuations, reporting principles and estimates. The regular analyses made of financial reporting are highly important in ensuring that the financial reports do not include any material errors. RaySearch's CFO plays a key role in the internal control process by checking that financial reporting is accurate, complete and is delivered on time.

INFORMATION AND COMMUNICATION

RaySearch cooperates with the communications consultant Cision to ensure that financial reporting to the market is complete and accurate. The relevant employees are regularly informed about changes in accounting policies and reporting requirements or other information. The Board receives regular financial statements. External information and communication is governed by RaySearch's information policy, which describes the company's general principles for providing information.

MONITORING

The Board and executive management monitor RaySearch's compliance with adopted policies and guidelines. RaySearch's financial situation is dealt with at each Board meeting. The Board and executive management review the financial reporting before Interim and Annual Reports are published. The auditor's duties also include an annual examination of RaySearch's internal control. The Board meets RaySearch's auditor at least once per year, partly to review the internal control but also, in special cases, to assign additional internal controls to the auditor with a special focus on a particular area.

EXECUTIVE MANAGEMENT

Under the Swedish Companies Act, the Board is responsible for the company's organization and management. If a CEO is appointed, according to the Swedish Companies Act, he is responsible for the ongoing management of the company according to the guidelines and instructions provided by the Board. RaySearch's CEO therefore leads the Group's operations based on the frameworks established by the Board and appoints the other members of the executive management. At the end of 2016, RaySearch's executive management team consisted of the President and CEO, the Deputy CEO, the CFO, the Director of Research, the Director of Development, the Director of Sales and Marketing, the Director of Sales for Asia & Pacific, the Director of Services and the General Counsel.

During the year, business briefings under the CEO's leadership were usually conducted at least monthly, except during holiday periods when they occurred less frequently.

The executive management team also meets representatives of the US and European sales and marketing organizations on a regular basis, mainly through the CEO and Director of Sales and Marketing, respectively, to monitor and evaluate the Group's operations in their entirety. Monitoring is based on the Group's annually established targets and budgets, including RaySearch's strategies, short and long-term targets, operational objectives, competitor analyses, and so forth. The Board is continuously informed about the executive management's monitoring and evaluation measures.

FURTHER INFORMATION

For more information about the Board and the CEO, refer to pages 44–45 and Note 4 in the Annual Report. For more details regarding the auditors, refer to page 44 and Note 5 in the Annual Report.

Stockholm, 28 April 2017

Carl Filip Bergendal	Johan Löf	Hans Wigzell
Board member	President/CEO and Board member	Board member

AUDITORS' REPORT ON THE CORPORATE GOVERNANCE REPORT

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF RAYSEARCH LABORATORIES AB, CORPORATE IDENTITY NUMBER 556322-6157

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 40–42 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been 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.

OPINIONS

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 28 April 2017
Ernst & Young AB

Per Hedström
Authorized Public Accountant

BOARD AND AUDITORS

1. ERIK HEDLUND

Previously Chairman and member of the Board of RaySearch. Resigned on 17 November 2016. Former CEO and Board member of C-RAD AB and Chairman of the three subsidiaries C-RAD Positioning AB, C-RAD Imaging AB and C-RAD Innovation AB.
Other Board assignments: Chairman of the Board of Scandiflash AB, hhDesign AB, Envirologic AB (publ).
Born: 1948.
Education: M.Sc. in Electrical Engineering from the Royal Institute of Technology (KTH) and MBA from Stockholm University.
Professional experience: During his career, Erik Hedlund has held a number of senior positions in major international Groups, including Siemens and Saab, as well as in small and mid-sized companies. He has concentrated on high-tech companies with the focus on medical technology. Since 1994, his main focus has been on radiation therapy and radiation physics. He is an independent Board member in relation to RaySearch, but not in relation to major shareholders in the company.
Shareholding: 1,695,788 Class B.

2. JOHAN LÖF

CEO. Member of the RaySearch Board since 2000.
Other Board assignments: RaySearch Americas Inc., RaySearch UK Ltd., the RayFoundation profit sharing foundation and the Venture Cup foundation.
Born: 1969.
Education: M.Sc. in Engineering Physics from the Royal Institute of Technology and Ph.D. from the Department of Medical Radiation Physics at the Department of Oncology-Pathology, Karolinska Institute. As a doctoral student, he worked with mathematical models for the optimization of radiation therapy and also developed the prototype for ORBIT.
Professional experience: CEO of RaySearch since 2000. He is not an independent Board member in relation to RaySearch, or in relation to major shareholders in the company.
Shareholding: : 6,243,084 Class A and 618,393 Class B.

3. CARL FILIP BERGENDAL

Member of the RaySearch Board since 2000. On 17 November 2016 Carl Filip Bergendal was chosen as new Chairman until the AGM on 23 May 2017.
Other Board assignments: Board member of Cafibe AB.
Born: 1945.
Education: M.Sc. in Engineering Physics from the Royal Institute of Technology in Stockholm and B.Sc., Master of Business Administration Stockholm School of Economics, Sweden.
Professional experience: A number of senior positions in the Modo Group (1972–1980) and the medical technology company Stille-Werner (1980–1987), with the two final years as President and CEO. He has worked since 1988 as a certified process manager at Lots® where he supported managers at large and mid-size companies undergoing restructuring processes. Independent Board member in relation to RaySearch and in relation to major shareholders in the company.
Shareholding: 1,061,577 Class A and 144,920 Class B.

4. HANS WIGZELL

Member of the Board of RaySearch since 2004. Professor Emeritus at Karolinska Institute in Solna.
Other Board assignments: Chairman of the Board of Rhenman & Partners Asset Management AB. Board member of SOBI AB, Karolinska Development AB, Valneva AS, Sarepta Pharmaceuticals AB, Cadila Pharmaceuticals Svenska AB and Wigzell-produktion AB.
Other assignments: Chairman of the Stockholm School of Entrepreneurship. Member of the Royal Swedish Academy of Science and the Academy of Engineering Science.
Born: 1938.
Education: Doctor of Medicine.
Professional experience: Dean of Karolinska Institute in Solna, 1995–2003. Independent Board member in relation to RaySearch and in relation to major shareholders in the company.
Shareholding: 0.

AUDITOR

Auditing firm Ernst & Young AB
Per Hedström (auditor-in-charge)
Auditor at RaySearch Laboratories.
Authorized Public Accountant, Ernst & Young AB.
Born: 1964.
Auditor of other companies, including Allgon, ISS Facility Services and Egmont.

1.

2.

3.

4.

SENIOR MANAGEMENT

1.
KJELL ERICSSON
CHIEF SCIENCE OFFICER

2.
PETER KEMLIN
DIRECTOR OF SALES AND MARKETING

3.
PETRA JANSSON
GENERAL COUNSEL

4.
PETER THYSELL
CHIEF FINANCIAL OFFICER

5.
JOHAN LÖF
CEO

6.
BJÖRN HÅRDEMARK
DEPUTY CEO

7.
HENRIK FRIBERGER
DIRECTOR OF DEVELOPMENT

8.
LARS JORDEBY
DIRECTOR OF SALES, ASIA & PACIFIC

9.
NICLAS BORGLUND
DIRECTOR OF SERVICE

Senior executives, previous spread (from left).

1. KJELL ERIKSSON, CHIEF SCIENCE OFFICER

Born: 1973.
Education: M.Sc. in Engineering Physics from Uppsala University.
Professional experience: Kjell was appointed Chief Science Officer at RaySearch during 2015. He was first employed in 2001 as a developer and became Research Engineer in 2003.
Shareholding: 24,000 Class B shares.

2. PETER KEMLIN, DIRECTOR OF SALES AND MARKETING

Born: 1974.
Education: M.Sc.in Engineering, Industrial Business at Chalmers University of Technology.
Professional experience: For the greater part of his career, Peter has worked in the medical technology sector as a consultant working for Swedish hospitals in order to implement cost-effective procurements as well as with sales and marketing, primarily in the radiation therapy business. In his role as Trade Commissioner at the Swedish Trade Council, he also established a large number of Swedish companies in new markets. Employed at RaySearch since 2012.
Shareholding: 300 Class B (As well as 1,098 via related parties).

3. PETRA JANSSON, GENERAL COUNSEL

Born: 1973.
Education: Law degree from Lund University and Master of Law from the University of Cambridge.
Professional experience: Petra comes from a position as General Counsel at EKN, and has previously been Deputy General Counsel at Gambro as well as a lawyer at Mannheimer Swartling.
Shareholding: 0.
Petra Jansson is appointed as General Counsel from July 2017.

4. PETER THYSELL, CHIEF FINANCIAL OFFICER

Born: 1970.
Education: MBA from the Stockholm School of Economics.
Professional experience: Before joining RaySearch in March 2015, Peter worked as IPO Leader and acting Director Business Control for Scandic Hotels. Prior to that, he was Interim CFO of Åkers AB, CEO of SiC Processing GmbH, CFO of Generic Sweden AB (publ) and management consultant at McKinsey & Co.
Shareholding: 1,000 Class B shares.

5. JOHAN LÖF, CEO

CEO. Member of the RaySearch Board since 2000.
Other Board assignments: RaySearch Americas Inc., RaySearch UK Ltd., the Ray-Foundation profit sharing foundation and the Venture Cup foundation.
Born: 1969.
Education: M.Sc. in Engineering Physics from the Royal Institute of Technology and Ph.D. from the Department of Medical Radiation Physics at the Department of Oncology-Pathology, Karolinska Institute. As a doctoral student, he worked with mathematical models for the optimization of radiation therapy and also developed the prototype for ORBIT.
Professional experience: CEO of RaySearch since 2000. He is not an independent Board member in relation to RaySearch, or in relation to major shareholders in the company.
Shareholding: 6,243,084 Class A and 618,393 Class B.

VICTORIA SÖRVING, GENERAL COUNSEL

Born: 1986.
Education: Graduate in Law, Stockholm University.
Professional experience: Victoria was appointed General Counsel at RaySearch during 2015. Prior to being employed as Legal Counsel at RaySearch in 2013, Victoria worked at the law firm Advokatfirma DLA Nordic during 2008–2013. From 2010 and during 2011, she held a position as Legal Counsel at Pfizer, via a secondment.
Shareholding: 0.
Victoria Sörving left RaySearch in September 2016.

6. BJÖRN HÅRDEMARK, DEPUTY CEO

Born: 1977.

Education: M.Sc. in Engineering Physics from the Royal Institute of Technology in Stockholm. Received an award for academic excellence in 2003.

Professional experience: Björn Hårdemark wrote his thesis at RaySearch in 2002 and has since held positions as Research Engineer, System Developer, Physicist, Head of Physics and Chief Science Officer.

Shareholding: 18,000 Class B.

7. HENRIK FRIBERGER, DIRECTOR OF DEVELOPMENT

Born: 1971.

Education: M.Sc. in Electronics from the Royal Swedish Institute of Technology. Human Physiology, one-term course at Royal Karolinska Institute.

Professional experience: After graduating in 1997, Henrik Friberger worked as a software developer at Pacesetter AB (later St Jude Medical AB) in the field of pacemaker systems until he joined RaySearch in 2001. Since that time, he has worked with software development and team and project management, and has also managed one of the Groups in the development department. He has held the Director of Development title since 2013.

Shareholding: 23,799 Class B.

8. LARS JORDEBY, DIRECTOR OF SALES, ASIA & PACIFIC

Born: 1965.

Professional experience: International business operations in both major corporations and small start-up companies. 20 years of experience from sales and marketing work involving radiation therapy in such companies as Scanditronix Medical AB, IBA Dosimetry AB, C-RAD AB and ScandiDos AB. His various executive positions include direct sales and sales management in markets including Europe, Asia and North America. He is also one of the founders and partners of the company ScandNoca Systems AB.

Shareholding: 1,800 Class B.

9. NICLAS BORGLUND, DIRECTOR OF SERVICE

Born: 1971.

Education: Doctor of Physics, Stockholm University.

Professional experience: After completing his doctoral studies, Niclas Borglund worked at Savantic AB in a position that mainly involved software development in high-tech projects. He joined RaySearch in 2006 as project manager in the development department. Director of Services since 2010.

Shareholding: 400 Class B.

SHARES AND OWNERSHIP

NUMBER OF SHARES AND SHARE CAPITAL

As of 31 December 2016, the total number of registered RaySearch shares was 34,282,773, of which 8,694,975 were Class A and 25,587,789 Class B shares. The quotient value was SEK 0.50 and the share capital in the company amounted to SEK 17,141,386.50. All shares carry equal rights in the company's assets and earnings. Each Class A share carries 10 votes and each Class B share carries one vote. The total number of voting rights in the company at 31 December 2016 was 112,537,548. All shareholders entitled to vote at the Annual General Meeting may vote for the full number of shares owned or represented by them, with no restrictions on voting rights. The percentage of foreign owners' shareholdings in RaySearch reduced from 24.1 percent at 31 December 2015 to 20.6 percent at 31 December 2016. The number of shareholders' equity increased and was 5,383 at 31 December 2015 (5,435).

OWNERSHIP STRUCTURE – SHAREHOLDER CATEGORIES, %	Share capital	Votes
Foreign shareholders	20.6	6.3
Swedish shareholders	79.4	93.7
of which, institutions	*36.7*	*11.2*
individuals	*42.7*	*82.5*

STATEMENT FROM THE PRINCIPAL SHAREHOLDERS

Principal shareholders Johan Löf, Anders Brahme and Carl Filip Bergendal intend to remain significant, long-term shareholders of RaySearch.

SHAREHOLDER AGREEMENTS

To the knowledge of the Board of Directors of RaySearch, there are no shareholder agreements concerning either Class A or Class B shares.

LISTING ON NORDIC EXCHANGE

RaySearch shares have been noted on Nasdaq Stockholm since 2003. On 4 January 2016, the RaySearch share was moved to the Mid Cap segment, following Nasdaq's annual review of market capitalization in its Nordic markets.

SHARE TRADING AND SHARE PRICE TREND

During 2016, a total of 8,309,947 (13,119,487) RaySearch shares were traded at a value of SEK 1,213 M (1,312). This corresponds to an average price of SEK 145.94 (99.97). The highest price paid in 2016 was SEK 205 on 21 October. The lowest price paid during the year was SEK 83 on 9 February. On the last trading day of the year, 30 December, the closing price was SEK 84.00 (122.50). During 2015, the price of the RaySearch share rose 51 percent (+131), while the OMXS increased 6 percent (7). At the end of December, RaySearch's market capitaliza-

OWNERSHIP STRUCTURE – 20 LARGEST SHAREHOLDERS AT 31 DEC 2015

Name	Class A shares	Class B shares	Total shares	Capital, %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	56.0
Lannebo funds	0	4,774,147	4,774,147	13.9	4.3
Montanaro funds	0	2,880,000	2,880,000	8.4	2.6
Second AP Fund	0	1,891,775	1,891,775	5.5	1.7
Erik Hedlund	0	1,695,788	1,695,788	5.0	1.5
Swedbank Robur Funds	0	1,511,702	1,511,702	4.4	1.3
First AP Fund	0	1,409,118	1,409,118	4.1	1.3
Anders Brahme	1,390,161	10,000	1,400,161	4.1	12.4
Carl Filip Bergendal	1,061,577	144,920	1,206,497	3.5	9.6
JPMorgan Chase (UK)	0	1,026,467	1,026,467	3.0	0.9
Fourth AP Fund	0	750,573	750,573	2.2	0.7
Anders Liander	0	601,734	601,734	1.8	0.5
SEB (Lux)	0	472,753	472,753	1.4	0.4
Avanza Pension	0	322,392	322,392	0.9	0.3
RayFoundation	0	272,535	272,535	0.8	0.2
State Street Bank (Boston)	0	250,628	250,628	0.7	0.2
Strawberry Capital AS	0	250,000	250,000	0.7	0.2
Third AP Fund	0	194,775	194,775	0.6	0.2
Kalmar County Pension	0	182,260	182,260	0.5	0.2
Banque Paribas	0	176,058	176,058	0.5	0.2
Others	153	6,151,780	6,151,933	17.9	5.5
Total	**8,694,975**	**25,587,798**	**34,282,773**	**100.0**	**100.0**

tion was SEK 6,325 M (4,200). In this calculation, Class A shares, which are not listed on Nasdaq Stockholm, have been assigned the same value as the listed Class B shares.

SHARE PRICE TREND

The diagram on the next page shows the share price trend for RaySearch from January 2012 up to and including December 2016, and the number of shares traded per month.

OPTIONS PROGRAM

RaySearch currently has no options programs outstanding.

DIVIDEND POLICY

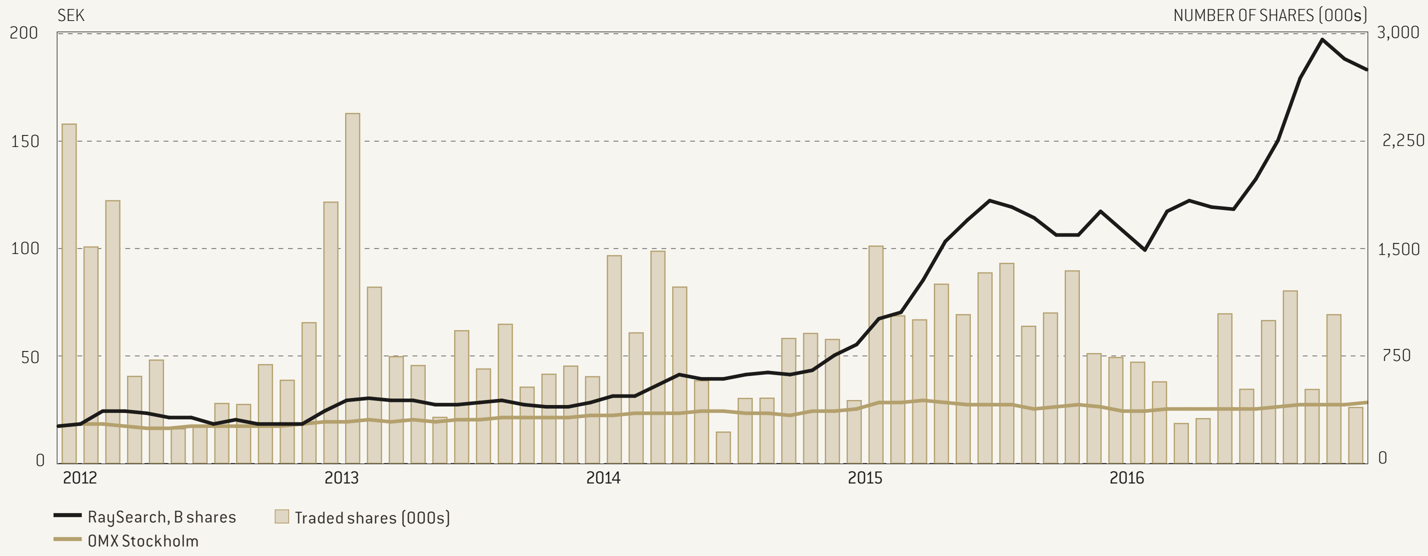
The Board intends to allocate approximately 20 percent of the Group's profit after tax to shareholders, provided that a healthy capital structure can be maintained.

OWNERSHIP STRUCTURE – SIZE OF HOLDING PER 31 DEC 2016	Number of shareholders	Number of Class A shares	Number of Class B shares	Capital, %	Voting rights, %
1–500	4,129	153	528,173	1.54%	0.47%
501–1,000	530	0	436,354	1.27%	0.39%
1,001–2,000	307	0	475,696	1.39%	0.42%
2,001–5,000	217	0	731,338	2.13%	0.65%
5,001–10,000	69	0	530,850	1.55%	0.47%
10,001–20,000	41	0	579,132	1.69%	0.51%
20,001–50,000	36	0	1,152,193	3.36%	1.02%
50,001–100,000	21	0	1,494,672	4.36%	1.33%
100,001–500,000	19	0	4,488,397	13.09%	3.99%
500,001–1,000,000	4	0	2,530,082	7.38%	2.25%
1,000,001–5,000,000	9	2,451,738	12,022,518	42.22%	32.47%
5,000,001–10,000,000	1	6,243,084	618,393	20.01%	56.03%
Total	**5,383**	**8,694,975**	**25,587,798**	**100.00%**	**100.00%**

CHANGES IN SHARE CAPITAL OF RAYSEARCH

Year	Transaction	Quotient value SEK	Change in number of shares	Increase in share capital	Number of Class A shares	Number of Class B shares	Total number of shares	Total share capital, SEK
2005	Opening balance	1.5			4,237,604	6,275,457	10,513,061	15,769,591.50
	Non-cash issue (B)		914,530	1,371,795	4,237,604	7,189,987	11,427,591	17,141,386.50
	Reclassification 2005				–24,596	24,596		
	Closing balance	1.5			4,213,008	7,214,583	11,427,591	17,141,386.50
2006	Reclassification 2006				–100	100		
	Closing balance	1.5			4,212,908	7,214,683	11,427,591	17,141,386.50
2008	3:1 share split, 2008		22,855,182		8,425,816	14,429,366		
	Closing balance	0.5			12,638,724	21,644,049	34,282,773	17,141,386.50
2009	Reclassification 2009				–252,756	252,756		
	Closing balance	0.5			12,385,968	21,896,805	34,282,773	17,141,386.50
2011	Reclassification 2011				–1,061,577	1,061,577		
	Closing balance	0.5			11,324,391	22,958,382	34,282,773	17,141,386.50
2013	Closing balance	0.5			11,324,391	22,958,382	34,282,773	17,141,386.50
2015	Reclassification 2015				–1,061,577	1,061,577		
	Closing balance	0.5			10,262,814	24,019,959	34,282,773	17,141,386.50
2016	Reclassification 2016				–1,567,839	1,567,839		
	Closing balance	0.5			8,694,822	25,587,798	34,282,773	17,141,386.50

SHARE PRICE TREND DIAGRAM



MULTI-YEAR OVERVIEW – KEY DATA

KEY FIGURES AND CONDENSED FINANCIAL DATA

The summary shows how the core business has developed over the past ten years, between 2007 and 2016, and was prepared in accordance with IFRS.

GROUP	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Income statement										
Net sales, SEK M	531.5	397.6	285.2	204.5	182.1	126.1	117.7	83.7	62.7	64.7
Growth in net sales, %	33.7	39.4	39.5	12.3	44.4	7.1	40.7	33.5	–3.0	–6.2
Operating profit, SEK M	199.6	95.3	79.4	–25.7	22.5	27.6	39.9	40.9	21.1	25.8
Operating margin, %	37.5	24.0	27.8	–12.6	12.4	21.9	33.9	48.8	33.6	39.8
Net profit/loss, SEK M	151.4	70.2	59.8	–20.8	19.9	17.0	28.9	30.1	18.2	19.8
Net margin, %	28.5	17.7	21.0	–10.2	10.9	13.5	24.5	36.0	29.1	30.6
Cash flow statement										
Cash flow from ongoing operations, SEK M	120.8	111.4	50.3	31.3	87.5	33.9	62.8	49.2	26.0	37.9
Cash flow from investment operations, SEK M	–106.9	–103.9	–57.8	–56.5	–54.2	–63.1	–50.8	–43.1	–29.5	–25.6
Cash flow from finance operations, SEK M	12.3	–3.9	24.3	1.6	0.0	–17.0	–17.0	3.3	–5.0	0.0
Periods cash flow, SEK M	26.2	3.6	16.8	–23.7	33.3	–46.2	–5.0	9.4	–8.5	12.3
Capital structure and return measurements										
Solidity,%	64.2	65.9	64.5	65.7	74.2	75.4	76.9	79.3	80.0	79.6
Share of risk-bearing capital,%	74.0	76.5	75.0	78.0	88.2	93.1	93.2	94.3	93.9	92.8
Capital employed, SEK M	521.7	357.7	292.6	196.6	217.5	196.7	196.8	184.9	150.4	137.9
Return on capital employed[3],%	45.4	29.4	32.6	–12.0	11.4	14.6	21.0	24.6	16.8	22.2
Equity, SEK M	460.2	319.5	251.5	196.6	217.6	196.7	196.8	184.9	150.4	137.9
Return on equity[3],%	38.8	24.6	26.7	–10.1	9.6	8.6	15.1	18.0	12.6	15.5
Interest-bearing liabilities, SEK M	61.5	38.2	41.1	–	–	–	–	–	–	–
Net debt, SEK M	–26.2	–21.5	–15.0	–38.2	–61.9	–28.7	–75.0	–80.0	–70.6	–79.1
Debt / equity ratio	–0.2	–0.1	–0.1	–0.2	–0.3	–0.1	–0.4	–0.3	–0.2	–0.2
Net debt / EBITDA	–0.1	–0.1	–0.1	–1.4	–0.9	–0.5	–1.1	–1.5	–2.2	–2.4
Data per share										
Return per share before dilution, SEK[2]	4.42	2.05	1.75	–0.61	0.58	0.50	0.84	0.88	0.53	0.58
Return per share after dilution, SEK[2]	4.42	2.05	1.75	–0.61	0.58	0.50	0.84	0.88	0.53	0.58
Equity per share, SEK[2]	13.42	9.32	7.34	5.73	6.35	5.74	5.74	5.39	4.39	4.00
Cash gain from ongoing operations per share, SEK[2]	3.53	3.25	1.47	0.91	2.55	0.99	1.83	1.44	0.76	1.10
Dividend per share, SEK[2]	–[1]	0.25	–	–	–	–	0.50	0.50	–	0.17
Stock price at year-end, SEK[2]	184.5	122.5	53.0	27.4	20.8	14.5	38.0	29.5	11.5	63.3
P/E-ratio	41.8	59.8	30.4	neg	35.9	29.1	45.1	33.5	21.6	109.8
Other										
Number of outstanding shares before dilution, '000	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	11,428
Number of outstanding shares after dilution, '000	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	11,428
Average number of employees	184	157	126	107	92	78	64	52	48	37

[1] According to the Board's motion.

[2] Adjusted for 3:1 share split, 2008.

[3] In previous years, a rolling 12 month profit measure has been used, but from 2013 and for comparisons, the year's profit measurements have been used.

DEFINITIONS

Guidelines on alternative key figures for companies with securities listed on regulated markets within the EU have been issued by ESMA (the European Securities and Markets Authority). These guidelines will apply to alternative key ratios used as of 3 July 2016.

The Annual Report refers to a number of non-IFRS measurements that are used to help investors and managers to analyze a company's operations. Below we describe the various non-IFRS measurements that have been used as a complement to the current information reported under IFRS.

Non-IFRS measurements	Definition	Motivation for using the measurement
Order intake excluding service contracts	The value of all orders received, including changes, for exclusive service agreements orders during the period	Order intake is an indicator of future revenues and thus an important key to managing RaySearch's operations
Order intake for exclusive RayStation service agreements	The value of orders received, including changes, for exclusive service agreements orders during the period	Order intake is an indicator of future revenues and thus an important key to managing RaySearch's main business area
RayStation order book	The value at the end of the period of orders for RayStation, which the company has not yet delivered and recognized	The order book shows how much current operations RaySearch has already booked that will be converted to income in the future
Revenue growth	Percentage change in net sales compared to the corresponding period last year	The measure is used to monitor the development of the company's operations between different periods
Organic revenue growth	Revenue growth adjusted for currency effects	The measure is used to track underlying sales growth driven by volume, price and various changes to compare units between different periods
Gross profit	Net sales minus the cost of goods sold	Gross profit is used to show the margin before sales, research, development and administration costs
Operating profit	Operating profit before financial items and taxes	The operating result gives a complete picture of the total profit generation in the operational activities
Operating margin	Operating profit as a percentage of net sales	Operating margin is a key component, together with revenue growth in order to follow value creation
Net margin	Profit after tax, as a percentage of net sales	Net margin shows the percentage of net sales remaining after the company's expenses have been deducted
Cash flow from ongoing operations per share	Cash flow from ongoing operations divided by the average number of shares during the period	Shows what cash flow the current business has generated per share
Cash flow per share	Cash flow divided by the average number of shares during the period	Shows the cash flow the company has generated per share
Equity per share	Shareholders' equity divided by the number of outstanding shares at the end of the period	From an owner's perspective, shows the size of the owners' invested capital per share
Price / adjusted equity per share	Share price divided by adjusted equity per share at year-end	Shows from an owner's perspective how the market values the share in relation to the company's reported equity
P/E ratio	Share price at the end of the year divided by earnings per share	Shows from an owner's perspective how the market values the share in relation to the company's reported profit after tax
Dividend per share	Dividend divided by the number of outstanding shares at the end of the year	Shows from an owner perspective what direct return is given
Twelve months rolling turnover, operating profit or other results	Revenue, operating profit or other results for the past twelve months	The measure is used to more clearly show the trend for sales, operating income and other results, which is relevant when RaySearch's revenues vary from one month to another
Working capital	The Group's working capital is calculated as current operating receivables minus current liabilities	The measure shows how much working capital is linked to the business and can be related to net sales to understand how effectively the tied working capital has been used
Capital employed	Balance sheet total minus non-interest-bearing liabilities and deferred tax liability	The measure shows how much capital is used in the business and is therefore the one component in measuring returns from operations

Non-IFRS measurements	Definition	Motivation for using the measurement
Return on capital employed	Operating profit plus current income, as a percentage of the twelve months rolling average balance sheet excluding non-interest bearing liabilities	A key indicator to measure the return on all capital tied up in the business
Return on equity	Profit after tax, as a percentage of twelve months rolling average equity	From a shareholder perspective shows the return on owners' invested capital
Solidity	Shareholders' equity, as a percentage of the balance sheet total at the end of the period	A traditional measure to show financial risk, expressed as the proportion of the total tied capital invested by the owners
Percentage of risk-bearing capital (consolidation ratio)	Equity and provisions for deferred taxes, as a percentage of the balance sheet total at the end of the period	A relevant measure of credit perspective that shows the company's ability to cope with losses. The measure differs from the solvency margin by including any deferred tax in untaxed reserves that may be assumed if the company is at a loss
Return on total capital	Operating profit plus current income as a percentage of the twelve months rolling average balance sheet total	A key profitability measure that shows the capital's return
Net debt	Interest-bearing liabilities minus cash and interest-bearing short-term and long-term receivables	The measure shows the Group's total debt
Debt ratio	Net debt in relation to equity	The measure shows a financial risk and is used by the management to monitor the Group's indebtedness
Net debt / EBITDA	Net debt in relation to operating profit before depreciation	A relevant measure of credit perspective that shows the company's ability to manage its debt

CALCULATION OF FINANCIAL MEASURES NOT REFERRED TO IN IFRS RULES, SEK 000s

Working capital	31 Dec 2016	31 Dec 2015
Accounts receivable	282,535	168,973
Other short-term receivables	65,334	18,881
Supplier liabilities	–11,943	–9,514
Other short-term liabilities	–112,995	–65,946
Working capital	**222,931**	**112,394**

Capital employed	31 Dec 2016	31 Dec 2015
Balance sheet total	0	0
Short-term interest-bearing liabilities	61,527	38,164
Long-term interest-bearing liabilities	–87,720	–59,705
Deferred tax liability	0,000	0,000
Capital employed	**–26,193**	**–21,541**

Net debt	31 Dec 2016	31 Dec 2015
Short-term interest-bearing liabilities	717,254	484,490
Long-term interest-bearing liabilities	–124,938	–75,460
Liquid funds	0	0
Interest-bearing receivables	–70,601	–51,349
Net debt	**521,715**	**357,681**

EBITDA	2016	2015
Operating profit	199,559	95,344
Depreciation	67,300	56,504
EBITDA	**266,859**	**151,848**

ABOUT RAYSEARCH

RaySearch Laboratories AB (publ) is a medical technology company that develops innovative software solutions for improved cancer treatment. The company develops and markets the RayStation treatment planning system to clinics worldwide and distributes products through licensing agreements with leading medical technology companies. The company is also developing the next-generation oncology information system, RayCare, which is a new RaySearch product range that will be launched in 2017. RaySearch's software is today used by more than 2,600 clinics in over 65 countries. The company was founded in 2000 as a spin-off from Karolinska Institutet in Stockholm, and the stock has been listed on Nasdaq Stockholm since 2003. More information on RaySearch is available at www.raysearchlabs.com.

BUSINESS IDEA

RaySearch's concept is to improve the treatment of cancer in order to save lives and improve patients' quality of life through innovative software solutions.

BUSINESS MODEL

RaySearch's revenue is generated by customers paying an initial license fee for the right to use RaySearch's software and an annual service fee to access updates and support. The RayStation treatment planning system is developed at RaySearch's headquarters in Stockholm and is distributed and supported by the company's global marketing organization.

STRATEGY

A radiotherapy clinic essentially needs two software platforms for its operations: an oncology information system and a treatment planning system. With RayStation and the planned launch of RayCare in 2017, RaySearch will further strengthen its position and continue to grow with good profitability. The strategy rests on a strong focus on software development, leading functionality, broad support for many different processing techniques and types of radiation treatment machines, as well as extensive investment in research and development.

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ADVANCING CANCER TREATMENT

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