

# ANNUAL REPORT | 2017

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# BRINGING ONCOLOGY TOGETHER

2017 WAS A YEAR OF BREAKING NEW GROUND FOR RAYSEARCH. WE FORGED NEW PARTNERSHIPS, RECRUITED KEY PERSONNEL, ENTERED NEW MARKETS AND RELEASED THE FIRST VERSION OF RAYCARE, THE NEXT GENERATION ONCOLOGY INFORMATION SYSTEM.

## A NEW CHAPTER

2017 marked the culmination of many years of work towards our vision of a new future for oncology software. Now we have taken the first steps. The first release of RayCare\*, the next-generation oncology information system, takes us into a new arena beyond radiation therapy treatment planning, where our software will be used by a much broader range of clinical staff and become central to other cancer-treatment disciplines. I believe that RayCare has tremendous potential to improve patient outcomes and clinical efficiency.

RayCare is still in an early phase, but there is very strong worldwide interest. We have already signed our first clinical customer contract, with Anderson Regional Cancer Center in the US, and many more centers will follow. RayCare is now a reality and I look forward to bringing about a faster, safer and more effective way of working across the oncology disciplines.

## LEARNING SYSTEMS

Cancer treatment software is evolving at ever-faster speeds. In the coming years, we will see developments we could never have envisioned just a few years ago. One of the cornerstones of this rapid shift is machine learning; technology that enables systems to learn for themselves. This technology is already widespread in many industry areas and is set to transform healthcare.

Machine learning aligns closely with what we want to achieve with RaySearch software, and we took a significant step forward by establishing a dedicated machine learning department. This technology will play a key part in our solutions in the future, enabling more intelligent systems with a new level of automation efficiency and the capacity to utilize data to improve decision support.

## CONTINUED EXPANSION

RaySearch continued to expand during 2017. We recruited 90 staff to key positions globally, which, among other things, will enable us to provide even better support to customers. In the US, we established a new hub near San Francisco, at the heart of Silicon Valley. Our presence there will bring us closer to technology industries and give us access to the pool of talent we

need to develop the solutions of tomorrow. We also signed an agreement to establish a New York office in the Empire State Building.

Another key development was the establishment of the subsidiary RaySearch Japan, which will enable us to get closer to this important market and provide more tailored service to customers. RaySearch Japan will be a complement to our successful distribution agreement with Hitachi Ltd., and will primarily focus on the proton therapy market.

A key ambition of RaySearch is to support as many different types and sizes of clinics as possible. We are moving into new geographical markets and will have a stronger focus on connecting with smaller clinics around the world as well as the larger centers. Our solutions are highly suited to helping small and medium-sized clinics provide optimal patient care, boost efficiency and get the most from resources. In 2018 and beyond, we will extend our reach and interact with a much broader range of centers.

## CONTINUED LEADERSHIP

RayStation has a well-established user base and we continued to strengthen its global presence during 2017. We have worked hard to ensure RayStation remains the premier treatment planning system, with the most comprehensive functionality. In 2017, we added support for additional treatment machines and techniques and integration with the RayCare oncology information system. Together they will provide a seamless oncology software experience for clinics.

RayPlan is another significant product that will enable us to meet the needs of more clinics and markets. It brings the benefits of RaySearch software to centers that require a less featured system or need a flexible upgrade path to the full capabilities of RayStation. In 2017 we made the first sale of this new system.

## WORKING TOGETHER

Partnerships are at the heart of the RaySearch way of working, and during 2017 we continued to add new partners, both clinical and commercial. Notable developments include our collaborations with the University of Wisconsin-Madison and MD Anderson Cancer Center. We continue to promote an open, collaborative approach and have initiated cooperation with

\* Subject to regulatory clearance in some markets.



a wide range of machine vendors and other industry and clinical players. Pioneering this open networking approach is vital to assuring a smooth experience for clinics, new clinical possibilities and improved patient safety. We will ensure that RaySearch continues to be at the center of industry developments into the future.

#### **A PASSIONATE TEAM WITH A MEANINGFUL MISSION**

Sustainability is a key aspect of RaySearch's strategy and operations. The main purpose of RaySearch's business is to improve and save the lives of cancer patients, which is the underlying driving force in everything we do.

Every RaySearch innovation results from the dedication and creativity of our employees. We have assembled a global team comprising some 20 nationalities, with leading expertise in many areas of technology and clinical practice. They have diverse skills but are united by a common passion: pushing the boundaries of software and making a difference to the lives of cancer patients.

I would like to thank every member of the RaySearch team – your drive and engagement have taken us to where we are today and will ensure our success and focus into the future.

Today we have a well-structured organization in place, with leading resources in key focus areas and markets. From this strong foundation, we are building the future of oncology software. These are exciting times. We have made astounding progress, but there are even greater developments to come. Through partnership, openness and innovation, we will continue to work toward our vision of a world where cancer is conquered.

Johan Löf  
CEO and founder  
RaySearch Laboratories

# ADMINISTRATION REPORT

The Board of Directors and CEO of RaySearch Laboratories AB (publ), Corporate Registration Number 556322-6157, hereby present the Annual Report and consolidated financial statements for the fiscal year of January 1–December 31, 2017. The Parent Company and Group present their financial statements in SEK. The company's Board of Directors is based in Stockholm.

## OPERATIONS

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

Software is driving a high share of advances in cancer care today and a radiation therapy center essentially requires two software platforms for its operations: one treatment planning system, and one information system. With the RayStation treatment planning system and the RayCare oncology information system, RaySearch will strengthen its position and continue to grow with high profitability. The company's strategy rests on a strong focus on software development, leading functionality, broad support for many different types of treatment techniques and treatment delivery machines, as well as extensive investment in research and development.

RayStation is already established in all major markets as one of the most advanced treatment planning systems for radiation therapy of cancer. The company's sales success is based on RayStation's high calculation speed, support for adaptive radiation therapy, automated workflows, unique multi-criteria optimization and user-friendly interfaces. Yet another strength for RayStation is the wide range of treatment delivery machines supported by the system – more than any other treatment planning system. RayStation helps to improve the radiation therapy process and to extend the lifetime of treatment delivery machines, which means they can be used more effectively. This means that centers that want to improve and develop their care are no longer dependent on buying the latest hardware – they can achieve similar, positive outcomes by choosing RayStation as their treatment planning system. Overall, more and more highly regarded cancer centers can now confirm that RayStation is helping them to optimize their radiation therapy process, and to use their existing treatment delivery machines more effectively.

Treatment planning for proton therapy (protons/carbon ions/BNCT) is a key area of focus for RaySearch. Including the 17 new orders received by RaySearch in 2017, the company has a total of 44 proton therapy centers, representing a market share of over 50 percent. Less than 1 percent of all patients who receive radiation therapy receive proton therapy, but 20 percent could benefit from treatment with protons<sup>1</sup>. This indicates significant growth potential in this field.

In December 2017, the first version of RayCare was launched and the company immediately received its first order for the system from Anderson Regional Cancer Center in the US.

The launch of RayCare is an important milestone for both RaySearch and oncology clinics. RayCare is radically different to other OISs and RaySearch has invested a great deal of time and energy into creating something that will fundamentally transform cancer care. RayCare is a comprehensive information system that supports the three main types of cancer treatment – radiation therapy, chemotherapy and surgery. It brings integrated cancer care within reach of many cancer centers, and will create clinical possibilities that existing systems simply cannot do. The company's goal is to further develop cancer care with powerful tools that combine treatment planning, clinical work flow and data management, resource optimization, machine learning and efficient follow-up. The response from the clinical community to date has been very positive, and it is obvious that RayCare is needed.

To ensure that RayCare meet clinical needs, our development activities are conducted in close collaboration with leading cancer centers, such as the University of California San Francisco, MD Anderson, the University of Wisconsin-Madison and Provision Healthcare in the US, the University Medical Center Groningen in the Netherlands and Iridium Kankernetwerk in Belgium. Solving the coordination, safety and efficiency needs of the world's largest cancer centers is one of RaySearch's most exciting challenges to date. The company's development model is based on partnerships with leading centers and provides ideal conditions for success by combining their extensive clinical knowledge and resources with RaySearch's ability to develop innovative software solutions.

Ever since RayStation was first launched, we have focused on and achieved major sales success in several of the world's most advanced and renowned radiation therapy clinics. By the end of 2017, more than 465 cancer clinics in 30 countries had purchased RayStation. At the same time, there are more than 8,000 radiation therapy clinics around the world, so the company's growth potential is still highly favorable. During the year, the company began expanding its global marketing organization to address the entire market more systematically, to accelerate sales of both RayStation and RayCare and to ensure the best-possible customer service.

However, most of the company's employees still work with research and development. The research activities are forward-looking and underpin next-generation systems and products. The research is mainly focused on the following areas: chemotherapy and surgical planning, adaptive radiation therapy, automated planning, multi-criteria optimization, MRI-based treatment planning, clinical resource optimization, and robust optimization tools for handling disruptions and errors arising during treatment. Various machine learning applications, including organ segmentation, are studied in close collaboration with the recently formed machine learning department, which also works with automated planning based on historical data.

Research is conducted in close collaboration with the Royal Institute of Technology in Stockholm, Princess Margaret Hospital (PMH) in Canada, UMCG in the Netherlands and Massachusetts General Hospital, MD Anderson and Stanford University in the US.

Development is focused on transforming market demands, customer requests and research results into commercial products. This takes place

<sup>1</sup> Source: MEDRays Intell Proton Therapy World Market Report 2015.

by creating new products, and by further developing and maintaining existing products. In 2017, development was focused on RayStation 7 and RayCare 1.

## HIGHLIGHTS OF THE YEAR

### RayStation 6 released

In January 2017, the release of RayStation 6 was announced, making RayStation the only treatment planning system with the capability to create plans for Accuray's TomoTherapy™ treatment system as well as conventional linear accelerators. RayStation 6 also includes other significant new functionality, including Monte Carlo dose calculation for proton pencil-beam scanning (PBS), PBS planning with block apertures, simultaneous co-optimization of multiple beamsets, MRI-based planning and automatic recovery.

In the second quarter, it was announced that all existing functionality in RayStation 6 for pencil beam scanning could now also be used for Mitsubishi Electric's PBS system.

### RayStation selected by several leading cancer centers

In 2017, several of the world's largest and most respected cancer centers selected RayStation as their treatment planning system, including Johns Hopkins/Sibley Memorial Hospital, University of Wisconsin-Madison, MedStar Georgetown University Hospital, Kennestone Hospital (part of WellStar Health System), Sharp Grossmont and Sharp Memorial Hospital (part of Sharp HealthCare) in the US, Hôtel-Dieu de Lévis in Canada, Nottingham City Hospital, Charing Cross Hospital and Hammersmith Hospital in the UK, Academic Medical Center (AMC) in the Netherlands, OLVZ Aalst in Belgium, Centre Francois Baclesse in France, Salzburger Landeskliniken (SALK) in Austria, Maria Skłodowska-Curie Memorial Cancer Center in Poland, Zhuozhou Proton Therapy Center in China, the University of Tsukuba in Japan and Tata Memorial Centre in India. In addition, the Princess Margaret Cancer Center, MD Anderson Cancer Center and Maryland Proton Treatment Center, in collaboration with the University of Maryland and others, expanded their existing RayStation installations. RayStation was also chosen for a new carbon ion cancer therapy center at the Yamagata University Hospital in Japan, the first proton therapy center in India, the Apollo Proton Cancer Center in Chennai, and by the Provision CARES proton center in Nashville, US, which will be the first ProNova proton therapy system in the world.

### New AI technology for automated treatment planning

In February, it was announced that University Health Network (UHN) in Canada had exclusively licensed to RaySearch a new artificial intelligence (AI) technology for automated radiation therapy treatment planning (Auto-Planning).

### Johan Löf was named Sweden's most foremost entrepreneur

In February, RaySearch's CEO and founder, Johan Löf, was named Sweden's most successful entrepreneur in the Swedish final of the 2016 EY Entrepreneur of the Year program. The jury citation was: "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."

### Long-term collaborative agreement for RayCare with MD Anderson

In March, it was announced that RaySearch had entered into a long-term collaborative agreement with the University of Texas MD Anderson Cancer

Center in Houston, Texas for RayCare, the next-generation oncology information system developed by RaySearch. Johan Löf commented: "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."

### Higher line of credit

In May 2017, the company's line of credit was increased from SEK 100 M to SEK 350 M. The credit line expires in May 2020 and comprises a revolving loan facility of up to SEK 300 M and an overdraft facility of SEK 50 M. Chattel mortgages amount to SEK 100 M.

### Long-term collaborative agreement for RayCare with the University of Wisconsin-Madison

In June, it was announced that RaySearch had entered into a long-term collaborative agreement for RayCare with the University of Wisconsin-Madison. John Bayouth, Chief of Radiation Oncology Physics at the University of Wisconsin Department of Human Oncology, said: "RayCare is being designed to coordinate our oncology disciplines and our hope is to realize the full potential of our diverse clinical resources."

### Strong momentum in RayStation proton therapy sales

In 2017, another 17 proton therapy centers (protons/carbon ions/BNCT) selected RayStation as their treatment planning system and a total of 44 proton therapy centers have now selected RayStation. This corresponds to more than half of all proton therapy centers in the world today.

### Long-term collaborative agreement for RayCare with Provision Healthcare

In September, it was announced that RaySearch had signed a long-term collaborative agreement for RayCare with Provision Healthcare in the US. Niek Schreuder, Vice President and Chief Medical Physicist for Provision Healthcare, said: "For Provision, it is of great strategic importance for our Cancer CARE Network to have an integrated and efficient solution for patient treatment and care. RaySearch has the competence and innovative focus that Provision needs, and we share a vision of the future of cancer care."

### RaySearch is developing support for boron neutron capture therapy (BNCT)

In October, it was announced that RaySearch had entered into an agreement with Neutron Therapeutics in the US, and with Sumitomo Heavy Industries in Japan, regarding treatment planning for boron neutron capture therapy (BNCT), a unique type of radiation therapy that targets cancer at the cellular level. BNCT will be an additional treatment modality in RayStation and BNCT users will have access to the full range of advanced functionality in RayStation.

### RayStation 7 released

In December, the latest version of RaySearch's treatment planning system, RayStation 7\*, was released, and now includes support for Mevion HYPERSCAN, uniform scanning for Mitsubishi Electric's proton therapy system, and integration with RayCare.

Johan Löf, CEO of RaySearch, said: "We are working to support an integrated approach to cancer care. RayCare is a huge leap for us in terms of unifying the main oncology disciplines. By adding support for Mevion's HYPERSCAN technology and uniform scanning for Mitsubishi machines, we have taken another step towards our goal of harmonizing treatment planning. And we will add support for more systems in the near future."

\* Regulatory approval is required for some markets.



### **μ-RayStation launched for preclinical research**

In December, it was announced that RaySearch had launched μ-RayStation, a new version of the treatment planning system that is specially adapted for preclinical studies using small animals.

### **RayCare 1 released and the company secures its first order**

The first version of RayCare was released in December. RayCare is a new and innovative oncology information system (OIS) that supports cancer care workflows and activity management, while offering an integrated planning environment combined with RayStation 7. In future versions, RayCare will develop into an OIS with machine learning and a unique capacity to work across and coordinate workflows for radiation therapy, chemotherapy and surgery, which will enhance efficiency and optimize the use of all resources. Johan Löf, CEO of RaySearch, said: "RayCare is radically different to other OISs and we have invested a great deal of time and energy into creating something that will fundamentally transform cancer care." Our goal is to further develop cancer care with powerful tools that combine treatment planning, clinical work flow and data management, resource optimization, machine learning and efficient follow-up."

In December 2017, RaySearch received and delivered the first order for RayCare to Anderson Regional Cancer Center in the US.

## **SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD**

### **Strategic partnership with MD Anderson for adaptive radiation therapy**

In February 2018, it was announced that the University of Texas MD Anderson Cancer Center and RaySearch had entered into a strategic alliance with the aim of enhancing cancer radiation therapy through several initiatives. The aim is to achieve greater precision when treating tumors and to improve and increase access to an already existing radiation therapy – adaptive radiation therapy (ART) – which, at present, is largely limited to highly specialized care centers.

### **Two major orders for RayStation from North America**

In March 2018, the company received major orders for RayStation from two radiation therapy centers in North America. The combined order value was USD 6.4 M (excluding service agreements), corresponding to approximately SEK 53 M.

### **Share conversion**

In March 2018, 200,000 Class A shares were converted to Class B at the request of a shareholder. The total number of votes in RaySearch thereafter amounted to 110,377,548. The total number of registered shares in RaySearch is 34,282,773, of which 8,454,975 are Class A and 25,827,798 are Class B.

### **RayStation was selected by the proton and carbon ion therapy centers in Heidelberg and Marburg**

In April 2018, it was announced that RayStation had been selected as the treatment planning system for the two proton and carbon ion therapy centers, Heidelberg Ion Beam Therapy Center (HIT) and Marburg Ion Beam Therapy Center (MIT), in Germany. All carbon ion therapy centers in Europe have now selected RayStation.

### **Collaborative agreement with Heidelberg University**

#### **Hospital for RayCare**

In April 2018, it was announced that RaySearch had entered into a long-term collaborative agreement for RayCare with Heidelberg University Hospital in Germany. The partnership will also involve the two affiliated sites Heidelberg Ion-Beam Therapy Center (HIT) and Marburg Ion Beam Therapy Center (MIT).

## **ORDER INTAKE**

In 2017, total order intake excluding service agreements rose 1.5 percent year-on-year to SEK 508.4 M (501.1), of which order intake excluding service agreements for RayStation and RayCare rose 1.5 percent to SEK 467.8 M (461.0). At December 31, 2017, the order backlog for RayStation was SEK 50.0 M (67.6)

## **SALES**

In 2017, net sales rose 10.1 percent year-on-year to SEK 585.1 M (531.5). Net sales consist of license and support revenue, through both direct sales of RayStation and RayCare, and sales of software modules via partners. Revenue from RayStation and RayCare rose 11.7 percent to SEK 531.7 M (476.0), representing 91 percent (90) of the company's net sales. Revenue from sales of software modules via partners declined 4 percent to SEK 53.3 M (55.5), therefore representing only 9 percent (10) of net sales in 2017.

In 2017, 36 percent (23) of the license revenue from RayStation was generated by existing customers. Recurring support revenue from RayStation rose 76 percent to SEK 54.6 M (31.1), representing 10.3 percent (6.5) of total revenue from RayStation.

Revenue distribution	2017	2016
License revenue – RayStation & RayCare	438.5	437.1
Hardware revenue – RayStation	36.2	6.3
License revenue – Partners	40.5	40.1
Support revenue – RayStation	54.6	31.1
Support revenue – Partners	12.8	15.4
Training and other revenue – RayStation	2.3	1.5
<b>Net sales</b>	<b>585.1</b>	<b>531.5</b>
Sales growth, %, corres. period	10.1	33.7
Organic sales growth, %, corres. period	10.4	31.6

In 2017, net sales had the following geographic distribution: North America 45 percent (42), Asia 17 percent (15), Europe and rest of the world 38 percent (43).

## **OPERATING PROFIT**

In 2017, operating profit declined to SEK 159.7 M (199.6), corresponding to an operating margin of 27.3 percent (37.5). The earnings decline was mainly attributable to higher operating expenses, because the number of employees increased by approximately 35 percent in 2017, mainly within the global marketing organization and in research and development, which have not yet generated a higher order intake.

### **Currency effects**

The company is impacted by USD and EUR to SEK exchange-rate trends since most sales are invoiced in USD and EUR, while most costs are in SEK. At unchanged exchange rates, organic sales growth was 10.4 percent in 2017. Currency effects thus had a slightly negative impact on sales in 2017.

A sensitivity analysis of the currency exposure indicates that the impact of a  $\pm 1$  percent change in the USD exchange rate on operating profit in 2017 was  $\pm$  SEK 5.2 M, and that the corresponding effect of a  $\pm 1$  percent change in the EUR exchange rate was  $\pm$  SEK 2.0 M.

The company follows the financial policy established by the Board, whereby exchange-rate fluctuations are not hedged. For full-year 2017, exchange-rate fluctuations – mainly a weaker USD – had a negative impact of SEK 18 M on operating profit. See the sensitivity analysis in Note 28, on pages 33–34.

#### Capitalization of development costs

On December 31, 2017, some 142 (111) employees were engaged in research and development.

For full-year 2017, research and development costs rose 30 percent to SEK 183.7 M (141.3), of which development costs of SEK 137.8 M (104.4) were capitalized. The increase was mainly attributable to RayCare, which was released at the end of December 2017. Amortization of capitalized development costs amounted to SEK 58.4 M (56.3). After adjustments for capitalization and amortization of development costs, research and development costs totaled SEK 104.3 M (93.3). Refer to Note 16.

Capitalization of development expenses	2017	2016
Research and development expenses	183.7	141.3
Capitalization of development expenses	–137.8	–104.4
Amortization of capitalized development expenses	58.4	56.3
<b>Research and development costs after adjustments for capitalization and amortization of development expenses</b>	<b>104.3</b>	<b>93.3</b>

#### Amortization and depreciation

In 2017, total amortization and depreciation amounted to SEK 70.8 M (67.3), of which amortization of intangible fixed assets accounted for SEK 58.4 M (56.3), primarily related to capitalized development expenses, and depreciation of tangible fixed assets accounted for SEK 12.4 M (11.0).

#### PROFIT FOR THE PERIOD AND EARNINGS PER SHARE

In 2017, profit after tax amounted to SEK 117.6 M (151.4), which meant that earnings per share before and after dilution declined to SEK 3.43 (4.42). Tax expense for the year amounted to SEK 38.3 M (46.7), corresponding to an effective tax rate of 24.6 percent (23.6).

#### CASH FLOW AND LIQUIDITY

In 2017, cash flow from operating activities increased to SEK 147.5 M (120.8), mainly due to a slight change in working capital year-on-year. Working capital primarily comprises accounts receivable and accrued income. At the end of the period, accounts receivable amounted to 57 percent (53) of net sales and accrued income to 15 percent (9) of net sales in 2017.

RaySearch has agreements with customers whereby deliveries have long payment terms, which is normal in the industry. The company recognizes accounts receivable when delivery has occurred and an invoice issued, and accrued income when delivery has occurred but before an invoice has been issued, for example, when a payment plan exists. The subsequent effect is that the Group's accounts receivable and accrued income, respectively, add up to relatively high amounts compared with net sales.

In 2017, both accounts receivable and accrued income increased in relation to net sales, partly because the company signed more agreements

with longer payment terms, and partly because the company signed more agreements with a payment plan.

The company expects its credit risk to remain low since the counterparties are institutions with high credit ratings.

Cash flow from investing activities was a negative SEK 148.1 M (neg: 106.9), and a finance lease was also used to fund an additional SEK 2.5 M (2.5). Investments in intangible fixed assets amounted to SEK 137.8 M (104.4), comprising capitalized development expenses for RayStation and RayCare. Investments in tangible fixed assets amounted to SEK 10.3 M (2.5).

In 2017, cash flow from financing activities was SEK 19.8 M (12.3), mainly attributable to an additional loan of SEK 25 M raised within the framework of the company's revolving loan facility.

Cash flow for the year was SEK 19.1 M (26.2) and at December 31, 2017, the Group's cash and cash equivalents amounted to SEK 104.2 M (87.7).

#### FINANCIAL POSITION

On December 31, 2017, RaySearch's total assets amounted to SEK 915 M (717) and the equity to assets ratio was 63.4 percent (64.2).

Current receivables amounted to SEK 440 M (348). The receivables mainly comprised accounts receivable and accrued income, and the increase was primarily the result of longer payment terms and sales growth.

During the fourth quarter, the company entered into a six-year lease for new office premises in San Francisco and a ten-year lease for new office premises in New York.

In May 2017, the company's line of credit was increased from SEK 100 M to SEK 350 M. The credit line expires in May 2020 and comprises a revolving loan facility of up to SEK 300 M and an overdraft facility of SEK 50 M. Chattel mortgages amount to SEK 100 M. On December 31, 2017, a short-term loan totaling SEK 75 M had been utilized within the framework of the company's revolving loan facility.

On December 31, 2017, the Group's net debt totaled SEK neg. 20.4 M (neg. 26.2).

#### EMPLOYEES

In 2017, the average number of employees in the RaySearch Group was 228 (184) and the number of employees at year-end was 256 (193), of whom 200 (158) were employed in Sweden and 56 (35) in foreign subsidiaries.

Employees have a high level of education – 96 percent have a university degree, and 13 percent have a doctorate degree. At year-end, 34 percent of the company's employees were women and 66 percent men.

RaySearch strives to offer a positive work environment with attractive and stimulating development opportunities for employees. The company's continued ability to develop high-quality software solutions is dependent on competent, engaged and innovative employees. RaySearch imposes high workplace standards with regard to environmental, healthy, safe and individualized working conditions.

RaySearch actively promotes diversity and equality and has clear goals to increase the proportion of women in technical and managerial positions. The company strives to help employees achieve a work/life balance and offers flexible solutions as far as possible.

To ensure that all employees are paid fair salaries, regular salary surveys are conducted in Sweden in order to detect, remedy and prevent any unjustified pay differences. In 2017, the survey did not reveal any unjustified or material pay differences in the company.

All employees in the RaySearch Group are entitled to join unions or other organizations.



## SUSTAINABILITY REPORT

Sustainability is a key aspect of RaySearch's strategy and operations, and the company is working actively to become a sustainable enterprise. RaySearch has prepared a sustainability report in accordance with the Swedish Annual Accounts Act.

The Sustainability Report can be found on pages 51–54. Other disclosures can be found on the following pages: Risks and risk management: pages 8–10.

## SEASONAL VARIATIONS

Revenue from RaySearch is subject to seasonal variations that are typical of the industry, whereby the fourth quarter is normally the strongest, and the second quarter slightly weaker.

## FUTURE PROSPECTS

Every year, more than 14 million new cases of cancer are reported worldwide, and this figure is expected to reach 24 million by 2030. RaySearch has successfully established RayStation as one of the most advanced and leading treatment planning systems in all major markets around the world, and the sales success for RayStation is continuing. Despite continued expansion of its global marketing organization, the company still holds a relatively small share of the worldwide market, so the growth potential for RayStation is expected to remain high.

At the same time, marketing and sales partnerships are continuing with three partners. While the decline in relative importance of partner sales is expected to continue, these partnerships remain significant for the company's earnings and financial position.

RaySearch has noted keen interest in RayCare, the oncology information system that the company is developing. A radiation therapy center essentially needs two software platforms for its operations: one information system, and one treatment planning system. RayCare and RayStation will enable RaySearch to provide the entire infrastructure for a clinic's information management and treatment planning. The launch of RayCare in December 2017 is expected to open new possibilities for RaySearch, both clinically and commercially, which are confirmed by the company's long-term collaborative agreements with several leading cancer centers, such as the University of California, San Francisco and the University of Texas MD Anderson Cancer Center in the US, the University Medical Center Groningen in the Netherlands and the radiation therapy department of the Iridium Kankernetwerk in Belgium, and several leading medical device suppliers including IBA, Accuray and Mevion.

Overall, future prospects for RaySearch are expected to remain highly favorable.

## 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 risk, operational risk and financial risk. Risk management within RaySearch aims to identify, measure and reduce risks related to the Group's transactions and operations.

### Market risk

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

### Operational risk

#### *Competition*

RaySearch operates in a competitive arena and mainly competes with Varian, Elekta and Philips, which invest major resources in the development of systems and technological solutions that compete with RaySearch's products. RaySearch sells software only, and in some situations there is a risk that the company's competitors could use their position as hardware suppliers to sell packaged solutions with both hardware and software to customers.

#### *Product development*

New products and improved therapies are continuously being launched and future developments in the medical technology market could affect RaySearch's ability to compete. RaySearch develops highly advanced systems and technological solutions, and assumes the risk from development stage through to release, which could result in higher costs than anticipated. This is mitigated by continuously monitoring projects, and with quality assurance.

It is also important that the new systems and technological solutions developed by RaySearch are protected from illicit use by competitors. In most cases, RaySearch's advanced software products are protected by copyright, and where possible and appropriate, RaySearch also protects its products through patents 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 collaboration with leading cancer centers and research institutions, including MD Anderson and UCSF in the US, and Princess Margaret Hospital in Canada. RaySearch's ability to uphold these long-term and close relationships is crucial to understanding and meeting customer needs.

RaySearch also has strategic partnerships with a number of medical device suppliers including IBA, Accuray, Mevion, and collaborative partnerships with Philips, Varian and IBA Dosimetry, which sell the company's products. If RaySearch were to lose one or more of these strategic partners, this could have an adverse impact on the company's sales, earnings and financial position.

#### *Alternative therapies*

Of the three main types of cancer treatment – radiation therapy, surgery and chemotherapy – radiation therapy is the therapeutic approach that has increased most for curative groups over the past 20 years. RaySearch also expects radiation therapy to be an important treatment option in the future.

#### *Sales organization*

RaySearch sells its system and products both 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, and to establish and maintain an efficient marketing organization and successful partnerships with external sales channels.

#### *Corruption*

Corruption is an obstacle to development and growth in some of the countries in which RaySearch operates. RaySearch has zero tolerance of all forms of corruption, including bribery, fraud and anti-competitive practices. RaySearch therefore works continuously to strengthen its existing compli-

ance program with, for example, background screening processes and certification of business partners, and other internal procedures to address and prevent the various anti-corruption issues that may arise within the framework of the business operations.

#### *Regulatory approval and processes*

RaySearch operates in a range of geographic markets, which exposes the Group to a large number of laws, regulations, policies and guidelines in relation to health and safety, the environment, trade barriers, competition, exchange 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 regulators. Consequently, regulatory changes may result in increased costs or barriers to sales of RaySearch's systems and products. Regulatory processes may also affect the possibility to introduce new systems and products.

Like other companies in the same industry, RaySearch is dependent on assessments and decisions of relevant authorities, such as the Food and Drug Administration (FDA) in the US. Such assessments include 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 it operates, such as the EU's Medical Device Directive (93/42/EEC), the FDA's Quality System Regulations (QSR) for medical devices and 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 regulators and inspected regularly. Failure to comply with safety standards 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 could potentially delay product launches and certification.

#### *Dependence on qualified personnel and key individuals*

RaySearch is dependent on expertise to develop its advanced medical technology systems, which requires highly qualified employees. The company's ability to attract, recruit and retain qualified personnel, a number of key individuals with specialized skills, and management is crucial, and highly significant for the RaySearch's future success.

#### *Changes to reimbursement systems*

RaySearch's ability to commercialize its solutions depends on the level of reimbursement that hospitals and clinics can receive. Reimbursement policies vary between countries and changes to current reimbursement systems in relation to health care products or the introduction of new rules could have a direct impact on demand for RaySearch's products.

#### *Legal disputes*

Through its operations, RaySearch is occasionally at risk of becoming involved in disputes related to its operating activities. Such disputes may involve product liability, contractual matters, intellectual property rights

and alleged defects in deliveries 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. It may also be difficult to predict the outcome of complex disputes. Disputes related to RaySearch's product liability could include alleged negligence, warranty breach or malpractice, and lead to substantial costs regardless of whether or not RaySearch is held liable. RaySearch has product liability insurance, but there is a risk that future claims may exceed or fall outside the scope of the insurance coverage.

#### *Changes to tax systems*

RaySearch's business includes the development and delivery of software solutions and services in a wide range of jurisdictions. The activities are taxed in accordance with the laws of that jurisdiction. Changes in tax systems may affect the Group's tax liabilities and tax expenses, which may result in an increase or decrease of the financial results 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 may result in a reallocation of profits between different jurisdictions and an increase or decrease in related tax expense and cash flows.

#### *Financial risk*

Through its operations, the RaySearch Group is exposed to various types of financial risk, 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 recognized assets and liabilities in foreign currency due to changes in exchange rates. Interest rate risk refers to the risk that changes in interest rates will have a negative impact on RaySearch's results. Credit risk arises partly through financial credit risk related to cash and cash equivalents and balances with banks and financial institutions, through credit exposure from transactions with 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 loan agreements include financial covenants, such as net debt/EBITDA and the equity/assets ratio. The inability to maintain levels of net debt/EBITDA and the equity/assets ratio could result in a violation of the company's financial covenants whereby loan agreements must be renegotiated or existing loans repaid.

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

RaySearch has increased exposure to exchange rate fluctuations due to its international business and structure. Exposure is mainly the result of having costs in SEK, while most of the company's revenue is in USD and EUR. The company has no currency hedging, in accordance with the established financial policy. The financial policy is updated at least once a year.

For more information about financial risk and financial risk management, see Note 28 on page 33.

## PARENT COMPANY

RaySearch Laboratories AB (publ) is the Parent Company of the RaySearch Group. Since the operations and financial reporting of the Parent Company match the operations and financial reporting of the Group in all material respects, the comments for the Group are also largely relevant to the Parent Company. However, the capitalization of development expenses and adjustments related to finance leases are recognized in the Group, but not in the Parent Company. The Parent Company's current receivables mainly comprise receivables from Group companies and accounts receivable. The Parent Company's profit before tax totaled SEK 47.1 M (103.2) and on December 31, 2017, the Parent Company's cash and cash equivalents amounted to SEK 42.9 M (67.0).

## TREASURY STOCK

The company had no treasury stock in 2017.

## SHARES AND OWNERSHIP

At December 31, 2017, the total number of registered shares in RaySearch was 34,282,773, of which 8,654,975 were Class A and 25,627,798 Class B shares. The quotient value is SEK 0.50 and the company's share capital amounts to SEK 17,141,386.50. Each Class A share entitles the holder to ten votes, and each Class B share to one vote, at a general meeting. At December 31, 2017, the total number of voting rights in RaySearch was 112,177,548. All shareholders entitled to vote at a general meeting may vote for the full number of shares owned or represented by them, with no restrictions on voting rights. At December 31, 2017, the total number of shareholders in RaySearch was 6,893 and, according to Euroclear, the largest shareholders were as follows:

Name	Class A shares	Class B shares	Total shares	Capital, %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	56.2
Lannebo Funds	0	3,258,708	3,258,708	9.5	2.9
Swedbank Robur Funds	0	3,014,145	3,014,145	8.8	2.7
First AP Fund	0	2,364,138	2,364,138	6.9	2.1
Second AP Fund	0	1,929,651	1,929,651	5.6	1.7
Montanaro Funds	0	1,415,000	1,415,000	4.1	1.3
State Street Bank & Trust (Boston)	0	1,405,938	1,405,938	4.1	1.3
Anders Brahme	1,350,161	0	1,350,161	3.9	12.0
Carl Filip Bergendal	1,061,577	144,920	1,206,497	3.5	9.6
Fourth AP Fund	0	541,266	541,266	1.6	0.5
<b>Total, 10 largest shareholders</b>	<b>8,654,822</b>	<b>14,692,159</b>	<b>23,346,981</b>	<b>68.1</b>	<b>90.3</b>
Others	153	10,935,639	10,935,792	31.9	9.7
<b>Total</b>	<b>8,654,975</b>	<b>25,627,798</b>	<b>34,282,773</b>	<b>100.0</b>	<b>100.0</b>

The AGM has authorized the Board to decide on the issuance of new shares. The number of shares that may be issued pursuant to the authorization may not exceed the equivalent of 10 percent of the share capital. The shares may be issued either as a rights issue or by disapplying the preemptive rights of the shareholders, and may also be issued either as or not as a non-cash issue or an issue offsetting debt. The authorization is valid until the immediately following AGM.

As far as the Board of Directors of RaySearch is aware, there are no shareholder agreements for either Class A or Class B shares. There are no special provisions in the Articles of Association regarding the appointment and

dismissal of Board members, or amendments to the Articles of Association. Should a public offer be tendered to acquire shares in the company, there are no agreements between the company and Board members or employees prescribing any payments should these persons resign, be given notice without reasonable grounds or should their employment cease.

## BONUSES AND PROFIT-SHARING FOUNDATION

Of the employees in the Swedish Parent Company, RaySearch Laboratories AB (publ), only the CEO and sales personnel are covered by bonus schemes.

The RayFoundation profit-sharing foundation covers all employees in the Parent Company, including all senior executives, except for the CEO. An allocation is paid to the profit-sharing foundation in a given year if consolidated operating profit amounts to a level exceeding an operating margin of 20 percent, whereby 10 percent of that portion of the operating profit that exceeds the threshold level is allocated. The allocation is calculated on the operating margin before allocation to the foundation and the CEO's variable remuneration.

In relation to the results for 2017, a total of SEK 5.2 M (10.9) was allocated to the RayFoundation profit-sharing foundation during the year, including a special employer's contribution of SEK 1.0 M (2.1).

Sales personnel in RaySearch's foreign-based sales company are covered by a bonus scheme based on sales-related targets for each of the regions.

## GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The starting point for the Board is that remuneration and other conditions of employment for members of company management shall be on market terms. The principles for remuneration and other employment conditions applied for senior executives of RaySearch Laboratories AB in 2017 are described below.

### Salary and other remuneration

The CEO is to have a fixed basic salary plus variable remuneration. The variable remuneration amounts to 2.0 percent of consolidated profit before tax after allocation to the RayFoundation profit-sharing foundation, but not more than 12 months' salary. In addition, the CEO is entitled to other customary benefits, such as a company car.

The CEO's salary is to be reviewed annually. This is performed through negotiations between the CEO and the Chairman of the Board, after which the Chairman presents a proposal to other members of the Board. The CEO is not to be present when the Board deliberates and decides on this matter.

At the beginning of 2017, other senior executives consisted of the Deputy CEO, CFO, Chief Science Officer, Director of Development, Director of Sales and Marketing, Director of Sales for Asia & Pacific and Director of Service. In 2017, a new General Counsel was appointed.

The Director of Sales and Marketing is to have a fixed basic salary plus variable remuneration. The variable remuneration shall be based on a certain percentage of sales of RayStation and RayCare in Europe. The Director of Sales for Asia & Pacific is to have a fixed basic salary plus variable remuneration. The variable remuneration shall be based on a certain percentage of sales of RayStation in the Asia & Pacific region. The Deputy CEO, CFO, Chief Science Officer, Director of Development, Director of Service and General Counsel are to have a fixed basic salary, but no variable remuneration.

The salaries of other senior executives are to be reviewed annually. This is performed 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 plans are defined-contribution plans. The retirement age for the CEO and other senior executives is 65, and the pension premiums are equivalent to the Swedish ITP plan.

#### Termination of employment

If the CEO terminates their employment, the term of notice will be six months; if the company terminates the CEO's employment, the term of notice will be 12 months. In both cases, the CEO is entitled to salary during their term of notice. Other senior executives are subject to a mutual three-month term of notice during which salary is paid.

#### Severance pay

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

#### Deviations

The Board proposes that the Board be permitted to deviate from the above guidelines should special reasons for doing so exist.

#### Proposed guidelines for 2018

For 2018, the same guidelines as for 2017 are proposed.

#### INTERNAL CONTROL

Refer to disclosures in the Corporate Governance Report on page 42.

#### DIVIDEND POLICY AND PROPOSAL

According to the Board's dividend policy, RaySearch is to distribute about 20 percent of consolidated profit after tax to its shareholders, provided that a healthy capital structure can be maintained. Since the company is currently in the midst of an expansive and capital-intensive phase, the Board of RaySearch proposes that no dividend be paid for the 2017 fiscal year. No dividend was paid for the 2016 fiscal year.

The Group's results and financial position are presented in the following income statements and statements of financial position and cash flows, with the 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	177,390
Profit for the year	33,893
<b>Total</b>	<b>211,283</b>

The Board and CEO propose that SEK 211,283,000 be carried forward.

## MULTI-YEAR OVERVIEW

## CONSOLIDATED INCOME STATEMENTS

SEK 000s	2017	2016	2015	2014	2013
Net sales	585,086	531,468	397,600	285,217	204,470
Cost of goods sold	–36,650	–26,872	–23,690	–11,627	–6,059
<b>Gross profit</b>	<b>548,436</b>	<b>504,596</b>	<b>373,910</b>	<b>273,590</b>	<b>198,411</b>
Research and development costs	–104,304	–93,207	–101,514	–95,069	–90,720
Other operating expenses	–284,463	–211,830	–177,052	–99,161	–133,412
<b>Operating profit/loss</b>	<b>159,669</b>	<b>199,559</b>	<b>95,344</b>	<b>79,360</b>	<b>–25,721</b>
Net financial items	–3,768	–1,474	–1,854	–659	754
<b>Profit/loss before tax</b>	<b>155,901</b>	<b>198,085</b>	<b>93,490</b>	<b>78,701</b>	<b>–24,967</b>
Tax	–38,274	–46,677	–23,281	–18,869	4,126
<b>Profit for the year</b>	<b>117,627</b>	<b>151,408</b>	<b>70,209</b>	<b>59,832</b>	<b>–20,841</b>
Earnings/loss per share after dilution	3.43	4.42	2.05	1.75	–0.61
Earnings/loss per share after dilution	3.43	4.42	2.05	1.75	–0.61

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK 000s	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
<b>ASSETS</b>					
Intangible fixed assets	322,598	243,219	195,114	164,081	166,678
Other fixed assets	48,578	38,446	41,817	12,951	5,970
<b>Total fixed assets</b>	<b>371,176</b>	<b>281,665</b>	<b>236,931</b>	<b>177,032</b>	<b>172,648</b>
<b>Total current assets</b>	<b>543,888</b>	<b>435,589</b>	<b>247,559</b>	<b>212,721</b>	<b>126,514</b>
<b>TOTAL ASSETS</b>	<b>915,064</b>	<b>717,254</b>	<b>484,490</b>	<b>389,753</b>	<b>299,162</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
Shareholders' equity attributable to Parent Company shareholders	580,425	460,188	319,517	251,548	196,601
Liabilities	334,639	257,066	164,973	138,205	102,561
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>915,064</b>	<b>717,254</b>	<b>484,490</b>	<b>389,753</b>	<b>299,162</b>

## CONSOLIDATED CASH-FLOW STATEMENTS

SEK 000s	2017	2016	2015	2014	2013
Cash flow from operating activities	147,481	120,848	111,426	50,273	31,282
Cash flow from investing activities	–148,132	–106,949	–103,855	–57,844	–56,542
Cash flow from financing activities	19,773	12,291	–3,946	24,345	1,563
<b>Cash flow for the year</b>	<b>19,122</b>	<b>26,190</b>	<b>3,625</b>	<b>16,774</b>	<b>–23,697</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK 000s	NOTE	2017	2016
Net sales	2, 3	585,086	531,468
Cost of goods sold <sup>1</sup>		-36,650	-26,872
<b>Gross profit</b>	7	<b>548,436</b>	<b>504,596</b>
Other operating income	8	7,012	17,369
Selling expenses		-204,852	-156,841
Administrative expenses	10	-63,247	-66,291
Research and development costs	10	-104,304	-93,207
Other operating expenses	9	-23,376	-6,067
<b>Operating profit</b>	4, 5, 7, 11	<b>159,669</b>	<b>199,559</b>
Financial income		368	35
Financial expenses		-4,136	-1,509
<b>Net financial items</b>	12	<b>-3,768</b>	<b>-1,474</b>
<b>Profit before tax</b>		<b>155,901</b>	<b>198,085</b>
Tax	14	-38,274	-46,677
<b>Profit for the year<sup>2</sup></b>		<b>117,627</b>	<b>151,408</b>
<b>Other comprehensive income</b>			
<b>Items to be reclassified to profit or loss</b>			
Translation difference of foreign operations for the year		2,610	-2,167
<b>Items not to be reclassified to profit or loss</b>		-	-
<b>Comprehensive income for the year<sup>2</sup></b>		<b>120,237</b>	<b>149,241</b>
Earnings per share before and after dilution	15	3.43	4.42

<sup>1</sup> Does not include amortization of capitalized development expenses. Amortization and capitalization of development expenses are included in research and development costs.

<sup>2</sup> 100 percent attributable to Parent Company shareholders.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK 000s	NOTE	Dec 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Capitalized development costs	2, 16	322,598	243,219
Other intangible fixed assets	17	0	0
		<b>322,598</b>	<b>243,219</b>
<b>Tangible fixed assets</b>			
Equipment, fixtures and fittings	2, 18	36,114	35,667
		<b>36,114</b>	<b>35,667</b>
<b>Other fixed assets</b>			
Other long-term receivables	24	11,684	2,267
Deferred tax assets	23	780	512
<b>Total fixed assets</b>		<b>371,176</b>	<b>281,665</b>
<b>Current assets</b>			
Accounts receivable	20	335,125	282,535
Inventories		33	–
Tax assets		350	249
Other receivables		5,068	3,342
Prepaid expenses and accrued income	21	99,156	61,743
Cash and cash equivalents	22	104,156	87,720
<b>Total current assets</b>		<b>543,888</b>	<b>435,589</b>
<b>TOTAL ASSETS</b>	29	<b>915,064</b>	<b>717,254</b>

SEK 000s	NOTE	Dec 31, 2017	Dec 31, 2016
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		17,141	17,141
Other paid-in capital		1,975	1,975
Reserves		-5,713	-8,323
Retained earnings, including profit/loss for the year		567,022	449,395
<b>Shareholders' equity attributable to Parent Company shareholders</b>		<b>580,425</b>	<b>460,188</b>
<b>Total shareholders' equity</b>		<b>580,425</b>	<b>460,188</b>
<b>LIABILITIES</b>			
Deferred tax liabilities	23	92,424	70,601
Long-term interest-bearing liabilities	6, 26	9,751	61,527
<b>Total long-term liabilities</b>		<b>102,175</b>	<b>132,128</b>
Accounts payable		27,403	11,943
Tax liabilities		15,945	11,148
Current interest-bearing liabilities		74,033	–
Other liabilities		9,025	12,231
Accrued expenses and deferred income	27	106,058	89,616
<b>Total current liabilities</b>		<b>232,464</b>	<b>124,938</b>
<b>Total liabilities</b>		<b>334,639</b>	<b>257,066</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>29, 30</b>	<b>915,064</b>	<b>717,254</b>

# 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
<b>Opening equity, Jan 1, 2016</b>	<b>17,141</b>	<b>1,975</b>	<b>-6,156</b>	<b>306,557</b>	<b>319,517</b>
Profit for the year				151,408	151,408
Dividend paid				-8,570	-8,570
Other comprehensive income for the year			-2,167		-2,167
<b>Comprehensive income for the year</b>			<b>-2,167</b>	<b>142,838</b>	<b>140,671</b>
<b>Closing shareholders' equity, Dec 31, 2016</b>	<b>17,141</b>	<b>1,975</b>	<b>-8,323</b>	<b>449,395</b>	<b>460,188</b>
<b>Opening equity, Jan 1, 2017</b>	<b>17,141</b>	<b>1,975</b>	<b>-8,323</b>	<b>449,395</b>	<b>460,188</b>
Profit for the year				117,627	117,627
Other comprehensive income for the year			2,610		2,610
<b>Comprehensive income for the year</b>			<b>2,610</b>	<b>117,627</b>	<b>120,237</b>
<b>Closing shareholders' equity, Dec 31, 2017</b>	<b>17,141</b>	<b>1,975</b>	<b>-5,713</b>	<b>567,022</b>	<b>580,425</b>

## CAPITAL MANAGEMENT

RaySearch's managed capital comprises shareholders' equity. Changes in equity are described above. For information about the terms for the Group's external borrowing, refer to Note 26. RaySearch's long-term financial target is high sales growth with an operating margin of more than 40 percent. This target will be achieved by establishing RaySearch as the leading global provider of treatment planning systems for radiation therapy and oncology information systems.

RaySearch has the following dividend policy: The Board intends to pay out approximately 20 percent of consolidated profit after tax to shareholders provided that a healthy capital structure can be maintained. Since the company is currently in the midst of an expansive and capital-intensive phase, the Board of RaySearch proposes that no dividend be paid for the 2017 fiscal year.

## 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	2017	2016
<b>Operating activities</b>			
Profit before tax		155,901	198,085
Adjusted for non-cash items <sup>1</sup>	10	56,181	75,238
Tax paid		-11,724	-19,218
<b>Cash flow from operating activities before changes in working capital</b>		<b>200,358</b>	<b>254,105</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-104,387	-158,083
Increase (+)/Decrease (-) in operating liabilities		51,510	24,826
<b>Cash flow from operating activities</b>		<b>147,481</b>	<b>120,848</b>
<b>Investing activities</b>			
Investments in capitalized development costs	16	-137,780	-104,408
Acquisition of tangible fixed assets	18	-11,045	-2,541
Divestment of tangible fixed assets		693	-
<b>Cash flow from investing activities</b>		<b>-148,132</b>	<b>-106,949</b>
<b>Financing activities</b>			
Loans raised		75,000	25,000
Prepaid borrowing costs		-967	-
Dividend paid		-	-8,570
Repayment of loans		-50,000	-
Repayment of finance leases	6, 26	-4,260	-4,139
<b>Cash flow from financing activities</b>		<b>19,773</b>	<b>12,291</b>
<b>Cash flow for the year</b>		<b>19,122</b>	<b>26,190</b>
Cash and cash equivalents at the beginning of the year		87,720	59,705
Exchange rate differences		-2,686	1,825
<b>Cash and cash equivalents at year-end</b>		<b>104,156</b>	<b>87,720</b>

<sup>1</sup> These amounts include amortization of SEK 58 M (56) on capitalized development costs, depreciation of SEK 12 M (11) on tangible fixed assets and unrealized exchange rate gains/losses of SEK 14.5 M (7.1).

Cash and cash equivalents consist of bank deposits.

## SUPPLEMENTARY DISCLOSURES TO THE CASH-FLOW STATEMENT

	GROUP	
	Dec 31, 2017	Dec 31, 2016
Interest received	368	217
Interest paid	-1,713	-1,691

# PARENT COMPANY

INCOME STATEMENT SEK 000s	NOTE	2017	2016
Net sales	2, 3	480,774	460,728
Cost of goods sold		–19,548	–15,418
<b>Gross profit</b>	28	<b>461,226</b>	<b>445,310</b>
Other operating income	8	7,012	17,369
Selling expenses		–133,066	–106,745
Administrative expenses	10	–64,065	–67,178
Research and development costs	10	–183,683	–141,312
Other operating expenses	9	–23,376	–6,067
<b>Operating profit</b>	4, 5, 7, 11	<b>64,048</b>	<b>141,377</b>
Interest income and similar profit items		6,210	3,125
Interest expense and similar loss items		–3,323	–1,113
<b>Profit after financial items</b>	12	<b>66,935</b>	<b>143,389</b>
Appropriations	13	–19,815	–40,144
<b>Profit before tax</b>		<b>47,120</b>	<b>103,245</b>
Tax	14	–13,227	–25,817
<b>Profit for the year</b>		<b>33,893</b>	<b>77,428</b>

COMPREHENSIVE INCOME SEK 000s	2017	2016
Profit for the year	33,893	77,428
Other comprehensive income	–	–
<b>Comprehensive income for the year</b>	<b>33,893</b>	<b>77,428</b>

BALANCE SHEET SEK 000s	NOTE	Dec 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Tangible fixed assets</b>			
Equipment, fixtures and fittings	18	23,686	21,316
<b>Financial fixed assets</b>			
Participations in Group companies	19	1,046	640
Deferred tax assets	23	780	512
Other long-term receivables	24	10,405	2,267
<b>Total fixed assets</b>		<b>35,917</b>	<b>24,735</b>
<b>CURRENT ASSETS</b>			
Inventories		33	0
<b>Current receivables</b>			
Accounts receivable	20	151,734	118,504
Receivables from Group companies		206,508	161,270
Other receivables		5,920	3,625
Prepaid expenses and accrued income	21	94,108	66,750
<b>Total current receivables</b>		<b>458,270</b>	<b>350,149</b>
Cash and bank balances	22	42,857	66,984
<b>Total current assets</b>		<b>501,160</b>	<b>417,133</b>
<b>TOTAL ASSETS</b>		<b>537,077</b>	<b>441,868</b>

SHAREHOLDERS' EQUITY AND LIABILITIES SEK 000s	NOTE	Dec 31, 2017	Dec 31, 2016
<b>EQUITY</b>			
<b>Restricted equity</b>			
Share capital <sup>1</sup>		17,141	17,141
Statutory reserve		43,630	43,630
<b>Total restricted equity</b>		<b>60,771</b>	<b>60,771</b>
<b>Unrestricted equity</b>			
Retained earnings		177,390	99,962
Profit for the year		33,893	77,428
<b>Total non-restricted equity</b>		<b>211,283</b>	<b>177,390</b>
<b>Total shareholders' equity</b>		<b>272,054</b>	<b>238,161</b>
Untaxed reserves	25	97,510	77,695
<b>Long-term liabilities</b>			
Liabilities to credit institutions		0	50,000
<b>Total long-term liabilities</b>	26	<b>0</b>	<b>50,000</b>
<b>Current liabilities</b>			
Accounts payable		24,924	11,578
Liabilities to Group companies		5,244	4,671
Liabilities to credit institutions		74,033	–
Tax liabilities		9,991	10,600
Other liabilities		7,965	11,649
Accrued expenses and deferred income	27	45,356	37,514
<b>Total current liabilities</b>		<b>167,513</b>	<b>76,012</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>537,077</b>	<b>441,868</b>

<sup>1</sup> Share capital at Dec 31, 2017: 8,654,975 Class A shares, 25,627,798 Class B shares.

CASH FLOW STATEMENT SEK 000s		NOTE	2017	2016
<b>Operating activities</b>				
Profit after financial items			66,935	143,389
Adjusted for non-cash items	10, 26		7,595	7,409
Tax paid			-14,104	-18,686
<b>Cash flow from operating activities before changes in working capital</b>			<b>60,426</b>	<b>132,112</b>
<b>Cash flow from changes in working capital</b>				
Increase (-)/Decrease (+) in operating receivables			-116,292	-110,888
Increase (+)/Decrease (-) in operating liabilities			18,077	6,106
<b>Cash flow from operating activities</b>			<b>-37,789</b>	<b>27,330</b>
<b>Investing activities</b>				
Contributions to subsidiaries	19		-406	-154
Acquisition of tangible fixed assets	18		-9,965	-2,453
<b>Cash flow from investing activities</b>			<b>-10,371</b>	<b>-2,607</b>
<b>Financing activities</b>				
Loans raised			75,000	25,000
Prepaid borrowing costs			-967	-
Dividend paid			0	-8,570
Repayment of loans			-50,000	-
<b>Cash flow from financing activities</b>	26		<b>24,033</b>	<b>16,430</b>
<b>Cash flow for the year</b>			<b>66,984</b>	<b>41,153</b>
Cash and cash equivalents at the beginning of the year			66,984	25,831
Cash and cash equivalents at year-end			42,857	66,984

SUPPLEMENTARY DISCLOSURES TO THE CASH-FLOW STATEMENT	Dec 31, 2017	Dec 31, 2016
Interest received	259	3,125
Interest paid	-3,323	-1,113

STATEMENT OF CHANGES IN EQUITY SEK 000s	NOTE	Restricted equity		Retained earnings, including profit for the year	Total
		Share capital	Statutory reserve		
<b>Opening equity, Jan 1, 2016</b>		<b>17,141</b>	<b>43,630</b>	<b>108,532</b>	<b>169,303</b>
Dividend paid				-8,570	-8,570
Comprehensive income for the year				77,428	77,428
<b>Closing shareholders' equity, Dec 31, 2016</b>		<b>17,141</b>	<b>43,630</b>	<b>177,390</b>	<b>238,161</b>
<b>Opening equity, Jan 1, 2017</b>		<b>17,141</b>	<b>43,630</b>	<b>177,390</b>	<b>238,161</b>
Comprehensive income for the year				33,893	33,893
<b>Closing shareholders' equity, Dec 31, 2017</b>		<b>17,141</b>	<b>43,630</b>	<b>211,283</b>	<b>272,054</b>



# 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, has 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 in the Mid Cap segment as of 2016. The street address of the head office is Sveavägen 44, SE-111 34 Stockholm, Sweden.

### PRESENTATION OF THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The Parent Company's functional currency is the Swedish krona (SEK), which is also the reporting currency of the Parent Company and the Group. This means that the financial statements are presented in SEK. All amounts, unless otherwise indicated, are rounded off to the nearest thousand.

Assets and liabilities are recognized at their historical cost. Preparing the financial statements in accordance with IFRS requires that 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, income and expenses. The actual outcome may vary from these estimates and assessments.

The estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period in which the change is made if the change only affects this period, or during the period in which 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 regards to the recognition and consolidation of the Parent Company and subsidiaries.

Assessments made by company management in the application of IFRSs that 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 in below.

### NEW ACCOUNTING POLICIES

None of the new or revised standards and interpretations effective for periods commencing on or after January 1, 2017 have had any material effect on the financial statements of the Group or the Parent Company. No new or revised IFRSs have been adopted in advance.

### NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE BUT THAT WILL BE APPLICABLE IN COMING PERIODS

As of the fiscal year commencing January 1, 2018, RaySearch applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and measurement. RaySearch's analysis of the new standards has been completed and the new principles for classifying financial assets will not impact the Group's earnings and position. The new model for calculating credit losses impacts the impairment process, but is not expected to have any significant impact on the Group's earnings and position.

The company follows the financial policy established by the Board, whereby exchange-rate changes are not hedged, and are not therefore impacted by the new principles for hedge accounting.

IFRS 15, Revenue from Contracts with Customers replaces previously issued standards and interpretations addressing revenue with an integrated model for revenue recognition. According to IFRS 15, revenue shall be recognized when promised goods or services are transferred to the customer, which can take place over time or at a single time. Revenue shall constitute the amount the company expects to receive as payment for the transferred goods or services.

IFRS 15 will apply from January 1, 2018. The transition to the standard will be achieved through forward-looking retroactive application, meaning any transitional effects will be recognized against shareholders' equity on January 1, 2018 and that the income statement will be presented in accordance with IFRS 15 as of 2018. As no significant agreements are in effect at the end of the year, according to the previously applied accounting policies, no transition effect will arise at January 1, 2018.

The transition to IFRS 15 will impact license and support revenues from RayStation and RayCare, primarily attributable to the warranty period offered by the company. According to IFRS 15, recognized license revenue shall be reduced by an amount corresponding to the value of the support included during the agreed warranty period, and this amount shall thereafter be taken up as income on an ongoing basis during the warranty period. The transition to IFRS 15 is expected to reduce the company's license revenues from RayStation and RayCare by approximately 12 percent compared with previously applied accounting policies, at the same time as the company's support revenues are expected to increase by a corresponding amount, though with an average delay of about nine months.

Overall, the transition to IFRS 15 is expected to result in a temporary reduction in revenue of approximately 6–8 percent in 2018 compared with previously applied accounting policies.

IFRS 16 Leases will apply from January 1, 2019. RaySearch has begun work to evaluate the impact of the new standard. The initial assessment is that the new standard will impact RaySearch with respect to rental leases for premises, vehicles and other large leased assets as these will be recognized in the balance sheet.

### 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

## NOTE 1 ACCOUNTING POLICIES, Cont'd

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 chief operating decision maker, which is the CEO of 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 Group essentially only comprise amounts that the company expects to recover or receive payment for within 12 months of the balance sheet date.

**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, such factors as shares carrying potential voting rights are taken into consideration.

**CONSOLIDATION PRINCIPLES**

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.

**Transactions to be eliminated on consolidation**

Receivables and liabilities, revenue 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 to 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 to the functional currency using the exchange rate prevailing on the balance-sheet date. Exchange-rate differences arising from currency translations are recognized in profit for the year. Non-monetary assets and liabilities recognized at historic costs are translated 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.

**REVENUE****Licenses and support sales**

Net sales mainly comprise two types of revenue: license and support sales. Licenses and support are sold via partners, distributors and directly to end customers.

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 revenue is recognized at the fair value of the consideration received or receivable, less discounts granted, VAT and after the elimination of intra-Group transactions. The Group recognizes license revenue in connection with delivery, while support revenue is accrued on a straight-line basis over the support period.

**COST OF GOODS SOLD**

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

**OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSES****Financial income and expense**

Financial income and expense comprises interest income on bank accounts and receivables, and exchange-rate differences.

**FINANCIAL INSTRUMENTS**

Financial instruments are measured and recognized in the Group in accordance with the regulations in 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 counterpart 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.

## NOTE 1 ACCOUNTING POLICIES, Cont'd

These items are measured at cost. Accounts receivable are recognized at the amount expected to flow in, meaning less deduction for bad debts.

**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. Current investments are recognized in the category "Financial assets measured at fair value through profit or loss."

**TANGIBLE FIXED ASSETS****Assets owned**

Property, plant and equipment are stated on a consolidated basis at cost after 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 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 less 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 lease payment is expensed over the duration based on useful life, which can differ from a de facto lease payment 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 less any residual value. Depreciation is applied straight-line 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**

Research costs related to obtaining new scientific or technical knowledge are recognized as an expense as incurred.

Development costs, whereby the research results or other knowledge is applied to achieve new or improved products or processes, are recognized as an 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 subsequently 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 costs are recognized at cost less accumulated amortization and any impairment.

**Other intangible assets**

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

**Amortization principles**

Amortization is recognized in profit for the year on a straight-line basis over the estimated useful lives of intangible assets. The useful lives are reviewed at least once annually. Capitalized development costs for which amortization has not commenced are 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 costs 5 years
- software 3–5 years

**IMPAIRMENT LOSSES**

The carrying amount of the Group's assets is tested on each balance sheet date to determine whether there is any indication that an impairment loss has arisen. 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 less 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**

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 following the AGM's approval of 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

## NOTE 1 ACCOUNTING POLICIES, Cont'd

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

**EMPLOYEE BENEFITS****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 obligated to terminate an employment before the normal date.

**Vinstandelsstiftelsen 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 reached a level exceeding an operating margin of 20 percent. In such a case, the amount allocated is 10 percent of the portion of operating profit that exceeds the limit level. 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 principle 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 will probably not 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 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 be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or when there is a present obligation that cannot be 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 2:2 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.

## NOTE 1 Accounting policies, Cont'd

**Classification and presentation**

For the Parent Company, the terms 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 statement of cash flows. 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 development costs are recognized in the Parent Company's income statement as they arise. Such reporting is permitted in accordance with RFR 2. In the consolidated financial statements, these development costs are recognized as an asset 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 deferred tax expense.

**Leased assets**

In the Parent Company, all leasing agreements are recognized according to the rule for operating leases.

**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 bargain 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****Recognition and impairment testing of capitalized development costs**

The Group invests considerable amounts in research and development, parts of which are recognized as intangible assets, refer also to Note 10. Recognition of future development costs as an asset requires assessments that the product is expected to become technically and commercially viable and that future economic benefits are probable. Recognition of capitalized development costs also requires an assessment of the costs attributable to the development. Capitalized development costs are amortized over a maximum estimated useful life of five years. The estimated sales volume and useful life, respectively, may be retested, which may result in impairment.

**Revenue from licensing agreements**

Revenue is recognized when it is likely that future economic benefits will accrue to the company and that these benefits can be reliably measured. Revenue from licensing agreements is recognized in connection with delivery. Revenue recognition associated with licenses fees in some instances requires assessments of when the delivery or partial delivery, respectively, has occurred.

**Accounts receivable**

The Group's and the Parent Company's overdue accounts receivable equate to considerable amounts, and the recognition of reserves for bad debt therefore requires an assessment of which of these are considered doubtful. The valuation of bad debt is based on regularly updated forecasts and assumptions regarding the ability of counterparties to pay.

## NOTE 2 INFORMATION ABOUT GEOGRAPHIC AREAS

Identifying reportable segments is based on the internal reporting to the chief operating decision maker, which is the CEO of Raysearch. In this internal reporting, the Group is a segment.

### DISTRIBUTION OF FIXED ASSETS, GROUP

SEK 000s	Tangible fixed assets		Intangible fixed assets	
	2017	2016	2017	2016
Sweden	34,319	33,499	322,598	243,219
USA	1,463	1,658	–	–
Belgium	37	129	–	–
France	147	184	–	–
UK	11	10	–	–
Germany	137	187	–	–
Singapore	–	–	–	–
Japan	–	–	–	–
South Korea	–	–	–	–
	<b>36,114</b>	<b>35,667</b>	<b>322,598</b>	<b>243,219</b>

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, via distributors and via partners. Sales had the following geographic distribution based on the location of the end customers:

	Sweden		North America		Asia		Europe and the rest of the world	
	2017	2016	2017	2016	2017	2016	2017	2016
%								
Sales	0.9	0.2	45.2	41.6	18.6	15.1	35.3	43.1

No regional information is available for support revenue via partners, although this only accounts for a minor portion of the total. Sales of RayStation direct to end customers and via distributors amounted to SEK 531.7 M (475.9), corresponding to 90.8 percent of the company's total sales. In 2017, sales via partners totaled SEK 53.4 M (55.5).

## NOTE 3 REVENUE DISTRIBUTION

SEK 000s	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
License revenue RayStation/RayCare	438,438	437,146	233,059	238,485
Hardware revenue – RayStation	36,215	6,270	13,290	–
License revenue – Partners	40,537	40,106	40,537	40,105
Support revenue – RayStation	54,630	31,057	23,046	12,836
Support revenue – Partners	12,813	15,393	12,813	15,393
Training and other revenue – RayStation	2,453	1,496	317	778
Intra-Group revenue	–	–	157,712	153,131
	<b>585,086</b>	<b>531,468</b>	<b>480,774</b>	<b>460,728</b>

## NOTE 4 EMPLOYEES, PERSONNEL COSTS AND REMUNERATION TO SENIOR EXECUTIVES

### COSTS FOR REMUNERATION OF PARENT COMPANY AND GROUP EMPLOYEES

SEK 000s	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Salaries, benefits and social security costs	183,006	155,474	117,061	103,483
Pension costs, defined-contribution plans	24,190	21,876	22,016	19,826
Social security contributions	39,513	30,644	33,375	27,084
	<b>246,709</b>	<b>207,994</b>	<b>172,452</b>	<b>150,393</b>

### AVERAGE NUMBER OF EMPLOYEES

In the Parent Company, the average number of employees was 183 (154), of whom 118 (99) were men and 65 (55) women.

In the Group, the average number of employees was 228 (184), of whom 151 (120) were men and 77 (64) women.

The average number of employees per country in the Group was 183 (154) in Sweden, 23 (17) in the US, 4 (3) in Belgium, 6 (3) in France, 2 (2) in the UK, 3 (3) in Germany, 2 (2) in Singapore, 3 (0) in China and 2 (0) in Japan.

### GENDER DISTRIBUTION IN COMPANY MANAGEMENT

There is one female senior executive in the Parent Company, corresponding to 11 percent (11), and one female Board member, corresponding to 25 percent (0).



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

GROUP	2017		2016	
	Senior executives and Board members (12)	Other employees	Senior executives and Board members (12)	Other employees
Salaries and other remuneration	20,275	162,730	20,488	134,986
(of which, bonus)	4,334	3,489	5,740	3,259
Social security costs	10,315	53,389	9,915	42,168
(of which pension costs)	3,641	20,549	3,258	18,618
<b>Group total</b>	<b>30,590</b>	<b>216,117</b>	<b>30,403</b>	<b>177,154</b>

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

PARENT COMPANY	2017		2016	
	Senior executives and Board members (12)	Other employees	Senior executives and Board members (12)	Other employees
Salaries and other remuneration	20,275	96,786	20,488	82,995
(of which, bonus)	4,334	—	5,740	—
Social security costs	10,315	45,076	9,915	36,995
(of which pension costs)	3,641	18,375	3,258	16,567
<b>Parent Company total</b>	<b>30,590</b>	<b>141,862</b>	<b>30,403</b>	<b>119,990</b>

Senior executives who were appointed during the year:

Petra Jansson, General Counsel (from Jul 1, 2017)

Johanna Öberg, Board member (from May 23, 2017)

## SALARIES AND OTHER REMUNERATION OF BOARD MEMBERS AND GROUP MANAGEMENT

2017	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Carl Filip Bergendal	480	—	—	—	480
Board member Hans Wigzell	221	—	—	—	221
Board member Johanna Öberg	152	—	—	—	152
CEO Johan Löf	5,028	3,135	450	601	9,214
Other senior executives (8)	9,095	1,199	515	3,039	13,849
<b>Total</b>	<b>14,976</b>	<b>4,334</b>	<b>965</b>	<b>3,640</b>	<b>23,916</b>

2016	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Erik Hedlund <sup>1</sup>	414	—	7	—	421
Board member Carl Filip Bergendal <sup>2</sup>	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
<b>Total</b>	<b>14,058</b>	<b>5,740</b>	<b>697</b>	<b>3,259</b>	<b>23,753</b>

<sup>1</sup> Resigned Nov 17, 2016

<sup>2</sup> Chairman of the Board from Nov 17, 2016 until the AGM on May 23, 2017

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

## NOTE 4 Employees, personnel costs and remuneration of senior executives, cont'd

**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' salary. The Director of Sales and Marketing and the Director of Sales for Asia & Pacific receive variable remuneration based on sales in their respective regions. All employees in the Swedish Parent Company, except for the CEO, are covered by a profit-sharing foundation. A provision is allocated to the profit-sharing foundation in a given year if the operating profit in the preceding year reached a level exceeding an operating margin of 20 percent. In such a case, the amount allocated is 10 percent of the portion of operating profit that exceeds the limit level. For the employees of foreign subsidiaries, variable remuneration related to sales and achievement of established targets is paid.

In 2017, SEK 4.2 M (8.8) was allocated to the profit-sharing foundation, excluding special employer's contribution.

**Pensions**

All pension plans 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 their employment, the term of notice is six months; if the employer terminates the CEO's 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 receives a 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

SEK 000s	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
<b>EY</b>				
Auditing assignments	1,054	937	594	771
Audit activities in addition to the audit assignment	339	270	339	230
Tax advice	202	45	202	45
Other services	—	105	—	105
	<b>1,595</b>	<b>1,357</b>	<b>1,135</b>	<b>1,151</b>
<b>OTHER AUDITORS</b>				
Auditing assignments	96	205	—	—
	<b>96</b>	<b>205</b>	<b>0</b>	<b>0</b>

**NOTE 6 FINANCE LEASING DEBT**

Finance leasing debt falls due for payment as follows:	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	3,344	449	2,895
2-5 years	7,226	370	6,856
	<b>10,570</b>	<b>819</b>	<b>9,751</b>

	GROUP	
SEK 000s	2017	2016
<b>Opening balance</b>	11,527	13,164
Acquisitions during the year	3,602	2,502
Redemption	-786	0
Repayment	-5,185	-4,717
Interest expense	593	578
<b>Closing balance</b>	<b>9,751</b>	<b>11,527</b>

At December 31, 2017, the Group's results were charged with costs attributable to finance leases, with amortization accounting for SEK 3,917 M (3,830) and interest expense for SEK 593 M (578).

**SIGNIFICANT LEASES**

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

**NOTE 7 OPERATING EXPENSES SPECIFIED BY TYPE OF COSTS**

	GROUP		PARENT COMPANY	
SEK 000s	2017	2016	2017	2016
Cost of goods sold <sup>1</sup>	-36,650	-26,872	-19,548	-15,418
Personnel expenses	-183,546	-147,551	-207,374	-165,872
Amortization and impairment losses <sup>2</sup>	-64,081	-67,339	-8,125	-7,404
Exchange-rate losses	-23,412	-6,067	-23,376	-6,067
Other expenses	-124,740	-101,449	-165,315	-141,958
	<b>-432,429</b>	<b>-349,278</b>	<b>-423,738</b>	<b>-336,719</b>

<sup>1</sup> Cost of goods sold comprises costs of sold hardware and royalties for licensed software included in the company's software. Amortization of capitalized development costs is not included in cost of goods sold. Amortization and capitalization of development costs are included in the recognized research and development costs.

<sup>2</sup> Amortization of capitalized development costs is included in amortization and impairment in the table above.

**NOTE 8 OTHER OPERATING INCOME**

	GROUP		PARENT COMPANY	
SEK 000s	2017	2016	2017	2016
Exchange-rate gains on operating receivables/liabilities	7,012	17,369	7,012	17,369
	<b>7,012</b>	<b>17,369</b>	<b>7,012</b>	<b>17,369</b>

**NOTE 9 OTHER OPERATING EXPENSES**

	GROUP		PARENT COMPANY	
SEK 000s	2017	2016	2017	2016
Exchange-rate losses on operating receivables/liabilities	-23,376	-6,067	-23,376	-6,067
	<b>-23,376</b>	<b>-6,067</b>	<b>-23,376</b>	<b>-6,067</b>

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

	GROUP		PARENT COMPANY	
SEK 000s	2017	2016	2017	2016
<b>Intangible fixed assets</b>				
Amortization and impairment according to function				
Administrative expenses	-	-	-	-
Research and development	-58,401	-56,303	-	-
	<b>-58,401</b>	<b>-56,303</b>	<b>0</b>	<b>0</b>
<b>Tangible fixed assets</b>				
Depreciation according to function				
Administrative expenses	-12,389	-11,036	-3,824	-3,199
Research and development	-	-	-527	-791
	<b>-12,389</b>	<b>-11,036</b>	<b>-4,351</b>	<b>-3,990</b>
<b>Total depreciation/amortization</b>	<b>-70,790</b>	<b>-67,339</b>	<b>-4,351</b>	<b>-3,990</b>

**NOTE 11 OPERATING LEASES**

SEK 000s	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Lease payments for the year	22,239	22,503	21,691	23,802
Contractual future lease payments for leases that mature:				
Within one year	25,767	25,249	21,066	23,776
Later than one but within five years	59,503	77,346	17,279	72,928
Later than five years	44,005	–	–	–
	<b>129,275</b>	<b>102,695</b>	<b>38,345</b>	<b>96,704</b>

Significant operating leases pertains to a lease for the head office in Stockholm which expires on Dec 31, 2019. The baseline rent is indexed annually. Future lease payments include leases for new offices in New York (Nov 12, 2018–Nov 12, 2028) and San Francisco, (Mar 16, 2018–Mar 16, 2024).

**NOTE 12 FINANCIAL INCOME AND EXPENSES**

SEK 000s	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Interest income on cash and cash equivalents	151	–	24	–
Interest income on accounts receivable and loan receivables	217	18	213	18
Other interest income	–	1	–	1
Other financial income	–	16	–	16
Interest income Group companies	–	–	5,973	3,097
	<b>368</b>	<b>35</b>	<b>6,210</b>	<b>3,132</b>
Interest expense on other liabilities to credit institutions <sup>1</sup>	–2,157	–1,509	–1,366	–1,120
Other financial expenses	–1,979	–	–1,957	–
	<b>–4,136</b>	<b>–1,509</b>	<b>–3,323</b>	<b>–1,120</b>
<b>Net</b>	<b>–3,768</b>	<b>–1,474</b>	<b>2,887</b>	<b>2,012</b>

<sup>1</sup> The interest expense for the credit facility is based on STIBOR + 1.5% with a floor for STIBOR at 0%.

**NOTE 13 APPROPRIATIONS**

SEK 000s	PARENT COMPANY	
	2017	2016
Tax allocation reserve, provision during the year	–19,500	–40,000
Tax allocation reserve, reversal during the year	–	–
Accelerated depreciation for tax purposes, equipment	–315	–144
	<b>–19,815</b>	<b>–40,144</b>

**NOTE 14 TAX ON PROFIT FOR THE YEAR**

SEK 000s	GROUP	
	2017	2016
<b>Current tax expense</b>		
Tax expense for the period	–16,719	–27,880
	<b>–16,719</b>	<b>–27,880</b>
<b>Deferred tax expense/income</b>		
Deferred tax for temporary differences on capitalized development costs	–17,463	–10,583
Untaxed reserves/deferred tax attributable to loss carryforwards	–4,359	–8,832
Other deferred tax expenses	267	618
	<b>–21,555</b>	<b>–18,797</b>
<b>Total tax expense/income recognized in the Group</b>	<b>–38,274</b>	<b>–46,677</b>

<b>Reconciliation of effective tax</b>		
Recognized profit before tax	155,901	198,085
Tax at current tax rate of 22%	–34,298	–43,579
Effect of other tax rates for non-Swedish companies	–1,102	442
Effect of non-taxable income	1	149
Effect of non-deductible costs	–2,793	–3,523
Standard interest on tax allocation reserve	–81	–166
<b>Reported effective tax</b>	<b>–38,274</b>	<b>–46,677</b>

SEK 000s	PARENT COMPANY	
	2017	2016
<b>Current tax expense</b>		
Tax expense for the period	–13,494	–26,435
Change in deferred tax	267	618
<b>Total tax expense recognized in the Parent Company</b>	<b>–13,227</b>	<b>–25,817</b>

<b>Reconciliation of effective tax</b>		
Recognized profit before tax	47,120	103,245
Tax at current tax rate of 22%	–10,366	–22,714
Effect of non-taxable income	1	149
Effect of non-deductible costs	–2,780	–3,086
Standard interest on tax allocation reserve	–81	–166
<b>Reported effective tax</b>	<b>–13,227</b>	<b>–25,817</b>

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

	2017	2016
Proposed dividend per share	—	—
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
Profit/loss for the year attributable to Parent Company shareholders (before and after dilution)	117,627	151,408
<b>Earnings per share before/after dilution</b>	<b>3.43</b>	<b>4.42</b>

**NOTE 16 CAPITALIZED DEVELOPMENT COSTS**

	GROUP	
SEK 000s	Dec 31, 2017	Dec 31, 2016
<b>Accumulated cost</b>		
Opening balance	613,441	509,033
Internally developed assets during the year	137,780	104,408
<b>Closing balance</b>	<b>751,221</b>	<b>613,441</b>
<b>Accumulated amortization and impairment losses</b>		
Opening balance	–370,222	–313,919
Amortization during the year	–58,401	–56,303
Impairment for the year	—	—
<b>Closing balance</b>	<b>–428,623</b>	<b>–370,222</b>
<b>Closing carrying amount</b>	<b>322,598</b>	<b>243,219</b>

Capitalized development costs pertains to the development of new versions of RaySearch's software products. These development costs are capitalized and amortized over a period of five years from when the products are released on the market and the asset is thus regarded as starting to contribute to the company's revenue.

**IMPAIRMENT TESTING OF INTERNALLY GENERATED INTANGIBLE ASSETS**

Internally generated intangible assets are tested annually for impairment, and whenever there is an indication of impairment. The recoverable amount is determined based on value-in-use.

An annual impairment test of internally generated intangible assets has been conducted. The value in use of the cash-generating units 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 3 percent based on 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. The future cash flows have been discounted to present value using an interest rate before tax of 13.5 percent. The discount interest rate is determined on the basis of risk-free interest plus a surcharge for the risk premium for the particular operating

segment. The estimated value-in-use exceeds the carrying amount by such a high margin that company management believes there are no reasonably possible changes in assumptions that would lead to impairment.

**NOTE 17 SOFTWARE**

	GROUP AND PARENT COMPANY	
SEK 000s	Dec 31, 2017	Dec 31, 2016
<b>Accumulated cost</b>		
Opening balance	1,165	3,658
New acquisitions	—	—
Disposals during the year	—	–2,493
<b>Closing balance</b>	<b>1,165</b>	<b>1,165</b>
<b>Accumulated amortization</b>		
Opening balance	–1,165	–3,658
Amortization during the year	—	—
Disposals during the year	—	2,493
<b>Closing balance</b>	<b>–1,165</b>	<b>–1,165</b>
<b>Closing carrying amount</b>	<b>0</b>	<b>0</b>

**NOTE 18 TANGIBLE FIXED ASSETS**

	GROUP		PARENT COMPANY	
SEK 000s	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
<b>Equipment, fixtures and fittings</b>				
<b>Accumulated cost</b>				
Opening balance	60,916	55,082	38,608	36,159
New acquisitions	12,675	5,839	11,110	2,453
Divestments and disposals	–618	–5	–618	–5
<b>Closing balance</b>	<b>72,973</b>	<b>60,916</b>	<b>49,100</b>	<b>38,608</b>
<b>Accumulated amortization</b>				
Opening balance	–25,249	–13,322	–17,291	–9,887
Divestments and disposals	32	0	32	0
Amortization for the year	–11,642	–11,927	–8,155	–7,404
<b>Closing balance</b>	<b>–36,859</b>	<b>–25,249</b>	<b>–25,414</b>	<b>–17,291</b>
<b>Closing carrying amount</b>	<b>36,114</b>	<b>35,667</b>	<b>23,686</b>	<b>21,317</b>

Tangible fixed assets include finance leases with a carrying amount of SEK 10,633 (12,183).

## NOTE 19 PARTICIPATIONS IN GROUP COMPANIES

SEK 000s	PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016
<b>Accumulated cost</b>		
Opening balance	640	485
Contributions to subsidiaries	406	155
<b>Closing balance</b>	<b>1,046</b>	<b>640</b>

### SPECIFICATION OF PARENT COMPANY AND GROUP HOLDINGS OF PARTICIPATIONS IN GROUP COMPANIES.

Group company/ Corp. Reg. No./Reg. office/Country	No./ Participa- tions in %	Adjusted equity/ Profit for the year <sup>1</sup>	Carrying amount
RaySearch Americas Inc, Delaware, USA	100	-25,211 <sup>2</sup> /4,426	0
RaySearch Belgium Sprl, 0838.244.504, Brussels, Belgium	99.0 <sup>3</sup>	986/152	170
RaySearch France SAS, RCS Paris, France 794 582 841	100	2,278/660	87
RaySearch UK Ltd, 8579149, London, UK	100	477/176	0
RaySearch Germany GmbH, HRB 157539, Berlin, Germany	100	1,145/301	228
RaySearch Singapore Pte Ltd, 201S508409H, Singapore	100	328/146	1
RaySearch Japan K.K., 010401124903, Tokyo, Japan	100	284/220	75
RaySearch Korea LLC., 1101140177029, Seoul, South Korea	100	103/19	79
RaySearch (Shanghai) Medical Device Co., Ltd 91310115MA1K3M628Y, China (Shanghai)	100	453/37	406
RaySearch Canada Inc. 755835923RC0001, Saint John, New Brunswick, Canada	100	0/0	0
			<b>1,046</b>

<sup>1</sup> Adjusted equity refers to the share of the company's equity, including the equity share 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.

<sup>2</sup> The negative equity arose from the build-up of the subsidiary in the US.

<sup>3</sup> SAS RaySearch France owns the remaining 1.0 percent of the Group company.

## NOTE 20 ACCOUNTS RECEIVABLE

Age analysis carrying amount	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Not overdue	273,360	179,699	117,828	71,642
Past due 0-30 days	18,744	40,424	15,884	12,373
Past due 30 – 90 days	16,625	28,043	3,513	12,415
Past due more than 90 days	32,570	41,191	20,683	28,897
<b>Total</b>	<b>341,299</b>	<b>289,357</b>	<b>157,908</b>	<b>125,326</b>
Bad debt reserve	-6,174	-6,822	-6,174	-6,822
<b>Accounts receivable, net</b>	<b>335,125</b>	<b>282,535</b>	<b>151,734</b>	<b>118,504</b>

At the end of the period, accounts receivable amounted to SEK 335 M (282), corresponding to 57 percent (53) of net sales in 2017.

RaySearch has agreements with customers whereby deliveries have long payment terms, which is normal in the industry. The company recognizes accounts receivable when delivery has occurred and an invoice has been issued. The subsequent effect is that the Group's accounts receivable add up to relatively high amounts compared with net sales.

In 2017, accounts receivable increased in relation to net sales, a result of the company signing more agreements with longer payment terms.

At December 31, 2017 overdue invoices amounted to SEK 68 M (110), corresponding to 20 percent (38) of total accounts receivable. The company's bad debt reserves amounted to SEK 6.2 M (6.8), where the year-on-year change comprised exchange-rate adjustments.

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.

## NOTE 21 PREPAID EXPENSES AND ACCRUED INCOME

SEK 000s	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Prepaid rent	5,663	4,996	4,903	4,826
Prepaid insurance	1,481	1,311	1,405	1,229
Accrued interest income	–	–	5,973	5,778
Other prepaid expenses	13,531	7,860	12,874	7,342
Accrued income	78,482	47,576	68,953	47,576
	<b>99,156</b>	<b>61,743</b>	<b>94,108</b>	<b>66,750</b>

At the end of the period, the Group's total accrued income amounted to SEK 90 M (50), of which the current portion amounted to SEK 78 M (48).

RaySearch has agreements with customers whereby deliveries have long payment terms, which is normal in the industry. The company recognizes accrued income when delivery has occurred but an invoice has not been issued, such as when a payment plan exists. The subsequent effect is that the Group's accrued income adds up to relatively high amounts compared with net sales.

In 2017, total accrued income increased to 15 percent (9) of net sales, a result of the company signing more agreements with a payment plan.

In view of the customers' creditworthiness and other circumstances, the company assesses that this very low level of credit risk will continue in regard to these receivables.



## NOTE 22 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
SEK 000s				
<b>The following subcomponents are included in cash and cash equivalents:</b>				
Bank balances	104,156	87,720	42,857	66,984
	<b>104,156</b>	<b>87,720</b>	<b>42,857</b>	<b>66,984</b>

Cash and cash equivalents consist of bank deposits. In addition to this, the company has a revolving loan facility of up to SEK 300 M and an overdraft facility of SEK 50 M.

At Dec 31, 2017, a total of SEK 75 M had been borrowed within the framework of the company's revolving loan facility.

## NOTE 23 DEFERRED TAX ASSETS AND TAX LIABILITIES

	GROUP	
	Dec 31, 2017	Dec 31, 2016
SEK 000s		
<b>Deferred tax liabilities for:</b>		
<b>Intangible assets</b>		
Opening balance	53,508	42,925
Change during the year	17,463	10,583
<b>Closing balance</b>	<b>70,971</b>	<b>53,508</b>
<b>Tangible assets</b>		
Opening balance	0	163
Change during the year	–	–163
<b>Closing balance</b>	<b>0</b>	<b>0</b>
<b>Attributable to untaxed reserves</b>		
Opening balance	17,093	8,261
Change during the year	4,360	8,832
<b>Closing balance</b>	<b>21,453</b>	<b>17,093</b>
<b>Carrying amount</b>	<b>92,424</b>	<b>70,601</b>
<b>Deferred tax assets</b>		
Opening balance	512	57
Change during the year	268	455
<b>Closing balance</b>	<b>780</b>	<b>512</b>

Valuation is based on the nominal tax rate.

## NOTE 24 LONG-TERM RECEIVABLES

	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
SEK 000s				
Long-term portion of accrued income	11,468	2,267	10,189	2,267
Other items	216	–	216	–
<b>Closing balance</b>	<b>11,684</b>	<b>2,267</b>	<b>10,405</b>	<b>2,267</b>

Long-term receivables comprise receivables from customers maturing more than 12 months after the balance-sheet date.

## NOTE 25 UNTAXED RESERVES

	PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016
SEK 000s		
<b>Accumulated excess depreciation</b>		
Opening balance, January 1	2,272	2,129
Reversals/excess depreciation for the year	316	143
<b>Closing balance December 31</b>	<b>2,588</b>	<b>2,272</b>
<b>Tax-allocation reserves</b>		
Provisions for fiscal year 2014	20,073	20,073
Provisions for fiscal year 2015	15,349	15,349
Provisions for fiscal year 2016	40,000	40,000
Provisions for fiscal year 2017	19,500	–
	<b>94,922</b>	<b>75,422</b>
<b>Total untaxed reserves</b>	<b>97,510</b>	<b>77,694</b>

## NOTE 26 INTEREST-BEARING LIABILITIES

SEK 000s	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Long-term interest-bearing liabilities	9,751	61,527	–	50,000
Current interest-bearing liabilities	74,033	–	74,033	–
Accrued interest expense	43	160	43	160
	<b>83,827</b>	<b>61,687</b>	<b>74,076</b>	<b>50,160</b>

SEK 000s	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Opening balance	61,687	38,164	50,160	25,000
Raising of bank loans	75,000	25,000	75,000	25,000
Repayment of loans	–50,000	–	–50,000	–
Prepaid expense raising of loans	–967	–	–967	–
Repayment of finance leases	–5,185	–4,139	–	–
Redemption of finance leases	–786	–	–	–
New finance leases	3,602	2,502	–	–
Interest expense	2,157	628	1,564	628
Interest paid	–1,681	–468	–1,681	–468
	<b>83,827</b>	<b>61,687</b>	<b>74,076</b>	<b>50,160</b>

	GROUP AND PARENT COMPANY					
	Within one month	1–3 months	3–12 months	1–2 years	2–5 years	TOTAL
<b>Interest 2017</b>						
Bank loans	0	277	832	1,110	533	2,768
<b>Interest 2016</b>						
Bank loans	0	308	925	1,250	2,158	4,641

The loan expires on May 23, 2020. In the table, the revolving loan is expected to continue and the prevailing interest rate has been used. For more information about finance leasing, see Note 6.

## NOTE 27 ACCRUED EXPENSES AND DEFERRED INCOME

SEK 000s	GROUP		PARENT COMPANY	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Social security expenses and vacation pay liability	20,442	31,324	18,418	16,452
Other personnel-related costs	20,687	5,519	4,313	4,410
Deferred income	56,334	39,975	15,164	4,827
Accrued interest expense	43	160	187	160
Other prepaid expenses	8,553	12,638	7,274	11,665
	<b>106,058</b>	<b>89,616</b>	<b>45,356</b>	<b>37,514</b>

## NOTE 28 FINANCIAL RISK FACTORS AND RISK MANAGEMENT

### FINANCIAL RISK

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

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

### Currency risk

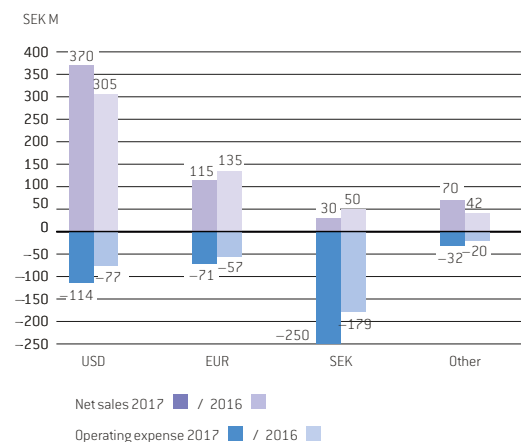
Currency risk is the risk for changes in value due to changes in exchange rates. With an international operation, the Group is exposed to currency risk in form of transaction exposure and translation exposure. Transaction exposure arises through future transactions, and translation exposure through assets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

The RaySearch Group's currency risk is mainly the result of the company receiving most of its revenue in USD and EUR, while most of its costs are in SEK. The company has no currency hedging, in accordance with the established financial policy. The financial 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 diagram:

### NET SALES AND OPERATING EXPENSES PER CURRENCY



## NOTE 28 RISKS AND RISK MANAGEMENT, cont.

Based on the year's revenue, cost and currency structure (transaction exposure), a general change of one percentage point in the SEK rate against other currencies would have an impact of approximately +/- SEK 3.4 M [3.3] on consolidated operating profit. A one percentage point change in the USD rate against the SEK would have an impact of +/- SEK 2.6 M [2.3] on consolidated operating profit, while a corresponding change in the EUR rate would have an impact of +/- SEK 0.4 M [0.8] on consolidated operating profit.

**Translation exposure**

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

	Dec 31, 2017	Dec 31, 2016
<b>USD</b>		
Accounts receivable	221,423	222,203
Accrued income	21,842	–
Accounts payable	–6,317	–1,440
	<b>236,948</b>	<b>220,763</b>
<b>EUR</b>		
Accounts receivable	81,520	44,326
Accrued income	44,715	–
Accounts payable	–4,067	–1,513
	<b>122,168</b>	<b>42,813</b>
<b>Other currencies</b>		
Accounts receivable	19,386	13,171
Accrued income	23,393	–
Accounts payable	393	–2,011
	<b>43,172</b>	<b>11,160</b>

Based on the year's receivable, debt and currency structure (translation exposure), a general change of one percentage point in the SEK rate against other currencies would have an impact of approximately +/- SEK 4.0 M [2.7] on consolidated operating profit. A one percentage point change in the USD rate against the SEK would have an impact of +/- SEK 2.4 M [2.2] on consolidated operating profit, while a corresponding change in the EUR rate would have an impact of +/- SEK 1.2 M [0.4] on consolidated operating profit.

**Interest rate risk**

Interest rate risk refers to the risk that changes in interest rates will have a negative impact on RaySearch's results due to, for example, increased costs for the company's variable rate loans. At December 31, 2017, interest-bearing liabilities amounted to SEK 83.8 M [61.5], of which SEK 9.8 M [11.5] pertained to finance leases, and cash and cash equivalents and interest-bearing receivables amounted to SEK 104.1 M [87.7]. As a result, the Group had negative interest-bearing net debt.

Based on the balance sheet structure at year-end, and assuming that all other variables were constant, a general change of one percentage point in the interest rate for loans and investments would have an impact of approximately +/- SEK 0.2 M [0.3] on consolidated operating profit.

**Credit risk**

Credit risk arises through financial credit risk related to cash and cash equivalents and balances with banks and financial institutions, and through credit exposure from transactions with customers and distributors. Credit risks are mainly managed at Group level.

In accordance with the established financial policy, RaySearch's liquidity is invested in 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 coordinated with the individual Group companies. The credit risk for each new customer is analyzed before payment and delivery terms are offered, and the credit risk in outstanding receivables and agreed transactions is regularly monitored. Regular risk assessments of creditworthiness are carried out 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, with public funds and credit losses have historically been very low. No single customer accounts for 5 percent or more of RaySearch's net sales.

The credit risk in outstanding receivables is regularly assessed and at the end of the 2017 fiscal year, bad debt reserves amounted to SEK 6.2 M [6.8]. For an historical analysis of accounts receivable and bad debt reserves, 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 securing external loans. At Group level, rolling forecasts for the Group's liquidity reserve are monitored to ensure that the Group has sufficient cash funds to meet its current business needs, while maintaining a sufficient amount of unutilized credit. Surplus liquidity in Group companies is transferred centrally and managed by the Group's financial function.

In accordance with the established financial policy, investment is made in interest-bearing accounts with Swedish banks or the Swedish state.

To reduce liquidity risk, RaySearch strives to have available cash and cash equivalents of at least 10 percent of net sales. On 31 December 2017, cash and cash equivalents amounted to SEK 104.2 M [87.7], corresponding to 18 percent [17] of net sales. In addition, RaySearch had SEK 275 M [32] in unutilized credit facilities.

## NOTE 29 DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE GROUP

### CLASSIFICATION AND CATEGORIZATION OF GROUP ASSETS AND LIABILITIES, DEC 31, 2017

Dec 31, 2017	Loan receivables/ Accounts receivable	Total financial assets	Non-financial assets	Total
<b>Assets</b>				
Intangible fixed assets	–	0	322,598	322,598
Tangible fixed assets	–	0	36,114	36,114
Other fixed assets	11,684	11,684	780	12,464
Accounts receivable	335,125	335,125	–	335,125
Inventories	–	0	33	33
Tax assets	–	0	350	350
Other receivables	–	0	5,068	5,068
Prepaid expenses and accrued income	92,012	92,012	7,144	99,156
Cash and cash equivalents	104,156	104,156	–	104,156
	<b>542,977</b>	<b>542,977</b>	<b>372,087</b>	<b>915,064</b>

Dec 31, 2017	Financial liabilities measured at amortized cost	Non-financial liabilities	Total
<b>Equity and liabilities</b>			
Equity	–	580,425	580,425
Deferred tax liabilities	–	92,424	92,424
Other long-term interest-bearing liabilities	9,751	–	9,751
Accounts payable	27,403	–	27,403
Tax liabilities	–	15,945	15,945
Current interest-bearing liabilities	74,033	–	74,033
Other liabilities	–	9,025	9,025
Accrued expenses and deferred income	64,930	41,128	106,058
	<b>176,117</b>	<b>738,947</b>	<b>915,064</b>

Dec 31, 2016	Loan receivables/ Accounts receivable	Total financial assets	Non-financial assets	Total
<b>Assets</b>				
Intangible fixed assets	–	0	243,219	243,219
Tangible fixed assets	–	0	35,667	35,667
Other fixed assets	2,267	2,267	512	2,779
Accounts receivable	282,535	282,535	–	282,535
Inventories	–	0	0	0
Tax assets	–	0	249	249
Other receivables	–	0	3,342	3,342
Prepaid expenses and accrued income	47,576	47,576	14,167	61,743
Cash and cash equivalents	87,720	87,720	–	87,720
	<b>420,098</b>	<b>420,098</b>	<b>297,156</b>	<b>717,254</b>

Dec 31, 2016	Financial liabilities measured at amortized cost	Non-financial liabilities	Total
<b>Equity and liabilities</b>			
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
Tax liabilities	–	11,148	11,148
Current interest-bearing liabilities	–	–	0
Other liabilities	9,596	2,635	12,231
Accrued expenses and deferred income	51,734	37,882	89,616
	<b>134,800</b>	<b>582,454</b>	<b>717,254</b>

## NOTE 29 DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE GROUP, cont'd

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

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities to which the company has access on the measurement date.

**Level 2:** Inputs other than the quoted prices in Level 1, which are directly or indirectly observable for the access or liability. This may also include inputs other than quoted prices that are observable for the asset or liability, such as interest-rate levels, 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, the carrying amount is an approximation of the fair value, since 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 AND CONTINGENT LIABILITIES

SEK 000s	Dec 31, 2017	Dec 31, 2016
<b>Pledged assets</b>		
Chattel mortgages	100,000	100,000
Restricted credit facility	–	17,700
Guarantees	4,199	–
<b>Total</b>	<b>104,199</b>	<b>117,700</b>

In May 2017, the company's line of credit was increased from SEK 100 M to SEK 350 M. The credit line expires in May 2020 and comprises a revolving loan facility of up to SEK 300 M and an overdraft facility of SEK 50 M. Chattel mortgages amount to SEK 100 M.

At December 31, 2017, a short-term loan totaling SEK 75 M had been utilized within the framework of the company's revolving loan facility.

Guarantees amounted to SEK 4.2 M and did not affect the company's credit facility. No contingent liabilities exists for the Group or the 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.

SEK 000s	SUMMARY PARENT COMPANY				
	Sale of goods/services to related parties	Purchase of goods/services from related parties	Dividend paid	Receivables from related parties, Dec 31	Liabilities to related parties, Dec 31
2017	157,712	–42,553	–	206,508	5,244
2016	153,131	–30,748	–	161,270	4,671

Sales to related parties pertain primarily to sales of licenses to foreign subsidiaries and purchases from related parties pertain primarily to

purchases of services from foreign subsidiaries. Receivables from related parties pertain primarily to receivables from the US subsidiary.

## NOTE 32 SIGNIFICANT EVENTS AFTER THE BALANCE-SHEET DATE

### Strategic partnership with MD Anderson for adaptive radiation therapy

In February 2018, it was announced that the University of Texas MD Anderson Cancer Center and RaySearch had entered into a strategic alliance with the aim of enhancing cancer radiation therapy through several initiatives. The aim is to achieve greater precision when treating tumors and to improve and increase access to an already existing radiation therapy – adaptive radiation therapy (ART) – which, at present, is largely limited to highly specialized cancer centers.

### Two major orders for RayStation from North America

In March 2018, the company received major orders for RayStation from two radiation therapy centers in North America. The combined order value of USD 6.4 M (excluding support agreements), corresponding to approximately SEK 53 M, is expected to generate revenue of approximately SEK 38 M in the first quarter of 2018.

### Share conversion

In March 2018, 200,000 Class A shares were converted to Class B at the request of a shareholder. The total number of votes in RaySearch thereafter amounted to 110,377,548. The total number of registered shares in RaySearch amounts to 34,282,773, of which 8,454,975 are Class A and 25,827,798 Class B.

### RayStation was selected by the proton and carbon ion therapy centers in Heidelberg and Marburg

In April 2018, it was announced that RayStation had been selected as the treatment planning system for the two proton and carbon ion therapy centers, Heidelberg Ion Beam Therapy Center (HIT) and Marburg Ion Beam Therapy Center (MIT), in Germany. All carbon ion therapy centers in Europe have now selected RayStation.

#### Collaborative agreement with Heidelberg University Hospital for RayCare

In April 2018, it was announced that RaySearch had entered into a long-term collaborative agreement for RayCare with Heidelberg University Hospital in Germany. The partnership will also involve the two affiliated sites Heidelberg Ion Beam Therapy Center (HIT) and Marburg Ion Beam Therapy Center (MIT).

#### NOTE 33 PROPOSED ALLOCATION OF THE PARENT COMPANY'S PROFIT

The following is at the disposal of the AGM:

SEK 000s	
Retained earnings	177,390
Profit for the year	33,893
Dividend paid	0
<b>Total</b>	<b>211,283</b>

The Board and CEO propose that SEK 211,283,000 be carried forward.

The undersigned certify that the annual report and consolidated financial statements 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 consolidated financial statements were approved for issue by the Board of Directors on April 27, 2018. The consolidated statement of comprehensive income and consolidated statement of financial position, and the Parent Company income statement and balance sheet will be submitted to the AGM for adoption on May 30, 2018.

Stockholm, April 27, 2018

Johan Löf  
CEO and Board member

Carl Filip Bergendal  
Chairman of the Board

Hans Wigzell  
Board member

Johanna Öberg  
Board member

Our audit report was submitted on April 27, 2018

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 2017. The annual accounts and consolidated accounts of the company are included on pages 4-37 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 2017 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 2017 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.

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

### Basis for Opinions

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

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

## KEY AUDIT MATTERS

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

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

## REVENUE FROM LICENSE AGREEMENTS

### Description

Revenue from license agreements with end customers, distributors and partner companies totals 479 MSEK in the consolidated statement of comprehensive income, and 431 MSEK in the parent company income statement, for the year 2017.

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 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.

### How our audit addressed this key audit matter

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. For license revenue from partner companies we have verified that recorded revenue matches reports received from the partner companies.

We have reviewed disclosures made in the annual report.

## CAPITALIZED DEVELOPMENT COSTS

### Description

Capitalized development costs of 323 MSEK are recorded in the consolidated statement of financial position as of 31 December 2017. 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.

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.

### How our audit addressed this key audit matter

In our audit we have assessed management's process for determining which development costs fulfill the requirements for recognition as capitalized development costs. We have also assessed 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 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 reviewed disclosures made in the annual report.

## BAD DEBT

### Description

Accounts receivable of 335 MSEK are recorded in the consolidated statement of financial position as of 31 December 2017 and consists of gross receivables of 341 MSEK after deduction of bad debt reserve of 6 MSEK. Accounts receivable of 152 MSEK are recorded in the parent company balance sheet as of 31 December 2017 and consists of gross receivables of 158 MSEK after deduction of bad debt reserve of 6 MSEK.

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.

### How our audit addressed this key audit matter

In our audit we have assessed management's process for determining whether to classify receivables as bad debt, partly by evaluating the historical precision of forecasts and assumptions, receipt of external confirmations of outstanding receivables from the company's customers at the balance sheet date, and reviewed routines for collection of accounts receivables and the treatment of bad debt.

We have reviewed disclosures made in the annual report.



## 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, 42–44 and 46–61. 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.

## 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 2017 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.

Ernst & Young AB, Jakobsbergsgatan 24, 111 44, Stockholm, was appointed auditor of RaySearch Laboratories ABs (publ) by the general meeting of the shareholders on the 23 May 2017 and has been the company's auditor since the 22 May 2013.

Stockholm 27 April 2018

Ernst & Young AB

Per Hedström

Authorized Public Accountant

# CORPORATE GOVERNANCE REPORT

## GENERAL

RaySearch's corporate governance principles are based on Swedish legislation, primarily the Swedish Companies Act, the Swedish Annual Accounts Act and applicable EU regulations, and Nasdaq Stockholm's Rule Book for Issuers. In addition, RaySearch applies the Swedish Corporate Governance Code ("the Code"), with the exceptions set out below. The Code was originally introduced on July 1, 2005 with the aim of improving the corporate governance of Swedish listed companies and ensuring that these companies were run as efficiently as possible on behalf of their shareholders. The current Code is available on the Swedish Corporate Governance Board's website: <http://www.corporategovernanceboard.se/>

Companies that apply the Code must take an active position on the company's approach to the various provisions of the Code. If a company chooses to deviate from the Code's provisions, this must be reported in accordance with the "comply or explain" principle. This means that the company does not have to follow every provision of the Code but can choose other solutions deemed more appropriate under the given circumstances, provided that the company openly states any such deviation, describes the solution it has chosen instead, and provides a good explanation. The size and complexity of companies applying the Code are varied and for individual companies, solutions other than the Code may also ensure good corporate governance. RaySearch is a relatively small company with a clear majority shareholder who is also active as the CEO of the company. In most cases, this is the reason why RaySearch has chosen to deviate from some of the Code's provisions.

RaySearch submits Corporate Governance Reports in connection with the submission of annual reports for each fiscal year. The company's auditor has read and performed a statutory review of this Corporate Governance Report.

## GENERAL MEETING

The General Meeting is the company's supreme decision-making body. The date and location of the Annual General Meeting (AGM) is announced in connection with the third-quarter report and is simultaneously published on the company's website. Following motions by the shareholders, the Board of Directors and Chairman of the Board are elected at the AGM for a term of office until the close of the following AGM. Based on the Board's proposals, a Meeting Chairman and audit firm are elected. The AGM is to be held within six months of the end of the fiscal year to resolve on matters including adoption of the income statement and balance sheet, and the allocation of profit. 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. Nor are there any provisions in the Articles of Association regarding the appointment and dismissal of Board members, or amendments to the Articles of Association.

RaySearch may issue two classes of shares: Class A and Class B. RaySearch's Articles of Association do not contain any restrictions on how many votes each shareholder may cast at a general meeting. When voting at the AGM, each Class A share carries ten votes and each Class B share carries one vote. At December 31, 2017, there were a total of 34,282,773 shares in RaySearch, of which 8,654,975 were Class A and 25,627,798 Class B shares. Shareholders representing 63.1 percent of the total number of shares and 77.9 percent of the total number of votes in the company participated in RaySearch's AGM on May 23, 2017 in Stockholm.

## AUTHORIZATION PROVIDED BY THE AGM

In accordance with the Board's motion, the AGM on May 23, 2017 resolved to authorize the Board, on one or several occasions during the period up to the next AGM, to make decisions on the issue of Class B shares and/or convertible debentures that can be converted to Class B shares. The Board's

THE BOARD'S INDEPENDENCE		Independent in	Independent in rel. to shareholders
Name	Position	relation to the company	with at least 10% of voting rights
Carl Filip Bergendal	Board member, Chairman	Yes	Yes
Johanna Öberg	Board member	Yes	Yes
Johan Löf	Board member	No, CEO of the company	No (is personally such 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 shares	Capital, %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	56.0
Anders Brahme	1,350,161	–	1,350,161	3.9	12.0
Others	1,061,730	24,959,405	26,021,135	76.0	31.8
<b>Total</b>	<b>8,654,975</b>	<b>25,627,798</b>	<b>34,282,773</b>	<b>100.0</b>	<b>100.0</b>

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 of 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. Disapplying 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 shareholders' composition, a Nomination Committee has not been considered necessary. Proposals for, and the required information about, the Chairman of the Meeting, Board members, Chairman of the Board, audit firms and fees paid to Board members and audit firms, have instead been submitted by shareholders and the Board of Directors prior to the 2017 AGM.

#### BOARD OF DIRECTORS

Under the Articles of Association, RaySearch's Board shall comprise no fewer than three and no more than eight members, with no more than three deputies. The company's Board of Directors is responsible for the company's organization and management of the company's affairs and, together with the CEO and company management, defines and continuously supervises the company's vision, mission and values. The role of the Chairman of the Board includes leading the Board's work and ensuring that the Board of Directors fulfills its duties.

The AGM on May 23, 2017 elected four Board members without deputies, including the Chairman of the Board, until the close of the 2018 AGM. Carl Filip Bergendal was reelected as Chairman. Board members Johan Löf (also the CEO) and Hans Wigzell were also reelected. Johanna Öberg was elected new Board member. The Board meets the Code's independence criteria for Board members. Once each fiscal year, the Board undertakes an evaluation of its own performance using a systematic and structured process. The evaluation provides a basis for the Board's future work. However, the Board was not evaluated in 2017. The Board regularly, at least once per year, evaluates the CEO's performance and instructions but in this respect deviates from the Code's provisions by allowing the CEO to participate in the evaluation. The reason being that the CEO is a Board member, and the Board believes that the CEO's participation will not have a negative effect on the evaluation.

Those shareholders (representing approximately 66 percent of the voting rights in the company) who submitted a proposal for the composition of the Board prior to the 2017 AGM applied rule 4.1 of the Corporate Governance Code as a diversity policy. The aim of the policy is that the Board should be characterized by versatility and breadth in terms of the skills, experience and background of the AGM-elected members with consideration for the company's operations, phase of development and otherwise appropriate composition, and strive to achieve an even gender distribution. The 2017 AGM resolved in accordance with the submitted proposal, whereby the Board as of the 2017 AGM consisted of four members (three re-elected and one newly elected), of whom one member was a woman (25 percent women).

#### THE BOARD'S WORK IN 2017

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 auditor personally reports their review observations to the Board every year. The Board held six meetings during the year. In addition to Johanna Öberg, who was elected to the Board at the AGM and participated in the subsequent three Board meetings, other members were present at all of these meetings. Considering the size of the Board, it was not deemed necessary to introduce a separate delegation of duties among Board members.

The Board has not established any Remuneration or Audit Committee, as the Board is deemed a more appropriate function for the performance of these duties. The reason for this is that the Board and the company are not considered large enough to motivate special committees for these duties. The CEO does not participate in the Board's performance of Remuneration and Audit Committee duties.

The Board determines the CEO's remuneration (without the CEO's participation). The remuneration of other senior management is determined following negotiations between the CEO and the individual employees, based on the guidelines adopted by the AGM.

#### 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 presented in the table on the preceding page.

#### COMPANY MANAGEMENT

RaySearch's CEO leads the operations based on the framework established by the Board and appoints other members of senior management. At the end of 2017, RaySearch's senior management consisted of the CEO, Deputy CEO, CFO, Director of Research, Director of Development, Director of Sales and Marketing, Director of Sales for Asia & Pacific, Director of Service and the General Counsel.

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

Company management 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 senior management's monitoring and evaluation measures.

#### INTERNAL CONTROL AND RISK MANAGEMENT

The role of 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. 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.

The control environment underlies all other components of RaySearch's internal control and risk management. In order to create and maintain a functioning control environment for financial reporting, the Board has

established a number of basic documents, including special rules of procedure for the Board and instructions for the CEO. The Board has delegated responsibility for maintaining the Board's control environment framework to the CEO. 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 on the business situation and financial performance in relation to the budget and forecast to the Board and senior management. 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. RaySearch has also documented the division of responsibilities within the organization through policies and instructions. RaySearch is a process-oriented company and has integrated risk assessment with business processes. RaySearch's senior management regularly assesses risks of material misstatement of the financial statements, as well as other operational risks. Risk management is also incorporated into each process and systematic methods are used to assess and mitigate risks, and to ensure that risks linked to the company's operations are managed in accordance with established regulations, instructions and monitoring procedures.

RaySearch's control structure includes defined roles and an effective delegation of responsibilities aimed at timely prevention of the risk of material misstatement of the financial statements. Company management has been tasked with implementing, further developing and maintaining the company's control structure. Process managers at various levels are responsible for the implementation of controls in respect of financial

reporting. The closing accounts and reporting processes include checks in respect of valuations, reporting principles and estimates. RaySearch's CFO plays a key role in the internal control process by ensuring that financial reporting is accurate, timely and complete.

RaySearch has information and communication systems and processes to ensure complete and accurate financial reporting. 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. The Board and senior management monitor RaySearch's compliance with adopted policies and guidelines. RaySearch's financial situation is addressed at all scheduled Board meetings. The Board and management review the financial reporting before Interim and Annual Reports are published. The auditor's duties also include an annual review of RaySearch's internal control, and a review of half-yearly and nine-monthly interim reports. The Board meets RaySearch's auditor at least once per year, without the participation of the CEO or any other member of company management, partly to review the internal control but also, in special cases, to assign additional the internal control duties to the auditor with a specific focus on any area.

#### FURTHER INFORMATION

For more information about the Board and the CEO, refer to pages 46-47 and to Note 4 in the Annual Report. For more information about the auditors, refer to page 46 and to Note 5 in the Annual Report.

Stockholm, April 27, 2018

Carl Filip Bergendal  
Chairman of the Board

Johan Löf  
CEO and Board member

Hans Wigzell  
Board member

Johanna Öberg  
Board member

# AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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 2017 on pages 42–44 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 con-

ducted 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 27 April 2018  
Ernst & Young AB

Per Hedström  
Authorized Public Accountant

# BOARD AND AUDITORS

## 1. JOHAN LÖF

CEO. Member of the RaySearch Board since 2000.

**Other directorships:** Chairman of RaySearch Americas Inc., Chairman of RaySearch UK Ltd., Chairman of the RayFoundation profit-sharing foundation and Chairman of Venture Cup Sweden.

**Year of birth:** 1969.

**Educational background:** 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 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 shares.

## 2. CARL FILIP BERGENDAL

Board member of RaySearch since 2000 and Chairman of the Board from November 2016.

**Other directorships:** Board member of Cafibe AB.

**Year of birth:** 1945.

**Educational background:** 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 CEO. He has worked since 1988 as a certified process manager in Lots® and in this role has also provided support for managers in 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.

## 3. HANS WIGZELL

Member of the Board of RaySearch since 2004. Professor emeritus at the Karolinska Institutet in Solna.

**Other directorships:** Chairman of the Board of Rhenman & Partners Asset Management AB. Board member of Karolinska Development AB, Sarepta Pharmaceuticals AB, Cadila Pharmaceuticals Svenska AB and Wigzellproduktion AB.

**Other assignments:** Chairman of the Stockholm School of Entrepreneurship. Member of the Royal Swedish Academy of Science and the Academy of Engineering Science.

**Year of birth:** 1938.

**Educational background:** Doctor of Medicine.

**Professional experience:** Dean of Karolinska Institutet, 1995–2003. Independent Board member in relation to RaySearch and in relation to major shareholders in the company.

**Shareholding:** 0.

## 4. JOHANNA ÖBERG

Board member of RaySearch since May 2017.

**Other directorships:** Board member of KVD Kvarndammen Gruppen AB and News 55 AB.

**Year of birth:** 1975.

**Educational background:** Graduate in Business Management from the Stockholm School of Economics.

**Professional experience:** Johanna is currently President and CEO of Memira. She has held several senior management positions in the media industry over the past 20 years, including 10 years with the Kinnevik Group, for both MTG and the world's largest newspaper Metro, where she served as CEO of Metro Puerto Rico. She was CEO of Stampen Media from January 2015 to April 2017.

Independent Board member in relation to RaySearch and in relation to the company's majority shareholders.

**Shareholding:** 340 Class B shares.

## AUDITOR

Auditing firm Ernst & Young AB

Per Hedström (auditor-in-charge)

Auditor of RaySearch Laboratories AB.

Authorized Public Accountant, Ernst & Young AB.

**Year of birth:** 1964.

Auditor of Allgon, ISS Facility Services and Egmont.





# MEET OUR SENIOR MANAGEMENT



KJELL ERICSSON  
CHIEF SCIENCE OFFICER

PETER KEMPLIN  
DIRECTOR OF SALES  
AND MARKETING

PETRA JANSSON  
SENIOR LEGAL COUNSEL

PETER THYSELL  
HEAD OF FINANCE

JOHAN LÖF  
CEO



**BJÖRN HÅRDEMARK**  
DEPUTY CEO

**HENRIK FRIBERGER**  
DIRECTOR OF  
DEVELOPMENT

**LARS JORDEBY**  
DIRECTOR OF SALES AND  
MARKETING FOR ASIA & PACIFIC

**NICLAS BORGLUND**  
DIRECTOR OF SERVICE

Senior executives, previous spread (from left).

#### 1. KJELL ERIKSSON, CHIEF SCIENCE OFFICER

**Year of birth:** 1973.

**Educational background:** M.Sc. in Engineering Physics from Uppsala University.

**Professional experience:** Kjell was appointed Chief Science Officer in RaySearch in 2015. He was first employed in 2001 as a developer and has worked as a Research Engineer since 2003.

**Shareholding:** 24,000 Class B shares.

#### 2. PETER KEMLIN, DIRECTOR OF SALES AND MARKETING

**Year of birth:** 1974.

**Educational background:** M.Sc. in Industrial Engineering from 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 shares (and 1,098 via related parties)

#### 3. PETRA JANSOON, GENERAL COUNSEL

**Year of birth:** 1973.

**Educational background:** Law degree from Lund University and Master of Law from the University of Cambridge.

**Professional experience:** Petra Jansson was appointed General Counsel in July 2017. Petra was most recently General Counsel at EKN. Her previous positions include Deputy General Counsel at Gambro and a lawyer at Mannheimer Swartling.

**Shareholding:** 1,000 Class B shares.

#### 4. PETER THYSELL, HEAD OF FINANCE

**Year of birth:** 1970.

**Educational background:** M.Sc. in Finance and International Business 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 a management consultant at McKinsey & Co.

**Shareholding:** 1,000 Class B shares.

#### 5. JOHAN LÖF, CEO

Member of the RaySearch Board since 2000.

**Other directorships:** Chairman of RaySearch Americas Inc., Chairman of RaySearch UK Ltd., Chairman of Vinstandelsstiftelsen RayFoundation and Chairman of Venture Cup Sweden.

**Year of birth:** 1969.

**Educational background:** 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 optimization of radiation therapy and also developed the prototype for ORBIT.

**Professional experience:** CEO of RaySearch since 2000.

**Shareholding:** 6,243,084 Class A and 618,393 Class B shares.

#### 6. BJÖRN HÅRDEMARK, DEPUTY CEO

**Year of birth:** 1977.

**Educational background:** 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 shares.

#### 7. HENRIK FRIBERGER, DIRECTOR OF DEVELOPMENT

**Year of birth:** 1971.

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

**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 served as Director of Development since 2013.

**Shareholding:** 23,799 Class B shares.

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

**Year of birth:** 1965.

**Professional experience:** 20 years of experience from sales and marketing within radiation therapy in such companies as Scanditronix Medical AB, IBA Dosimetry AB, C-RAD AB and ScandiDos AB. His various 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 ScandiNova Systems AB.

**Shareholding:** 1,800 Class B shares.

#### 9. NICLAS BORGLUND, DIRECTOR OF SERVICE

**Year of birth:** 1971.

**Education:** PhD in Physics, Stockholm University.

**Professional experience:** After completing his doctoral studies, Niclas Borglund worked at Savantic AB as a technical consultant, mainly with software development in high-tech projects. He joined RaySearch in 2006 as project manager in the development department. Has been Director of Service since 2010.

**Shareholding:** 400 Class B shares.



# SUSTAINABILITY REPORT 2017

## SUSTAINABLE VALUE CREATION

Sustainability is a key aspect of RaySearch's strategy and operations, and the company is working actively to become a sustainable enterprise.

The primary aim of RaySearch's operations is to help cancer centers improve quality of life for cancer patients, which is the underlying driver of everything we do. With our innovative software solutions, we are continuously endeavoring to improve and increase the efficiency of clinical workflows, and to improve treatment outcomes for cancer patients. The customer value we create presents business opportunities for RaySearch, but also major social benefit and economic gains. RaySearch is ultimately contributing to improving, prolonging and saving the lives of more cancer patients. To succeed with our vision to "fight cancer with code", the competence and commitment of our employees, collaboration with strategic partners, and a responsible and sustainable business are critical. Read more about RaySearch's business model on page 61.

## STRATEGIC FOCUS AREAS

Many elements of sustainability management have been integrated into RaySearch's activities for several years. In 2017, we introduced a more structured sustainability process by defining the areas that are strategically prioritized in the sustainability area.

Ongoing dialog with the company's stakeholders and a materiality analysis have resulted in the following strategic focus areas, which are all within the framework of RaySearch's core business:

- Fight cancer with innovative software solutions
- Business ethics and anti-corruption
- Minimize environmental impact
- Attractive employer

Based on the materiality analysis, efforts began in 2017 to define levels of ambition, targets and metrics linked to the identified sustainability aspects. This work has been concentrated to the area of "Fight cancer with innovative software solutions," which is the sustainability aspect for which RaySearch believes the company has the greatest potential to make a difference. Efforts to determine ambitions and quantify targets in each focus area are ongoing.

As part of the materiality analysis, RaySearch has assessed the company's sustainability risks. A description of the primary risks and how RaySearch manages these risks can be found in "Risks and risk management" on pages 8–10.

## FIGHT CANCER WITH INNOVATIVE SOFTWARE SOLUTIONS

### Leading innovation in collaboration

RaySearch is continuously striving to improve cancer care with innovative, safe and efficient software solutions. Our innovation focus, where more than 50 percent of our employees are engaged in research and development, is crucial to helping cancer centers improve quality of life for their patients, and for our own commercial success.

Collaboration and strategic partnerships are also crucial to our ability to develop the best, safest and most efficient software solutions together with our business partners – both leading medical device suppliers and leading cancer centers.

To ensure that we meet the real needs of these clinics, RaySearch's development activities are conducted in close collaboration with leading cancer centers, including the Princess Margaret Cancer Centre, the University of California, San Francisco, MD Anderson and the University of Wisconsin-Madison in the US, the University Medical Center Groningen in the Netherlands and the radiation therapy department of the Iridium Kankernetwerk in Belgium. Our development model is based on partnerships with leading clinics and provides ideal conditions for success by combining their extensive clinical knowledge and resources with RaySearch's ability to develop innovative software solutions.

### Safety always top priority

Patient safety and product safety permeate all of RaySearch's operations and are a prerequisite for being a leading developer of medical software. RaySearch's commitment to patient and product safety is reflected in the extensive quality management system and various product certifications. RaySearch must comply with rigorous regulatory requirements from all markets in which it operates, such as the EU's Medical Device Directive (93/42/EEC), the FDA's Quality System Regulations (QSR) for medical devices and 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 regulators and inspected regularly.

## BUSINESS ETHICS AND ANTI-CORRUPTION

High ethical standards and a transparent and proactive approach are fundamental to RaySearch's pursuit of a long-term sustainable and profitable business operation that can grow and develop, and to build RaySearch's brand. All internal relationships as well as relationships with customers, business partners and other stakeholder groups should be characterized by responsible, ethical and sound business principles. RaySearch does not tolerate any form of corruption, which includes bribery, fraud and anti-competitive behavior, or abuse of human rights.

Corruption is an obstacle to development and growth in some of the countries in which RaySearch operates. There is also a clear link between countries with widespread corruption and lack of respect for human rights. Therefore, as part of RaySearch's sustainability efforts, extra focus has been devoted to relationships with business partners in complex markets, and these are described in more detail below. How RaySearch works internally with respect for human rights is set out in RaySearch's Code of Conduct and under "Attractive employer."

### RaySearch's Code of Conduct

RaySearch is to follow all applicable local and international laws and regulations and the company takes a zero tolerance approach to corruption and other prohibited business practices. RaySearch's Code of Conduct provides a framework for what RaySearch considers responsible and sustainable behavior, and defines the company's principles and policies for business ethics. The Code of Conduct has been adapted for RaySearch's operations

and is partially based on the Universal Declaration of Human Rights, the UN Global Compact, the OECD Guidelines for Multinational Enterprises, ILO conventions and the Swedish Corporate Governance Code. The Code of Conduct covers all employees, Board members, independent consultants and other people acting on behalf of RaySearch.

The Code of Conduct was updated at the end of 2017 and will be implemented during 2018. Code of Conduct training is mandatory for all RaySearch employees and includes introductory seminars for new employees.

#### **Collaboration with external distributors**

RaySearch conducts business activities in several geographic markets where corruption is both a risk and a hinder. In markets where RaySearch does not have its own sales organization, the company works with external distributors. This business model place high demands on internal strategies and processes to identify and prevent corruption risks. In 2017, a process was introduced to ensure effective due diligence using internal and external tools, and a certification process for these external partners. Further efforts have been initiated to implement the Code of Conduct externally against business partners, including distributors.

#### **Whistle-blower function**

In 2018, RaySearch will establish a whistle-blower function enabling employees to anonymously report any suspicions of inappropriate activity in the company, or otherwise unacceptable behavior or breaches of the Code of Conduct. The whistle-blower function will be available to all employees and be described in the company's Code of Conduct and on the intranet.

#### **MINIMIZE ENVIRONMENTAL IMPACT**

RaySearch's software contributes to improved treatment outcomes and higher resource efficiency in cancer care in terms of time, quality, costs and materials. Our software can, for example, increase the performance and lifespan of radiation therapy devices, which means that cancer centers that want to improve their treatments are not dependent on changing to the latest hardware. They can achieve similar positive outcomes by choosing RayStation for their treatment planning. Our oncology information system, RayCare, also provides powerful tools for automating and creating more efficient workflows, as well as optimizing resource utilization for cancer centers.

RaySearch's own environmental impact is limited and mainly derived from electricity for running employees' computers and heating premises, and from transportation and business travel. RaySearch aims to contribute to sustainable development and therefore works actively to improve the company's environmental performance wherever this is financially viable. For example, most of RaySearch's employees are based in environmentally certified premises located centrally in Stockholm, that are easy to reach by public transport or other sustainable methods of transport. The company also uses modern communication equipment to reduce the need for business travel.

#### **ATTRACTIVE EMPLOYER**

RaySearch's key success factors include highly educated, talented and passionate employees and the open, innovative and engaging company culture that characterizes our entire business operations. RaySearch aims to offer an attractive work environment where all employees, regardless of gender, age, ethnicity and background, are able to develop and be paid market-based remuneration. Providing sustainable, inspiring and meaningful employment is essential to RaySearch's ability to continue attracting top talent and to achieve the operation's ambitious targets.

#### **Strong company culture with a meaningful mission**

RaySearch's strong company culture and core values are key to attracting and retaining employees. All employees at RaySearch should feel they are contributing to a meaningful and vital mission – to fight cancer with RaySearch's innovative software solutions that are helping cancer centers to improve, prolong and save patient lives. Employment at RaySearch should provide a career boost, exciting challenges and the opportunity to contribute to something really meaningful.

Our shared core values clarify for every employee how we should act to achieve success and to become a world-class workplace. By focusing on the things that really make a difference for cancer patients, we are strengthening our company culture, which is being shaped by talented, innovative employees, collaboration and huge commitment.

#### **Organization in strong phase of growth**

RaySearch's organization is currently undergoing strong growth and in 2017, the number of employees rose by 63, equivalent to 33 percent. At the end of the period, the RaySearch Group had a total of 256 employees, of whom 200 were based at the head office in Stockholm and 56 in the international subsidiaries. In addition to full and part-time employees, RaySearch also engaged some 20 consultants in 2017. RaySearch's employees have extensive expertise and high levels of academic education. 96 percent of the company's employees have a university education and 13 percent hold doctoral degrees. In the research and development department, which accounts for more than half of the company's employees, one in five employees hold a doctoral degree.

By working actively with initiatives to retain employees, RaySearch has succeeded in maintaining a low employee turnover: 10 percent for permanent employees in 2017, compared with a 15 percent average for the Swedish IT industry.

#### **Inspiring leadership**

As we continue our expansion journey, we are seeing how strong and inspiring leadership will become even more important for creating commitment, results and making full use of the organization's combined competence. RaySearch has therefore set a high level of ambition, with the target that 100 percent of our managers and employees in senior roles will have undergone leadership training. In 2017, 100 percent of our managers completed leadership training and in 2018, our leadership training initia-

tives will continue for employees who are not managers, but who will be supervising employees. A key tool for seeing the effects of the training courses and for planning our continued leadership efforts is our annual employee satisfaction surveys. They show that leadership initiatives have led to positive outcomes in recent years.

### Competence development

RaySearch's competence development and performance monitoring process has been designed to ensure that every employee has the best conditions for being able to contribute to the company's vision and targets. For a growing innovation company like RaySearch, competence development for employees is a given goal and secured by regular interviews between managers and employees. RaySearch's employees are encouraged to take part in international exchanges through participation in trade fairs, and in internal and external training courses. A great deal of competence development is also achieved through challenging assignments, exchanges with talented colleagues, having access to the latest software development technologies and the ability to take on new roles and projects.

### Diversity and fair treatment

RaySearch is an international workplace characterized by diversity, which we consider a strength for both the business and the work environment. Workforce diversity is also a reflection of the international market in which RaySearch operates and in 2017, RaySearch's employees represented 23 different nationalities. A mix of individuals with differing backgrounds, experience and perspectives is important for international customer contacts, for attracting and retaining employees, and for bringing fresh ideas and approaches.

At RaySearch, we treat each other with the respect required in a diverse workplace, which helps each individual develop to their full potential. Everyone's knowledge, skills and abilities are respected and valued regardless of gender, gender identity, ethnicity, religion, disability, sexual orientation or age. RaySearch does not tolerate bullying or harassment by employees or managers. Our occupational health and safety policy sets out clear guidelines for how such situations should be managed. RaySearch should be characterized by inclusive leadership and an inclusive company culture. All employees become acquainted with these guidelines through introductory seminars and training in RaySearch's Code of Conduct.

### Equality

RaySearch has high ambitions when it comes to equality and diversity, and works purposefully to create a workplace where all employees enjoy equal conditions, and where both men and women feel comfortable. In Sweden, where RaySearch has most employees, the proportion of female employ-

ees is 36 percent, although the figure varies between various departments. The proportion of women in senior positions is otherwise reflective of the organization.

In 2017, RaySearch introduced a range of initiatives to increase equality. We revised the recruitment process, in particular, and offered training in equal recruitment training for managers and in how we should be designing our ads to attract more female engineers and female job applicants to RaySearch.

### Salary survey

RaySearch believes that all employees should have fair, market-based salaries. As part of this process, we conduct annual salary surveys. In 2017, a salary survey was conducted at the head office in Stockholm, and showed that there are no unjustified pay gaps related to gender. The next salary survey will be conducted in 2018.

### Strong results in our annual employee survey

RaySearch encourages openness and feedback – because that develops us as individuals, and RaySearch as an organization. RaySearch conducts regular employee satisfaction surveys of the entire company in order to measure and monitor the results of implemented activities, to highlight the positive aspects of working at RaySearch, to identify improvement areas and to give employees an opportunity to present their views. Employees are asked questions about their workplace, leadership, remuneration, ability to influence, work environment, opportunities for development, health and so forth.

The 2017 employee satisfaction survey continued to show very strong results, with scores ranging from 4–6 in all areas. 95 percent of our employees feel proud to be working at RaySearch and 93 percent would recommend the company as an employer. At RaySearch, we are very proud of these figures and we will continue to promote the wellbeing and development of our employees.

### Wellbeing, health and wellness

RaySearch promotes the wellbeing of all employees and strives to offer our employees excellent physical and psychosocial work conditions with a healthy work-life balance. The company works pro-actively to prevent ill health and all employees based at the head office in Stockholm are covered by a private, preventive health insurance, including occupational health care. We also actively work with workplace ergonomics, offer flextime and want to make it easy for our employees to include exercise and physical activity in their daily routines. Our office is centrally located to create accessibility, and is designed with physical activity in mind, including several locker rooms with showers, washing and drying facilities. We offer a generous wellness contribution and are dedicated to creating forums for social gatherings and having fun together. For example, all employees are offered a light breakfast every day, regular activity evenings, joint sporting activities, including floorball matches and Bellman relays, and joint seminars.

GENDER DISTRIBUTION, TOTAL



Men, 66%  
Women, 34%

GENDER DISTRIBUTION, SWEDEN



Men, 64%  
Women, 36%

SENIOR POSITIONS, SWEDEN



Men, 65%  
Women, 35%

**ABOUT RAYSEARCH'S SUSTAINABILITY REPORT**

RaySearch's sustainability report has been prepared in accordance with the Swedish Annual Accounts Act. The report and its contents have not been reviewed externally. The sustainability report relates to the 2017 fiscal year and comprises RaySearch's operations as they appeared at the beginning of 2017. This is the first year that RaySearch has published a sustainability report. RaySearch intends to publish a sustainability report on an annual basis.

For more information, please contact:

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Stockholm, April 27, 2018

Carl Filip Bergendal  
Chairman of the Board

Johan Löf  
CEO and Board member

Hans Wigzell  
Board member

Johanna Öberg  
Board member

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# AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY STATEMENT

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 statutory sustainability statement for the year 2017 on pages 51–54 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 RevR 12 The auditor's opinion regarding the statutory sustainability

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 statutory sustainability statement has been prepared.

Stockholm 27 April 2018  
Ernst & Young AB

Per Hedström  
Authorized Public Accountant

# SHARES AND OWNERSHIP

## NUMBER OF SHARES AND SHARE CAPITAL

At December 31, 2017, the total number of registered RaySearch shares was 34,282,773, of which 8,654,975 were Class A and 25,627,798 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. At December 31, 2017, the total number of votes in the company was 112,177,548. All shareholders entitled to vote at the AGM 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 increased from 20.6 percent at December 31, 2016 to 23.7 percent at December 31, 2017. The number of shareholders increased and at December 31, 2017 was 6,893 (5,383).

OWNERSHIP STRUCTURE – SHAREHOLDER CATEGORIES, %	Share capital	Votes
Foreign shareholders	23.7	7.2
Swedish shareholders	76.3	92.8
<i>of which, institutions</i>	<i>37.1</i>	<i>11.4</i>
<i>individuals</i>	<i>39.2</i>	<i>81.4</i>

## STATEMENT FROM SOME OF THE PRINCIPAL SHAREHOLDERS

The aim of the principal owners – Johan Löf, Anders Brahme and Carl Filip Bergendal – is to remain significant long-term shareholders of RaySearch.

## SHAREHOLDER AGREEMENTS

As far as the Board of Directors of RaySearch is aware, there are no shareholder agreements for either Class A or Class B shares.

## LISTING ON NASDAQ STOCKHOLM

RaySearch's share has been listed on Nasdaq Stockholm since 2003. On January 4, 2016, RaySearch was moved to the Mid Cap segment following Nasdaq's annual review of Nordic market capitalization segments.

## SHARE TRADING AND SHARE PRICE TREND

During 2017, a total of 21.7 million (8.3) RaySearch shares were traded at a value of SEK 4,084 M (1,213). This corresponds to an average price of SEK 188.5 (145.9). The highest price paid in 2017 was SEK 274.50 on June 16. The lowest price paid during the same period was SEK 127.75 on November 7. On the last trading day of the year, December 29, the closing price was SEK 171.00 (184.50). During 2017, the price of the

OWNERSHIP STRUCTURE – 20 LARGEST SHAREHOLDERS AT DEC 31, 2017					
Name	Class A shares	Class B shares	Total shares	Capital, %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	56.2
Lannebo Funds	0	3,258,708	3,258,708	9.5	2.9
Swedbank Robur Funds	0	3,014,145	3,014,145	8.8	2.7
First AP Fund	0	2,364,138	2,364,138	6.9	2.1
Second AP Fund	0	1,929,651	1,929,651	5.6	1.7
Montanaro Funds	0	1,415,000	1,415,000	4.1	1.3
State Street Bank & Trust (Boston)	0	1,405,938	1,405,938	4.1	1.3
Anders Brahme	1,350,161	0	1,350,161	3.9	12.0
Carl Filip Bergendal	1,061,577	144,920	1,206,497	3.5	9.6
Fourth AP Fund	0	541,266	541,266	1.6	0.5
Anders Liander	0	523,366	523,366	1.5	0.5
AFA Sjukförsäkrings AB	0	516,879	516,879	1.5	0.5
Erik Hedlund	0	495,788	495,788	1.5	0.4
BNP Paribas	0	455,997	455,997	1.3	0.4
RBC	0	426,787	426,787	1.2	0.4
Nordea Funds	0	386,646	386,646	1.1	0.3
Avanza Pension	0	358,563	358,563	1.1	0.3
SEB (Lux)	0	332,135	332,135	1.0	0.3
Instit. Aktiefonden Sverige	0	305,991	305,991	0.9	0.3
Vinstandelsstiftelsen RayFoundation	0	252,017	252,017	0.7	0.2
Others	153	6,881,470	6,881,623	20.1	6.1
<b>Total</b>	<b>8,654,975</b>	<b>25,627,798</b>	<b>34,282,773</b>	<b>100.0</b>	<b>100.0</b>



RaySearch share fell 7 percent (rose: 51), while the OMXS30 rose 3 percent (6) in 2017. At the end of December, RaySearch's market capitalization was SEK 5,862 M [6,325]. In this calculation, Class A shares, which are not listed on the stock exchange, 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 2013 up to and including December 2017, and the number of shares traded per month.

#### OPTION PROGRAMS

RaySearch currently has no options programs outstanding.

#### DIVIDEND POLICY

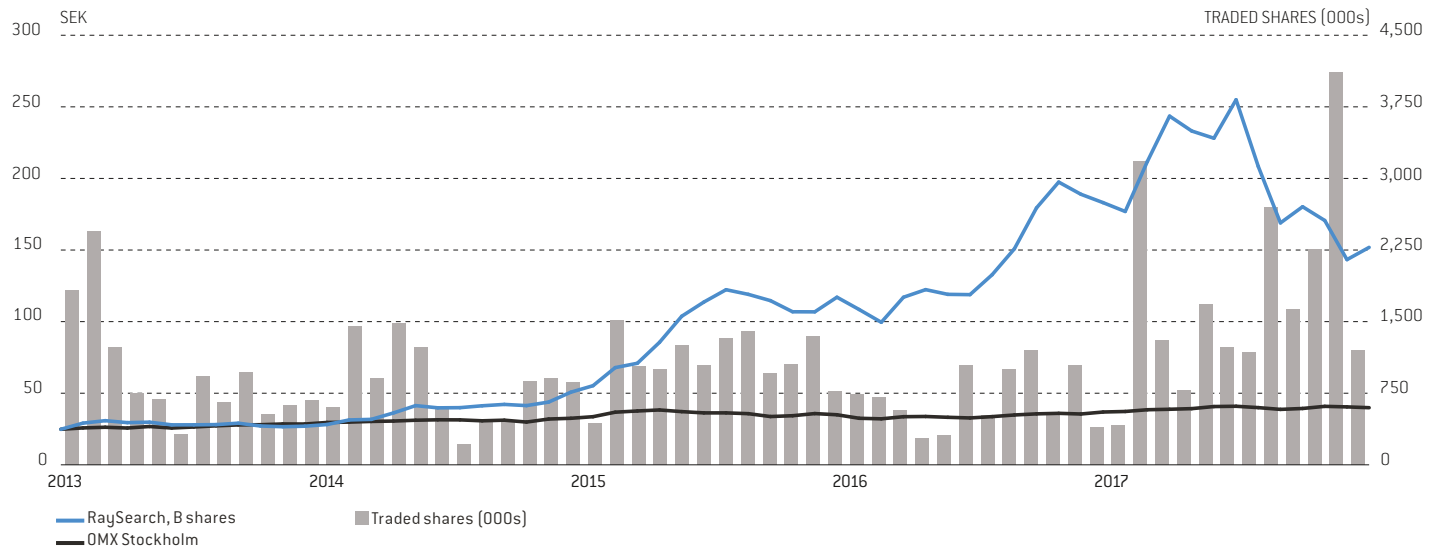
The Board of Directors' intention is to pay as dividends of approximately 20 percent of the Group's profit after tax on condition that a healthy capital structure is retained.

OWNERSHIP STRUCTURE – SIZE OF HOLDING AT DEC 31, 2017	No. of share- holders	Number of Class A shares	Number of Class B shares	Capital, %	Voting rights, %
1-500	5,592	153	616,355	1.80%	0.55%
501-1,000	531	0	428,705	1.25%	0.38%
1,001-2,000	345	0	529,077	1.54%	0.47%
2,001-5,000	214	0	717,193	2.09%	0.64%
5,001-10,000	75	0	563,548	1.64%	0.50%
10,001-20,000	37	0	512,720	1.50%	0.46%
20,001-50,000	39	0	1,264,410	3.69%	1.13%
50,001-100,000	18	0	1,155,193	3.37%	1.03%
100,001-500,000	28	0	6,544,263	19.09%	5.83%
500,001-1,000,000	7	0	4,279,419	12.48%	3.81%
1,000,001-5,000,000	6	2,411,738	8,398,522	31.53%	28.99%
5,000,001-10,000,000	1	6,243,084	618,393	20.01%	56.20%
<b>Total</b>	<b>6,893</b>	<b>8,654,975</b>	<b>25,627,798</b>	<b>100.00%</b>	<b>100.00%</b>

#### CHANGES IN SHARE CAPITAL OF RAYSEARCH

Year	Transaction	Quotient value, SEK	Change in num- ber 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
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
2017	Reclassification 2017				-40,000	40,000		
	Closing balance	0.5			8,654,822	25,627,798	34,282,773	17,141,386.50

## SHARE PRICE TREND DIAGRAM



# MULTI-YEAR OVERVIEW – KEY FIGURES

## KEY FIGURES AND CONDENSED FINANCIAL DATA

The summary shows how the core business developed between 2008-2017 and was prepared in accordance with IFRS.

GROUP	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Income statement</b>										
Net sales, SEK million	585.1	531.5	397.6	285.2	204.5	182.1	126.1	117.7	83.7	62.7
Sales growth, %	10.1	33.7	39.4	39.5	12.3	44.4	7.1	40.7	33.5	-3.0
Operating profit, SEK million	159.7	199.6	95.3	79.4	-25.7	22.5	27.6	39.9	40.9	21.1
Operating margin, %	27.3	37.5	24.0	27.8	-12.6	12.4	21.9	33.9	48.8	33.6
Profit/loss for the period, MSEK	117.6	151.4	70.2	59.8	-20.8	19.9	17.0	28.9	30.1	18.2
Net margin, %	20.1	28.5	17.7	21.0	-10.2	10.9	13.5	24.5	36.0	29.1
<b>Cash flow</b>										
Cash flow from operating activities, MSEK	147.5	120.8	111.4	50.3	31.3	87.5	33.9	62.8	49.2	26.0
Cash flow from investing activities, MSEK	-148.1	-106.9	-103.9	-57.8	-56.5	-54.2	-63.1	-50.8	-43.1	-29.5
Cash flow from financing activities, MSEK	19.8	12.3	-3.9	24.3	1.6	0.0	-17.0	-17.0	3.3	-5.0
Cash flow for the period, MSEK	19.1	26.2	3.6	16.8	-23.7	33.3	-46.2	-5.0	9.4	-8.5
<b>Capital structure and return measure</b>										
Equity/assets ratio, %	63.4	64.2	65.9	64.5	65.7	74.2	75.4	76.9	79.3	80.0
Capital employed, SEK M	664.2	521.7	357.7	292.6	196.6	217.5	196.7	196.8	184.9	150.4
Return on capital employed <sup>1</sup> , %	27.3	45.4	29.4	32.6	-12.0	11.4	14.6	21.0	24.6	16.8
Equity, MSEK	580.4	460.2	319.5	251.5	196.6	217.6	196.7	196.8	184.9	150.4
Return on equity <sup>1</sup> , %	22.6	38.8	24.6	26.7	-10.1	9.6	8.6	15.1	18.0	12.6
Interest-bearing liabilities, SEK M	83.8	61.5	38.2	41.1	-	-	-	-	-	-
Net debt, MSEK	-20.4	-26.2	-21.5	-15.0	-38.2	-61.9	-28.7	-75.0	-80.0	-70.6
Debt/equity ratio	0.0	-0.2	-0.1	-0.1	-0.2	-0.3	-0.1	-0.4	-0.3	-0.2
Net debt/EBITDA	-0.1	-0.1	-0.1	-0.1	-1.4	-0.9	-0.5	-1.1	-1.5	-2.2
<b>Per share data</b>										
Earnings/loss per share before dilution, SEK <sup>2</sup>	3.43	4.42	2.05	1.75	-0.61	0.58	0.50	0.84	0.88	0.53
Earnings/loss per share after dilution, SEK <sup>2</sup>	3.43	4.42	2.05	1.75	-0.61	0.58	0.50	0.84	0.88	0.53
Shareholders' equity per share, SEK <sup>2</sup>	16.93	13.42	9.32	7.34	5.73	6.35	5.74	5.74	5.39	4.39
Cash flow from ongoing operations per share, SEK <sup>2</sup>	4.30	3.53	3.25	1.47	0.91	2.55	0.99	1.83	1.44	0.76
Dividend per share, SEK <sup>2</sup>	- <sup>3</sup>	-	0.25	-	-	-	-	0.50	0.50	-
Share price at year-end, SEK <sup>2</sup>	171.0	184.5	122.5	53.0	27.4	20.8	14.5	38.0	29.5	11.5
P/E ratio	49.8	41.8	59.8	30.4	neg.	35.9	29.1	45.1	33.5	21.6
<b>Other</b>										
Number of shares outstanding before dilution, 000s	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283
Number of shares outstanding after dilution, 000s	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283
Average no. of employees	228	184	157	126	107	92	78	64	52	48

<sup>1</sup> In preceding years, an income measurement based on rolling 12-month figures was used but as of 2013, and for the comparative figures, an annual income measurement has been used.

<sup>2</sup> Adjusted for a share division, 3:1 stock split, in 2008.

<sup>3</sup> According to the Board's proposal.

# DEFINITIONS OF KEY RATIOS

The Annual Report refers to a number of non-IFRS measures that are used to provide investors and company management with additional information to assess the company's operations. The various non-IFRS measures that are used to complement the financial information reported in accordance with IFRS are described below.

Non-IFRS measures	Definition	Reason for using the measure
Order intake excluding service agreements	The value of all orders received and changes to existing orders during the period excluding the value of service agreements.	Order intake is an indicator of future revenue and is thus a key figure for the management of RaySearch's operations.
Order intake for RayStation/RayCare excluding service agreements	The value of orders received and changes to existing orders for RayStation/RayCare during the period, excluding the value of service agreements.	Order intake is an indicator of future revenue and is thus a key figure for the management of RaySearch's main operational areas.
Order backlog for RayStation	The value of orders for RayStation at the end of the period that the company has yet to deliver and recognize as revenue.	The order backlog shows the value of orders already booked by RaySearch that will be converted to revenue in the future.
Sales growth	The change in net sales compared with the year-earlier period expressed as a percentage	The measure is used to track the performance of the company's operations between periods
Organic sales growth	Sales growth adjusted for currency effects	This measure is used to monitor underlying sales growth driven by changes in volume, pricing and mix for comparable units between different periods
Gross profit	Net sales minus cost of goods sold	Gross profit is used to illustrate the margin before sales, research, development and administrative expenses
Operating profit	Operating profit before financial items and tax	Operating profit/loss provides an overall picture of the total generation of earnings in operating activities
Operating margin	Operating profit/loss expressed as a percentage of net sales	Together with sales growth, the operating margin is a key element for monitoring value creation
Net margin	Profit after tax, as a percentage of net sales	The net margin illustrates the percentage of net sales remaining after the company's expenses have been deducted
Cash flow from ongoing operations per share	Cash flow from operating activities divided by the average number of shares during the year.	Shows the cash flow generated by operating activities per share
Equity per share	Equity divided by number of shares outstanding at the end of the period	Illustrates the return generated on the owners' invested capital per share from a shareholder perspective
P/E ratio	Share price at year-end divided by earnings per share	Shows how the market values the share from a shareholder perspective in relation to the company's recognized profit after tax
Dividend per share	Dividend divided by number of shares outstanding at year-end.	Shows the direct return generated from a shareholder perspective
Rolling 12 months' sales, operating profit/loss or other results	Sales, operating profit/loss or other results measured over the last 12-month period	This measure is used to more clearly illustrate the trends for sales, operating profit/loss and other results, which is relevant because RaySearch's revenue is subject to monthly variations
Working capital	The Group's working capital is calculated as current operating receivables less current operating liabilities	This measure shows how much working capital is tied up in operations and can be shown in relation to net sales to demonstrate the efficiency with which working capital has been used
Capital employed	Total assets less non-interest-bearing liabilities and deferred tax liabilities.	The measure shows how much capital is used in the business and is therefore one of two components for measuring return from the operations
Return on capital employed	Operating profit plus financial income, as a percentage of 12-month rolling average total assets, excluding non-interest-bearing liabilities	A central measure for measuring the return on all tied-up working capital

Non-IFRS measures	Definition	Reason for using the measure
Return on equity	Profit after tax, as a percentage of 12-month rolling average equity	Illustrates the return generated on the owners' invested capital from a shareholder perspective
Equity/assets ratio	Equity, as a percentage of total assets at the end of the period	This is a standard measure to show financial risk, and is expressed as the percentage of the total restricted equity financed by the owners
Net debt	Interest-bearing liabilities less cash and cash equivalents and interest-bearing current and long-term receivables	The measure shows the Group's total indebtedness
Debt/equity ratio	Net debt in relation to equity	The measure shows financial risk and is used by management to monitor the Group's indebtedness
Net debt/EBITDA	Net debt in relation to operating profit before depreciation and amortization	A relevant measure from a credit perspective that shows the company's ability to handle its debt

#### CALCULATION OF FINANCIAL MEASURES NOT INCLUDED IN THE IFRS CONCEPTUAL FRAMEWORK, SEK

Working capital	Dec 31, 2017	Dec 31, 2016
Accounts receivable	335,125	282,535
Inventories	33	–
Accrued income	89,950	49,843
Other current receivables	5,418	17,758
Accounts payable	–27,403	–11,943
Other current liabilities	–131,029	–112,995
Working capital	272,094	225,198

Capital employed	Dec 31, 2017	Dec 31, 2016
Total assets	915,064	717,254
Current interest-bearing liabilities	–158,432	–124,938
Long-term interest-bearing liabilities	–	–
Deferred tax liabilities	–92,424	–70,601
Capital employed	664,208	521,715

Net debt	Dec 31, 2017	Dec 31, 2016
Current interest-bearing liabilities	74,033	–
Long-term interest-bearing liabilities	9,751	61,527
Cash and cash equivalents	–104,156	–87,720
Interest-bearing receivables	–	–
<b>Net debt</b>	<b>–20,372</b>	<b>–26,193</b>

EBITDA	2017	2016
Operating profit	159,669	199,559
Amortization and depreciation	70,757	67,300
<b>EBITDA</b>	<b>230,426</b>	<b>266,859</b>

#### 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 all over the world and distributes the products through licensing agreements with leading medical technology companies. The company also develops and markets the next-generation oncology information system, RayCare, which was launched in December 2017 and represents a new product category for RaySearch. RaySearch's software is now used by over 2,600 cancer centers in more than 65 countries. The company was founded in 2000 as a spin-off from the Karolinska Institute in Stockholm and the share has been listed on Nasdaq Stockholm since 2003. To learn more about RaySearch, visit [www.raysearchlabs.com](http://www.raysearchlabs.com)

#### MISSION

RaySearch's mission is to contribute to the continued advancement of cancer care by developing innovative software solutions that improve quality of life for cancer patients and save lives.

#### BUSINESS MODEL

RaySearch's revenue is generated when customers pay an initial license fee for the right to use RaySearch's software and an annual service fee for access to updates and support. The RayStation treatment planning system and the RayCare oncology information system are developed at RaySearch's head office in Stockholm, and distributed and supported by the company's global marketing organization.

#### STRATEGIES

A radiation therapy center essentially needs two software platforms for its operations: one information system, and one treatment planning system. With RayStation and RayCare, RaySearch will further strengthen its position and continue to grow with high profitability. The strategy rests on a strong focus on software development, leading functionality, broad support for many different types of treatment techniques and radiation therapy devices, as well as extensive investments in research and development.

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# ADVANCING CANCER TREATMENT

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