

**ANNUAL REPORT**

**2016**

Let's make TV amazing again

**edgware**





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1. Fredrik Bjerring testing hardware in a climate chamber. 2. The TV server can be placed right at the edge of the network or in a server hall; here in Edgware's lab. 3. Edgware makes it possible to watch TV and work, whenever and wherever you want. Jesper Brown, Software Engineer, can occasionally be seen under the stairs. 4. Magnus Svensson and Martin Bladh planning product features. 5. Muhammad Ali, Solution Architect.

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While every care has been taken in the translation of this annual report, readers are reminded that the original annual report, signed by the Board of Directors, is in Swedish.

# THE YEAR IN BRIEF

During 2016 net sales amounted to SEK 252.3 million (203.6), which corresponds to an increase of 23.9 percent [driven by organic growth]. Operating income (EBIT) was SEK 19.1 million (13.3). An important event during the year was to prepare for Edgware's IPO in December 2016. Adjusted for nonrecurring items related to IPO preparations, adjusted EBIT was SEK 34.3 million (13.3), which corresponds to an adjusted operating margin of 13.6 percent (6.5).

## FIRST QUARTER

- Net sales rose by +20.8 percent to 63.6 million SEK (52.6)
- Profit for the period amounted to SEK 8.3 million (6,8).
- During the quarter the group received add-on order from Latin America and a new strategic contract in Costa Rica.
- A new branding, "Let's make TV amazing again", has been launched.
- Karl Thedéen was elected into Board of Directors.
- Owner and Board of Directors have decided to prepare Edgware for a possible listing on stock exchange market.
- Richard Brandon was hired as CMO.

## SECOND QUARTER

- Net sales amounted to SEK 51.5 million (50.6), an increase of 1.8 percent.
- Profit for the period amounted to SEK -2.2 million (2.1).
- Several major orders were received during the quarter, including from a Central European telecom operator and one of the larger cable operators in Mexico.
- Sigrun Hjelmquist and Kent Sander were elected to the Board of Directors at an extraordinary general meeting.

## THIRD QUARTER

- Net sales amounted to SEK 52.6 million (35.6), an increase of 47.8 percent.
- Profit for the period amounted to SEK 2.2 million (-3.6).
- Several major orders were received in the quarter, two from international, Europe-based telco operators.
- Participation in the annual European TV tradeshow IBC was a success, with great interest from potential customers and two awards.
- Preparations for a possible stock market listing were intensified and the Board of Directors established long-term financial targets.
- Gunilla Wikman was hired during the quarter as IR Manager.
- Bengt-Arne Molin was hired as VP R&D.

## FOURTH QUARTER

- Net sales amounted to SEK 84.6 million (64.8), up 30.6 percent.
- Profit for the period amounted to SEK 7.4 million (5.5).
- Edgware won the company's first order in Australia.
- On 9 December, Edgware was listed on main list NASDAQ Stockholm.





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1. NASDAQ Stockholm welcomes Edgware. Simona Simonovska, Office & Accounting Manager, and Jenny Blomberg, Director Supply Chain Management, immortalising the IPO. 2. New brand positioning and website launched in April 2016. 3. Joachim Roos, CEO and co-founder, opened the stock exchange and trading in Edgware share on 9 December. 4. Edgware's display at the IBC Fair in Amsterdam, September. 5. Edgware won a number of industry prizes, including a TV Technology Best of Show Award for its TV CDN solution.

## EDGEWARE IN BRIEF

Edgware is a Stockholm, Sweden-based, global high-tech company that develops and offers hardware and software systems as well as associated services that, enable effective and scalable TV and video streaming over IP. The Company's solutions are primarily sold to telecom and cable operators as well as OTTs/broadcasters that want to effectively, securely and cost efficiently make TV and video content available to their viewers.

Edgware's solutions are based on creating a decentralized CDN (Content Delivery Networks), where the hardware and software ensure that customers' viewers can stream content from servers at the edge of a network, located closest to the viewer. The server can either be a TV server developed by Edgware dedicated to video content and customised for installation in networks or a standard server running Edgware's software. This intelligently designed decentralized system ensures a high level of quality and delivery reliability and reduces the traffic load in the backhaul network (the network between the customers' central data centre and the final part of the network, closest to the viewer).

Edgware was founded in 2004 by Joachim Roos, Lukas Holm and Kalle Henriksson. Venture capital funds Creandum and Amadeus invested in Edgware 2006 and Edgware received its first major order from TeliaSonera in 2007. This order was a testament to the customer value

created by Edgware's products and marked the start of the development and growth. Between 2007 and 2016, the Edgwares net sales grew an average rate of 39 percent per year. The number of employees amounted to 92<sup>1)</sup> as of 30 December 2016, approximately half of whom work in product development. Edgware currently has more than 150 customers in 60 countries and offices in Stockholm and Hong Kong and subsidiary in the US. Edgware also has sales and technical sales support staff in Belgium, Brazil, Germany, the Netherlands, Switzerland, Singapore, Spain and the UK.

**Net sales has grown, organically,  
by an average annual rate of**

**39 %**

**between 2007 and 2016**

1) Included in number of employees 31st of December 2016 are nine employees hired through Business Sweden and eight consultants with employment-like agreements.

## VISION, MISSION AND BUSINESS CONCEPT

<b>BUSINESS CONCEPT:</b>	Reduce cost and increase quality for the new generation's TV-services by delivering streaming services closer to the viewers.
<b>VISION:</b>	Let's make TV amazing again!
<b>MISSION:</b>	The transformation of TV.



# CEO COMMENTS

2016 was a historic year for Edgware. Strong growth, international customer successes, important product launches, a stronger organisation and a listing on NASDAQ Stockholm. The listing gave us new shareholders and provides us with valuable support in our continued growth journey, in a TV industry undergoing rapid transformation.

From traditional linear TV viewing based on TV schedules to the TV of the future. Thanks to the Internet, viewers not only have much more content to choose from, they also have an opportunity to choose how and when they want to watch this content. In pace with this market transformation, Edgware has grown ever stronger internationally. With a better and more complete product range, we offer attractive products and services that are in demand among telco and cable operators, as well as content providers. All with the aim of supplying an amazing TV experience to consumers worldwide.

## 366 EVENTFUL DAYS

2016 started with large-scale orders from customers in Central America. This was followed in the second and third quarters by smaller and larger orders from international customers. For example, solutions were supplied to TVB of Hong Kong that enabled this company to broadcast the Olympic Games over the Internet. This was an initiative that subsequently would lead to TVB abandoning its licence to broadcast traditionally TV in favour of focusing solely on highresolution Internet-based TV. A similar trend within OTT/Broadcasters is continuing at a rapid pace, and represents a development that should benefit Edgware's streaming technology. During 2016, our technological know-how and products attracted considerable attention at several trade fairs. We received a number of industry awards for our innovativeness and we were contacted by multiple potential partners and customers.

Sales and profitability grew powerfully at all levels, but it is even more important that this is not down to just one or two customers. We noted a distinct reduction in our customer concentration during the year, whereby we now have several major customers and the numbers are



increasing as we grow, thus providing stability and security. It is also invigorating to note that a number of our multi-year customers are returning to us to upgrade their capacity, install new functions and request more services.

It is also positive that our Service business is continuing to grow in pace with the company's total sales. Existing customers account for two thirds of our business.

The product portfolio has been developed to provide additional flexibility and differentiation in the core area of overcoming the rapidly increasing traffic volumes. Functions that previously required dedicated hardware are available as pure software, to facilitate using the "cloud" on a scalable basis.

## HISTORICAL DATE – IPO ON 9 DECEMBER

Our listing on NASDAQ Stockholm was a milestone for the company and the employees. The ownership spread provides us with key resources for continued growth and valuable room for manoeuvre. Being able to create our own future as a listed company makes us attractive for the skilled employees that we are now recruiting. Although the IPO entailed intensive effort, the listing was implemented smoothly thanks to my skilled co-workers, the Board, the owners, banks and advisors. As a direct result of the market listing, the company has honed the efficiency of all internal functions, while also ensuring that the Board and corporate governance are stronger and more professional.

## WE LOOK FORWARD TO 2017 WITH CONFIDENCE

I personally am very proud of our company and all of our employees. Although we are still a small company, we have a diversity and global direction that is fascinating and generates considerable energy. I look forward with confidence to 2017, which will be an exciting year with new advances in the development of the TV of the future for the company, the employees and our customers.

Stockholm in March 2017

**JOACHIM ROOS**  
CEO Edgware

# BUSINESS MODEL AND FINANCIAL TARGETS

Edgware's business model is to develop, market and sell streaming solutions to customers that require effective solutions for distributing TV and video content to viewers. These customers primarily include telecom and cable operators (such as Vodafone and Com Hem) and, increasingly, OTTs/broadcasters (such as TVB, a Hong Kong based broadcaster) have content they wish to distribute directly to their viewers. Edgware's solutions are based on a combination of powerful, purpose-built hardware and software installed centrally in the customers' networks as well as far out in the networks, near the customers' viewers as well as associated services.

The hardware and software products, sold as comprehensive system solutions, are priced based on the functions that the customer wants and their distribution and capacity requirements, meaning the volume of video that needs to be distributed and the number of simultaneous viewers. The services are offered as a supplement to its hardware and software products. Service

and maintenance services are priced as annual fees based on the list prices of the products and the scope of the customer's service needs. The Professional Services is sold as a consulting service on a project basis.

The solution was developed by the product-development function, which comprised 42 individuals as of 2016, and is sold through the direct sales and market organisation, which comprised 18 individuals as of the same date, as well as several partners that integrate Edgware's solution into their – typically larger-scale – network solutions. In addition, Edgware also has a number of temporary consultants hired, among these an outsourcing team of 10 people in Vietnam, which supports the research and development function.

## FINANCIAL TARGETS

In preparation for the listing on NASDAQ Stockholm, Edgware's board of directors has adopted the following financial objectives (see below), which are connected to Edgware's strategic initiatives.

### SALES GROWTH

Edgware's target is to achieve annual organic sales growth of more than 20 percent.

### PROFITABILITY

Edgware's target is to achieve a long-term operating margin (EBIT margin) of more than 15 percent.

### CAPITAL STRUCTURE

Edgware's capital structure is to enable a high degree of financial flexibility and provide scope for acquisitions. The Company's target is for its net indebtedness to amount to a maximum of two times its EBITDA for the most recent 12-month period.

### DIVIDEND POLICY

Over the coming years, Edgware's cash flow will be used to finance its continued development and expansion as well as potential acquisitions, which means that no dividends are expected to be paid.



## AN EXCITING MARKET



TV first entered the homes of the masses in the 1960s, it was amazing! Since then, the technology has developed gradually – until gaining new momentum in recent years. Although the few terrestrial TV channels began to face competition from other channels, via cable or satellite, programming remained scheduled, which meant that specific programmes were shown at specific times. In recent years, however, and thanks to the Internet, viewers have been given much more content to choose from and they now have the ability to choose how and when they wish to watch this content. New TV and video providers, such as Netflix and HBO, have further challenged the established cable and telecom operators, which in turn responded by expanding their offerings.

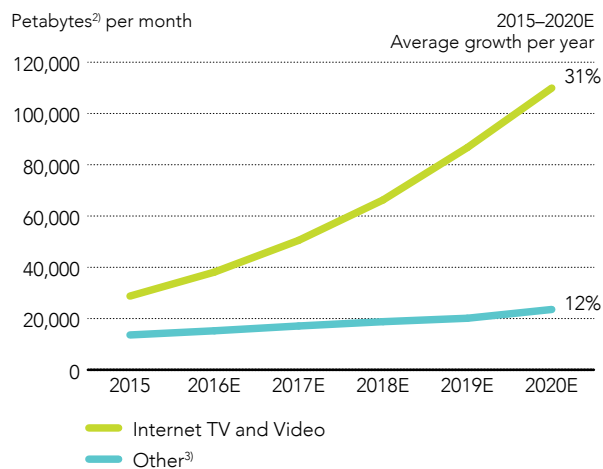
In order to utilise the full capacity of the Internet and meet viewers' demands of a high-quality viewing experience, the capacity of networks must be sub-

stantially increased or alternative delivery solutions created. This is where Edgware comes in – solving this customer need for increased capacity.

### **VIDEO STREAMING IS EXPECTED TO GROW BY MORE THAN 31% PER YEAR BETWEEN 2015 AND 2020**

The market for TV and video streaming is mainly facilitated by people's increasing use of the Internet. For example, Cisco forecasts that 52 percent of the global population will use the Internet on a daily basis by 2020, compared with 40 percent in 2015, and that the number of Internet-connected devices, such as computers, mobile phones and tablets, will amount in average to 3.4 per capita by 2020. This is expected to contribute to an approximately 255 percent increase in the average consumption of Internet traffic per capita between 2015 and 2020. The volume of online video streaming is expected to increase by an average annual rate of 31 percent between 2015 and 2020,

## VIDEO STREAMING IS EXPECTED TO GROW BY MORE THAN 31% PER YEAR BETWEEN 2015 AND 2020<sup>1)</sup>



<sup>1)</sup> Consumer internet traffic (includes internet traffic generated by households, university populations and internet cafés)

<sup>2)</sup> Petabyte = 10<sup>15</sup>

<sup>3)</sup> Includes web, email, data, file sharing and online gaming

and video streaming will account for more than 80 percent of the total traffic volume in 2020. In 2020, the average viewer is expected to spend approximately 24 hours a week watching TV and video online.

### INTERNET IS THE DRIVER

The market for TV and video distribution over IP networks has grown since the early 2000s as viewers have gradually switched from traditional, linear scheduled viewing, delivered via conventional satellite TV, cable TV or terrestrial TV, to online streaming. This shift has been driven by a demand among viewers to watch what they want, when they want, on the device of their choice and the fact that online streaming has enabled new services that deliver a more attractive viewing experience. As a result of this change in consumption habits, all players in the traditional scheduled TV and video distribution chain are now, to a greater degree, focusing on delivering content directly to viewers over IP networks.

### WE VIEW WHEN WE WANT

TV and video viewing has changed radically over the past few years. Scheduled viewing, in which content is broadcast on specific channels at specific times, is increasingly being replaced by video-on-demand (VOD), which allows viewers to choose the content they wish to watch as well as when and on which device they

wish to watch it. Viewers now have access to more TV programmes than ever before, and rather than being restricted to the living room sofa, TV and video viewing is now possible in all environments. Nowadays, viewing takes place on a range of devices, from mobile phones and tablets to computers. Viewers also expect to be able to pause, fast forward, rewind and change device in the middle of a programme.

These changes in consumption habits are causing the amount of data distributed over IP networks to increase at a rapid rate. This places major demands on the networks and distribution, since they must be able to deliver high-quality VOD services without any buffering or delays.

### ON WHAT WE WANT

Historically, all TV and video content was broadcast to everyone via traditional methods such as satellite and terrestrial TV. This has now changed with the advent of TV and video distribution over IP networks. The distribution of TV and video content over IP networks provides each user with a unique stream, which means that the content must be distributed to each viewer each time it is consumed, rather than once for all viewers at the same time. Delivering unique streams significantly increases the amount of data transported in the provider's network since each TV and video clip must be transported many times instead of only once.

Advertising is also becoming more personalised since modern streaming systems offer the technology to easily tailor the advertisements shown to the individual viewer. Advertisements are normally tailored to a specific customer group or geographic area in order to increase their relevance, resulting in a better viewing experience and a higher return on marketing investments for advertisers.

### AND WE DEMAND HIGH QUALITY

The quality of TV and video delivered over the Internet is steadily improving. Cisco predicts that in 2020, 16.4 percent of all TV and video delivered over the Internet will be in Ultra HD (ultra-high definition), compared with 2.0 percent in 2015, while SD (standard definition) TV and video will decline from 46.7 percent in 2015 to 20.6 in 2020. As the quality of the video distributed improves from SD to HD (high definition), the amount of data distributed over the network



increases by a factor of approximately four, and as the quality improves from SD to Ultra HD, the amount of data increases by a factor of 16. Since compression technology is not keeping pace with the constant improvements in the quality of TV and video distributed over internet, the amount of data being transported is increasing at a highly rapid rate.

### OUR PATIENCE IS LOW

Viewers are placing higher and higher demands on providers of TV and video content over internet and expect high-quality services. Buffering, technical problems, delays and glitches are issues that can ruin the viewing experience. Statistics show, for example, that one in four viewers will turn off the service if the content starts to buffer. Accordingly, providers must do everything they can to ensure an optimal viewing experience, which places major demands on providers' CDNs (Content Delivery Networks).

### PLAYERS IN EDGEWARE'S MARKET

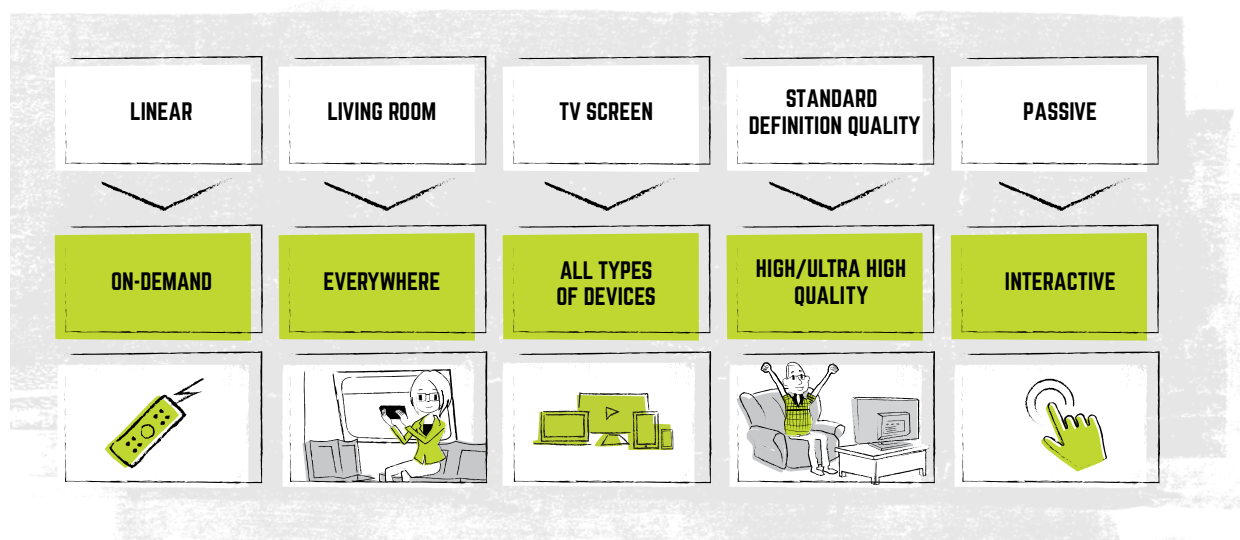
In the traditional value chain, telecom and cable operators were the only players delivering content to viewers. TV and video distribution over IP networks has changed the traditional value chain. In the past, content producers and owners, such as HBO and the National Football League (NFL), were forced to turn to TV stations or other distributors to deliver their content to viewers. TV and video distribution over IP networks has made it possible for all players in the emerging value chain to reach viewers directly. For example, the content producer HBO now distributes

content directly to viewers via VOD services, as does the NFL, which distributes content directly via its NFL Game Pass service. All players in the value chain for TV and video streaming over internet have the possibility to distribute content directly to viewers, which results in a greater need for capacity.

Ultimately, it is always the advertisers and/or viewers who pay for the content. The possibility to reach viewers directly through distribution over internet means that all players in the value chain are now competing for the attention of advertisers and viewers. As the dependency on other players in the value chain has decreased, all players have come to value exclusivity when it comes to the most popular content since this allows them to differentiate themselves from their competitors and boost their viewership.

### THE DIFFERENT PLAYERS AND THEIR MARKET DRIVERS

**Telecom operators:** Telecom operators are experiencing declining income in their core markets (fixed and mobile telephony and broadband services) and are attempting to respond to this decline by expanding and packaging their product and service offering, for example, by developing and offering an attractive TV service. To make their TV services more attractive, telecom operators are adding additional functions and applications to their offerings, such as a pause-live, and making extensive investments in unique video catalogues (for example, the Spanish telecom operator Telefónica bought the rights to broadcast all matches of the Spanish football league, La Liga, during the 2015/2016 season for MEUR 600. Examples of telecom operators include KPN and Telia Company.



**Cable operators:** Cable operators are experiencing declining numbers of viewers as a result of increased competition and growing costs due to their efforts to stop customer churn. Competition is largely driven by the fact that telecom operators and OTTs/broadcasters generally offer their own TV services and distribute content directly to viewers. Cable operators must now renew their networks to ensure a modern, high-quality network that meets the needs of viewers. Examples of cable operators include Com Hem and Televisa.

**OTTs/broadcasters:** OTTs/broadcasters are growing quickly and playing an increasingly important role in the value chain. They produce and deliver content directly to viewers via their own Internet TV services and can also offer their services via telecom and cable operators. To strengthen and expand the range of their content catalogues, many companies purchase content from other players, such as TV stations. OTTs/broadcasters are also increasingly building their own CDNs in order to ensure their distribution capacity, rather than purchasing this capacity as a service. Examples of OTTs/broadcasters include TVB, Netflix and Viaplay.

**CDN as a service:** Providers of CDN as a service are players that have built their own networks for distributing TV and video content over IP networks and sell capacity on those networks. Providers of CDN as a service enabled the early expansion of several OTTs/broadcasters. However, CDN as a service companies are now facing increasing competition from players such as telecom operators that are expanding their own CDNs and selling available capacity on their own networks. Competition may also arise in the form of other players in the value chain that choose to build

their own CDNs using products from companies such as Edgware. See below for more information. Examples of providers of CDN as a service include Akamai and Level3.

## DISTRIBUTION CHANNELS FOR TV AND VIDEO CONTENT OVER IP NETWORKS

TV and video content can either be distributed via traditional methods such as satellite, cable or terrestrial networks or over IP networks. Over IP networks, video content can either be distributed via companies that sell CDN as a service or via self-built CDNs, with content providers distributing the content themselves.

### CDN AS A SERVICE

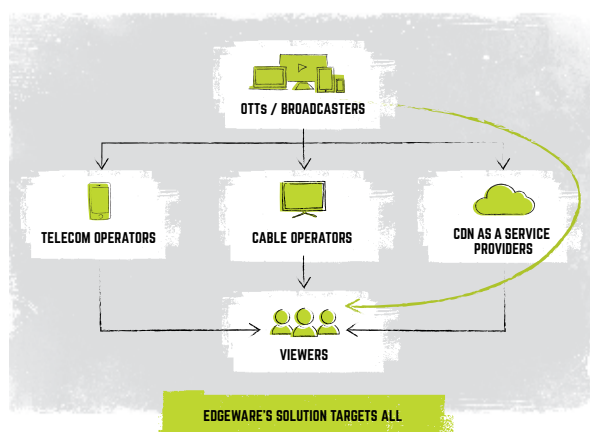
Companies that sell CDN as a service, such as Akamai and Level3, sell capacity on their own CDNs. In several countries, telecom operators are also major providers of CDNs as a service since they sell spare capacity in their own networks. Providers of CDNs as a service typically charge based on the amount of distributed data, the amount of content to be distributed and the number of viewers. Several of these companies also offer services other than TV and video distribution, such as data storage, websites and business services.

CDN as a service is suitable for content providers with a limited number of viewers and a broad geographic spread. The downside of CDN as a service is that buyers of the service do not derive any significant benefits of scale when distributing large volumes of content. Moreover, buyers of the service lose control over the quality of distribution as well as insight into their viewers' habits and consumption patterns. Historically, several major providers of CDN as a service have not focused on TV and video distribution, which means that they haven't built systems capable of handling the special requirements associated with video distribution, such as significant variations in demand and increased TV viewership during the evening.

### SELF-BUILT CDNS

Providers of TV and video content over IP networks can also choose to purchase hardware and software components from a third party, such as Edgware, and build their own CDNs. This allows TV and video providers to distribute content themselves and sell spare capacity in their own CDNs to other players. Some companies with business models based exclusively on selling CDN as a service purchase components from a third party in order to build their CDNs.

## MAIN PLAYERS IN THE MARKET





A new whitepaper by Frost & Sullivan paper, titled, 'Building your own CDN for video delivery: why, when, and how', argues that the transition from linear TV to on-demand consumption, coupled with increase in resolution to 4K and growth in VR, means that traffic will relentlessly increase over time. As a result it becomes more expensive to purchase CDN as a service, especially if the number of viewers increases, since the providers typically charge per viewer and quantity of data. The cost for a proprietary CDN is more scalable, meaning that the cost per viewer decreases as the number of viewers and quantity of distributed data increases. Self-built CDNs require an initial investment and an organization to handle the network, but create significant benefits of scale compared with CDN as a service.

The analyst whitepaper also suggests that the option of self-built CDNs, which has traditionally been considered as relevant only to very large global operators and media companies, is becoming an attractive option for smaller content distributors as well. Compared to using a CDN as a service, private CDNs become cost-competitive at tipping point of 100,000 subscribers located within a close geographical area. Proprietary CDNs also offer other benefits for content providers, such as full control over the distribution of content, greater insight into viewers' habits and thus the ability to tailor their advertising to the viewer.

### CLEAR TREND TOWARD PROPRIETARY CDNS

As a result of the significant benefits of scale created by proprietary CDNs, there is a clear trend for providers of TV and video content over IP networks to increasingly build their own CDNs using products from Edgeware, for example, instead of purchasing CDN as a service. This trend is reflected in the growth of the

market for TV and video distribution over IP networks. One example of this is the fact that Edgeware's addressable market (as defined by Frost & Sullivan) grew 22.6 percent in 2015, while the market for CDN as a service grew only 12.5 percent in the same year. Providers of CDN as a service have clearly picked up on this trend. When Akamai, the world's largest provider of CDN as a service, presented its results for the second quarter of 2016, CEO Frank Thomson Leighton described a sharp decline due to several customers deciding to focus on building their own CDNs.

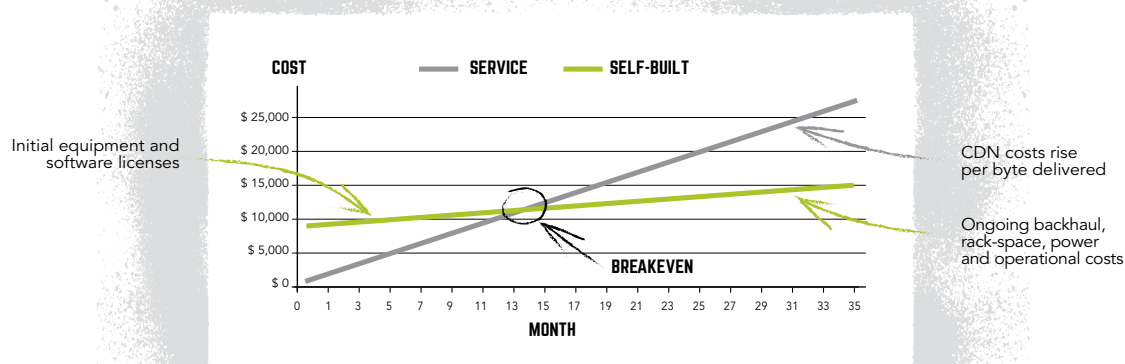
### MARKET SIZE AND FUTURE PROSPECTS

Edgeware does not sell all of the components required to build a complete TV service, choosing instead to specialise in the functions for distributing TV and video content. Edgeware's products and solutions are used to create and manage TV and video content libraries, store the content far out at the edge of the network, close to the viewer, format the content so that it can be tailored to the individual viewer and device, and finally distribute the content to the viewer.

Other related functions that are required to build a TV service but are not included in the Company's product range, include primarily functions necessary for handling "raw" content in the form of coding for specific compressed digital formats and digital rights management.

The primary customer groups in the market are telecom and cable operators and OTTs/broadcasters that distribute TV and video content internet. Edgeware's customer base also includes providers that offer CDN as a service and have built their own CDNs using products and services from a third party.

### CDN AS A SERVICE COMPARED TO SELF-BUILT CDNS



# MARKET DEFINITION AND COMPETITORS

## MARKET DEFINITION

Edgware's product range includes streaming and management software systems as well as storage and central storage systems. Edgware's streaming software is delivered pre-installed in the Company's purpose-built TV servers, which have been developed specifically to handle TV and video content, and its software for management systems is delivered on standard servers. Storage and central storage systems typically comprise of standard servers manufactured by HP, for example, which Edgware resells.

The market analysis company Frost & Sullivan has estimated the size of Edgware's market and the market's forecasted growth over the coming years. The market analysis company has defined Edgware's addressable market exclusively as the total global sales of streaming and management software systems. Frost & Sullivan chose to exclude all types of hardware – and thus the hardware element of Edgware's self-built TV servers – from its market definition. Standard servers have also been excluded since there are so many possible applications for standard servers and no reliable way of calculating the proportion used for storing and distributing TV and video content. As a result, Edgware's market according to Frost & Sullivan's

definition is smaller and growing at a faster rate than according to Edgware's own definition.

## OVERVIEW OF DIFFERENCES IN MARKET DEFINITIONS

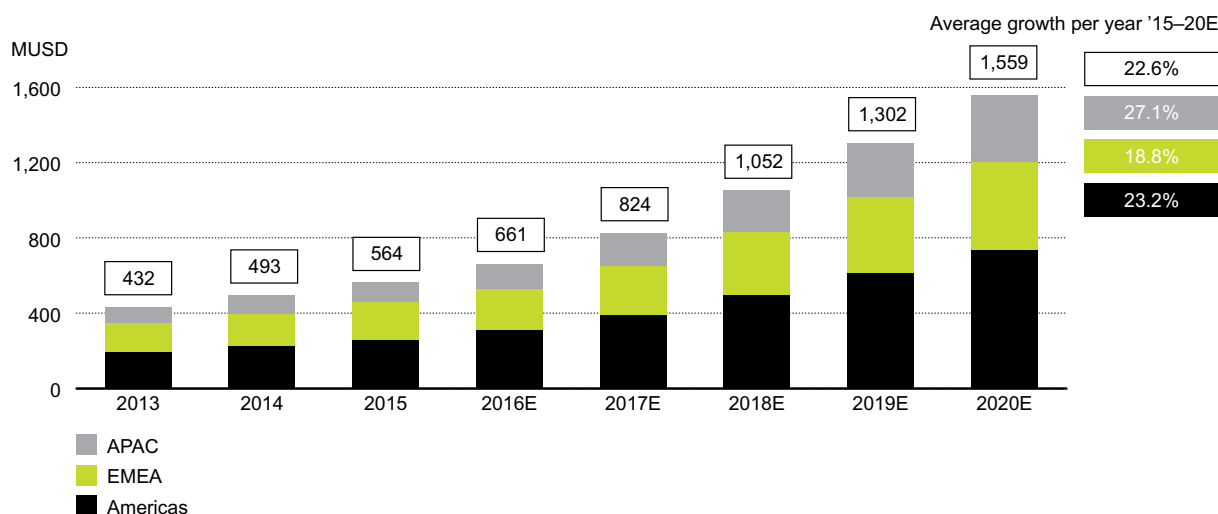
Edgware's addressable market, as defined by Frost & Sullivan, amounted to MUSD 564 in 2015 and grew approximately 14 percent per year between 2013 and 2015. In 2020, the market will amount to about MUSD 1,600 annually, corresponding to a compound annual growth rate (CAGR) of approximately 23 percent between 2015 and 2020.

Edgware predicts that its market – including TV servers and standard servers – will be larger and grow at a slower rate as a result of the declining price development for standard servers.

## REGIONAL DIFFERENCES IN THE MARKET

All markets, as defined by Frost & Sullivan, is expected to grow by more than 18 percent annually in all regions between 2015 and 2020. The market is expected to grow at a somewhat slower rate in the AMERICAS and EMEA regions compared with the APAC region, primarily due to the fact that IPTV services have a slightly higher penetration rate in first two regions and the enabling broadband internet growth is higher in APAC.

## SIZE AND GROWTH OF EDGEWARE'S ADDRESSABLE MARKET, AS DEFINED BY FROST & SULLIVAN



## COMPETITIVE SITUATION

Below is a description of the Company's view of Edgware's competitive situation and the main barriers to entry provided. The competitors can be divided into three categories: CDN as a service, generalists and specialists.

### CDN as a service

Refer to section "Players in Edgware's market – Distribution channels for TV and video content over IP networks – CDN as a service" above.

### Generalists

Generalists such as Cisco, Ericsson and Huawei primarily target large providers (mainly telecom and cable operators) that are simultaneously expanding their networks and establishing TV and video distribution over internet for the first time. They sell comprehensive TV solutions for customers and package these solutions with other types of products required to build network infrastructure, such as optical networks. Generalists also offer their customers proactive IT services and network maintenance services on a subscription basis. However, the Company believes that these solutions, taken individually, are not as competitive as those offered by specialists. According to the Company, generalist solutions are also relatively static, making them more difficult to adapt to customers' needs and changes in the market. Most generalists also have an established strategy of focusing more on selling products "as a service", which – according to Edgware – means that they, to a larger degree, compete with providers of CDN as a service rather than with specialists offering customised hardware and software components.

### Specialists

The specialist market is fragmented and the players in the market are mostly smaller than generalists and providers of CDN as a service. Specialists focus on specific functions required to build a dedicated CDN. For example, Edgware and Broadpeak, the French competitor, focus on streaming and caching, while other specialists are more focused on coding and head-end solutions for handling and formatting raw content early in the distribution process. Edgware's technology is based on building decentralized CDN networks, which means that its solution is scalable and easy to adapt to customers' needs.

## MAIN BARRIERS TO ENTRY FOR NEW PLAYERS

The following are some of the many barriers making it difficult for new players to establish themselves in the market for TV and video streaming over internet:

### Advanced technology with high product development costs:

Providers of TV and video content over IP networks demand high performance, reliable, multi-functional and scalable solutions. The solutions must also be secure, experience minimal service interruptions and be adaptable to the needs of the providers. Extensive industry know-how is required to develop solutions that meet these needs. The market is characterised by high technological content and advanced product development requiring financial resources and expertise.

**Specialist market:** The market is characterised by a high degree of integration, with players frequently collaborating with various kinds of partners in order to, together, offer a comprehensive solution. Successful cooperation is crucial since customers require a fully functioning solution from day one. The infrastructure market for TV and video distribution over IP networks is a niche market and not sufficiently large to be prioritised by the largest infrastructure providers in the datacom and telecom industries.

**High degree of ecosystem integration:** Selling infrastructure for TV and video streaming over internet requires a broad range of pre-integrated ecosystem components, for example, middleware (software that allows several types of software to work together). New players do not have the infrastructure in place to enable them to quickly adapt to various customer needs.



# STRENGTHS AND COMPETITIVE ADVANTAGES

## **STRUCTURAL SHIFTS IN THE MARKET ENABLING STREAMING TECHNOLOGY**

Edgeware operates in an industry undergoing significant structural shifts. From linear TV, where TV and video content was mass distributed via broadcast towers and satellites to viewers watching scheduled programming at a certain time, the world is now seeing a shift toward VOD. Content is now largely streamed over the Internet, where each viewer has a unique stream. This allows viewers to choose for themselves what content they want to watch, where and when they want to watch it and on what device: TV, mobile, computer or tablet. Several other important shifts are also taking place. Rather than being broadcast in standard quality, TV and video content is now increasingly shown in HD or even Ultra HD. TV viewing is also changing from a passive experience to an interactive, social experience, with viewers interacting with other viewers or programme presenters.

As a result of these trends, the volume of content to be streamed over the internet is expected to increase significantly over the coming years. The large US network equipment company Cisco estimates that the volume of global video streaming will increase by an average annual rate of 31 percent between 2015 and 2020, from 28.8 petabytes of distributed video data traffic per month in 2015 to 110 petabytes per month in 2020. These structural shifts, which have been enabled by the development of streaming technology for Internet distribution, are also expected to create enormous storage and distribution problems, since the infrastructure of the Internet was never developed and is inadequate in size to cope with the rapidly growing volume of data traffic. Smart, new solutions are required to solve these storage and distribution problems – solutions that Edgeware can provide.

## **WELL POSITIONED TO CAPITALIZE ON CHANGING MARKET DYNAMICS**

Streaming technology is changing the face of the value chain for TV and video distribution. Previously, producers and owners of video content, such as HBO and Disney, were forced to turn to TV stations or other distributors to deliver their content to viewers. Streaming not only makes it possible for cable and telecom operators to reach viewers directly, but also allows all players in the value chain to distribute content directly to viewers. For example, Netflix, an OTT provider that started as a DVD rental company now distributes its content directly to viewers via its TiVo VOD service and had more than 86 million viewers worldwide streaming its content as of 30 September 2016. Edgeware is well positioned to capitalize on the market dynamic enabled by streaming technology. The business concept is to develop optimised solutions for the distribution of video and TV content and Edgeware is well positioned for companies looking to distribute content directly to viewers.

## **STRONG GROWTH IN EDGEWARE'S MARKET**

Edgeware's addressable market will grow by an average annual rate of 23 percent per year between 2015 and 2020 as a result of these trends and changes in market dynamics. Edgeware's development during the period 2013–2016 has outpaced the market and makes, Edgeware well positioned to capitalize on this anticipated growth with its innovative and industry-leading solutions.

## **POWERFUL SOLUTION BASED ON INDUSTRY-LEADING STREAMING TECHNOLOGY**

Edgeware's solution is based on providing products and services that enable the design of decentralized CDNs. This means that the most popular content is cached, handled and adapted to the viewer as far out in the networks as possible, on Edgeware's own TV servers or the customer's own standard servers

installed with Edgware's software. This ensures that the content is distributed to the viewer from the closest and most suitable server. Using this solution, the content only needs to be sent over the backhaul network once rather than being sent once to each unique viewer, thereby reducing the number of bottlenecks. This means that there is no need for Edgware's customers to make substantial investments in central data centres or backhaul networks, which are difficult and costly to scale up. A distribution architecture based on a decentralized hierarchy not only provides viewers

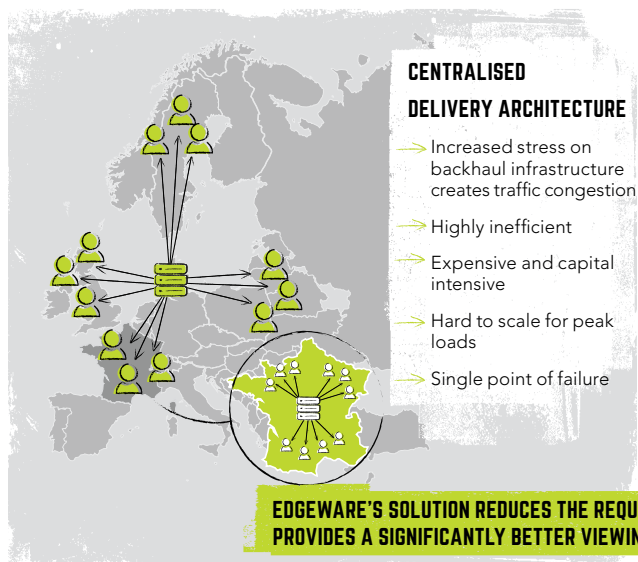
with a better customer experience, but is also more cost-effective, since it is easy to scale up when needed and utilises the backhaul network more efficiently.

#### ATTRACTIVE CUSTOMER VALUE

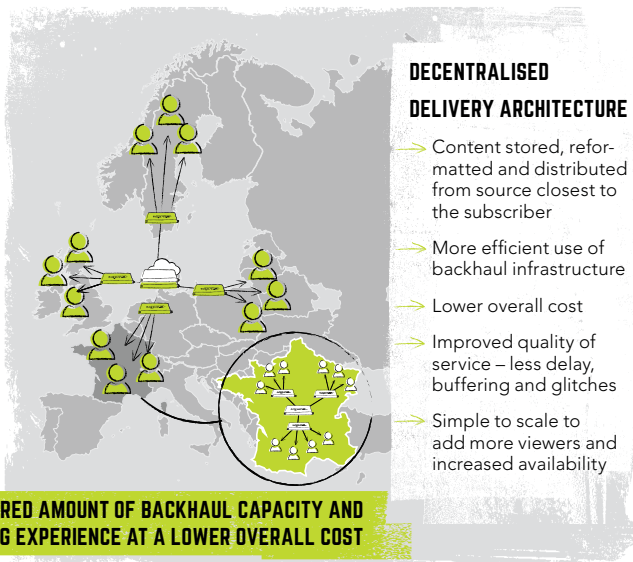
Edgware's solutions are based on high scalability and an optimised architecture, which allows Edgware's customers to deliver streaming services with a high-quality viewing experience. The offering enables in-depth insight into viewers' habits and provides control over the distribution at a low cost.

### SCHEMATIC IMAGE OF EDGEWARE'S DECENTRALIZED DISTRIBUTION ARCHITECTURE

#### TRADITIONAL SOLUTION: BACKHAULED DISTRIBUTION



#### THE EDGEWARE SOLUTION: DECENTRALISED DISTRIBUTION



**EDGEWARE'S SOLUTION REDUCES THE REQUIRED AMOUNT OF BACKHAUL CAPACITY AND PROVIDES A SIGNIFICANTLY BETTER VIEWING EXPERIENCE AT A LOWER OVERALL COST**

**Architecture:** The architecture is based on purpose-built hardware and software, which ensures that functions are optimised for their purpose, thereby creating savings with respect to hardware costs, energy use and data centre storage. Edgware estimates that customers can save up to 50 percent on their net investment by including Edgware's decentralized solutions.

**Scalability:** Thanks to the scalability and flexibility of the solution, customers are easily able to scale up their distribution capacity to support services for millions of viewers and large volumes of content as the number of viewers and need for capacity increases. In other words, customers do not need to make a substantial initial investment before their streaming service proves to be successful and popular.

**Viewing experience:** Edgware's solution helps customers guarantee streaming services with a high-quality customer experience, excellent availability and reliability, and minimal delays and buffering, which is crucial if customers are to maintain a highly competitive service offering.

**Insight and control:** Edgware's solution also allows customers to gain in-depth insight into their viewers' consumption habits and gives them full control over the streaming services. This enables customers to deliver an even better viewing experience by identifying potential improvement areas or operating problems in their services at an early stage as well as being able to offer tailored advertising.

#### **HIGH AND PROFITABLE GROWTH WITH THE POTENTIAL FOR HIGH OPERATING LEVERAGE**

Edgware's net sales has grown, organically, by an average annual rate of 39 percent between 2007 and 2016 and has delivered a positive operating profit since 2013. This sales growth is a result of the successfully pursued a strategy of organic growth and continuous sales growth among new and existing customers.

Combined with the high and stable gross margins and relatively fixed cost base, this increase in net sales forms the basis for the high operating leverage. The high operating leverage was evident in the 2013 to 2015 period, despite it being slightly offset by the decision to make substantial investments in the expansion of the product-development function, where the number of employees increased from 33 in 2013 to 42 in 2016 and the extraordinary bonuses paid to sales

personnel due to the breakthrough in the AMERICAS. Edgware intends to continue investing in the expansion of the sales function in order to support this continued growth, even if this results in a slightly lower operating margin during the expansion phase, since it normally takes 1–18 months for a new member of the sales force to reach full efficiency.

#### **CONTINUED STRONG MARKET GROWTH**

Driven by the trends described above, Frost & Sullivan estimates that the growth of Edgware's addressable market will increase going forward. Having grown by an average annual rate of 14 percent per year between 2013 and 2015, Frost & Sullivan expects that the market will grow by an average annual rate of 23 percent between 2015 and 2020. Edgware has historically grown at a faster rate than the market, and between 2013 and 2015, when the market grew an average annual rate of 14 percent, Edgware's net sales grew by an average annual rate of 26 percent and its operating profit improved significantly.

#### **INCREASE SALES TO EXISTING CUSTOMER BASE**

Most of Edgware's sales in recent years were derived from the existing customer base. Accordingly, maintaining and increasing sales to these customers is important to the continued success. The sales organisation, which includes sales personnel with responsibility for identifying and cultivating new customers as well as sales personnel with responsibility for caring for existing customers, allows for efficient cultivation of the customer base and creates the necessary conditions for Edgware to identify potential added sales opportunities at an early stage. As a result of the prevailing market trends, the customers have an increasing need for capacity and will be forced to expand their networks. Many customers are in the process of expanding their service offerings to include additional, more advanced streaming services and thus require additional capacity as well as expanding their CDNs, which is helping to create significant added sales potential for Edgware.

Edgware has added several major new customers to its customer base in recent years, which will further increase their order value. Customers commonly begin their relationship with Edgware by placing a smaller order to develop an initial streaming service to determine the level of interest in such a service and test Edgware's capacity as a provider. As the service becomes more popular, the order value typically increases, with the customer's success boosting Edgware's



sales. The product mix in the customer's order shifts over time to include more software, functions and capacity upgrades, which have a higher gross margin than the initial order. Accordingly, added sales to existing customers typically generate higher margins.

#### DEVELOPMENT OF THE SALES ORGANISATION AND INCREASED SALES TO NEW CUSTOMERS

Edgware intends to continue making significant investments in developing and expanding the sales organisation to cover more markets, reach more customers and become even better positioned to serve its existing customer base. Edgware has several successful examples of how sales in a certain region or to a particular customer group have gained momentum when individuals were assigned the task of focusing on a specific geographic market or customer group. Edgware has been self-financed in recent years and the capital contribution in conjunction with the IPO will enable a major investment in the sales organisation. During the coming years, the sales organisation will be doubled globally. In Europe focus will be on the three largest markets, Germany, France and the UK.

Another expansion area is advancing the presence in the US, Mexican, Brazilian, Japan, India and Hong Kong. These markets are all assessed to offer significant potential.

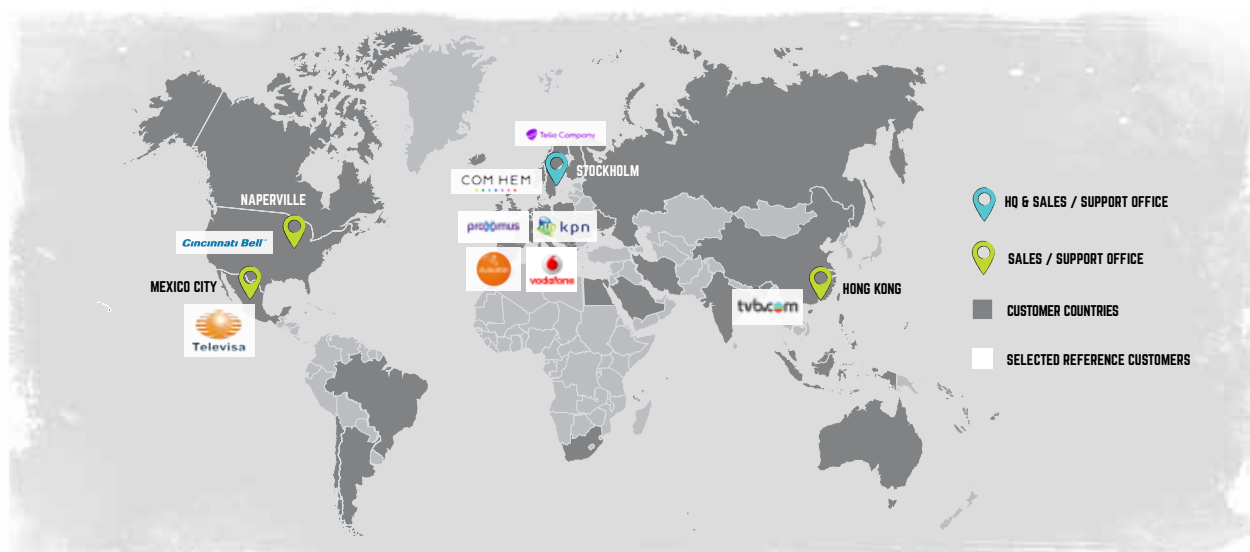
#### LEVERAGE THE STRONG EMBEDDED OPERATING LEVERAGE IN THE BUSINESS MODEL

The business model and the high gross margin of the product and service offering create the necessary conditions to leverage the Company's operating profit as its sales increase. Signs of this could be seen between 2013 and 2015 and more specifically when comparing 2015 and 2016, where the Company's sales grew by 23.9 percent and its operating profit by 43.6 percent. Management has chosen to focus on growth and believes that the full leverage effect on its operating profit will be limited over the coming years since it has opted instead to expand the sales organisation in order to support continued growth rather than a short-term focus on improving operating margins.

#### SELECTIVE ACQUISITIONS

Edgware's market is fragmented, with a large number of small companies, which creates considerable potential for consolidation. There are strong opportunities for consolidation in the market and Edgware continuously assesses M&A possibilities. Edgware is engaged in dialogues with potential acquisition targets, which could result in an expanded product and service offering, enable added sales among new and existing customers as well as create synergies and strengthen the position in the market.

#### GEOGRAPHICAL PRESENCE



# PRODUCT AND SERVICE OFFERING

## OVERVIEW OF THE PRODUCT OFFERING

Edgware's solutions enable customers to distribute TV and video content to their viewers, ensuring a high-quality viewing experience via a scalable and cost-efficient streaming network, and to gain in-depth insight into how their viewers consume and experience this content. This is made possible through Edgware's decentralized and hierarchical network infrastructure, which in turn is based on the own hardware and software products.

To deliver a comprehensive streaming service, customers require a number of products and services, alongside Edgware's products, which mainly focus on the distribution of content, are only some of the products needed. Edgware's products mainly comprise hardware and software products that are integrated into customer networks.

**Control:** Edgware's solution is integrated centrally in the network so that it can handle, store and prepare content for further distribution. This may include, for example, cataloguing the content and matching it with metadata, such as a description of the type of content, language and subtitles.

**Network:** Responsibility for ensuring that the right viewer receives the right content. The system ensures that a viewer looking for a particular film has the rights to watch the content and routes the viewer request to the server best suited for delivering this content. The best suited server is usually – although not necessarily – the closest server.

**Distribution:** Edgware's TV servers are located at the far edge of the networks, where content can be stored and quickly distributed to viewers. If a viewer streams a video from his/her iPhone, the content can be repackaged on-the-fly, meaning that the content does not need to be stored in several different formats and versions. Instead, Edgware's system repackages the content as it is distributed to the viewer. The system supports essentially all types of devices, including iPhone, Samsung Smart TV, Android tablets, etc.

## HARDWARE AND SOFTWARE

During 2016, 82.5 percent (82.4) of the net sales were derived from the sale of hardware and software products and capacity licences. One of Edgware's core products is the own TV servers, which are purpose-built and can be installed both centrally in a customer network and far out in the edge of a network, closer to a customer's viewers.

When customers require more capacity – for example, when the number of viewers using their streaming services increases or the quality of the content in their service improves – they are able to unlock additional streaming capacity on their existing TV servers by acquiring additional streaming and/or capacity licenses.

The TV servers also provide the customer with increased performance and make it more efficient for the customer to operate the network. A single network is made up of several TV servers orchestrated by powerful, multifunction software. This software determines where in the network hierarchy the TV and video content is to be stored in order to minimise traffic, thereby improving the quality of the content. The software can also repackage the content live and on-the-fly so that it can be shown on all types of devices, for example TV-screens, computers, tablets and mobile phones.

## SERVICE OFFERING

The Company's services include Service and Maintenance services as well as, to a smaller extent, Professional Services. The services sales category accounted for 17.5 percent (17.6) of the net sales during the 2016. Services are rarely sold independently. Instead, they are usually sold together with the hardware and software products. For example, approximately 95 percent of the customers purchase service and maintenance in conjunction with their purchase of hardware and software products. Approximately 20 individuals are involved in delivering the services to customers.

## OVERVIEW OF EDGEWARE'S PRODUCT PORTFOLIO

### FROM TV CONTENT...



#### CONTROL:

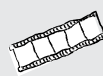
- Receives content and makes it available in the service



Ingest VOD and Live



Cloud DVR and Live-to-VOD



Monitoring & Analytics



Content Management

#### NETWORK:

- Locates the viewer and picks the best route
- Controls user rights (e.g. has this viewer paid for Netflix?)



Request Routing



Load Balancing



Multi Tenancy



Multi CDN Selector

#### DELIVERY:

- Formats and adapts content to viewer's needs and type of device
- Delivers content with high availability and viewer experience



Caching



Repackaging



Pause-Live & Start-over



Personalization (Ads)



Encryption



Fast channel Change



### ...TO TV EXPERIENCE

#### SERVICE AND MAINTENANCE

Service and maintenance of customers' Edgware products  
Regular delivery of system updates  
Support and ensuring that the customer's Edgware products function properly

#### PROFESSIONAL SERVICES

Consulting services  
Installation  
Training  
Integration



# CUSTOMERS, SALES AND MARKETING

## CUSTOMER BASE

Edgware has had a global presence since it was founded and secured its first international customer in 2007 – a customer that still purchases its products and services today. Edgware now has over 150 customers in more than 60 countries, including telecom and cable operators and OTTs/broadcasters:

**Telecom operators**, which also include broadband providers, accounted for 75.8 percent (77.4) of Edgware's order intake in 2015. Telecom operators primarily use Edgware's products and solutions to deliver their TV services and normally purchase comprehensive solutions. Examples of customers include KPN in the Netherlands and PCCW in Hong Kong.

**Cable operators** accounted for 18.6 percent (18.0) of Edgware's order intake in 2016. The behaviour of these customers typically resembles that of telecom operators. As TV providers, most cable operators already have networks built and they tend to purchase components and functions rather than comprehensive solutions. They also represent the largest customer category in the total market. Examples of customers include Com Hem in Sweden and Televisa in Mexico.

**OTTs/broadcasters** accounted for 5.6 percent (4.6) of Edgware's order intake in 2015. This is the smallest customer category in the market, but is growing at a faster rate than the other customer categories. Customers in this category use Edgware's products to enable their VOD and live streaming services. These customers appreciate high quality, the ability to analyse viewing habits and the delivery quality the service. Examples of customers include TVB in Hong Kong.

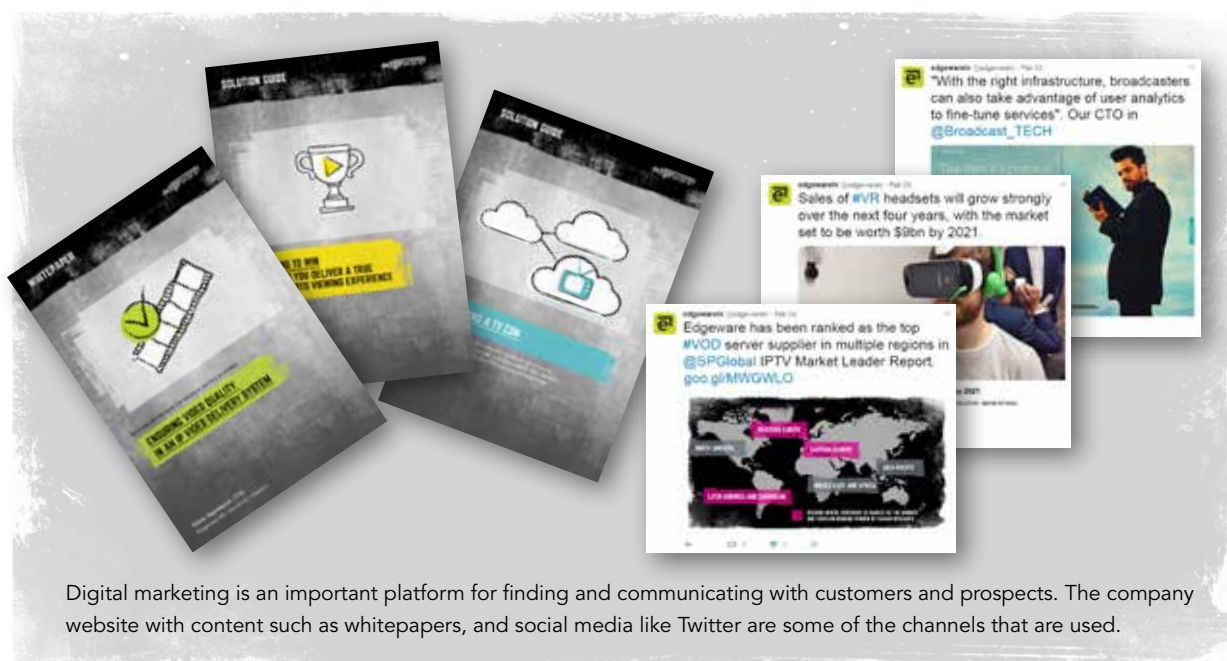
During its first ten years, Edgware has successfully enabled telecom and cable operators to deliver new services over IP and thus to find new sources of income. With new products and services, Edgware now has greater potential to deliver to the OTTs/broadcasters customer category, which distribute content via the Internet. Companies in this customer category are growing considerably and thus require scalable streaming solutions. They also require greater insight into user behaviour and high-quality delivery, which Edgware's products allow. Edgware has extensive experience of increasing sales to existing customers. Customers normally make small initial purchases in order to assess the demand for their streaming services as well as Edgware's capacity as a provider. As Edgware's technology proves to be effective and the popularity of the service increases, customers place additional, larger orders. The customers' orders also become more profitable with time, as the orders largely include streaming and capacity upgrades, which have higher gross margins than sales of TV servers.

In 2016, the largest customer accounted for 23.0 percent (29.0) of total sales, the three largest customers accounted for 41.9 percent (51.0) and the five largest customers accounted for 55.4 percent (62.0).

## SALES AND MARKETING

Edgware has an experienced, global sales team comprising 18 sales representatives in 2016. The team has extensive technical experience in the industry and considerable knowledge about each region. The sales representatives are engaged in an ongoing dialogue with the customers and have an in-depth understanding of their needs and demands. Edgware's customers are often recurring customers. In 2016, 16 percent (24) of the order intake was derived from new customers and 84 percent (76) from existing customers.

## EXAMPLE OF DIGITAL MARKETING



Digital marketing is an important platform for finding and communicating with customers and prospects. The company website with content such as whitepapers, and social media like Twitter are some of the channels that are used.

The sales are conducted both directly and via partners, with each channel generating similar profitability. Regardless of sales channel, Edgeware normally has direct contact with its customers. Historically, a majority of Edgeware's sales were conducted through partners, where, for example, Ericsson has been an important partner where sales through Ericsson represented more than 50 percent of total sales in 2012. Since 2012, the share of sales through partners have declined, primarily as a result of the strategy and according to Edgeware the net revenue through partners as percentage of total net revenue was 42.0 percentage (46.0).

### THE COMPANY HAS FOUR TYPES OF PARTNERS:

- **Retailers:** Exclusively retail third-party products.
- **Integration partners:** Build turnkey solutions for customers using third-party components.
- **Ecosystem partners:** Offer products with related functions that require supplementary products to meet customer needs.
- **Retail agents:** Commission-based agents that act as an intermediary between Edgeware and the customer.

Partners enable Edgeware to enter new markets and reach more customers by allowing Edgeware to utilise their customer bases. They also lend credibility when dealing with large companies and will increase Edgeware's chances of selling to leading global companies with long sales cycles.

Unlike existing customers, new customers often use a procurement procedure in which Edgeware submits a tender based on various factors, such as the number of customers and channels, the quality of the content, deployment locations, TV services and functions. This means that the sales process for new customers generally takes 6–24 months, compared with 1–6 months for existing customers.

### MARKETING

Edgeware uses targeted marketing at the global level to create new customer relationships and strengthen its relationships with its existing customers. The aim of this marketing is to increase awareness and knowledge of Edgeware's solutions. The primary marketing channels used are participation in trade fairs as well as digital marketing. Trade fairs include major industry events, such as the International Broadcasting Convention (IBC) in Europe, the National Association of Broadcasters (NAB) in the US and Broadcast Asia in Asia. Digital marketing mainly includes the own website, which contains information about the Edgeware's products and solutions, search engine optimisation and remarketing on other websites, social media such as Twitter and LinkedIn, search engine advertising and remarketing on external sites followed by lead generation through content marketing, for example whitepapers and finally contact via the sales organisation.

# GROWING PARTNERSHIPS WITH CUSTOMERS

**Edgware's business model is to develop, market and sell streaming solutions to customers that require effective solutions for distributing TV and video content to viewers over the Internet.**

These customers primarily include telco and cable operators and, to an increasing extent, OTTs/broadcasters, such as Hong Kong-based TVB, which has contents that are distributed directly to viewers over the Internet. Customers commonly begin their relationship with Edgware by placing a smaller order to develop an initial streaming service. As the service becomes more popular, the order values typically grow and Edgware's sales increase in pace with the customer's success and increased needs. The collaboration with TVB of Hong Kong is an example of this.

## **OLYMPIC GAMES 2016 - TVB AND EDGEWARE DELIVER AMAZING INTERNET TV**

TVB.COM, the digital media business of TVB, used Edgware's pioneering TV CDN (Content Delivery Network) technology to deliver its TV-over-IP services in both HD and 4K throughout the 2016 Olympic Games in Rio de Janeiro.

During Brazil's first games, Edgware's TV CDN delivered 4K content to TVB.COM's myTV SUPER Video On Demand service as the amount of Ultra High Definition sporting content was dramatically increased. Through its OTT-platform enabled by Edgware, TVB.COM was given improved reach and availability as its users were able to view content whenever and wherever they wanted during the games.

"Our customers expect nothing less than the highest quality in programming – and this includes TV services delivered over the Internet," says Rex Ching, Head of Technical Engineering, TVB.COM. "By adopting Edgware's TV CDN technology, we were able to deliver high-quality service while continuing to scale, add new services and prepare for the huge spike in viewership of TVB.COM during the Olympics."

TVB.COM deployed Edgware's TV Content Delivery Network technology to help improve its customers' experience and deliver amazing TV over the internet. The demand for the service of myTV SUPER increased significantly after its launch. This led to the installation of the more cost-effective, easily scalable TV CDN from Edgware which assured TVB.COM of the best possible quality for its TV delivery.

myTV SUPER – launched in April 2016 – gives users access to IP-delivered live channels, and a large Video On Demand library. This ever-expanding library of video contents can all be accessed via a set-top box or mobile app. Edgware's VOD alone delivers more than 19,000 hours of content via IP services.

"Major sports events like the Olympics are a perfect showcase for new types of amazing TV services," says Joachim Roos, CEO of Edgware. "TVB has shown how they can take televised sports to a new level by putting viewers in total control of everything they watch. This means sports fans can make the most out of historical TV moments and can enjoy every second of the games. Edgware is very proud to be such a key part of the technology infrastructure that delivers this experience to TVB.COM's huge audiences."



## ABOUT TVB.COM

TVB.COM is a digital media business unit of Television Broadcasts Limited. In addition to the official website ([www.TVB.COM](http://www.TVB.COM)), TVB.COM has launched many popular services including myTV SUPER, TVB News, TVB Finance, TVB Enews, TVB Fun and TVB Zone to capture the high penetration of Internet-connected devices and facilitate audiences enjoying TVB content anywhere and anytime. Leveraged from its skillset and infrastructure, TVB.COM also provides an online platform for business affiliates that are interested in extending their online presence.

## HONG KONG



TVB.COM delivers web TV in 4K with its own TV CDN.

### CUSTOMER FACTS TVB.COM

- Edgware customer since: 2015
- One of the largest commercial Chinese program producers in the world
- Operates five free-to-air channels in its home market in Chinese and English languages, plus international channels
- Operates over 40 OTT channels, over 19,000 hours of VOD content on HEVC STB and Mobile apps with multi audio and subtitles.

### PROBLEMS

- To deliver high-quality video streaming for VOD and linear channels over public IP networks
- To save the ongoing monthly cost of their existing CDN
- To gain control of and insight into the delivery of their content.

### EDGEWARE'S SOLUTION

- Streaming Servers located in peering points of ISP networks, closer to viewers
- CDN, Origin Server and Live to VOD solutions.

### RESULTS

- OTT service with over 2 million subscribers since launch (April 2016)
- Over 40 live channels deployed with Video-on-Demand catch up and time shift
- Streaming capacity of a few hundred Gbps, with very high simultaneous personalized HD views
- Reduced the ongoing costs of paying for a CDN service
- Improved quality – especially at peak periods
- Olympic Games in 2016, with more than 2000 games recorded and seven Olympic linear channels.

# PRODUCT DEVELOPMENT, RESEARCH AND DEVELOPMENT

To meet future needs, Edgware has made significant investments in its product-development organisation, which is divided into three functions: R&D, Product Management and CTO. These functions are integrated and engage in an ongoing dialogue with one another, but are responsible for different phases of the product-development process.

The CTO function focuses on long-term technical development and product planning. This function continuously receives guidance from the sales function as well as the operations function with respect to customer needs and requests and works proactively to predict future requirements and opportunities. The Product Management function focuses on developing and designing products based on the needs of existing customers and on identifying strategic product requirements and opportunities based on input from the CTO function. The R&D function is responsible for executing the development plans and objectives established by the product organisation and for troubleshooting and analysis of temporary problems. This function is divided into two teams: a larger team that is responsible for the development of the software and smaller team that focuses on the hardware.

Since 2014, the product development has enabled an additional set of functionalities to be installed on Edgware's TV servers far out at the edge of the networks instead of in central data centres. This has contributed to lower network use and increased availability as well as helped to ensure a better viewing experience. Edgware has also developed new products and improved existing products in order to achieve a higher penetration rate in the OTTs/broadcasters customer category.

## PROCUREMENT, MANUFACTURING AND LOGISTICS

Edgware has an effective structure for procurement, manufacturing and delivery, managed by the operations function. The function plays a central role and works closely with the finance function and sales function to ensure punctual and on budget deliveries.

## PROCUREMENT

Edgware continuously assesses its suppliers and engages in contract negotiations in order to cut costs and guarantee that no delivery problems occur. To ensure a reliable cash flow and quick delivery, Edgware provides the manufacturing partner and suppliers with a rolling 12-month forecast, which is updated at least once a month. The Supply Chain Manager also participates in weekly discussions with the sales organisation in order to maximise the efficiency of the order handling. The procurement is divided into three main areas: manufacturing, customer projects and internal use.

## MANUFACTURING

Manufacturing of Edgware's hardware is outsourced to a contract manufacturer in Sweden. There are several alternative contract manufacturers and it is easy to move manufacturing if necessary. The design of the hardware allows for efficient manufacturing since it comprises few components and configuration alternatives, which means that Edgware can easily scale up its manufacturing as needed. This also allows for partial manufacturing, which ensures short lead times and a low level of capital tied-up in inventories.

## LOGISTICS

The products are delivered directly from the contract manufacturer. Deliveries are handled by external players in order to achieve short lead times and secure support in markets with challenging import regulations or poorly functioning infrastructure. Delivery times range from three to six weeks.

## **RESEARCH AND DEVELOPMENT AT THE CUTTING EDGE OF TECHNOLOGY**

Since the company's inception, R&D has been at the core of Edgware's rapid growth in the supply of streamed TV. As a result of a long-term and determined focus on R&D, the company has created a leading position in hardware, software and solutions. Key success factors are deep-rooted knowledge of the market combined with technological know-how and an innovative development environment.

Edgware's hardware-based TV servers and software, which facilitate decentralised solutions, are a prerequisite for the company's leading market position. By controlling the entire chain, from development of circuit boards to the realisation of functions in programmable logic as well as the programming of drivers and functions in operating systems, the company safeguards its position in scalability, determinism and reliability and its opportunities to be part of the permanent network infrastructure.

Parallel with hardware, software and solutions constitute a rapidly growing product area for Edgware. The initiatives in progress to increase the company's share of the value chain include offering solutions for customised advertising. All of the company's services and offerings are available as software options, thus opening up new customer segments. The software solutions provide greater flexibility as increasing numbers of industry participants are opening themselves up for virtualisation and cloud platforms.

The software-based solution encompasses various parts of the value chain: Origin, which includes recording, repackaging into the leading formats in the market (DASH, HLS, MSS) and encryption; CDN, which includes recording and time shift of both live and video-on-demand services; and Traffic Management and Analytics, which include components for data collection and presentation.

## **TECHNOLOGY OF THE FUTURE TODAY**

The most recent of the company's market leading hardware and servers is the Edgware 4080 TV Server which, with storage capacity of 64TB and streaming of 80 Gbps, including repackaging and encryption, can handle more than 4,000 simultaneous incoming channels, all pre-packaged in a single rack unit. With its low power consumption and extremely high reliability, the

4080 TV Server marks yet another milestone in state-of-the-art TV streaming.

During 2016, Edgware developed a number of new software products customised for use in virtualised environments. In 2017, development efforts will continue according to the same strategy, with more products for preparing and streaming videos and a further development of TV servers. All of this will be done as part of a concept known as a hybrid cloud solution; i.e. a concept that combines the best of the products that are operated in a virtualised manner in data centres and TV servers out in the Internet.

## **POWERFUL ORGANISATION FOR CUTTING-EDGE INNOVATION**

Product development is managed from the Head Office in Stockholm, where 50 employees are active in product development, R&D and a CTO office. To this should be added an outsourced development unit in Vietnam with just over ten employees. The know-how of the CTO function and its focus on long-term technological development ensures that Edgware remains at the cutting edge of technology and can thus anticipate the requirements and opportunities of the future. As a result of frequent contact with the market and sales organisation, product development defines and pursues the company's product plans on the basis of customer value combined with strategic product requirements based on input from the CTO office.

The mission of R&D, which is the largest single Edgware unit, accounting for 37 percent of the overall workforce, is to implement the company's product plans. The focus on customer value and quality is ensured by means of agile processes adapted for integration of hardware and software development, and efficient coordination with the outsourced unit in Vietnam. R&D also serves as an important support function for customer support and customer-integration projects.

## **PATENTS PROVIDE PROTECTION FOR EDGEWARE'S UNIQUENESS**

Edgware's patent portfolio contains eight patent registrations, as well as five patents pending. The patents cover the core technology in the company's TV servers, plus their cache algorithms. The patent strategy focuses on protecting innovations that are vital to the company's products when they are launched in the market. Edgware focuses continuously on innovation, and decisions about new patent applications are made on a case-by-case basis.



# HR FOCUSES ON DIVERSITY AND INNOVATION

Edgware is a Swedish, international and global company with employees of multiple nationalities. Edgware currently has just over 90 employees working in 15 countries and the company is growing in all regions. Edgware has its head office in Stockholm, where a majority of the company's employees work. The company also has an international sales organisation, from which several employees work out in the field. Edgware has a wholly owned subsidiary in the US and offices in Hong Kong and Singapore, from which sales and support services in these regions are delivered.

## VALUE FOUNDATION HALLMARKED BY DIVERSITY, DEVELOPMENT AND JOB SATISFACTION

The small size of Edgware's organisation makes the company fast and flexible, a must for successful operation in a global market undergoing continuous change and development. The company is eager to retain its Scandinavian value base, which is characterised by openness and transparency among employees. The opportunity to influence the content of work and considerable freedom under responsibility represent an important and appreciated part of Edgware's corporate culture.

Diversity, in terms of culture, ethnic background, religion and sexual preference, is a self-evident feature of Edgware's corporate culture. This also enables the company to better understand customers who are also located in various parts of the world.

Edgware's talented employees give each other an opportunity to grow as individuals and creates fertile ground for continued innovation, in both technological and personal development. Having fun at work, combined with creative and contented co-workers,

being encouraged and feeling job satisfaction, has a favourable impact on customer relations.

## WITH CARE FOR THE EMPLOYEES AND THE ENVIRONMENT

The employees are provided with excellent opportunities and conditions for maintaining a healthy lifestyle and having an inspiring work environment. Since this facilitates high performance, Edgware offers its employees an ample preventive healthcare allowance and medical care insurance. Because the company encourages personal responsibility for taking care of the environment, all employees are offered benefits such as bicycle parking at the Head Office in central Stockholm. The fact that all of this is well-invested money is shown in the many years of very low sickness absence. In 2016, the sickness absence rate was 0.93 percent.

New technology, new markets and new competitors lead to continuously higher requirements for the ability to change and develop work methods. To be successful under these conditions, innovation and a focused organisation are essential. Since Edgware is growing powerfully, ongoing work to improve the work environment for all of our employees is regarded as an important component.

**NICLAS JOHANSSON, DEVELOPER  
OCH LING KOAY, MARKETING MANAGER**



## MEET THREE EDGEWARE EMPLOYEES

### NICLAS JOHANSSON – SENIOR SOFTWARE DEVELOPER

#### Who are you and what is your personal motto?

I am a married father of two with a great joy of life. For the past four years, I have worked as a software developer at Edgware. I have a long track record in R&D at Ericsson, where my duties included multimedia. I am an inquisitive person who loves technological innovations. My motto: Going to work should be fun – just make sure that it is.

#### What do you do at Edgware?

I am developing the TV of the future and contributing to its powerful development. What is great with Edgware is that I, together with my software colleagues, get to work with the entire chain from idea to delivery to the customer. C++ and Linux are my best friends when it comes to development and programming. If, like me, you are extremely inquisitive, it is a joy working at the cutting edge of technology; for example, with software that makes it possible to stream live TV.

#### Why did you join Edgware?

I wanted to work in an agile and innovative company that specialised in media-related services. Edgware, with its enterprise, was ideal for me. I really like the fact that EVERYONE is an important cog and that we are all significant. I also get close to the customers, both in my everyday duties and when travelling, and I see how our solutions are generating real results in TV and video.

#### What is the most enjoyable part of your job?

Working with our solutions is very visual and rewarding. When the solutions start to fly, you really do see, hear and feel it. As opposed to other software development, where it can take years before you find out about the results. Although we're a small player, we're

simultaneously a truly vital player in the global reshaping of video and TV, and we're at the leading edge of this fantastic technological shift. Then I really like working in the company's open and helpful atmosphere.

### LING KOAY – MARKETING MANAGER PRODUCTS

#### Who are you and what is your personal motto?

My name is Ling and I grew up in Kuala Lumpur and for the past 15 years I have lived in Melbourne, Örebro, Uppsala and Helsingborg and now in Stockholm. Before joining Edgware. I worked at the software company ReadSoft. When I was growing up, my parents told me to "be happy no matter what you do".

#### What do you do at Edgware?

My focus is on marketing our products. I am also responsible for ensuring that we communicate the right message and, not least, that we adopt the position as the leading player in the market, with the sustainably best products.

#### Why did you join Edgware?

Due to the people I met. The three people that I met during the interviews were all super-smart, very experienced and have the sharpest knowledge in the industry. I have so much to learn from them and I like being surrounded by people who are smarter than me. Then I am genuinely interested in the industry, which is dynamic and always changing.

#### What is the most enjoyable part of your job?

I appreciate the freedom and flexibility that Edgware gives its employees. As long as I do my job, I can work remotely, with considerable freedom. Edgware is definitely not about time stamping and work 9 to 5.



### CARLOS FIDALGO – SALES DIRECTOR LATIN AMERICA

#### Who are you and what is your personal motto?

Born in Spain. Following a career as a professional water-skier, I started to work in the telecom industry and have done so for 20 years. My personal motto is to live every day to the full!

#### What do you do at Edgware?

At Edgware, I am responsible for our sales in Latin America.

#### Why did you join Edgware?

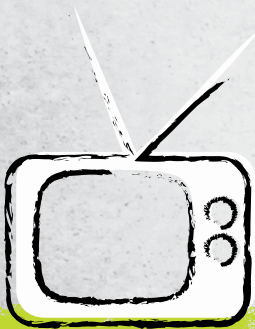
There are several reasons, each of which is important to me. Primarily, Edgware's Scandinavian culture – only making promises that you can keep and treating each individual with the same respect and credibility. Then the revolution of video. Edgware has its own, trail-blazing way of developing the video industry, and I get to take part in this at the cutting edge. Finally, Edgware's agile and relatively small organisation – in which every employee makes a difference and all opinions are valued. Being small makes you quick and able to adapt to the market's needs and changes.

#### What is the most enjoyable part of your job?

The fact that I work with smart and talented colleagues and can influence how millions of people watch TV and video on a daily basis. Then solving the challenges and creating opportunities for customers to stimulate me, and I also enjoy competing with razor-sharp rivals. Just like professional sport, competition makes you better!



# EDGEWARE 2004-2016



## 2004. FOUNDATION LAID FROM NEW MARKET REQUIREMENT

Edgware was founded in 2004 by Joachim Roos, Lukas Holm and Kalle Henriksson, all of whom had extensive experience from the network industry. They had seen how linear TV viewing, meaning viewing of scheduled programming, slowly but surely was being replaced by video-on-demand (VOD), which allows viewers to control their TV experience. They realised that this trend was generating an enormous increase in the data being delivered over the networks. Their vision was to find a solution that could effectively handle this increase in delivered data. The founders realised that the solution was to store data far out at the "edge" of the networks, which is where the name Edgware comes from.

## 2005. THE COMPANY EMERGED

In 2005, the foundation was laid for Edgware's offering and the TV services of the future started to emerge. By storing video data far out at the edge of the networks, with servers based on Flash memories, considerable benefits were created for the operators. At its offices in Hammarbyhamnen, Stockholm, a business plan and products emerged, as did the company. Edgware had eight employees.

SALES 0 SEK

## 2006. SHAREHOLDER CONTRIBUTIONS AND GROWING INTEREST

2006 became the true start for Edgware. The VC companies Creandum and Amadeus invested in the company's development, Edgware recruited personnel and started to manufacture product prototypes and pre-series. During the same year, the market breakthrough came at the IBC Fair in Amsterdam, when Edgware launched its innovative video server. Edgware had eight employees and sales of SEK 100,000.

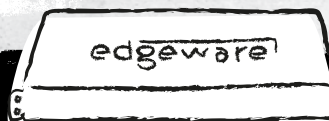
## 2007. STRATEGIC CUSTOMER BREAKTHROUGH

Edgware won several tenders in competition with industry heavyweights and rumours spread about the Swedish start-up company at the cutting edge of technology. Following the first transaction with the Finnish company Maxisat, the contract with a big C was secured when Telia chose Edgware's concept. It was a key component in Telia's initiative to offer 300,000 subscribers the On Demand TV of the future to linear TV customers. An agreement was subsequently secured with the Danish cable operator Stofa, who also turned out to be Edgware's first deployed customer. Edgware had 12 employees and sales of SEK 13 million.



## 2009. INTERNATIONAL MARKET EXPANSION

By 2009, Edgware had built up an international CV including telcos and cable operators. By establishing a subsidiary in the US, with personnel and offices in San Jose, Edgware was able to cultivate the world's largest market for TV services on site. During the year, Edgware won a tender to develop infrastructure for the US firm Zillion, a predecessor to Netflix. Another gigantic leap out into the global market was taken in 2009 when, for example, one of India's largest cable operator, selected Edgware products. Edgware had 25 employees and sales of SEK 23 million.



## 2008. TELIA WENT LIVE

In 2008, Edgware gained a new partner in the US company Micron. Telia went live with Edgware's technology, thus contributing to Telia's rapid growth in TV On Demand. In 2008, Nortel Networks became an international distributor following which systems suppliers, such as Alcatel-Lucent and Ericsson, were added. At the end of 2008, a subsidiary was established in the US. Technology to stream TV over the open Internet started to be developed during the year. Edgware had 18 employees and sales of SEK 10 million.

2004

2005

2006

2007

2008

2009

2010



## 2015. SEK 200 MILLION PASSED

In 2015, Edgware grew by 35 percent. A key tender was won with TVB in Hong Kong concerning a build-out of OTT (Over The Internet), which served as a valuable reference customer in the Asian expansion. A large European betting distributor selected Edgware's solution for its launch of online betting. The initiative was strengthened through the addition of sales and service personnel, in part to support the launch of Televisa's services. Edgware had 80 employees and sales of SEK 204 million.

## 2013. INCREASED FOCUS ON DIRECT SALES

In 2013, retailer transactions with, among others, two large telecom operators in Spain and the Nordics were entered into via partners such as Ericsson and Nokia Siemens. A retailer agreement was signed with Nagra and systems were sold to, among others, Euskaltel, a Spanish cable operator. In 2013, Ericsson exited from its partnership after buying a competitor and Edgware initiated the transition towards an increase in direct sales, a development that resulted in increased control and proximity to customers. Edgware had 64 employees and sales of SEK 128 million.

## 2010. SALES DOUBLED

In 2010, sales rose from SEK 23 million to SEK 54 million. The business became more professional and both customer support and marketing were developed. An additional tender and an order that remains prestigious today was secured with Belgian telcom company Belgacom (currently Proximus) in 2010. Edgware had yet again secured a major contract with a large-scale operator and passed another milestone in the company's growth journey. Edgware had 31 employees and sales of SEK 55 million.

## 2011. SEK 100 MILLION PASSED

Seven years after its inception, the company passed sales of SEK 500 million, after a strong year of growth with sales rising 100 percent, driven by a number of strategic transactions. Retail collaboration with Ericsson contributed to both rapid internationalisation and new installations with prestigious customers. Edgware's CDN solution was launched in 2011 and sold to Jazztel, a Spanish telco operator. Edgware had 34 employees and sales of SEK 106 million.

## 2016. GROWTH AND STOCK LISTING

12 years after its inception, Edgware had developed into one of the world's leading specialist companies in TV and video streaming. During 2016, a large number of both new transactions and upgrades for existing customers were completed. In addition, new markets were penetrated, including Australia, and Edgware launched a new brand platform under the customer promise "Let's make TV amazing again". Edgware's Board of Directors was strengthened and the company's shares were listed on NASDAQ Stockholm on 9 December, injecting additional power for continued global market expansion. Edgware had 92 employees and sales of SEK 252 million.

## 2014. ASIAN AND LATIN AMERICAN EXPANSION

The expansion process in Asia was strengthened in 2014. In connection with signing a contract with PCCW, a telcom and IT firm based in Hong Kong, an office was established in the same city. With its own sales and service personnel, the Asian expansion was strengthened. To gain an even firmer foothold in Latin America too, a partnership was entered into with middleware company Mirada and a transaction was completed with Televisa, a Mexican telco operator. Edgware had 63 employees and sales of SEK 148 million.

## 2012. RECORD CDN TRANSACTION

Expansion continued in 2012 and the company recruited 24 new employees. Edgware secured its largest order to date in TV CDN and noted a series of important transactions internationally. These included deliveries to one of Switzerland's leading operators in the deployment of IPTV services and Video On Demand services to Starman, an Estonian cable operator. Edgware had 58 employees and sales of SEK 134 million.

SALES SEK 252 MILLION

2011

2012

2013

2014

2015

2016

# THE SHARE AND SHAREHOLDERS

The Edgeware share was listed on the NASDAQ OMX Stockholm Small Cap list on 9 December 2016 at an initial listing price of SEK 29 per share.

During the period from the initial listing up to 31 December 2016, the share price fluctuated from SEK 29 to SEK 30.90. The closing price on 31 December 2016 was SEK 29. Edgeware's market capitalisation

on 31 December 2016 was SEK 871.2 million. The number of shareholders in Edgeware on 31 December 2016 was 2,609, of whom 337 held more than 1,000 shares. Foreign shareholders accounted for some 31 percent of the voting rights. As per 31 December 2016, Edgeware's share capital amounted to SEK 1,502,150.40, represented by 30,043,008 shares, of which Class C shares accounted for 100 percent.

Shareholder	Share capital, %	Votes, %	Number of shares
Amadeus Capital Partners <sup>1)</sup>	23.1	23.1	6,937,205
Creandum <sup>1)</sup>	18.8	18.8	5,635,975
Swedbank Robur Fonder	8.7	8.7	2,600,000
Martin Gren	5.7	5.7	1,724,138
Catella Fonder <sup>2)</sup>	5.1	5.1	1,546,491
ÖstVäst Capital Management	3.4	3.4	1,034,482
LMK-sfären (LMK Forward AB & LMK Stiftelsen)	3.4	3.4	1,034,482
AMF Försäkring & Fonder	3.3	3.3	1,000,000
Avanza Pension	2.3	2.3	677,184
Cliens Fonder	1.9	1.9	560,000
Lukas Holm Invest AB	1.7	1.7	518,249
Kalle Henriksson Invest AB	1.7	1.7	518,226
Joachim Roos Invest AB	1.7	1.7	518,226
Öhman Fonder	1.3	1.3	384,982
Handelsbanken Liv Försäkring AB	1.2	1.2	350,767
<b>Total 15 largest shareholders</b>	<b>83.3</b>	<b>83.3</b>	<b>25,040,407</b>
Others	16.7	16.7	5,002,601
<b>Total number of shares</b>	<b>100</b>	<b>100</b>	<b>30,043,008</b>

Source: Monitor of Modular Finance AB as per 31 Dec 2016. Data has been compiled and processed from, among others, Euroclear, Morningstar and the Swedish Financial Supervisory Authority.

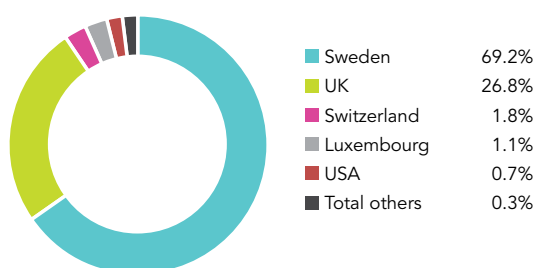
1) Ownership confirmed at 5 Jan 2017 by means of a disclosure of a major shareholding

2) Ownership confirmed at 3 Jan 2017 by means of a disclosure of a major shareholding

Number of shares	Number of shareholders %	Share capital %
1–500	81.2	1.3
501–1,000	6.1	0.4
1,001–5,000	7.6	1.6
5,001–10,000	2.0	1.3
10,001–50,000	1.6	3.4
50,001–100,000	0.5	2.8
100,001–500,000	0.5	10.1
500,001–1,000,000	0.3	16.7
1,000,001–5,000,000	0.2	22.9
5 000,001–	0.1	39.4
<b>Total</b>	<b>100</b>	<b>100</b>
<b>Total number of shareholders and shares:</b>	<b>2,609</b>	<b>30,043,008</b>

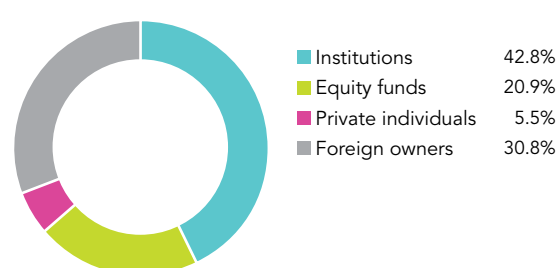
Source: Monitor of Modular Finance AB as per 31 Dec 2016. Data has been compiled and processed from, among others, Euroclear, Morningstar and the Swedish Financial Supervisory Authority.

#### GEOGRAPHIC BREAKDOWN

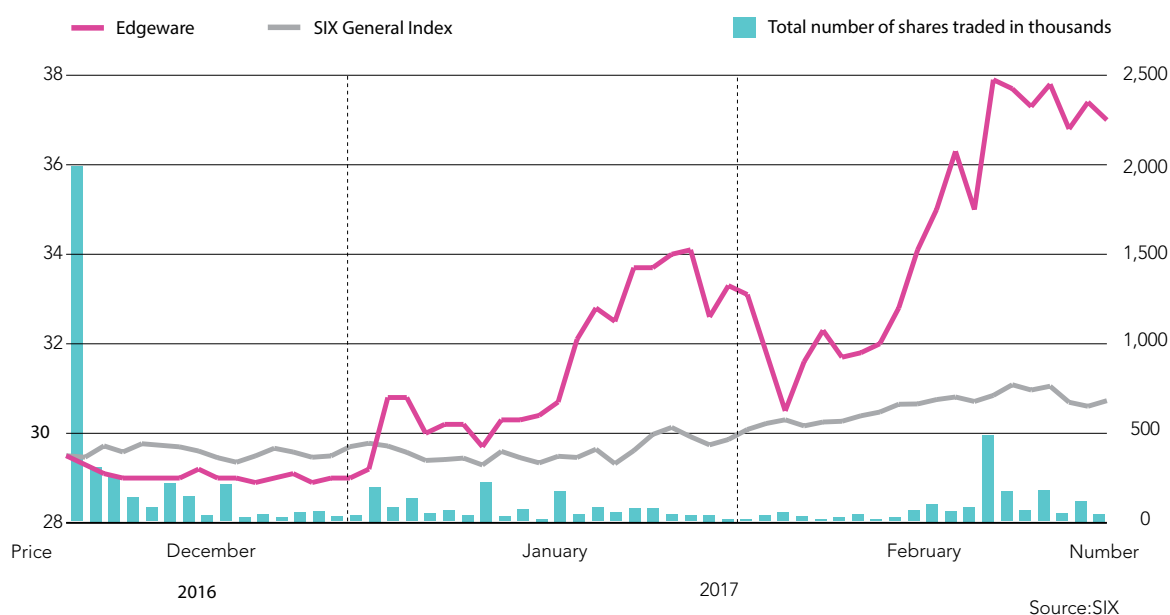


Source: Monitor of Modular Finance AB as per 31 Dec 2016. Data has been compiled and processed from, among others, Euroclear, Morningstar and the Swedish Financial Supervisory Authority.

#### CATEGORIES, SHARE CAPITAL %



Source: Monitor of Modular Finance AB as per 31 Dec 2016. Data has been compiled and processed from, among others, Euroclear, Morningstar and the Swedish Financial Supervisory Authority.





# MULTI-YEAR REVIEW

Edgewise switched to reporting according to IFRS in 2015, whereby figures as of 2013 were restated. For this reason, the multi-year overview has 2013 as the starting year.

(AMOUNTS IN SEK 000s)	2016	2015	2014	2013
<b>Net sales by region</b>				
EMEA	188,683	135,769	128,490	106,160
AMERICAS	41,403	55,303	13,232	11,733
APAC	22,163	12,484	6,453	10,360
<b>Net sales</b>	<b>252,249</b>	<b>203,556</b>	<b>148,175</b>	<b>128,253</b>
<b>Net sales by sales category</b>				
Products	208,103	167,830	118,697	107,809
Services	44,146	35,726	29,478	20,444
<b>Net sales</b>	<b>252,249</b>	<b>203,556</b>	<b>148,175</b>	<b>128,253</b>
Gross profit	175,608	140,941	106,748	90,490
Gross margin, %	69.6%	69.2%	72.0%	70.6%
Operating expenses	-156,498	-127,640	-93,702	-83,246
Operating expenses/Net sales, %	-62.0%	-62.7%	-63.2%	-64.9%
EBITDA	28,970	19,272	17,176	9,607
EBITDA margin, %	11.5%	9.5%	11.6%	7.5%
Adjusted EBITDA <sup>1</sup>	44,179	19,270	17,176	9,607
Adjusted EBITDA margin, % <sup>1</sup>	17.5%	9.5%	11.6%	7.5%
Operating profit (EBIT) <sup>1</sup>	19,110	13,301	13,035	7,243
Operating margin, % (EBIT) <sup>1</sup>	7.6%	6.9%	8.8%	5.6%
Adjusted EBIT <sup>1</sup>	34,320	13,301	13,046	7,243
Adjusted EBIT margin, % <sup>1</sup>	13.6%	6.9%	8.8%	5.6%
Profit for the period after tax	15,736	10,796	10,749	1,931
Net margin, after-tax profit for the period, %	6.2%	5.3%	7.3%	1.5%
Total assets	309,924	135,977	105,958	86,128
Equity attributable to the parent company's shareholders	234,138	68,277	60,300	51,818
Equity/assets ratio, %	75.5%	50.2%	48.9%	57.6%
Return on equity (ROE), %	10.4%	16.8%	19.2%	3.8%
Equity per share, before dilution	9.4	2.8	4.6	4.0
Average number of shares before dilution	24,854,312	24,077,275	12,983,420	12,983,420
Earnings per share before dilution (Note 6)	0.6	0.5	0.8	0.1
Cash flow from operating activities	45,086	15,347	7,256	737
Number of employees at year-end <sup>2)</sup>	92	89	71	63
Of whom, women	11	12	8	4

1) Financial ratios that are not defined under IFRS. See definitions of ratios on pages 35–37.

2) Employees: Included in the number of employees at 31 December are employees hired through Business Sweden 9 (7) and consultants with employment-like agreements 8 (4).



## DEFINITIONS

**EMEA** Europe, Middle East and Africa.

**APAC** Asia and Pacific region.

**AMERICAS** (North and South America).

**Gross profit** Net sales less cost of goods sold.

**Gross margin** Gross profit as a percentage of net sales.

**Operating profit EBIT** Operating profit before financial items and taxes.

**Operating margin % (EBIT %)** Operating profit before financial items and tax in relation to net sales.

**EBITDA** Operating profit before depreciation/amortisation and impairment.

**EBITDA margin %** EBITDA as a percentage of net sales.

**Return on equity (ROE)** Profit for the period as a percentage of adjusted equity (equity plus the equity portion of untaxed reserves).

**Equity/assets ratio** Adjusted equity in relation to total assets.

**Number of shares after dilution** has been restated to account for new share issues and the historical effect of warrants.

**Profit per share** Profit for the period in relation to number of shares.

**Equity per share** Equity in relation to number of shares.

## FINANCIAL MEASURES NOT DEFINED ACCORDING TO IFRS

The company presents certain financial measures in the annual report that are not defined according to IFRS. The company is of the opinion that these measures provide valuable additional information for investors and the company's management, since they facilitate an evaluation of the company's presentation. Since not all companies calculate financial measures in the same way, these measures are not always comparable to those used by other companies. Consequently, they should not be regarded as a substitute for the measures defined according to IFRS. The tables below present the measures not defined according to IFRS and a reconciliation of the two sets of measures.

### EBITDA AND ADJUSTED EBITDA

The company has chosen to report the key performance measure EBITDA, since it shows the underlying result adjusted for the effect of depreciation/amortisation, which provides a more comparable profit measure over time, since depreciation/amortisation refers to historical investments. The company has also chosen to report the key performance measure Adjusted EBITDA to show the underlying result adjusted for the nonrecurring expenses that arose in connection with the preparations for the IPO. Expenses related to IPO preparations include expenses for the transition to IFRS reporting, internal risk projects, IR expenses, additional examination expenses from auditors, exchange auditors' examination expenses, attorneys' expenses to qualify the company for a stock market listing, NASDAQ expenses, recruiting expenses for IR and new board members.

(AMOUNTS IN SEK 000s)	2016	2015	2014	2013
<b>EBITDA bridge</b>				
Operating profit	19,110	13,301	13,046	7,243
Amortisation of capitalised development expenses	-6,614	-3,747	-2,244	-626
Other depreciation	-3,246	-2,222	-1,886	-1,738
<b>EBITDA</b>	<b>28,970</b>	<b>19,270</b>	<b>17,176</b>	<b>9,607</b>
EBITDA margin, %	11.5	9.5	11.6	7.5
Items affecting comparability				
IPO-related expenses	15,210	-	-	-
<b>Adjusted EBITDA</b>	<b>44,180</b>	<b>19,270</b>	<b>17,176</b>	<b>9,607</b>
<b>Adjusted EBITDA margin, %</b>	<b>17.5</b>	<b>9.5</b>	<b>11.6</b>	<b>7.5</b>

### OPERATING PROFIT (EBIT) AND ADJUSTED EBIT

The company has chosen to report the key performance measure Adjusted EBIT, since it shows the underlying earnings adjusted for nonrecurring expenses that arose in connection with preparations for the IPO, which provides a more comparable profit measure over time. Expenses related to IPO preparations include expenses for the transition to IFRS reporting, internal risk projects, IR expenses, additional examination expenses from auditors, exchange auditors' examination expenses, attorneys' expenses to qualify the company for a stock market listing, NASDAQ expenses, recruiting expenses for IR and new board members.

(AMOUNTS IN SEK 000s)	2016	2015	2014	2013
<b>EBIT bridge</b>				
Operating profit	19,110	13,301	13,046	7,243
Items affecting comparability				
Expenses related to IPO preparations	15,210	-	-	-
<b>Adjusted EBIT</b>	<b>34,320</b>	<b>13,301</b>	<b>13,046</b>	<b>7,243</b>
<b>Adjusted EBIT margin, %</b>	<b>13.6</b>	<b>6.9</b>	<b>8.8</b>	<b>5.6</b>

## EQUITY/ASSETS RATIO

The company has chosen to report the key performance measure Equity/assets ratio, since it reflects the company's long-term solvency.

(AMOUNTS IN SEK 000s)	2016	2015	2014	2013
Total assets	309,924	135,977	105,958	86,128
Equity	234,138	68,277	51,818	49,621
<b>Equity/assets ratio, %</b>	<b>75.5</b>	<b>50.2</b>	<b>48.9</b>	<b>57.6</b>

## RETURN ON EQUITY (ROE)

The company has chosen to report the key performance measure Return on equity (ROE), since it shows how effectively the company uses its assets to generate profits.

(AMOUNTS IN SEK 000s)	2016	2015	2014	2013
Equity	234,138	68,277	60,300	51,818
Average adjusted equity	151,208	64,289	56,059	50,720
Profit for the period	15,736	10,796	10,749	1,931
<b>Return on equity (ROE), %</b>	<b>10.4</b>	<b>16.8</b>	<b>19.2</b>	<b>3.8</b>

# BOARD OF DIRECTORS

Edgware's board of directors consists of seven ordinary members, including the chairman of the board, with no deputy board members, all of whom are elected for the period up until the end of the annual shareholders' meeting 2017. The table below shows the members of the board of directors, when they were first elected and whether they are considered to be independent of the Company and/or the Company's principal owners.

Name	Position	Member since	Independent of	
			The Company and executive management	The Company's principal owners
Michael Ruffolo	Chairman	2013	Yes	Yes
Staffan Helgesson	Board member	2009	Yes	No
Jason Pinto	Board member	2012	Yes	No
Sigrun Hjelmqvist	Board member	2016	Yes	Yes
Lukas Holm	Board member	2016	No	Yes
Kent Sander	Board member	2016	Yes	Yes
Karl Thedéen	Board member	2016	Yes	Yes



**MICHAEL RUFFOLO**

Born 1961. Chairman of the board since 2013.

**Education:** Master of Science in business administration, Harvard Business School.

**Other current assignments:** None.

**Previous assignments (last five years):** Managing director and board member of Internap Corporation and Crossbeam Systems, Inc. Board member of Pacnet Corporation.

**Shareholding in the Company:** Michael Ruffolo holds no shares in the Company, but a call option entailing a right to acquire a total of 259,681 shares in the Company issued by Creandum I Annex Fund AB.<sup>1)</sup>



**STAFFAN HELGESSON**

Born 1968. Board member since 2009.

**Education:** Bachelor's degree in business administration, Lund University.

**Other current assignments:** Board member of Epidemic Sound AB, Football Addicts AB, Distribution GmbH, 8Fit GmbH, itslearning AS, Digitala Fotbollsakademin Sverige AB & IF Brommapojkarna.

**Previous assignments (last five years):** Chairman of the board of directors of Creandum AB and Kalvgrund AB. Board member of Norstel Aktiebolag, XBT Inhouse AB, XBT Partner AB and XBT Provider AB (publ). Deputy board member of Cint AB, Ooyala AB and Carolinas Matkasse AB.

**Shareholding in the Company:** Staffan Helgesson holds no shares in the Company.<sup>1)</sup>



**JASON PINTO**

Born 1976. Board member since 2012.

**Education:** Ph.D in physics, University of Cambridge.

**Other current assignments:** Board member of Cambridge Clean Energy Ltd.

**Previous assignments (last five years):** Board member of Linkdex Ltd., ComQi Ltd. and Forth Dimension Displays Ltd. Partner at Amadeus Capital Partners Ltd. Supervisory Board Observer of Liquavista B.V.

**Shareholding in the Company:** Jason Pinto holds no shares in the Company.<sup>1)</sup>

<sup>1)</sup> Shareholding per December 31, 2016.



**SIGRUN HJELMQVIST**



Born 1956. Board member since 2016.

**Education:** Master of Science and technology licentiate's degree in technical physics, Royal Institute of Technology.

**Other current assignments:** Chairman of the board of directors of ALMI Stockholm Investeringsfond AB, Addnode Group Aktiebolag (publ), ALMI Invest Stockholm AB, ALMI Invest Östra Mellansverige AB and Fouriertransform Aktiebolag. Board member of Facesso AB, Elous Vind Aktiebolag (publ), Ragn-Sells företagen AB and IGOT AB.

**Previous assignments (last five years):** Chairman of the board of directors of Nordic Iron Ore AB, ExeoTech Invest AB (publ) (C2SAT holding AB (publ)), C2SAT communications AB, ExeoTech Food Ventures AB (C2SAT Technology AB) and ExeoTech Ventures AB (C2Sat Production AB). Board member of Setra Group AB, IFL & HHS Holding AB, Fingerprint Cards AB, Stockholm School of Economics, Executive Education AB, Ekovind AB, Silex Microsystems AB, Bluetest Aktiebolag, One Media Holding AB (publ), Com Hem Communications AB and Orexplore AB.

**Shareholding in the Company:** Sigrun Hjelmqvist holds 10,000 shares in the Company.<sup>1)</sup>

**LUKAS HOLM**



Born 1966. Board member since 2016.

**Education:** Master of Science in electrical engineering, Royal Institute of Technology.

**Other current assignments:** Board member and managing director of Valesco AB. Board member of Lukas Holm Invest AB. Partner of Kairos Konsult HB.

**Shareholding in the Company:** Lukas Holm holds 518,249 shares in the Company.<sup>1)</sup>

**KENT SANDER**



Born 1953. Board member since 2016.

**Education:** Master of Science in economics, Stockholm University.

**Other current assignments:** Chairman of the board of directors of Tobii AB (publ), Mr Green & Co AB (publ), OnePhone Holding AB and Triboron International AB. Board member of Expander Business Consulting AB and BT OnePhone Ltd. Board member and owner of KR Sander Associates AB and Sander Capital Consulting AB. Partner of Laser Hair Care AB. Deputy board member of OnePhone UK SP AB.

**Previous assignments (last five years):** Chairman of the board of directors of Transmode Systems AB, Transmode AB and mFormation Technologies Inc. Board member of KPN OnePhone Holding BV and Trux Holding AB. Board member and partner of BrainHeart Partners AB. Partner of BrainHeart General Partner KB.

**Shareholding in the Company:** Kent Sander holds 10,000 shares in the Company.<sup>1)</sup>

**KARL THEDÉEN**



Born 1963. Board member since 2016.

**Education:** Master of Science in systems engineering, Royal Institute of Technology.

**Other current assignments:** Board member and managing director of Transmode Systems AB and Transmode AB. Board member of Semcon AB.

**Previous assignments (last five years):** Board member of Latour Industries AB, Kabona AB and HMS Networks AB. Managing director of Transmode Incentive AB.

**Shareholding in the Company:** Karl Thedéen holds 10,000 shares in the Company.<sup>1)</sup>

<sup>1)</sup> Shareholding per December 31, 2016.

# EXECUTIVE MANAGEMENT

**JOACHIM ROOS**



Born 1960. CEO since 2006.

**Education:** Licentiate's degree in computer engineering, Lund Technical University.

**Other current assignments:** Board member and owner of Joachim Roos Invest AB.

**Previous assignments (last five years):** None.

**Shareholding in the Company:** Joachim Roos holds 518,226 shares in the Company.<sup>1)</sup>

**STEEVE FÜHR**



Born 1971. CFO & HR since 2015.

**Education:** Master of Science in economics, Stockholm University.

**Other current assignments:** Owner of Academy of Business Stockholm.

**Previous assignments (last five years):** Finance Director Nordic of Acer Sweden AB. CFO of Pocket Shop AB.

**Shareholding in the Company:** Steeve Führ holds 1,034 shares and 32,000 warrants in the Company.<sup>1)</sup>

**GÖRAN APPELQUIST**



Born 1964. CTO since 2011.

**Education:** Ph.D in physics, Stockholm University.

**Other current assignments:** None.

**Previous assignments (last five years):** None.

**Shareholding in the Company:** Göran Appelquist holds 78,980 shares in the Company.<sup>1)</sup>

**JOHAN BOLIN**



Born 1975. VP Products since 2014.

**Education:** Master of Science in electrical engineering, Royal Institute of Technology.

**Other current assignments:** Board member of Appalanche AB.

**Previous assignments (last five years):** None.

**Shareholding in the Company:** Johan Bolin holds 1,034 shares and 22,000 warrants in the Company.<sup>1)</sup>

**TOM SCHMITT**



Born 1965. VP Sales since 2010.

**Education:** Master of Science in computer science, FH Darmstadt.

**Other current assignments:** None.

**Previous assignments (last five years):** None.

**Shareholding in the Company:** Tom Schmitt holds 157,980 shares in the Company.<sup>1)</sup>

<sup>1)</sup> Shareholding per December 31, 2016.



**MAGNUS LARSSON**

Born 1970. VP Operations since 2013.

**Education:** Bachelor of engineering, Royal Institute of Technology.

**Other current assignments:** None.

**Previous assignments (last five years):** None.

**Shareholding in the Company:** Magnus Larsson holds no shares, but 32,000 warrants in the Company.<sup>1)</sup>



**RICHARD BRANDON**

Born 1963. CMO since 2016.

**Education:** Bachelor of technology in physics, Imperial College London.

**Other current assignments:** Director and owner of Stalking Horse Marketing Ltd.

**Previous assignments (last five years):** CMO for Intune Networks Ltd. and MLL Telecom Ltd.

**Shareholding in the Company:** Richard Brandon holds no shares, but 22,000 warrants in the Company.<sup>1)</sup>



**RICHARD BERG**

Born 1967. General Counsel since 2013.

**Education:** Degree of Master of Laws (L.L.M.), Lund University.

**Other current assignments:** Board member and owner of Legal-etc. Stockholm AB.

**Previous assignments (last five years):** Board member of GKS Drift AB. Legal Counsel for Pricer AB (publ) and Legal & Commercial Director for Giesecke & Devrient 3S AB.

**Shareholding in the Company:** Richard Berg holds 1,034 shares and 22,000 warrants in the Company.<sup>1)</sup>



**GUNILLA WIKMAN**

Born 1959. IR Manager since 2016.

**Education:** Master of Science in economics, Stockholm School of Economics.

**Other current assignments:** Part time IR manager for Resurs Holding AB. Board member of Hoist Finance AB (publ), HOIST Kredit Aktiebolag, AMF Fonder AB. Board member and owner of Carrara Communication AB.

**Previous assignments (last five years):** IR manager for Eltel Networks AB. Board member of SJ AB, Oatly AB and HMS Networks AB.

**Shareholding in the Company:** Gunilla Wikman holds 8,584 shares in the Company.<sup>1)</sup>



**BENGT-ARNE MOLIN**

Born 1958. VP R&D since 2016.

**Education:** Ph.D in electrical engineering, Lund University.

**Other current assignments:** Board member and owner of B A Molin AB.

**Previous assignments (last five years):** Chairman of the board of directors, board member, managing director, VP and deputy board member of Sony Mobile Communications AB. General Manager/VP of Sony Ericsson Mobile Communications AB.

**Shareholding in the Company:** Bengt-Arne Molin holds no shares in the Company.<sup>1)</sup>

<sup>1)</sup> Shareholding per December 31, 2016.

# DIRECTORS' REPORT

The Board of Directors and CEO of Edgware AB (publ.) hereby submit their annual report and consolidated financial statements for the financial year 2016.

## TYPE AND FOCUS OF THE BUSINESS

Edgware is a leading company in TV and video distribution solutions specifically aimed at those providing services via operator networks or an open Internet. The company provides infrastructure that is specially adapted to allow the network operators to offer a wide range of video services with the intention of generating new revenue streams and increasing loyalty among existing customers. Edgware's product range consists of hardware and software used to build a content distribution network optimised for TV and video distribution over IP and cable infrastructure – what we call a TV CDN (content delivery network) Edgware's products and solutions support both traditional pay TV services and the most advanced new web TV services.

In addition to being used by operators to build their own video services, the company also has products aimed at content owners and TV companies wanting to utilise an open Internet to reach viewers. These players are known as over-the-top suppliers or OTTs. This segment will be increasingly significant going forward, as the TV landscape is transformed and with the expected increases in traffic volumes.

2016 was a historic year for Edgware. Strong growth, international customer successes, important product launches, a stronger organisation and a listing on NASDAQ Stockholm. Compared with the preceding year, growth in net sales is being driven by both new and existing customers, although existing customers accounted for most of the 2016 increase in net sales. In addition, both EMEA and APAC are showing strong growth and the decline in AMERICAS is mainly due to the largest customer in the region implementing a substantial new installation of Edgware products at the end of 2015. The installation was finalised in the first quarter of 2016. Edgware currently has in excess of 150 customers in more than 60 countries.

In 2016, net sales rose year-on-year in all three customer-categories: Telco operators, OTTs/ Telco operators were the largest customer category during the year, while OTTs/broadcasters were the customer category that showed the highest growth rate.

The company currently has self-support and customer support staff in all of its regions, which is part of its strategy to follow its customers' growth in local markets. In addition to a subsidiary in the US and an office in Hong Kong, Edgware has sales and technical sales support staff in several countries such as Belgium, Brazil, Mexico, the Netherlands, Singapore, Spain, Switzerland, the UK and Germany.

## SIGNIFICANT EVENTS AND FUTURE DEVELOPMENT

The company's focus has shifted to working more actively with customers who can help to scale up its business over a longer period as an additional measure to secure growth.

The company's products map well with the market's needs. Their unique properties in terms of scalability and flexibility in a single platform that can be used simultaneously for different services have become increasingly important as customers' traffic volumes increase and the number of TV and video services multiplies.

2016 started with large-scale orders from customers in Central America. This was followed in the second and third quarter by smaller and larger orders from international customers. For example, solutions were supplied to TVB of Hong Kong that enabled TVB to broadcast the Olympic games over the Internet. This was an initiative that subsequently led to TVB abandoning its licence as a TV operator in favour of focusing solely on Internet-based high-definition TV.



This trend within OTT/Broadcasters continues at a rapid pace, a trend that should benefit Edgware's streaming technology. During 2016, our technological know-how and products attracted considerable attention at several trade fairs. We received a number of industry awards for our innovativeness and have been contacted by multiple potential partners and customers.

The company was listed on NASDAQ OMX Stockholm main list and trading in the share commenced on 9 December. The initial trading price was set at SEK 29. Before the company was listed on the stock market, it completed a 1:20 share split, a bonus issue of 11,093,855 shares with a quota value of SEK 0.05 which increased share capital by SEK 554,692.75 and a new issue of 5,172,413 shares with a quota value of SEK 0.05 which increased share capital by SEK 258,620.65. Following the new issue, Edgware has 30,043,008 shares.

As a direct result of the market listing, the company has honed the efficiency of all internal functions, while also ensuring that the Board and corporate governance are stronger and more professional.

#### DEVELOPMENT OF OPERATIONS, FINANCIAL POSITION AND PROFIT (CONSOLIDATED)

(SEK 000)	2016	2015	2014
Net sales	252,249	203,556	148,175
Operating income	19,110	13,301	13,035
Pre-tax profit	22,327	13,969	16,823
Total assets	309,924	135,977	105,958
Equity/assets ratio <sup>1,3)</sup>	75.5%	50.2%	48.9%
Return on equity <sup>2,3)</sup>	10.4%	16.8%	19.2%
Average no. of employees	80	71	64
Number of employees, including consultants subject to terms and conditions equivalent to employment, in part via Business Sweden, as per 31 December <sup>3)</sup>	92	89	71

1) Adjusted equity/total assets

2) Profit for the year/Average adjusted equity

3) Financial ratios that are not defined under IFRS

More KPIs are presented on page 34, as are definition of alternative performance measures.

#### COMMENTS ON DESCRIPTION OF BUSINESS, RESULTS AND FINANCIAL POSITION

##### NET SALES

Net sales for 2016 amounted to SEK 252.3 million (203.6), up SEK 23.9 per cent year-on-year. Adjusted for FX effects, the increase was 22.5 per cent. Compared with the preceding year, growth in net sales is being driven by both new and existing customers, although existing customers accounted for most of the 2016 increase in net sales. In addition, both EMEA and APAC are showing strong growth and the decline in AMERICAS was mainly due to the largest customer in the region implementing a substantial new installation of Edgware products at the end of 2015. The installation was finalised in the first quarter of 2016.

Net sales in EMEA (Europe, the Middle East and Africa) increased to SEK 188.8 million (135.8) and in APAC (Asia-Pacific) to SEK 22.1 million (12.5). Net sales in AMERICAS (North and South America) decreased to SEK 41.4 million (55.3).

Of total net sales in 2016, the Products business stream (hardware, software and licences) accounted for 82.5 per cent (82.4), while the remaining 17.5 per cent (17.6) was in Services (maintenance, support and other services). Recurring support revenue from existing customers amounted to SEK 37.2 million (32.6), corresponding to 84.3 per cent (91.1) of Services' net sales.

The largest customer accounted for 23.0 per cent (29.0) of Edgware's total net sales, the three largest for 41.9 per cent (51.0) and the five largest for 55.4 per cent (62.0).

##### PROFIT

Gross profit for full-year 2016 amounted to SEK 175.6 million (140.9), corresponding to a gross margin of 69.6 per cent (69.2).

Operating expenses amounted to SEK 156.5 million, up SEK 28.9 million year-on-year. The increase was mainly due to higher research and development (R&D) expenses, following the recruitment of more employees and consultants within this function. For example, we started two development teams in Vietnam during 2016.

Development expenses of SEK 8.8 million (9.3) were capitalised in 2016, accounting for 14.2 per cent (18.9) of the company's total R&D expenses. At the same time, amortisation of previously capitalised development expenses rose to SEK 6.6 million (3.7). This amortisation is component of the company's cost of goods sold and thus impacts Edgware's gross profit, while development expenses, and capitalisation of these expenses, comprise a component of the company's operating expenses. In total, this had a favourable impact of SEK 2.1 million (5.6) on operating profit. On average over the past four years, Edgware has capitalised 15 per cent of the total cost of research and development. 2016 was a more normal year in respect of new development projects, in contrast to 2015, when a large number of both software and hardware projects were under way simultaneously.

In addition, administrative expenses increased, due to non-recurring items in connection with the company's IPO. These costs totalled SEK 28.2 million (0) in 2016, of which SEK 13.0 million (0) was booked against equity and SEK 15.2 million (0) under administration.

Operating income before depreciation and amortisation (EBITDA) was SEK 29.0 million (19.3), up SEK 9.7 million compared with 2015. Adjusted EBITDA, adjusted for items affecting comparability related to the IPO, was SEK 44.2 million (19.3).

Operating income (EBIT) for 2016 was SEK 19.1 million (13.3), up SEK 5.8 million year-on-year. Adjusted for nonrecurring items related to IPO preparations, adjusted EBIT was SEK 34.3 million (13.3). Adjusted for items affecting comparability, operating income corresponds to an adjusted operating margin of 13.6 per cent (6.5).

Profit for 2016 amounted to SEK 15.7 million (10.8), up SEK 4.9 million year-on-year. The effective tax rate changed between years because subsidiaries that did not capitalise deferred tax assets experienced relatively larger losses in 2016.

Net financial items for the year amounted to SEK 3.2 million (0.7), mainly as a result of exchange gains on bank balances in foreign currencies, which amounted to SEK 2.2 million (1.4) net, primarily related to USD, 52 per cent. EUR and MXN accounted for 26 per cent and 27 per cent of FX effects, respectively. Net interest income amounted to SEK -0.1 million (0).

Pre-tax profit amounted to SEK 22.3 million (14.0) and profit for the year was SEK 15.7 million (10.8), which is equivalent to a net margin of 6.2 per cent (5.3).

## CASH FLOW AND FINANCIAL POSITION

Cash flow for 2016 amounted to SEK 171.3 million (5.3). SEK 142.6 million net was contributed to Edgware in connection with the new issue when the company was listed on the market. Continuing operations generated positive cash flow of SEK 45.1 million (15.3). The strong upswing compared with 2015 resulted from a combination of improved cash flow from operating activities and a decrease in tied-up working capital.

Cash and cash equivalents amounted to SEK 194.6 million (21.1) at year-end. Equity was SEK 234.1 million (68.3) with an equity/assets ratio of 75.5 per cent (50.2).

## PARENT COMPANY

The parent company's net sales during the year totalled SEK 249.5 million (196.0), up 27.3 per cent and profit for the period was SEK 22.9 million (-5.3). The result for 2015 included an impairment loss of 19.6 (0) on shares in the wholly owned subsidiary Edgware Inc. SEK 0.9 million of the impairment loss was reversed in 2016. Since the Group's business and net sales are predominantly generated in the parent company, reference is made to the Group for additional comments in the Annual Report.

(SEK 000)	2016	2015	2014
Net sales	249,549	195,989	145,602
Operating income	25,125	16,763	21,785
Pre-tax profit	29,401	-2,114	18,553
Total assets	311,935	127,043	114,069
Equity/assets ratio <sup>1)2)</sup>	76.0%	50.3%	62.4%

1) Adjusted equity/total assets

2) Financial ratios that are not defined under IFRS

More KPIs are presented on page 34, as are definitions of alternative performance measures.

## SIGNIFICANT RISKS AND UNCERTAINTIES

Edgware's operations, sales and results are affected by a number of internal and external risk factors. The company has a continuous process for identifying and assessing how each risk should be managed. The main risks facing the company are delivery risk, technical development risk and financial risk. The financial risks are described under the accounting policies as well as in the notes.

## **DELIVERY RISK**

In addition to supplying hardware and software, Edgeware also performs installation and integration services. Any delays to these services could result in claims for compensation and damages. The company is insured against potential damages incurred by its products or through improper handling by its staff. In addition, the company's products undergo expanded product testing before delivery. In order to counteract possible delays, Edgeware added significantly to its pre-sales and post-sales human resources during the year. The company performs continuous resource and delivery planning, as well as evaluations of previous customer projects.

## **TECHNICAL DEVELOPMENT**

Edgeware operates in a dynamic and changing industry that is characterised by rapid technical advances and intense competition. If the company fails to keep pace with technological development, this could have a negative impact on revenues and costs. The collective knowledge and expertise of the research and development department helps to minimise this risk, along with wide-ranging experience from other functions and close cooperation with our major customers. The company's assessment is that the total technological development risk is normal for this type business.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The company's primary financial risks are credit risk, currency risk and liquidity risk. Credit risk results from credit that the company has granted to its customers. Currency risk arises in connection with the company's currency exposure, which is due to its international business. Liquidity risk derives from a combination of seasonal variations in sales and a mismatch in payment terms to suppliers and from customers. For additional information about the company's financial risks and risk management, reference is made to Note 4.

## **RESEARCH AND DEVELOPMENT**

Edgeware's research and development department consists of the Products, CTO office and R&D functions. There is a strong emphasis on lean and agile work methods.

Edgeware complies with IAS 38 concerning capitalisation of development expenses. Costs for research and maintenance of products (including directly attributable costs) are expensed as they are incurred.

R&D projects consist of maintenance of existing products and functionality or technical development of functionality, which is primarily aimed at individual customers or a limited part of the market, as well as strategic development of products, which is expected to target a large part of the market and generate revenues for a protracted period.

The way development activities is managed and allocated is determined by the Products function in consultation with CTO and R&D. Strategic development is governed by Edgeware's Roadmap, and newly developed functions are given general availability through dedicated system releases. Strategic development is capitalised, and impairment begins when it is made generally available.

Directly attributable expenses are carried forward as part of the product. These include expenses for employees and consultants, as well as a reasonable share of indirect costs. Other development expenses that do not fulfil the criteria above are expensed as they are incurred. During 2016, SEK 8.8 million (9.3) was capitalised, which is 14.4 per cent (18.9) of the net cost of research and development in 2016. The value of capitalised expenditures on research and development amounted to SEK 14.7 million (12.6) on 31 December 2016.

## Impact on operating profit and gross margin from capitalisation of development expenses

		2013	2014	2015	2016
<b>A Net sales</b>	as in IS	<b>128,255</b>	<b>148,175</b>	<b>203,556</b>	<b>252,249</b>
<b>B Gross income</b>	as in IS	<b>90,490</b>	<b>106,748</b>	<b>140,941</b>	<b>175,608</b>
Gross margin (%)	B/A	70.6	72.0	69.2	69.6
C Amortisation of capitalised development expenses	as in IS	-627	-2,244	-3,746	-6,614
<b>D Gross margin before amortisation of capitalized development expenses</b>	C-B	<b>91,117</b>	<b>108,992</b>	<b>144,688</b>	<b>182,219</b>
Gross margin excluding amortisation, %	D/A	71.0	73.6	71.1	72.2
<b>E Total operating expenses</b>	as in IS	<b>-83,246</b>	<b>-93,702</b>	<b>-127,640</b>	<b>-156,495</b>
<b>F Research and development expenses according to income statement</b>	as in IS	<b>-31,317</b>	<b>-32,767</b>	<b>-39,999</b>	<b>-51,901</b>
Research and development expenses versus Net sales, %	F/A	-24.4	-22.1	-19.7	-20.6
G Capitalised development expenses	as in IS	5,391	4,495	9,330	8,759
<b>H Total cost for research and development</b>	G-F	<b>-36,708</b>	<b>-37,262</b>	<b>-49,329</b>	<b>-60,660</b>
Capitalised development expenses versus total cost for research and development, %	H/G	14.7	12.1	18.9	14.4
<b>Operating income (EBIT)</b>	as in IS	<b>7,243</b>	<b>13,035</b>	<b>13,301</b>	<b>19,110</b>
I Impact on operating profit from capitalised development expenses and amortisation	G+C	4,764	2,251	5,584	2,146
		<b>Dec 2013</b>	<b>Dec 2014</b>	<b>Dec 2015</b>	<b>Dec 2016</b>
<b>J Total assets according to balance sheet</b>	as in BS	<b>86,128</b>	<b>105,958</b>	<b>135,976</b>	<b>309,924</b>
Total equity	as in BS	51,816	60,299	68,275	234,138
Cash and cash equivalents	as in BS	13,036	17,205	21,057	194,606
K Capitalised expenditure on development work according to the balance sheet	as in BS	4,764	7,015	12,598	14,743
Capitalised expenditure on development work versus Total assets, %	K/J	5.5%	6.6%	9.3%	4.8%

The chosen period is 2013-2016, when the company switched to IFRS in 2013 and thus commenced capitalisation of development expenses.

## EMPLOYEES

The average number of employees in 2016 was 80 (71). The company has staff in 11 countries, divided into four main teams consisting of Sales and marketing, Administration, Research and development and Post-sales. As of 31 December 2016, the distribution among the various teams and regions consisted of 75 (78) people, 69 (71) of whom are in EMEA, 6 (7) in AMERICAS and 0 (0) in APAC. As per 31 December 2016, the distribution by team was Sales and marketing 13 (15), Administration 9 (10), Research and development 41 (41) and Post-sales 12 (12). See Note 12 for further information on the number of employees.

In addition to employees as per 31 December, Edgware also has employees hired through Business Sweden 9 (7) and consultants with employment-like agreements 8 (4) divided among the regions EMEA 7 (4),

AMERICAS 5 (3) and APAC 5 (4). Edgware also engaged several temporary consultants, including an outsourced team of 10 people in Vietnam, who support the research and development function.

## GUIDELINES FOR REMUNERATION AND OTHER EMPLOYMENT TERMS FOR SENIOR EXECUTIVES AND BOARD OF DIRECTORS

Fees and other remuneration to the members of the board including the Chairman are resolved by a shareholders' meeting. At the annual general meeting (AGM) held on 30 June 2016, it was resolved that the fee to the chairman of the board should be USD 150,000. The AGM further resolved that fees totalling SEK 450,000 would be payable to board members not employed by the company nor by the company's major shareholders, which corresponds to SEK 150,000 each to Karl Thedéen, Sigrun Hjelmqvist and Kent Sander. The members of the board of directors are not entitled



to any benefits following termination of their assignments as directors of the board. Fees received for 2016 are recognised in Note 12.

The extraordinary shareholders' meeting held on 14 November 2016 adopted guidelines for remuneration to the CEO and other senior executives. The remuneration to the executive management shall consist of fixed salary, variable remuneration, long-term variable remuneration and pension provisions.

The total remuneration is to be based on market terms, be competitive, well balanced and not wage leading while contributing to good business ethics and company culture. Fixed salary is to be based on the executive management's competence and area of responsibility, be individual and is normally to be reviewed every year.

Senior executives may also be granted customary non-monetary benefits, although such benefits should not constitute a material part of the total remuneration. The vesting period for the LTI programme must be at least three years. The LTI programme is to be based on shares or share-related securities. The purpose of the LTI is to secure long-term incentives linked to Edgware's development. Every share-based LTI requires approval of the shareholders before implementation.

Agreements regarding pensions are to be based on fixed premiums and formulated in accordance with the levels, practice and collective agreements applicable in the country of employment. The board of directors is to be entitled to deviate from the guidelines if there is special reason to do so in an individual case.

## EDGEWARE'S SHARE

The company share was listed on NASDAQ OMX Stockholm main list and trading in the share commenced on 9 December. The initial trading price was set at SEK 29. Before the company was listed on the stock market, it completed a 1:20 share split, a bonus issue of 11,093,855 shares with a quotient value of SEK 0.05 which increased share capital by SEK 554,692.75 and a new issue of 5,172,413 shares with a quotient

value of SEK 0.05 which increased share capital by SEK 258,620.65. Following the new issue, Edgware has 30,043,008 shares. Cash flow in connection with the market listing was positively affected by a contribution of SEK 139,775,000 net after deductions for issuing expenses. For additional information on Edgware's share, see section the Share and shareholders, page 32.

## THE ENVIRONMENT AND CODE OF CONDUCT

Edgware endeavours to comply with the 10 principles of the UN Global Compact concerning human rights, labour law, the environment and anti corruption in its business.

## PROPOSED APPROPRIATION OF RETAINED EARNINGS (SEK)

Funds available for distribution by the AGM

Earnings brought forward	205,070,556
Profit for the year	22,949,748
	<b>228,020,304</b>

### The Board of Directors proposes that

to be carried forward	228,020,304
	<b>228,020,304</b>

For the Parent Company's results and financial position in other respects, reference is made to the following income statements and balance sheets, statements on changes in equity, cash flow statements and notes. All amounts are stated in SEK 000s unless otherwise indicated.

# CORPORATE GOVERNANCE REPORT

The corporate governance report for Edgware (the company) is presented below, and has been reviewed by the company's auditor. The report describes the division of responsibilities within Edgware and also how the company's three decision-making bodies, the annual general meeting, board of directors and CEO, operate and interact.

## APPLICATION OF SWEDISH CODE OF CORPORATE GOVERNANCE

Edgware AB (publ) is a public Swedish stock corporation which is primarily governed by the following regulations:

- The Swedish Companies Act
- The Rule Book for Issuers NASDAQ Stockholm
- Edgware's own articles of association and
- The Swedish Corporate Governance Code (the Code).

The company's board of directors has decided that Edgware will apply the Code from the first day of listing on NASDAQ Stockholm (9 December 2016), even though the Code does not need to be fully applied until the first annual general meeting held the year after the listing.

The Code applies to all Swedish companies with shares listed on a regulated market in Sweden. However, the company is not obliged to comply with every rule in the Code as the Code itself provides for the possibility to deviate from the rules, provided that all deviations and the chosen alternative solutions are described and the reasons therefore are explained in the corporate governance report (the so-called "comply or explain principle").

Edgware has no deviations from the Code to report in the corporate governance report for 2016.

## ARTICLES OF ASSOCIATION

The current articles of association were adopted on 28 November 2016. As specified in the articles of association, the company's business is to, directly or indirectly, conduct development and sales of electronic systems for network applications and any other activities compatible therewith.

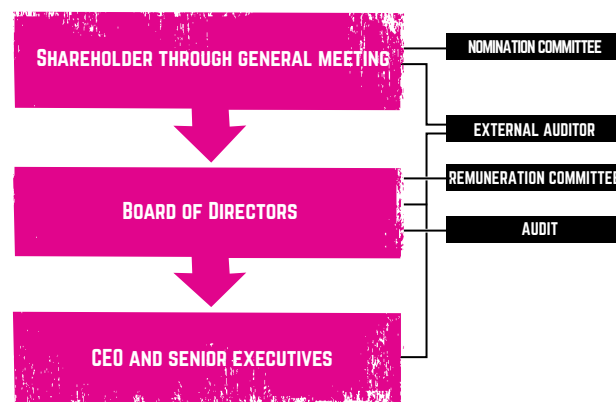
The articles of association establish, inter alia, the rights of shareholders, the number of members of the board and auditors, that the annual general meeting is to be held once a year within six months of the end of the financial year, how notice of the annual general meeting is to take place and that the company's registered office is in Stockholm.

The current articles of association are available on Edgware's website: [www.edgware.tv](http://www.edgware.tv)

## OWNERS

For information about the ownership structure and the largest owners, refer to page 32.

## CORPORATE GOVERNANCE



## ANNUAL GENERAL MEETING

According to the Swedish Companies Act (2005:551), the annual general meeting (AGM) is the company's highest decision-making body. At the AGM, all shareholders have the right to exercise their voting rights on key issues, such as the adoption of income statements and balance sheets, appropriation of the company's profit, discharge from liability of board members and the CEO, election of board members and auditors, and remuneration of the board and auditors.

Shareholders who wish to participate in the AGM must be included in the shareholders' register maintained by Euroclear Sweden on the day falling five workdays prior to the AGM, and notify the company of their intention

to participate no later than on the date stipulated in the notice convening the meeting. Shareholders may attend the AGM in person or by proxy and may also be accompanied by a maximum of two persons. Shareholders can usually register for shareholders' meetings in several different ways stated more specifically in the notice of the meeting. Shareholders are entitled to vote for all shares held by the shareholder.

In addition to the AGM, the company may convene extraordinary shareholders' meetings. Shareholders' meetings are to be held in Stockholm and notice of shareholders' meetings is to be published in the Swedish Official Gazette and be kept available on the company's website. At the time of the notice, an announcement with information that the notice has been issued is to be published in Svenska Dagbladet.

At the AGM for 2016, which was held on 30 June, Michael Ruffolo was elected as chairman of the board and Staffan Helgesson, Sigrun Hjelmquist, Jason Pinto, Lukas Holm, Karl Thedéen and Kent Sander as members of the board. The AGM also resolved on a targeted issue of shares.

In addition, on four occasions, 31 March, 29 April, 14 November and 28 November, the company held extraordinary shareholders' meetings to carry out new and bonus share issues, elect new members of the board, change its articles of association and company category and to implement a long-term share-based incentive scheme for senior executives and other issues related to the IPO on the main NASDAQ Stockholm list on 9 December 2016.

## **NOMINATION COMMITTEE**

According to the Code, the company is to have a nomination committee tasked with submitting proposals regarding the chair of general meetings, board member candidates (including the chairman), fees and other remuneration for each board member and remuneration for committee work, the election and remuneration of external auditors, and proposals for membership of the nomination committee for the next AGM.

At the extraordinary shareholders' meeting held on 14 November 2016, the meeting resolved that the nomination committee for the 2017 AGM should be appointed by representatives of the three largest shareholders listed in the shareholders' register maintained by Euroclear Sweden as of 31 January 2017, together

with the chairman of the board, who will also convene the first meeting of the nomination committee.

The member representing the largest shareholder is to be appointed chairman of the nomination committee, unless the nomination committee unanimously appoints someone else. If one or more of the shareholders that appointed members to the nomination committee is no longer among the three largest shareholders earlier than three months before the AGM, members appointed by these shareholders are to withdraw and the shareholder that thereafter become one of the three largest shareholders can appoint their representatives. If a member withdraws from the nomination committee before the nomination committee's work is completed and the nomination committee considers it necessary to replace him or her, such a replacement representative is to be appointed by the same shareholder or, if the shareholder is no longer one of the largest shareholders, the largest shareholder in order.

Changes in the composition of the nomination committee must be announced immediately. The composition of the nomination committee for the AGM is normally to be announced no later than six months before the meeting.

No remuneration is to be paid to members of the nomination committee. Edgware is to pay any expenses that the nomination committee may incur in its work. The term of office for the nomination committee ends when the composition of the subsequent nomination committee has been announced.

On 17th of February 2017 the appointment of the nomination committee in Edgware was announced, which consists of representatives of the three largest shareholders as of 31 January 2017, Amadeus Capital Partners (23.1%), Creandum (18.8%) and Swedbank Robur Fonder (8.7%). The owners are represented by Kent Sander, Daniel Blomquist and Annika Andersson. The chairman of the board Michael Ruffolo convened the first meeting.

## **BOARD OF DIRECTORS**

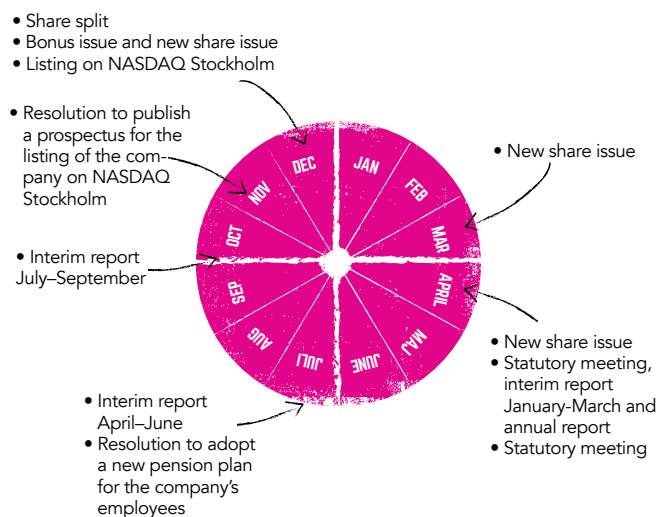
The board of directors is the company's highest decision-making body after the AGM. In accordance with the Swedish Companies Act, the board is responsible for the management and organisation of the company, which means the board is responsible for establishing targets and strategies, ensuring that procedures and

systems are in place for the evaluation of set targets, continuously evaluating the company's financial position and performance, and evaluating executive management, among other tasks. The board is also responsible for ensuring that the annual report and interim reports are prepared on time. Moreover, the board of directors appoints the CEO. Members of the board are normally appointed by the AGM for the period until the end of the following AGM.

According to the company's articles of association, the members of the board elected by the shareholders' meeting should number no fewer than three and no more than ten and have no deputy members. According to the Code, the chairman of the board is to be elected by the AGM and have a special responsibility for leading the work of the board of directors and for ensuring that the work of the board is efficiently organised.

The board of directors applies written rules of procedure, which are revised annually and adopted by the statutory board meeting every year. The rules of procedure govern, inter alia, the practices of the board of directors and the functions and the division of work between the members of the board and the CEO as well as between the board of directors and its committees. At the statutory board meeting, the board also adopts instructions for the CEO, including instructions for financial reporting.

The board of directors meets according to an annual predetermined schedule. In addition to these meetings, additional board meetings can be convened to address issues which cannot be postponed until the next scheduled board meeting. Besides the board meetings, the chairman of the board and the CEO continuously discuss the management of the company.



## ANNUAL CYCLE FOR BOARD MEETINGS IN 2016

Currently, the company's board of directors consists of seven ordinary members elected by the shareholders' meeting, who are presented in section "Board of directors and senior executives" and also on the Edgware website: [www.edgware.tv](http://www.edgware.tv)

During 2016, the board of directors held 16 meetings, two of which were statutory meetings. The frequent meetings were a result of an intensive year with preparations ahead of the IPO on NASDAQ Stockholm. Discussions by the board of directors in 2016 included:

<b>15 March</b>	Decision on a new share issue.
<b>14 April</b>	Decision on a new share issue.
<b>29 April</b>	Statutory meeting, interim report January-March 2016 and annual report 2015.
<b>30 June</b>	Statutory meeting.
<b>28 July</b>	Interim report April-June 2016. Resolution to adopt a new pension plan for the company's employees.
<b>26 October</b>	Interim report July-September 2016.
<b>8 November</b>	Resolution to disclose the company's intention to admit the company's shares to trading on NASDAQ Stockholm.
<b>28 November</b>	Resolution to publish a prospectus for the listing of the company on NASDAQ Stockholm.

Remuneration of the board of directors is reported in the section Remuneration and guidelines for remuneration in this corporate governance report.

## BOARD COMMITTEES

The board of directors has established two committees within its ranks: An audit and a remuneration committee.

### AUDIT COMMITTEE

According to the Code, the board of directors is to establish an audit committee comprising at least three board members.

Edgware has an audit committee consisting of three members: Karl Thedéen (chairman), Staffan Helgesson and Sigrun Hjelmqvist. Without affecting the other responsibilities and tasks of the board, the audit committee is to monitor the company's financial reporting, monitor the effectiveness of the company's internal



control, internal audit and risk management, keep itself informed of the audit of the annual accounts and the consolidated accounts, examine and monitor the auditor's impartiality and independence, paying special attention to whether the auditor provides the company services other than auditing services, and assist in the preparation of proposals on the AGM's election of auditors. The audit committee was formed on 29 April 2016. During 2016, three meetings were held, on 29 April, 19 August and 26 October.

## REMUNERATION COMMITTEE

Edgware has a remuneration committee consisting of three members: Kent Sander (chairman), Michael Ruffolo and Jason Pinto. The remuneration committee is to prepare proposals regarding the remuneration principles, remuneration and other terms of employment for the CEO and senior executives. The remuneration committee was formed on 29 April 2016. During 2016, two meetings were held, on 29 April and 16 August.

## CEO AND OTHER SENIOR EXECUTIVES

The CEO is subordinated to the board of directors and is responsible for the everyday management and operations of the company in accordance with the Swedish Companies Act, other laws, regulations, current laws for listed companies including the Code and current instructions for the CEO and other instructions and strategies determined by the board of directors.

The division of work between the board of directors and the CEO is set out in the rules of procedure for the board of directors and in the CEO's instructions.

The CEO is also responsible for preparing reports and compiling information from management prior to board meetings and for presenting the material at the board meetings. According to the instructions for financial reporting, the CEO is responsible for financial reporting in the company and as such is to ensure that the board receives adequate information to be able to evaluate the company's financial position.

The CEO is to continuously keep the board informed of the development of the company's business, the sales trend, the company's financial position and performance, the liquidity and credit situation, important business events and any other event, circumstance or condition that can be assumed to be of material significance to the company's shareholders.

The CEO and executive management are presented in section "Board of director and, senior executives and auditor" in the 2016 annual report on pages 38-41 and on Edgware's website: [www.edgware.tv](http://www.edgware.tv)

## REMUNERATION AND GUIDELINES FOR REMUNERATION

Fees and other remuneration to the members of the board, including the chairman, are resolved by the shareholders' meeting. At the AGM held on 30 June 2016, it was resolved that the fee to the chairman of the board should be USD 150,000. At the AGM it was further resolved to pay fees totalling SEK 450,000 to board members not employed by the company or by the company's major shareholders, which entails SEK 150,000 to each of Karl Thedéen, Sigrun Hjelmqvist and Kent Sander. The company's board members are not entitled to any benefits after their assignments

## BOARD ATTENDANCE

During the year, the Directors attended Board and committee meetings in the following extent

Board Member	No. of Board meetings	Attendance, %	No. of Committee meetings	Attendance, %
Michael Ruffolo	16	100	2 <sup>1)</sup>	100
Jason Pinto	16	100	2 <sup>2)</sup>	100
Staffan Helgesson	16	100	3 <sup>3)</sup>	100
Karl Henriksson <sup>4)</sup>	2	100	–	–
Lukas Holm <sup>5)</sup>	14	100	–	–
Karl Thedéen <sup>6)</sup>	14	100	3 <sup>7)</sup>	100
Sigrun Hjelmqvist <sup>8)</sup>	13	100	3 <sup>9)</sup>	100
Kent Sander	13	100	2 <sup>10)</sup>	100

1) Remuneration committee 2) Remuneration committee 3) Audit committee 4) Karl Henriksson left the Board at the extra general meeting on March 31, 2016 5) Karl Thedéen was elected to the Board at the extra general meeting on March 31, 2016 6) Audit committee 7) Sigrun Hjelmqvist was elected to the Board at the extra general meeting on March 31, 2016 8) Audit committee 9) Remuneration committee 10) Remuneration committee

on the board have ended. Fees received for 2016 are reported in Note 12 of the 2016 annual report.

The extraordinary shareholders' meeting held on 14 November 2016 adopted guidelines for remuneration of the CEO and other senior executives. The remuneration payable to senior executives is to consist of fixed salary, variable remuneration, long-term variable remuneration and pension provisions. A resolution for an LTI programme has been confirmed by the board of directors.

The total remuneration is to be based on market terms and be competitive and well-balanced but not market-leading, and is to contribute to sound ethics and a sound corporate culture. Fixed salary is to be based on the senior executives' expertise and areas of responsibility, is to be individual and is normally to be reviewed every calendar year.

Although senior executives may also be granted customary non-monetary benefits, such benefits are not to constitute a material part of the total remuneration. The vesting period for the LTI programme must be at least three years. The LTI programme is to be based on shares or share-based securities and to provide long-term incentives linked to Edgware's performance. Every share-based LTI programme is to require approval of the shareholders before implementation.

Agreements regarding pensions are to be based on fixed premiums and formulated in accordance with the levels, practices and collective agreements that apply in the country of employment. The board of directors is to be entitled to deviate from the guidelines if there is special reason to do so in an individual case.

Sweden's pension benefits are to reflect ITP1, are to be defined-contribution and constitute 4.5 percent of the pension qualifying salary up to 7.5 income base amounts and 30 percent on any excess amount.

#### **CURRENT EMPLOYMENT AGREEMENTS FOR THE CEO AND OTHER SENIOR EXECUTIVES**

Decisions regarding the current levels of remuneration and other terms of employment for the CEO and other senior executives have been made by the board. Refer to Note 12 for an overview of remuneration of the CEO and other senior executives for the 2016 financial year.

Pensions for the CEO and other senior executives follow the same guidelines as for other employed personnel. For amounts set aside for pensions or similar benefits, see Note 12.

A mutual period of notice of six months applies for the CEO and the company. For senior executives residing in Sweden, a period of notice of one to three months applies for the employee and the employer. For the employer, the period of notice according to the Swedish Employment Protection Act (1982:80) applies in the majority of cases, which means the actual period of notice for senior executives is longer than three months.

The CEO is entitled to severance pay amounting to six months' salary upon dismissal by the company. Except for the CEO, no employees are entitled to severance pay.

During 2016, the company has entered into a consultancy agreement with Bengt-Arne Molin, VP R&D, through a company owned by Bengt-Arne Molin. The agreement constitutes part-time work of two days per week, or 60 percent of full-time employment, and runs up to and including June 2017.

In 2016, the company entered into a consultancy agreement with Gunilla Wikman, IR Manager, through a company owned by Gunilla Wikman. The agreement runs up to and including the twelfth month after the first day of trading in the company's share at NASDAQ Stockholm and constitutes part-time work with an estimated workload of approximately 25–80 percent of full-time employment during the period.

Also during 2016, the company entered into a consultancy agreement with Richard Brandon, CMO, through a company owned by Richard Brandon. The agreement constitutes part-time work of four days per week, or 80 percent of full-time employment, and runs up to and including June 2017 and is automatically renewed by six-month periods.

#### **INTERNAL CONTROL**

The board of directors and the board's audit committee are responsible for internal control. At the group level, the CEO, along with the Group's finance department, Head of Legal and the CFO, is responsible for every legal entity for ensuring that the necessary controls are conducted together with adequate monitoring.

Internal control comprises the control of the company's and the Group's organisation, procedures and support measures. The objective is to ensure that reliable and accurate financial reporting takes place, that the company's and the Group's financial reporting is prepared in accordance with law and applicable accounting standards, the company's assets are pro-

tected and that other requirements are fulfilled. The system for internal control is also intended to monitor compliance with the company's and the Group's policies, principles and instructions. Internal control also comprises risk analysis and follow-up of incorporating information and business systems.

#### **INTERNAL CONTROL OF FINANCIAL REPORTING 2016**

The board of directors is responsible for internal control in accordance with the Swedish Companies Act and the Code. The Annual Accounts Act states that the corporate governance report is to include information regarding the most important aspects of a company's system for internal control and risk management in connection with financial reporting.

To date, Edgware has found no reason to establish a separate function for internal control as the company is still relatively small. Internal control is therefore carried out by the board's audit committee and by the board of directors itself.

#### **EXTERNAL REPORTING**

The board of directors monitors and evaluates the quality assurance of financial reporting through interim reports on the company's business development and earnings trend and by addressing the Group's financial situation at each scheduled board meeting. The company's auditor is present at two board meetings per year when the result of the audited year-end accounts and the third quarter accounts are presented. On these occasions, any changes to accounting policies relevant to the company are also presented. In connection with the review of the year-end accounts, the auditor also presents his or her views, without the presence of the executive management, on the organisation's ability and the competence of the finance function.

The internal system for reporting and control is built around annual financial planning, interim reporting and daily follow-up of business-related performance measures in order to facilitate external reporting and risk management.

The Group's legal and financial functions control and monitor the accuracy of reporting and compliance with internal and external regulations. In addition to compliance with laws and regulations, the functions also control compliance with internal rules and guidelines for the tasks of the financial control function. The company's internal rules and guidelines are gathered

in the company's policies, such as the financial policy, IT policy, and the Code of Conduct and in the employee handbook.

It is the responsibility of the audit committee to identify and handle any major financial risks and the risk of mistakes in financial reporting in order to ensure correct financial reporting. One specific priority is to identify processes where the risk of material error is relatively higher due to the complexity of the process or in contexts which involve substantial values.

During 2016, an extensive internal control process was prepared and implemented in consultation with the auditors. The project aimed to identify risks and any inaccuracies that could have a material impact on the company's financial reporting. The risks identified require internal control in order to minimise the risk of error. Control processes have been implemented for all risk areas identified. These control processes include steps for how the process should be implemented, that a person responsible is appointed, specifying the place for documentation, defining the control process and stipulating the person responsible for control. The controlling person is separate from the person who performs the process in line with the four-eye principle.

During the year, the financial function was also strengthened to enable the four-eye principle, to reduce workload on the existing workforce and to minimise dependence on individual employees in fields of work in the finance department. System improvements were implemented within IT and accounting. The company also carried out a test of its IT disaster plan with a successful outcome.

#### **AUDIT**

The auditor is to review the company's annual reports and financial statements as well as the management of the board and CEO. Following each financial year, the auditor is to submit an audit report and a consolidated audit report to the AGM. According to the company's articles of association, the company is to have a minimum of one and a maximum of two auditor and a maximum of two deputy auditor. Authorised public accountants or a registered public accounting firm is to be appointed as auditors and, when appropriate, deputy auditors. The company's auditor is Deloitte AB, with Erik Olin as the Auditor-in-Charge. In 2016, the remuneration of the company's auditor totalled SEK 2,530 thousand whereof SEK 840 thousand was for audit fee.

# CONSOLIDATED INCOME STATEMENT

(SEK 000)	NOTE	2016	2015
<b>Operating income</b>			
Net sales	5, 6	252,249	203,556
Cost of goods and services sold		-76,641	-62,615
<b>Gross income</b>		<b>175,608</b>	<b>140,941</b>
<b>Operating expenses</b>			
Selling expenses		-58,615	-58,128
Administrative expenses		-45,318	-28,824
Research and development expenses		-51,904	-39,999
Other operating expenses	7	-661	-689
<b>Operating profit</b>	8,9,10,11,12	<b>19,110</b>	<b>13,301</b>
<b>Profit/loss from financial items</b>			
Financial income	13	5,209	1,463
Financial expense	14	-1,992	-795
<b>Pre-tax profit</b>		<b>22,327</b>	<b>13,969</b>
Tax	15	-6,591	-3,173
<b>PROFIT FOR THE YEAR</b>		<b>15,736</b>	<b>10,796</b>
<b>Attributable to:</b>			
Owners of the parent		15,736	10,796
<b>Profit per share, SEK</b>	16		
Before dilution		0.63	0.45
After dilution		0.63	0.44



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(SEK 000)	NOTE	2016	2015
<b>Profit for the year</b>		<b>15,736</b>	<b>10,796</b>
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss:			
Translation differences for the year investment in subsidiary		-132	-3,776
Tax effect for securing net investments		0	658
<b>Total items that may be transferred to profit or loss</b>		<b>-132</b>	<b>-3,118</b>
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>15,604</b>	<b>7,678</b>
<b>Attributable to:</b>			
Owners of the parent		15,604	7,678

# CONSOLIDATED BALANCE SHEET

(SEK 000)	NOTE	31 DEC 2016	31 DEC 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Capitalised expenditure on development work	18	14,743	12,598
		<b>14,743</b>	<b>12,598</b>
<b>Property, plant and equipment</b>			
Equipment	19	4,383	4,004
		<b>4,383</b>	<b>4,004</b>
<b>Financial non-current assets</b>			
Deferred tax assets	15	11,713	17,840
Other non-current assets	20	3,568	3,178
		<b>15,281</b>	<b>21,018</b>
<b>Total non-current assets</b>		<b>34,407</b>	<b>37,620</b>
<b>Current assets</b>			
<b>Inventories</b>	<b>21</b>	<b>6,117</b>	<b>13,671</b>
		<b>6,117</b>	<b>13,671</b>
<b>Current receivables</b>			
Trade accounts receivable	22	66,508	55,907
Other receivables		2,476	3,034
Prepaid expenses and accrued income	23	5,810	4,688
		<b>74,794</b>	<b>63,629</b>
<b>Other current receivables</b>	24	<b>194,606</b>	<b>21,057</b>
<b>Total current assets</b>		<b>275,517</b>	<b>98,357</b>
<b>TOTAL ASSETS</b>		<b>309,924</b>	<b>135,977</b>

# CONSOLIDATED BALANCE SHEET

(SEK 000)	NOTE	31 DEC 2016	31 DEC 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	25	1,502	649
Other paid-in capital	26	231,405	82,001
Translation reserve	27	-2,682	-2,550
Retained earnings including profit		3,913	-11,823
<b>Equity attributable to parent company's owners</b>		<b>234,138</b>	<b>68,277</b>
<b>Total equity</b>		<b>234,138</b>	<b>68,277</b>
<b>Provisions</b>			
Other provisions	28	602	515
		<b>602</b>	<b>515</b>
<b>Current liabilities</b>			
Trade accounts payable		16,902	8,393
Current tax liabilities		737	440
Other current liabilities		2,322	12,155
Accrued expenses and deferred income	29	55,223	46,197
		<b>75,184</b>	<b>67,185</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>309,924</b>	<b>135,977</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(SEK 000)	SHARE CAPITAL	OTHER PAID-IN CAPITAL	TRANSLATION RESERVE	RETAINED EARNINGS INCLUDING PROFIT	TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	TOTAL EQUITY
<b>Balance, 1 January 2016</b>	<b>649</b>	<b>82,001</b>	<b>-2,550</b>	<b>-11,823</b>	<b>68,277</b>	<b>68,277</b>
Profit for the year				15,736	15,736	15,736
Other comprehensive income:						
Exchange-rate differences when translating foreign operations			-132	0	-132	-132
<b>Total other comprehensive income</b>			<b>-132</b>	<b>0</b>	<b>-132</b>	<b>-132</b>
<b>Total comprehensive income</b>			<b>-132</b>	<b>15,736</b>	<b>15,604</b>	<b>15,604</b>
Transactions with owners:						
Bonus issue	554	-554			0	0
New share issue	299	162,525			162,824	162,824
Warrants		460			460	460
Issuance costs		-13,027		0	-13,027	-13,027
<b>Total transactions with owners</b>	<b>853</b>	<b>149,404</b>	<b>0</b>	<b>0</b>	<b>150,257</b>	<b>150,257</b>
<b>Balance, 31 December 2016</b>	<b>1,502</b>	<b>231,405</b>	<b>-2,682</b>	<b>3,913</b>	<b>234,138</b>	<b>234,138</b>

(SEK 000)	SHARE CAPITAL	OTHER PAID-IN CAPITAL	TRANSLATION RESERVE	RETAINED EARNINGS INCLUDING PROFIT	TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	FOR THE YEAR
<b>Balance, 1 January 2015</b>	<b>649</b>	<b>82,001</b>	<b>-1,766</b>	<b>-20,584</b>	<b>60,300</b>	<b>60,300</b>
Profit for the year				10,796	10,796	10,796
Other comprehensive income:						
Hedging of net investments in foreign operations				-2,334	-2,334	-2,334
Exchange-rate differences when translating foreign operations			-784	0	-784	-784
<b>Total other comprehensive income</b>			<b>-784</b>	<b>-2,334</b>	<b>-3,118</b>	<b>-3,118</b>
<b>Total comprehensive income</b>			<b>-784</b>	<b>8,462</b>	<b>7,678</b>	<b>7,678</b>
Transactions with owners:						
Share-based remuneration				299	299	299
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>299</b>	<b>299</b>	<b>299</b>
<b>Balance, 31 December 2015</b>	<b>649</b>	<b>82,001</b>	<b>-2,550</b>	<b>-11,823</b>	<b>68,277</b>	<b>68,277</b>



# CONSOLIDATED CASH FLOW STATEMENT

(SEK 000)	NOTE	2016	2015
<b>Cash flow from operating activities</b>			
Operating profit		19,110	13,301
Adjustments for non-cash items:			
Depreciation/amortisation		9,860	5,969
Guarantee reserve		87	-685
Warrant expenses		-	299
Exchange rate differences		1,641	-159
Paid interest		0	-221
<b>Cash flow from operating activities before changes in working capital</b>		<b>30,698</b>	<b>18,504</b>
Cash flow from changes in working capital			
Decrease (+)/Increase (-) in inventories		7,554	-9,023
Decrease (+)/Increase (-) in accounts receivable		-10,601	-12,068
Decrease (+)/Increase (-) in other current receivables		-564	-3,308
Decrease (-)/Increase (+) in trade payables		8,509	1,751
Decrease (-)/Increase (+) in other current liabilities		9,490	19,491
<b>Cash flow from operating activities</b>		<b>45,086</b>	<b>15,347</b>
<b>Investing activities</b>			
Acquisition of intangible assets	18	-8,759	-9,330
Acquisition of tangible non-current assets	19	-3,622	-760
<b>Cash flow from investing activities</b>		<b>-12,381</b>	<b>-10,090</b>
<b>Financing activities</b>			
New share issue	25	151,173	0
Issuance costs		-13,028	0
Warrants		460	0
<b>Cash flow from financing activities</b>		<b>138,605</b>	<b>0</b>
<b>Cash flow for the year</b>		<b>171,310</b>	<b>5,257</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>21,057</b>	<b>17,217</b>
<b>Exchange rate differences in cash and bank balances</b>		<b>2,239</b>	<b>-1,417</b>
<b>Cash and cash equivalents at year-end</b>	<b>24</b>	<b>194,606</b>	<b>21,057</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 GENERAL INFORMATION

Edgware AB, corporate identity number 556691-7554, is a public limited company registered and domiciled in Stockholm, Sweden. The address of the head office is Mäster Samuelsgatan 42, 11tr, 111 57 Stockholm. Edgware is a leading company within TV and video distribution solutions that are specifically aimed at those providing services via operator networks or an open internet. The company provides infrastructure that is specially adapted to allow the network operators to offer a wide range of video services with the intention of generating new revenue streams and increasing loyalty among existing customers. Edgware's product range consists of a combination of hardware and cloud-based software to build a content network - what we call a TV CDN (content delivery network) - that is optimised for TV distribution. The solution supports both traditional pay TV services and the most advanced new web TV services. In addition to being used by operators to build their own video services, the company also has products aimed at content owners and TV companies wanting to utilise an open internet to reach viewers. This segment will be increasingly significant going forward, as the TV landscape is transformed and with the expected dramatically increases in traffic volumes.

The Group comprises the parent company Edgware AB (publ), which is domiciled in Stockholm, and the subsidiary Edgware Inc., domiciled in the US.

## NOTE 2 SIGNIFICANT ACCOUNTING PRINCIPLES

Edgware AB (publ) prepares its consolidated financial statements in accordance with EU-approved International Financial Reporting Standards (IFRS) and with interpretations by the IFRS Interpretations Committee (IFRIC). In addition, the Group applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups.

In the consolidated financial statements items have been measured at cost, with the exception of certain financial instruments that are measured at fair value. The significant accounting principles applied are described below.

### NEW AND REVISED STANDARDS AND INTERPRETATIONS NOT YET IN FORCE

New and amended IFRS and interpretations that apply for the 2016 financial year have not had a material impact on the consolidated financial statements. New and revised standards and interpretations that have been issued but which enter into force for financial years commencing after 1 January 2017 have not yet begun to be applied by the Group. The new and revised standards and interpretations that are expected to have an impact on the Group's financial reports in the period in which they are first applied are described below.

IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 provides a model for revenue recognition for almost any income arising from contracts with customers, except leases, financial instruments and insurance policies. The basic principle for revenue recognition

according to IFRS 15 is that an entity should recognise revenue in a way that reflects the transfer of the promised goods or services to the customer for the amount that the company expects to be entitled to receive in exchange for the goods or services. Revenue is recognised when the customer assumes control of the goods or services. IFRS 15 is applicable to financial years commencing on or after 1 January 2018, with earlier application is permissible. The standard has been adopted by the EU. Company management's preliminary assessment is that IFRS 15 could impact amounts recognised in the financial statements but that the effects will not be material. A detailed analysis of the effects of the application of IFRS 15 has been initiated but has not yet been completed, which is why the effects cannot yet be quantified. IFRS 15 also contains expanded disclosure requirements, which will impact note disclosures in the consolidated financial statements.

IFRS 9 Financial instrument was issued on July 24, 2014 and will replace IAS 39 Financial instrument : Recognition and Measurement. IFRS 9 consists of new principles regarding classification and measurement of financial assets, for impairment testing of financial assets and for hedging. IFRS 9 is applicable to financial years commencing on 1 January, 2018. Company management's preliminary assessment is that IFRS 9 will not have a material impact on amounts recognised in the financial statements on initial application of IFRS 9 because Edgware does not have any significant financial instruments apart from accounts receivable.

IFRS 16 Leases was issued on 13 January 2016 and will replace IAS 17 Leases. IFRS 16 introduces a "right of use" model and, for lessees, largely means that all leases are to be recognised in the balance sheet and therefore will not be classified into operating and finance leases. Leases with a term of 12 months or less and leases where the underlying asset has a low value are exempted. Depreciation of the asset and interest expenses for the liability are recognised in profit or loss. The standard contains more extensive disclosure requirements than the present standard. For lessors, IFRS 16 results in no differences compared with IAS 17. IFRS 16 is applicable to financial years commencing on 1 January, 2018. Earlier application is permitted, provided that IFRS 15 is applied at the same time. The standard has not been adopted by the EU. Since company management has not yet conducted a detailed analysis of the effects of the application of IFRS 16, the effects cannot be quantified.

Company management has assessed that other new and revised standards and interpretations not yet in force will not have a material impact on the consolidated financial statements when applied for the first time. New and amended standards and interpretations that are to be applied starting from financial years beginning on 1 January 2017 are assessed not to have any material impact on the consolidated financial statements on initial application.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover the parent company Edgware AB (publ) and the companies over which the parent company has a controlling interest. A controlling interest exists when the Group is exposed to, or has the right to, variable returns from its involvement in a company and can use its influence over the company to affect its return. A controlling interest usually

exists where the parent company directly or indirectly holds shares representing more than 50% of the votes.

Subsidiaries are consolidated from the date of acquisition until the date when the parent company no longer has a controlling interest in the subsidiary. Where necessary, the accounting principles for subsidiaries have been adjusted to comply with the Group's accounting principles. All intra-group transactions, balances and unrealised gains and losses attributable to intra-group transactions have been eliminated in the preparation of the consolidated financial statements.

When the parent company loses its controlling interest in a subsidiary, the gain or loss on disposal is calculated as the difference between

- i) the sum of the fair value of the consideration received and the fair value of any remaining holding, and
- ii) the previous carrying amounts of the subsidiary's assets (including goodwill), and liabilities and any non-controlling interests.

## SEGMENT REPORTING

An operating segment is a component of a company that carries out business operations that may result in the receipt of income and is evaluated regularly by the highest executive decision-maker and about which separate financial information is available. The company's reporting of operating segments accords with the internal reporting to the highest executive decision-maker. The highest executive decision-maker is the function responsible for allocation of resources and assessment of the operating segments' results. The CEO is the highest executive decision-maker. The accounting principles for the reporting segments are the same as those applied by the Group as a whole.

## REVENUE

Revenue is recognised at the fair value of what has been received or will be received, less value-added tax, discounts, returns and similar deductions. The Group recognises revenue when the amount of the revenue can be reliably measured, when it is probable that future economic benefits will flow to the company and the specific criteria are met for each of the Group's revenue types.

The Group's revenues consist mainly of the provision of infrastructure customised to allow network operators to offer video services. The products are a combination of hardware or cloud-based software that supports both traditional pay TV services and the new web TV services. The Group also provides services in the form of installation, integration, support and training.

### Sales of products

Revenue from the sale of products is recognised when the significant risks and benefits associated with the products have been transferred to the customer. This generally takes place upon delivery. If integration is a significant part of the delivery to the customer, revenue from the sale of products is recognised when integration has been carried out.

### Sales of support

Revenue from support contracts is recognised as revenue on a straight-line basis over the contract period.

### Sales of other services

Revenue from sales of training and installation is recognised in the period in which the services are performed.

### Interest income

Interest income is allocated over the relevant term using the effective interest method.

## LEASES

### Lessee

A finance lease is a contract under which the financial risks and benefits associated with ownership of an asset are essentially transferred from the lessor to the lessee. Other leases are classified as operating leases. The Group has only operating leases. Lease payments for operating leases are expensed on a straight-line basis over the term of the lease, unless a different systematic approach better reflects the user's financial benefit over time.

## FOREIGN CURRENCY

Items included in the financial statements for the various entities in the Group are recognised in the currency of the primary economic environment where the entity in question mainly conducts its operations (functional currency). In the consolidated financial statements all amounts are translated into Swedish kronor (SEK), which is the functional currency and reporting currency of the parent company.

Foreign currency transactions are translated in each entity into the entity's functional currency at the exchange rates on the transaction date. On each closing day, monetary items in foreign currencies are translated at the exchange rate on the closing day. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate on the day fair value was established. Non-monetary items measured at historical cost in a foreign currency are not translated.

Exchange-rate differences are recognised in profit or loss for the period in which they arise, with the exception of hedging transactions that meet the criteria for hedge accounting of cash flows or of net investments, in which case gains and losses are recognised in other comprehensive income.

In the preparation of consolidated financial statements, assets and liabilities in foreign subsidiaries are translated into Swedish kronor at the exchange rate on the closing day. Income and expense items are translated at the average exchange rate for the period, unless the exchange rate fluctuated significantly during the period, in which case the exchange rate on the transaction date is used instead. Any translation differences arising are recognised in other comprehensive income and are transferred to the translation reserve. On the divestment of a foreign subsidiary, such translation differences are recognised in the income statement as part of the capital gain or loss.

## EMPLOYEE BENEFITS

Employee benefits in the form of salary, bonuses, vacation pay, sick pay, etc. and pensions are recognised as they are earned. Pensions and other post-employment benefits are classified as defined-contribution or defined-benefit pension plans. The Group has only defined-contribution pension plans.

### Defined-contribution plans

In defined-contribution plans the Group makes fixed payments to a separate independent legal entity and has no obligation to make further payments. The Group's costs are expensed as the benefits are earned, which usually coincides with the date of payment of the premiums.

### Share-based remuneration

Share-based remuneration settled using equity instruments are measured at fair value on the date of allocation, which is the date that the company enters into an agreement on share-based remuneration. The fair value established on the date of allocation is expensed on the date of allocation, with a corresponding adjustment to equity distributed across the earnings period, based on the Group's estimate of the number of warrants that are expected

to be able to be exercised. Fair value is calculated using the Black-Scholes model. Social insurance contributions attributable to the share-based remuneration are accrued in the same way as the cost of the services received and the liability is re-measured during every reporting period until it has been settled.

For incentive plans in the form of warrants, transfer to the participants is to occur at the market value of the warrants. Fair value per option has been calculated according to Black and Scholes.

## TAXES

Tax expense comprises the sum of current tax and deferred tax.

### Current tax

Current tax is calculated on the taxable profits for the period. Taxable profit differs from the profit recognised in the income statement since it has been adjusted for tax-exempt income and non-deductible expenses, and for income and expenses that are taxable or deductible in other periods. The Group's current tax liability is calculated using the tax rates applicable on the closing day.

### Deferred tax

Deferred tax is recognised on temporary differences between the recognised value of assets and liabilities in the financial statements and the fiscal value used to calculate taxable profits. Deferred tax is recognised according to the balance sheet method. Deferred tax liabilities are recognised for practically all taxable temporary differences, and deferred tax assets are recognised for practically all deductible temporary differences, to the extent it is likely that the amounts can be utilised against future taxable surpluses. Deferred tax liabilities and tax assets are not recognised if the temporary difference is attributable to goodwill or if it arises from a transaction that constitutes initial recognition of an asset or liability (that is not a business combination) and which at the transaction date affects neither recognised nor taxable profit.

A deferred tax liability is recognised for taxable temporary differences attributable to investments in subsidiaries, except where the Group can determine the date of reversal of the temporary differences and it is likely that such reversal will not take place within the foreseeable future. The deferred tax assets attributable to deductible temporary differences in respect of such investments are only recognised to the extent that it is probable that the amounts can be utilised against future taxable surpluses and it is likely that such utilisation will take place within the foreseeable future.

The carrying amount of deferred tax assets is tested on each closing day and reduced to the extent that it is no longer probable that there will be sufficient taxable surplus available to utilise the deferred tax asset, either in full or in part.

Deferred tax is calculated using the tax rates that are expected to apply in the period when the asset is recovered or the liability is settled, based on the tax rates (and the tax legislation) that are enacted or have been announced as of the closing day.

Deferred tax assets and tax liabilities are offset against each other where they relate to income tax debited by the same authority and where the Group intends to settle the tax in a net amount.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or as income in the income statement, except where the tax is attributable to transactions recognised in other comprehensive income or directly in equity. In such cases the tax is also reported in other comprehensive income or directly in equity. In the case of current and deferred tax arising when reporting business combinations, the tax effect is to be recognised in the acquisition calculation.

## TANGIBLE ASSETS

Property, plant and equipment are reported at cost following deductions for accumulated depreciation and any impairment losses.

Cost includes the purchase price, expenses directly attributable to the asset in order to bring it to the location and condition to be used and estimated expenses for dismantling and removal of the asset and restoration of its location. Further expenditures are included in the asset or recognised as a separate asset only if it is probable that future economic benefits associated with the asset will accrue to the Group and the cost of these can be reliably estimated. All other costs for repairs and maintenance, as well as further expenditures, are recognised in the income statement in the period in which they are incurred.

Depreciation of property, plant and equipment is expensed such that the asset's cost, decreased by any estimated residual value at the end of its useful life, is depreciated on a straight-line basis over its expected useful life. Depreciation begins when the item of property, plant and equipment can be taken into use. The useful life of equipment, tools and installations has been estimated at 3 years.

The estimated useful life, residual value and depreciation method are reviewed at least at the close of each reporting period, and the effect of any changes in estimates is recognised from then on.

The carrying amount of a property, plant and equipment item is removed from the balance sheet when it is disposed of or divested, or when no further economic benefits are expected from the use or disposal/divestment of the asset. The gain or loss arising from the disposal or divestment of the asset is the difference between any net proceeds of the divestment and its carrying amount, and is recognised in profit or loss in the period when the asset is removed from the balance sheet.

## INTANGIBLE ASSETS

### Internally generated intangible assets – Capitalised product development expenses

Internally generated intangible assets arising from the Group's product development are recognised only if the following conditions are met:

- it is technically feasible to complete the intangible asset and to use or sell it,
- the company intends to complete the intangible asset and to use or sell it,
- the conditions are in place for using or selling the intangible asset,
- the company shows how the intangible asset will generate probable future economic benefits,
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

If it is not possible to recognise an internally generated intangible asset, then the development costs are expensed in the period in which they are incurred.

After initial recognition, internally generated intangible assets are effect at cost less accumulated amortisation and any accumulated impairment losses. Useful life is estimated at 3 years. The estimated useful life and depreciation method are reviewed at least at the close of each financial year, and the effect of any changes in estimates is recognised from then on.



## **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

At each closing day, the Group analyses the carrying amounts of property, plant and equipment and of intangible assets to establish whether there is any indication that these have decreased in value. If this is the case, the asset's recoverable amount is calculated in order to establish the level of any impairment loss. Where it is not possible to calculate the recoverable amount of an individual asset, the Group calculates the recoverable amount for the cash-generating unit to which the asset belongs.

Intangible assets with an indeterminate useful life, and intangible assets that are not yet ready for use, are to be tested for impairment annually or when there is an indication of a decrease in value.

The recoverable amount is the higher of the fair value minus selling expenses and its value in use. When calculating value in use, estimated future cash flows are discounted to present value using a discount rate before tax that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount for an asset (or cash-generating unit) is established to be lower than the carrying amount, then the carrying amount for the asset (or cash-generating unit) is written down to the recoverable amount. Any write-down is to be expensed in the income statement straight away.

When an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the remeasured recoverable amount, but the increased carrying amount must not exceed the carrying amount that would have been established if the asset (cash-generating unit) had not been written down in previous years. A reversal of an impairment loss is recognised directly in profit or loss.

## **FINANCIAL INSTRUMENTS**

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the instrument's contractual terms. A financial asset is removed from the balance sheet when the contractual right to the cash flow from the asset ceases, is settled or when the Group loses control over it. A financial liability, or part thereof, is removed from the balance sheet when the agreed obligation is fulfilled or otherwise ceases.

At each reporting date, the company assesses whether there are objective indications of impairment of a financial asset or group of financial assets on the basis of events that have occurred. Examples of such events include a substantial deterioration in the counterparty's financial position or failure to pay amounts due.

Financial assets and financial liabilities that are not measured at fair value through profit or loss on the subsequent reporting date are recognised on initial recognition at fair value plus or minus transaction expenses. Financial assets and financial liabilities that are measured at fair value through profit or loss on the subsequent reporting date are recognised on initial recognition at fair value. In subsequent reporting, financial instruments are measured at amortised cost or at fair value depending on their initial categorisation according to IAS 39.

On initial recognition, a financial instrument is classified in one of the following categories:

### **Financial assets**

- a) At fair value through profit or loss
- b) Loans and accounts receivables
- c) Held-to-maturity investments
- d) Available-for-sale financial assets

### **Financial liabilities**

- a) At fair value through profit or loss
- b) Other financial liabilities at amortised cost

### **Value of financial instruments**

The fair value of financial assets and financial liabilities is determined as follows:

The fair value of financial assets and liabilities traded on an active market is determined by reference to quoted market prices.

The fair value of other financial assets and liabilities is determined according to generally accepted measurement models such as discounting of future cash flows and using information taken from relevant market transactions.

For all financial assets and liabilities, the carrying amount is considered to be a good approximation of their fair value unless specifically stated otherwise in subsequent notes.

### **Amortised cost**

Amortised cost refers to the amount at which the asset or liability was initially recognised less repayments, supplements or deductions for accumulated accruals using the effective interest method of the initial difference between the amount received/paid and the amount payable/receivable on the due date, and less impairment losses.

The effective interest rate is the rate at which discounting of all future expected cash flows over the expected term results in the initial carrying amount of the financial asset or financial liability.

### **Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and reported as a net amount in the balance sheet where there is a legal right to offset the amounts and it is intended that the items will be settled by a net amount or that the asset will be realised and the liability settled simultaneously.

### **Cash and cash equivalents**

Cash and cash equivalents include cash at hand and bank balances, as well as other short-term liquid deposits that can be readily converted into cash and for which the risk of changes in value is insignificant. To be classified as cash and cash equivalents, the maturity must not exceed three months from the date of acquisition. Cash at hand and bank balances are categorised as "Loan receivables and trade accounts receivable", and are therefore measured at amortised cost. Since bank deposits are payable on demand, the amortised cost is equal to the nominal amount. Short-term investments are categorised as "Held for trading" and measured at fair value, with changes in value recognised through profit or loss.

### **Trade accounts receivable**

Trade accounts receivable are categorised as "Loan receivables and trade accounts receivable" and are therefore measured at amortised cost. The anticipated duration of trade receivables is short, however; for this reason, they are reported at nominal amounts without discounting. Deductions are made for receivables assessed to be doubtful. Impairment losses on accounts receivable are recognised in operating expenses

### **Trade accounts payable**

Trade accounts payable are categorised as "Other financial liabilities", and are therefore measured at amortised cost. The anticipated duration of trade payables is short, however; for this reason, they are recognised at nominal amounts without discounting.

## INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first in, first out principle (FIFO). Net realisable value is the estimated selling price less the estimated costs of completion and estimated costs required to achieve a sale.

## PROVISIONS

A provision is recognised when the Group has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are made at the amount which is the best estimate of the expenditure required to settle the present obligation on the closing day, taking into account the risks and uncertainties associated with the obligation. When a provision is calculated by estimating the outflows that are expected to be required in order to settle the obligation, the carrying amount must equal the present value of these outflows.

Where part or all of the amount required to settle a provision is expected to be compensated by a third party, the compensation is to be reported separately as an asset in the statement of financial position when it is as good as certain that it will be received if the company settles the obligation and the amount can be reliably calculated.

### NOTE 3 KEY ESTIMATES AND JUDGMENTS

The main assumptions concerning the future are reported below, along with other significant sources of uncertainty in estimates on the closing day which represent a material risk of significant adjustments to the carrying amounts of assets and liabilities in the subsequent financial year. The main judgments made by the company management when applying the Group's accounting principles and that have the most significant effect on the amounts recognised in the financial statement are also detailed.

#### Impairment testing of capitalised development expenses

Capitalised development expenses that are not yet ready for use and thus are not subject to depreciation are tested for impairment at least annually. When testing for impairment, company management makes assumptions concerning expected cash flow (based on budget) from the asset, and discounts this using a discount rate to establish the recoverable amount. Budgeted revenues and the discount rate are significant assumptions that could result in a need to apply impairment losses.

#### Capitalisation of loss carryforwards

Capitalisation of loss carryforwards is recognised to the extent that it is probable that the amounts can be used against future taxable surpluses. To establish how much of the carryforward can be capitalised, the company management makes judgments concerning the amounts and concerning when taxable surpluses may arise. The Group has loss carryforwards totaling SEK 50,136,000 (82,126,000), of which SEK 50,136,000 (82,126,000) is capitalised.

Company management bases its judgment concerning capitalisation on forecasts of taxable surpluses based on a forecast for the foreseeable future. For further information, see Note 15.

Tax loss carryforwards of SEK 50,136,000 (82,126) are attributable to the parent company Edgware AB (publ). The carryforwards cannot be utilised by any other entity in the Group. There are additional unrecognised loss carryforwards in the US subsidiary. The company is not certain whether or not these loss carryforwards will be utilisable because it is uncertain about when in the future

a sufficient taxable surplus will be generated. The unrecognised loss carryforwards in the US subsidiary amount to USD 5,662,000 (4,932,000).

## Recognition of income

The Group recognises revenue in accordance with IAS 18, the IFRS standard for revenue recognition. According to this standard, revenue is to be recognised when it is probable that economic benefits will accrue to the seller and these can be calculated reliably. Revenue is recognised according to the policies presented in Note 2 above. In certain cases, the Group's sales agreements contain delivery of different sub-components, known as multiple elements, and the Group has divided up such sub-components based on the estimated fair value of each particular sub-component to ensure that revenue recognition illuminates the financial implication of the transaction. When packaging products and services, it is necessary for management to make a judgment in order to determine fair value and if and when revenue should be recognised. Revenue is allocated between products and services based on relative fair value. Since, in certain cases, delivery of multiple elements occurs at different times, the fair value determined for products and services could affect the timing of revenue recognition. Determining the fair value of each element and the date of delivery is complex and requires a judgement by management.

### NOTE 4 FINANCIAL RISK MANAGEMENT AND FINANCIAL

Through its operations the Group is exposed to various types of financial risk, such as market risk, liquidity risk and credit risk. The main market risks are interest-rate risk and currency risk. The company's Board of Directors has the ultimate responsibility for exposure, management and monitoring of the Group's financial risk. The frameworks that apply to exposure, management and monitoring of financial risk are established by the Board of Directors in a financial policy adopted in 2016, which is revised annually. In the financial policy, the Board has delegated responsibility for day-to-day risk management to the company's CFO. The Board may decide to deviate temporarily from the established financial policy.

## MARKET RISK

### Currency risk

Currency risk is the risk that fair value or future cash flows will fluctuate due to changes in foreign exchange rates. Exposure to currency risk arises mainly from payment flows in foreign currency - which is known as transaction exposure - and from the translation of foreign subsidiaries' income statements and balance sheets into SEK, the Group's reporting currency - known as translation exposure.

### Transaction exposure

Transaction exposure is the risk that earnings will be negatively impacted by fluctuations in exchange rates for cash flows that take place in foreign currency. The Group's outflows are mainly in SEK, EUR and USD, and at the same time the Group's inflows are mainly in EUR, USD and MXN. The Group is therefore considerably affected by changes in these exchange rates as regards operational transaction exposure. Where financial transaction exposure is concerned, this is largely limited to intragroup financing.

The company's policy allows forecast cash flows to be hedged on an ongoing basis. Under the financial policy, transaction exposure may be reduced through the use of derivative instruments. As of the closing day, 0% of the cash flows in EUR, USD and MXN was hedged.

Hedge accounting will be introduced as of 1 April 2017. Most of Edgware's accounts are invoiced in USD, EUR or MXN.

Edgware has historically had a balance between inflows and outflows of USD, thus representing a natural hedge. The flow of USD will be monitored if a need for hedging arises in the future. For EUR and MXN, exposure is considerable between EUR versus SEK and MXN versus SEK, which means hedges have to be taken up to manage currency exposure. Hedging is planned to occur via forward contracts and swaps. This applies to orders with a value exceeding EUR 2,000,000 and an expected payment term exceeding 60 days from receipt of an order, which corresponds to about 60–70% of the company's net exposure.

The table below shows the nominal net amounts of the major flows giving rise to transaction exposure. The exposure is stated based on the Group's payment flows in the most significant currencies and is presented in SEK.

Currency	31 Dec 2016	31 Dec 2015
EUR	164,685	121,011
USD	13,953	11,143
MXN	13,315	5,089

As of the closing day, the net book value of the Group's monetary assets and liabilities that are subject to translation into SEK amount to the sums below, presented in SEK:

Currency	31 Dec 2016	31 Dec 2015
EUR	67,534	30,506
USD	22,000	29,243
MXN	4,669	18,237

### Translation exposure

Translation exposure is the risk that the value of the Group's net investments in foreign currency will be negatively impacted by changes in foreign exchange rates. The Group consolidates the net assets in SEK on the closing day. This risk is known as translation exposure and is not currency-hedged under the Group's financial policy.

The translation exposure for net investments in foreign currency is stated in local currency.

The Group's net investments refer to investments in the foreign subsidiary Edgware Inc. in the US. The net investments correspond to the value of the company's equity and amounted to a net expense of USD 3,827,000 (3,110,000) as of 31 December 2016.

The table below, "Sensitivity analysis for market risk", presents the effects of exchange rate fluctuations against SEK for the most significant foreign currencies.

### INTEREST-RATE RISK

Interest-rate risk is the risk that fair value or future cash flows will fluctuate due to changes in market interest rates. The Group is exposed to interest-rate risk through its loan financing. Interest is paid on the loans, which means that the Group's future financial expense is not affected by changes in market interest rates.

Under the Group's financial policy, interest-rate risk is not to be hedged.

The table below, "Sensitivity analysis for market risk", presents the effects of changes in market interest rates.

### Sensitivity analysis for market risk

The sensitivity analysis for currency risk shows the Group's sensitivity to a 10% increase or decrease respectively in the exchange rate for SEK against the most significant foreign currencies. For transaction exposure, the table shows how the Group's earnings after tax would have been affected by a change in the exchange rate. This also includes outstanding monetary assets and liabilities in foreign currency on the closing day, including loans between Group companies where the currency effect impacts the Group's income statement. For translation exposure, the table shows how the Group's earnings after tax and equity would have been affected by a change in the exchange rate.

The sensitivity analysis for interest-rate risk shows the Group's sensitivity to a 1% increase in the market interest rate. The interest-rate sensitivity shows the effect on earnings after tax of a change in the market interest rate, as regards both interest income and expense. Since the Group does not report changes in value in other comprehensive income or equity, there is a corresponding effect on equity.

	2016 Effect on profit/ loss	16-12-31 Effect on share- holders' equity	2015 Effect on profit/ loss	15-12-31 Effect on share- holders' equity
<b>Transaction exposure</b>				
EUR	11,610		8,530	
USD	2,006		11	
MXN	939		359	
<b>Translation exposure</b>				
USD		–427		–429
<b>Interest</b>				
SEK				
Financial expense	0		–70	

### LIQUIDITY AND FINANCING RISK

Liquidity risk is the risk that the Group encounters problems meeting its commitments related to the Group's financial liabilities. Financing risk is the risk that the Group is unable to obtain sufficient financing at a reasonable cost.

The maturity profile of contractual payment commitments related to the Group's and the parent company's financial liabilities, excluding derivatives, is presented in the tables below. The amounts in these tables are not discounted values and they also include interest payments where relevant, which means that these amounts cannot be reconciled with the amounts reported in the balance sheets. Interest payments are established based on the conditions applicable on the closing day. Amounts in foreign currency have been translated into SEK at closing day exchange rates. The Group's loan agreements contain no special conditions that could result in the payment date being significantly earlier than shown in the tables.

The information below shows that the expected outflow amounts to SEK 21,000,000 (22,000,000) over the coming 12 months. The Group's liquidity reserve is defined as cash and cash equivalents, which amounted to SEK 194,606,000 (27,057,000) at year-end, and will be used to meet this outflow. In addition, there is the possibility of borrowing against trade accounts receivable if further funds should be needed in the short term. In March 2016, short-term liabilities to related parties was converted into shares.

<b>31 Dec 2016</b>	<b>Within 3 months</b>	<b>3–12 months</b>	<b>1–5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Trade accounts payable	16,902		0	0	16,902
Other current liabilities	2,265	1,396	0	0	3,661
Liabilities to related parties		0	0	0	0
<b>Total</b>	<b>19,167</b>	<b>1,396</b>	<b>0</b>	<b>0</b>	<b>20,563</b>

<b>31 Dec 2015</b>	<b>Within 3 months</b>	<b>3–12 months</b>	<b>1–5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Trade accounts payable	8,393		0	0	8,393
Other current liabilities	1,438	1,492	0	0	2,930
Liabilities to related parties		10,180	0	0	10,180
<b>Total</b>	<b>9,831</b>	<b>11,672</b>	<b>0</b>	<b>0</b>	<b>21,503</b>

Credit risk is the risk that a counterparty in a transaction will not fulfill its contractual obligations, thereby incurring a loss for the Group. The Group's exposure to credit risk is mainly attributable to accounts receivable. To limit the Group's credit risk, the company has formulated a credit policy that stipulates, for example, the requirement of a credit assessment of every new customer. The situation of existing customers is also monitored continuously, in order to identify warning signs at an early stage.

Credit risk also arises when the company's surplus liquidity is invested in various types of financial instruments. Under the financial policy, surplus liquidity may only be placed in interest-bearing bank accounts or in interest-bearing securities. The financial policy states that credit risk from the investment of surplus liquidity is to be reduced by only investing with counterparties that have a very good rating. The financial policy also states that investments shall normally be spread across multiple counterparties or issuers. The credit risk pertaining to bank balances is limited because the counterparties are banks with a high credit rating. A Board decision is required for alternative investments above and beyond what has been approved in the financial policy.

Trade accounts receivable are spread across a large number of customers, and no customer represents a significant portion of the total. Neither are trade accounts receivable concentrated to a specific geographical area. The Group therefore assesses that the concentration risk is limited.

The Group's maximum exposure to credit risk is judged to be reflected in the recognised amounts of all financial assets, and shown in the table below.

	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Trade accounts receivable	66,508	55,907
Trade accounts receivable	0	0
Other current receivables	194,606	21,057
<b>Cash and cash equivalents</b>	<b>261,114</b>	<b>76,964</b>

## MAXIMUM EXPOSURE TO CREDIT RISK

The carrying amount of financial assets and financial liabilities by measurement category according to IAS 39 is shown in the table below. All financial assets and liabilities are recognised at amortised cost, which is a good approximation of fair value.

	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
<b>Financial assets</b>		
<b>Loans and accounts receivables</b>		
Trade accounts receivable	66,508	55,907
Trade accounts receivable	0	10,900
Other current receivables	194,606	21,057
<b>Total</b>	<b>261,114</b>	<b>87,864</b>
<b>Financial liabilities</b>		
Short term liabilities		
Other current liabilities	0	11,971
Trade accounts payable	16,902	8,393
<b>Total</b>	<b>16,902</b>	<b>20,364</b>

## MEASUREMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE

Financial assets and financial liabilities that are measured at fair value in the balance sheet, or for which fair value disclosures are made, are classified at one of three levels based on the information used to establish fair value.

**Level 1** – Financial instruments for which fair value is established based on observable quoted prices (unadjusted) on active markets for identical assets or liabilities. A market is regarded as active if quoted prices from a stock market, broker, industry group, pricing service or supervisory authority are readily and regularly available and these prices represent actual and regularly occurring market transactions at arm's length.

**Level 2** – Financial instruments for which fair value is established using measurement models that are based on observable data for the assets or liabilities other than quoted prices included in level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Examples of observable data within level 2 are:

- Quoted prices for similar assets and liabilities.
- Data that can provide a basis for price assessment, e.g. market interest rates and yield curves.

**Level 3** – Financial instruments for which fair value is established using measurement models in which input data is based on nonobservable data.

## CAPITAL MANAGEMENT

The Group's aim as regards capital management is to ensure the Group's ability to continue its operations in order to generate a reasonable return to shareholders and for the benefit of other stakeholders.



## NOTE 5 SEGMENT INFORMATION

### Edgware

Operating segments are reported in compliance with the internal reports submitted to the highest executive decision-maker. EMEA, APAC and AMERICAS, and based on two business areas: Products and Services. The outcomes by region and business area consist of the sum of invoices issued for products and services sold from different parts of the Group. These are not, however, reflected in separate income statements and balance sheets.

The Group's regions and business areas use Group-wide resources for sales activities, development work and administration and, accordingly, dividing up the company's costs is only possibly through allocation of the costs. The same applies to assets and liabilities. Since Group management does not feel that an allocation of income statement and balance sheet items would provide a fairer view of operations and thus follows results for the Group as a whole., the Group has not identified any operating segments.

The largest customer accounted for 23.0% (29.0) of Edgware's total net sales, the three largest for 41.9% (51.0) and the five largest for 55.4% (62.0).

## NOTE 6 NET SALES BY BUSINESS STREAM AND GEOGRAPHICAL MARKET

The table below shows net sales by business stream and geographical market.

Net sales by business stream	2016	2015
Products (hardware, software and licenses)	208,103	167,828
Services (maintenance, support and services)	44,146	35,728
<b>Total</b>	<b>252,249</b>	<b>203,556</b>
<b>Net sales by geographical market</b>	<b>2016</b>	<b>2015</b>
EMEA (Europe, Middle East and Africa)	188,683	135,768
AMERICAS (North and South America)	41,402	55,303
APAC (Asia-Pacific)	22,164	12,485
<b>Total</b>	<b>252,249</b>	<b>203,556</b>
Net sales in EMEA include an element of sales pertaining to Sweden	13,382	8,160

## NOTE 7 OTHER OPERATING INCOME/EXPENSES

	2016	2015
Net exchange gains/losses	-661	-689
<b>Total</b>	<b>-661</b>	<b>-689</b>

## 8 OPERATING EXPENSES

	2016	2015
Cost of goods and materials	-76,641	-62,615
Remuneration of employees (Notes 12, 18)	-96,203	-86,618
Depreciation (Notes 9, 18, 19)	-9,860	-5,969
Other operating expenses (Notes 10, 11)	-50,435	-35,053
<b>Total</b>	<b>-233,139</b>	<b>-190,255</b>

## NOTE 9 DEPRECIATION/AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE NON-CURRENT

	2016	2015
Cost of goods sold	-3,246	-2,222
Research and development expenses	-6,614	-3,747
<b>Total</b>	<b>-9,860</b>	<b>-5,969</b>

## NOTE 10 AUDITOR'S FEES

	2016	2015
Deloitte AB		
Audit assignments	450	205
Auditing activity other than audit assignments	1,465	243
Other services	615	0
<b>Total</b>	<b>2,530</b>	<b>448</b>

The audit assignment amounts are the fees paid to the auditor for the statutory audit. The audit involves examining the annual accounts and consolidated financial statements, the accounting records and the administration of the company by the Board of Directors and CEO, as well as fees for audit advisory services provided in connection with the audit assignment. SEK 835,000 was related to consultancy, and to examinations connected to preparations for the market listing.

Audit operations in addition to the audit assignment primarily pertain to expanded examinations connected to preparations for the market listing in 2016. For 2015, this item pertained mainly to the transition to K3 and IFRS accounting.

## NOTE 11 LEASES

### Operating leases – lessees

The Group is a lessee in operating leases for rented premises. The year's expensed lease payments for operating leases totalled SEK 4,082,000 (2,406,000) in the Group. Future minimum lease payments and variable payments for non-cancellable operating leases fall due as follows:

Maturity:	2016	2015
Future minimum lease payments		
Within one year	3,556	3,556
Later than one year but within five years	2,667	6,224

## NOTE 12 NUMBER OF EMPLOYEES, PERSONNEL EXPENSES AND SENIOR EXECUTIVES

Average number of employees	Average number 2016			Average number 2015		
	Women	Men	Total	Women	Men	Total
Parent Company:						
Sweden	9	65	74	9	56	65
<b>Total in parent company</b>	<b>9</b>	<b>65</b>	<b>74</b>	<b>9</b>	<b>56</b>	<b>65</b>
<b>Subsidiaries</b>						
USA	1	5	6	1	5	6
<b>Total in subsidiaries</b>	<b>1</b>	<b>5</b>	<b>6</b>	<b>1</b>	<b>5</b>	<b>6</b>
<b>Total in Group</b>	<b>10</b>	<b>70</b>	<b>80</b>	<b>10</b>	<b>61</b>	<b>71</b>

Number of board members and other senior executives	16-12-31	15-12-31
<b>Parent company</b>		
Women:		
Board of Directors	1	0
Other senior executives incl. CEO	1	0
Men:		
Board of Directors	6	4
Other senior executives incl. CEO	9	9
<b>Total in parent company</b>	<b>17</b>	<b>13</b>
<b>Group</b>		
Women:		
Board of Directors	1	0
Other senior executives incl. CEO	1	0
Men:		
Board of Directors	6	4
Other senior executives incl. CEO	9	9
<b>Total in Group</b>	<b>17</b>	<b>13</b>
<b>Cost of employee remuneration</b>	<b>2016</b>	<b>2015</b>
<b>Parent company</b>		
Salaries and other remuneration	66,458	56,297
Sharebased remuneration	–	299
Social insurance contributions	16,868	14,337
Pension expenses, defined-contribution plans	10,544	8,447
<b>Subsidiaries</b>		
Salaries and other remuneration	10,398	15,754
Social insurance contributions	446	433
Pension expenses, defined-contribution plans	248	381
Total salaries and other remuneration, Group	76,856	72,350
Total social insurance contributions, Group	17,314	14,770
Total pension expenses, Group, defined contribution	10,792	8,828
<b>Total in Group</b>	<b>104,962</b>	<b>95,948</b>

Salaries and other remuneration for senior executives and other employees	2016	2015
<b>Parent company</b>		
Salaries and other remuneration, senior executives (10 individuals)	18,694	12,825
of which bonuses and similar remuneration	4,830	3,913
Salaries and other remuneration, other employees	39,473	47,275
<b>Total salaries and other remuneration, parent company</b>	<b>58,167</b>	<b>60,100</b>

Salaries and other remuneration for senior executives and other employees	2016	2015
<b>Group</b>		
Salaries and other remuneration, senior executives (10 individuals)	18,888	12,825
of which bonuses and similar remuneration	4,830	3,913
Salaries and other remuneration, other employees	39,279	47,306
<b>Total salaries and other remuneration, as well as pension expenses for senior executives, Group</b>	<b>58,167</b>	<b>60,131</b>

### Remuneration of senior executives

The Chairman of the Board and Board members receive fees as decided upon by a shareholders' meeting. No special fees are paid for committee work.

The shareholders' meeting has adopted the following guidelines for remuneration of the management team.

The extraordinary shareholders' meeting held on 14 November 2016 adopted guidelines for remuneration of the CEO and other executive management. The remuneration of the executive management shall consist of fixed salary, variable remuneration, long-term share-based or share-related incentive plans (LTI) and pension provisions.

The amount of variable remuneration in relation to basic salary is to be in proportion to the senior executive's responsibility and authority. The variable component is based on net sales in relation to the budget for the year.

Pension benefits and other benefits for the CEO and other senior executives make up part of the total remuneration package.

Remuneration of senior executives in 2016	Salary/ Board fee	Variable remunera- tion	Other benefits	Share- based remunera- tion	Pension cost	Total
Chairman of the Board Michael Ruffolo	1,429	0	0	0	6	1,435
Board member Lukas Holm	919	0	0	0	215	1,134
Board member Jason Pinto	0	0	0	0	0	0
Board member Staffan Helgesson	0	0	0	0	0	0
Board member Karl Thedén	150	0	0	0	0	150
Board member Sigrun Hjelmqvist	113	0	0	0	0	113
Board member Kent Sander	113	0	0	0	0	113
Chief Executive Officer Joachim Roos	1,519	891	0	0	448	2,858
Other senior executives (9 individuals)	11,426	3,940	0	0	1,115	16,481
<b>Total remuneration of senior executives</b>	<b>15,470</b>	<b>4,831</b>	<b>0</b>	<b>0</b>	<b>1,784</b>	<b>22,284</b>

Remuneration of senior executives in 2015	Salary/ Board fee	Variable remunera- tion	Other benefits	Share- based remunera- tion	Pension cost	Total
Chairman of the Board Michael Ruffolo	1,961	0	0	299	31	2,291
Board member Kalle Henriksson	1,014	0	0	0	190	1,204
Board member Jason Pinto	0	0	0	0	0	0
Board member Staffan Helgesson	0	0	0	0	0	0
Chief Executive Officer Joachim Roos	1,361	667	0	0	293	2,321
Other senior executives (9 individuals)	7,551	3,246	0	0	1,168	11,965
<b>Total remuneration of senior executives</b>	<b>11,887</b>	<b>3,913</b>	<b>0</b>	<b>299</b>	<b>1,682</b>	<b>17,781</b>

### Pensions

The retirement age of the CEO is 65. The pension premium amounts to 18% of pensionable salary for 2016. In 2016, the company switched to a voluntary plan that reflects ITP1, which means that it is defined-contribution and constitutes 4.5% of pensionable salary up to 7.5 income base amounts and 30% of any excess amount. The retirement age for other senior executives varies between 65 and 67 years.

### Severance pay agreement

There is a mutual period of notice of termination between the company and the CEO of six months. In the case of termination by the company, severance pay equivalent to six monthly salaries is payable. Other income is not deducted from the severance pay. If the CEO resigns, no severance pay is payable.

### Share-based remuneration

#### Warrants 2013-2014

The Group has issued share-based remuneration that will be settled in the form of equity instruments to Michael Ruffolo. The share-based remuneration consists of warrants. Warrants have been issued for 2013 and 2014 and expire at the time of a change in the ownership of at least a majority of the shares. A total of 13,659 warrants have been issued and the average exercise price is SEK 400. The vesting period for the warrants is three years, but full conversion rights apply if there is a change in the company's ownership before the end of the vesting period. In March 2016, the plan for Michael Ruffolo was concluded and transferred to the principal owners. No further costs for the warrant programmes were incurred by the company in 2016.

#### Warrants 2016

An extraordinary general meeting on April 29 resolved to issue not more than 2,060 series B common shares to the new directors. The proceeds were received in June. The new share issue was still underway at the end of the period. The new issue was registered with the Swedish Companies Registration Office in 2013. The shares were subscribed at market value and no cost was incurred by the company. 1,500 shares were subscribed for

and increased the share capital by SEK 1,500. The subscription period for the remaining warrants has expired.

#### Warrants 2016/2019

The extraordinary shareholders' meeting held on 28 November 2016 resolved to issue not more than 130,000 warrants as part of a three-year long-term incentive plan for five senior executives of the company. The Chief Executive Officer is not covered by the plan. Transfers to the participants will take place at the market value of the warrant and each warrant will entitle the holder to subscribe for one new share at a subscription price for the warrants corresponding to 120% of the offering price in connection with the company's listing on Nasdaq Stockholm, corresponding to an exercise price of SEK 34.80. The fair value per option has been calculated according to Black and Scholes, with volatility, the time factor and interest rate as the principal parameters. 130,000 of the warrants were subscribed and paid for in cash in December 2016. The warrants were subscribed at market value and no cost was incurred by the company. Assuming maximum exercise, the share capital will increase by SEK 6,500 corresponding to 4.3%. The exercise period for this is during the period 1 January 2020 through 31 May 2020.

The year's costs for share-based remuneration, which is settled in the form of equity instruments, amounted to SEK 0 (299,000) in the Group. The effect on the Group's financial position was SEK 0 (299,000).

What is stated above for the Group also applies to the parent company.

### Other information

During 2016, the company divided up personnel costs between employees and consultants with employment-like agreements. As a result, figures for 2015 have been restated to reflect conditions in the current year. The changes are shown in Note 12 and were performed as follows: costs pertaining to consultants with employment-like agreements have been eliminated from the personnel costs recognised in the note on employee costs in the 2015 Annual Report.

Share-based remuneration, warrants 2013-2014/2016	2016	2015
<b>Group</b>		
Outstanding	538	929
Allocated during the period	0	-391
Forfeited during the period	-538	0
Exercised during the period	0	0
Expired during the period	0	0
Outstanding at the end of the period	0	538
Exercisable at the end of the period	0	529
<b>Parent company</b>		
Outstanding	538	929
Allocated during the period	0	-391
Forfeited during the period	-538	0
Exercised during the period	0	0
Expired during the period	0	0
Outstanding at the end of the period	0	538
Exercisable at the end of the period	0	529

### NOTE 13 FINANCIAL INCOME

	2016	2015
Interest income	5	0
Exchange gains	5,204	1,463
<b>Total</b>	<b>5,209</b>	<b>1,463</b>

### NOTE 14 FINANCIAL EXPENSES

	2016	2015
Interest expense	-278	-56
Factoring fees	-11	-85
Exchange-rate differences	-1,703	-654
<b>Total</b>	<b>-1,992</b>	<b>-795</b>

### NOTE 15 TAX

	2016	2015
Current tax		
Current tax on profit for the year	-7,178	-3,918
Adjustments recognised in current year for previous year's current tax	0	21
Deferred tax		
Deferred tax attributable to temporary differences	587	724
<b>Total</b>	<b>-6,591</b>	<b>-3,173</b>

#### Reconciliation of the year's tax expenses

	2016	2015
Pre-tax profit	22,327	13,969
Tax based on Swedish tax rate (22%)	-4,912	-3,073
Tax effect of non-deductible expenses and losses:		
Deficit for the year for which no deferred tax assets have been recognised	-1,491	-774
Temporary differences for the year for which no deferred tax assets have been recognised	-587	0
Other non-deductible expenses and losses	-131	-117
Deduction for reversed accelerated depreciation and changes in accelerated depreciation	-57	46
<b>Total</b>	<b>-7,178</b>	<b>-3,918</b>
Deferred tax attributable to temporary differences	587	724
Adjustments recognised in current year for previous year's current tax	0	21
<b>Tax expenses recognised for the year</b>	<b>-6,591</b>	<b>-3,173</b>

Current tax recognised directly in equity amounts to SEK 0 (0) (and 0 in 2013). Deferred tax recognised directly in equity amounts to SEK 0 (0). Current tax recognised in other comprehensive income amounts to SEK 0 (658,000). Deferred tax recognised in other comprehensive income amounts to SEK 0 (0).

### Deferred tax assets and deferred tax liabilities

The Group's deferred tax assets and deferred tax liabilities relate to the following items:

	31 Dec 2016	31 Dec 2015
<b>Deferred tax assets</b>		
Withholding tax	914	589
Unutilised tax loss carryforwards	11,030	18,069
<b>Deferred tax assets</b>	<b>11,944</b>	<b>18,658</b>
<b>Deferred tax liabilities</b>		
Capitalised expenditure on development work	-231	-818
<b>Deferred tax liabilities</b>	<b>-231</b>	<b>-818</b>

Deferred tax assets are measured at no more than the amount that is likely to be recovered based on current and future taxable profits. The company has unutilised loss carryforwards amounting to SEK 50,135,000 (82,126,000) that have been recognised as a deferred tax asset. The US subsidiary has additional unrecognised loss carryforwards. The company is not certain whether or not these loss carryforwards will be able to be used as it is uncertain about when in the future a sufficient taxable surplus will be generated. The unrecognised loss carryforwards in the US subsidiary amount to SEK 5,662,000 (4,932,000).

The tax rate for calculating deferred tax is 22%.

### NOTE 16 EARNINGS PER SHARE

#### Earnings per share before dilution

The following amounts for profits and weighted average number of ordinary shares have been used in calculating earnings per share before dilution:

	2016	2015
Profit for the year attributable to owners of the parent	15,736	10,796
Average number of outstanding ordinary shares, before dilution	24,854,312	24,077,275
<b>Earnings per share before dilution, SEK</b>	<b>0.63</b>	<b>0.45</b>

#### Earnings per share after dilution

The following amounts for profits and weighted average number of ordinary shares have been used in calculating earnings per share after dilution:

	2016	2015
Profit for the year attributable to owners of the parent	15,736	10,796
Average number of outstanding ordinary shares, before dilution	24,854,312	24,077,275
Effect of warrants, number of shares	0	273,003
<b>Earnings per share after dilution, SEK</b>	<b>0.63</b>	<b>0.44</b>



## NOTE 17 INVESTMENTS IN SUBSIDIARIES

The Group had the following subsidiary as of 31 December 2016 and 2015:

Name	Corp. Reg. No. and country of operation	Operations	Holding (%) <sup>1)</sup>
Edgware Inc	USA	Responsible for sales in North, Central and South America	100

1) The percentage holding pertains to the ownership share and percentage of voting rights.

The Group has no significant non-controlling interests.

## NOTE 18 CAPITALISED EXPENDITURE ON DEVELOPMENT WORK

	2016	2015
<b>Cost as of 1 January</b>	<b>19,215</b>	<b>9,885</b>
Assets developed internally	8,759	9,330
<b>Closing accumulated cost as of 31 December</b>	<b>27,974</b>	<b>19,215</b>
<b>Amortisation as of 1 January</b>	<b>-6,617</b>	<b>-2,870</b>
Amortisation for the year	-6,614	-3,747
<b>Closing accumulated amortisation as of 31 December</b>	<b>-13,231</b>	<b>-6,617</b>
<b>Carrying amount as of 31 December</b>	<b>14,743</b>	<b>12,598</b>

## NOTE 19 EQUIPMENT, TOOLS AND INSTALLATIONS

	2016	2015
<b>Warrant expenses</b>		
<b>Cost as of 1 January</b>	<b>18,255</b>	<b>15,097</b>
Purchases	2,838	760
Reclassifications	787	2,398
<b>Accumulated cost as of 31 December</b>	<b>21,880</b>	<b>18,255</b>
<b>Depreciation as of 1 January</b>	<b>-14,251</b>	<b>-12,029</b>
Depreciation for the year	-3,246	-2,222
<b>Accumulated depreciation as of 31 December</b>	<b>-17,497</b>	<b>-14,251</b>
<b>Carrying amount as of 31 December</b>	<b>4,383</b>	<b>4,004</b>

## NOTE 20 OTHER NON-CURRENT RECEIVABLES

	31 Dec 2016	31 Dec 2015
Deposit, landlord	1,000	1,000
Deposit, Business Sweden	2,568	2,178
<b>Carrying amount</b>	<b>3,568</b>	<b>3,178</b>

## NOTE 21 INVENTORIES

Inventories consist of components, third-party products and finished products. Inventories recognised as costs during the year include the cost of goods sold amounting to SEK 2,355,000 (121,000). Costs were incurred during the year for a product group that is approaching the end of its lifecycle.

## NOTE 22 TRADE ACCOUNTS RECEIVABLE

	31 Dec 2016	31 Dec 2015
Trade accounts receivable, gross	67,108	56,107
Reserve for doubtful receivables	-600	-200
<b>Trade accounts receivable, net after reserve for doubtful receivables</b>	<b>66,508</b>	<b>55,907</b>

Management considers the carrying amount of trade accounts receivable, net after reserves for doubtful receivables, to be the same as fair value. The company did not incur any bad debts in 2015. During 2016, a bad debt of SEK 190,000 was incurred by the US subsidiary. In 2016, a provision was posted for anticipated bad debts of SEK 600,000 (219,000).

	31 Dec 2016	31 Dec 2015
Reserve for doubtful accounts receivable during the year	600	200
<b>Total</b>	<b>600</b>	<b>200</b>

	31 Dec 2016	31 Dec 2015
<b>Age analysis, trade accounts receivable</b>		
Not overdue	56,111	44,821
Overdue by 30 days	7,971	3,970
Overdue by 31-60 days	1,165	490
Overdue by 61-90 days	0	3,716
Overdue by >90 days	1,261	2,910
<b>Total</b>	<b>66,508</b>	<b>55,907</b>

The company expects payment to be received for trade accounts receivable that are overdue but have not been impaired, because the customers have a good payment history.

## NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2016	31 Dec 2015
Prepaid costs for goods sold	1,095	1,048
Other items	4,715	3,640
<b>Carrying amount</b>	<b>5,810</b>	<b>4,688</b>

## NOTE 24 CASH AND CASH EQUIVALENTS

	31 Dec 2016	31 Dec 2015
Available funds on accounts at banks and other credit institutions	194,606	21,057
<b>Total</b>	<b>194,606</b>	<b>21,057</b>

## NOTE 25 SHARE CAPITAL

At the beginning of the 2016 and 2015 financial years, the registered share capital amounted to 649,171 shares with a quotient value of SEK 1 each. As per 31 December 2016, the registered share capital amounted to 30,043,008 shares with a quotient value of SEK 0.05 each.

The below table shows historic changes in the company's share capital since 1 January 2013, and changes in the number of shares and the share capital during 2016, resulting in connection with the listing of the company's shares on Nasdaq Stockholm.

Time	Event	Change in number of shares	Number of shares after the transaction	Change in share capital	Total share capital
1 Jan 2013		–	649,171	–	649,171.00
14 Jul 2016	New share issue	500	649,671	500.00	649,671.00
14 Jul 2016	Issue against set off	30,221	679,892	30,221.00	679,892.00
14 Jul 2016	Share subscription due to warrants	7,679	687,571	7,679.00	687,571.00
14 Jul 2016	New share issue	1,000	688,571	1,000.00	688,571.00
23 Nov 2016	New share issue	266	688,837	266.00	688,837.00
23 Nov 2016	Share split	13,087,903	13,776,740	–	688,837.00
9 Dec 2016	Share conversion	–	13,776,740	–	688,837.00
9 Dec 2016	Bonus issue	11,093,855	24,870,595	554,692.75	1,243,529.75
15 Dec 2016	New share issue	5,172,413	30,043,008	258,620.65	1,502,150.40

## NOTE 26 OTHER CONTRIBUTED CAPITAL

Other paid-in capital consists of the share premium reserve.

## NOTE 27 TRANSLATION RESERVE

The translation reserve is for translation differences upon translation of foreign operations to SEK.

## NOTE 28 OTHER PROVISIONS

	31 Dec 2016	31 Dec 2015
1 January	515	1,200
Additional provisions	1,570	781
Amounts utilised	–602	–781
Reversal of unutilised amount	–881	–685
<b>Carrying amount</b>	<b>602</b>	<b>515</b>

## NOTE 29 ACCRUED EXPENSES AND DEFERRED INCOME

	2016-12-31	2015-12-31
Accrued salaries	8,223	11,233
Accrued vacation pay	2,618	2,254
Accrued social insurance contributions	2,343	1,930
Prepaid income	35,985	27,866
Accrued interest expense	0	1,971
Other items	6,054	943
<b>Carrying amount</b>	<b>55,223</b>	<b>46,197</b>

## NOTE 30 ASSETS PLEDGED AND CONTINGENT

### LIABILITIES

	31 Dec 2016	31 Dec 2015
<b>Pledged assets</b>		
Chattel mortgage	0	6,000
Bank guarantee	546	0
<b>Total</b>	<b>546</b>	<b>6,000</b>
Contingent liabilities	None	None

## NOTE 31 TRANSACTIONS WITH RELATED PARTIES

Transactions between the company and its subsidiaries, which are parties related to the company, were eliminated upon consolidation, which is why no disclosures about these transactions are provided in this note.

	31 Dec 2016	31 Dec 2015
<b>Loans to related parties</b>		
Liabilities to related parties	0	10,180
<b>Total</b>	<b>0</b>	<b>10,180</b>

Liabilities to related parties are reported under other current liabilities.

Disclosures on remuneration of senior executives are presented in Note 12.

## NOTE 32 EVENTS AFTER THE CLOSING DAY

No events of material importance have occurred after the closing day.

# PARENT COMPANY INCOME STATEMENT

(SEK 000)	NOTE	2016	2015
<b>Operating income</b>			
Net sales	2	249,549	195,989
Cost of goods and services sold		-74,790	-61,206
<b>Gross income</b>		<b>174,759</b>	<b>134,783</b>
<b>Operating expenses</b>			
Selling expenses		-54,022	-44,012
Administrative expenses	3	-42,904	-34,927
Research and development expenses		-52,048	-38,392
Other operating expenses		-660	-689
<b>Operating profit</b>	<b>4,5,6</b>	<b>25,125</b>	<b>16,763</b>
<b>Profit/loss from financial items</b>			
Impairment of financial non-current assets	7	938	-19,603
Interest income and similar items	8	5,224	1,463
Interest expenses and similar expense items	9	-1,886	-737
<b>Profit after financial items</b>		<b>29,401</b>	<b>-2,114</b>
<b>Pre-tax profit</b>		<b>29,401</b>	<b>-2,114</b>
Tax on profit for the year	10	-6,451	-3,173
<b>PROFIT FOR THE YEAR</b>		<b>22,950</b>	<b>-5,287</b>

# PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

(SEK 000)	NOTE	2016	2015
<b>Profit for the year</b>		<b>22,950</b>	<b>-5,287</b>
<b>Other comprehensive income</b>			
Hedge of net investment		–	-2,992
Tax effect of hedging net investments		–	658
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>22,950</b>	<b>-7,621</b>

# PARENT COMPANY BALANCE SHEET

(SEK 000)	NOTE	2016	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible non-current assets</b>			
Capitalised expenditure on development work	11	14,743	12,598
		<b>14,743</b>	<b>12,598</b>
<b>Property, plant and equipment</b>			
Equipment	12	4,369	3,972
		<b>4,369</b>	<b>3,972</b>
<b>Financial non-current assets</b>			
Deferred tax assets	10	11,713	17,840
Other non-current assets	15	3,568	3,178
<b>Total financial non-current assets</b>		<b>15,281</b>	<b>21,018</b>
<b>Total non-current assets</b>		<b>34,393</b>	<b>37,588</b>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials and supplies	16	6,117	13,671
		<b>6,117</b>	<b>13,671</b>
<b>Current receivables</b>			
Trade accounts receivable		63,510	49,885
Receivables from Group companies	14	6,585	5,021
Other receivables		2,427	2,032
Prepaid expenses and accrued income	17	5,730	4,365
		<b>78,252</b>	<b>61,303</b>
<b>Cash and bank balances</b>	22	<b>193,173</b>	<b>14,481</b>
<b>Total current assets</b>		<b>277,542</b>	<b>89,455</b>
<b>TOTAL ASSETS</b>		<b>311,935</b>	<b>127,043</b>



# PARENT COMPANY BALANCE SHEET

(SEK 000)	NOTE	2016	2015
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity</b>	24		
<i>Restricted equity</i>			
Share capital (30,043,008 shares)		1,502	649
Reserve for development expenses		7,587	–
<b>Total restricted equity</b>		<b>9,089</b>	<b>649</b>
<i>Unrestricted equity</i>			
Share premium reserve		231,405	82,001
Earnings brought forward		–26,334	–11,125
Profit for the year		22,950	–7,621
		<b>228,021</b>	<b>63,255</b>
<b>Total equity</b>		<b>237,110</b>	<b>63,904</b>
<b>Provisions</b>			
Other provisions	18	602	515
		<b>602</b>	<b>515</b>
<b>Non-current liabilities</b>			
Trade accounts payable	20	16,725	8,223
Other current liabilities	20	3,003	12,044
Accrued expenses and deferred income	19	54,495	42,357
		<b>74,223</b>	<b>62,624</b>
<b>Current liabilities</b>		<b>311,935</b>	<b>127,043</b>

# PARENT COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(SEK 000)	RESTRICTED EQUITY		UNRESTRICTED EQUITY			
	SHARE CAPITAL	RESERVE FOR DEVELOPMENT EXPENDITURE	SHARE PREMIUM RESERVE	RETAINED PROFIT OR LOSS	PROFIT FOR THE YEAR	FOR THE YEAR
<b>Balance, 1 January 2016</b>	<b>649</b>	<b>0</b>	<b>82,001</b>	<b>-11,125</b>	<b>-7,621</b>	<b>63,904</b>
Appropriation of profit/loss for the preceding year				-7,621	7,621	0
Profit for the year				0	22,950	22,950
Reserve for development expenditure		7,587		-7,587		0
Other comprehensive income				0	0	0
<b>Total comprehensive income</b>				<b>0</b>	<b>22,950</b>	<b>22,950</b>
Transactions with owners:						
Share-based remuneration						0
Bonus issue	554		-554			0
New share issue	299		162,525			162,824
Warrants			460			460
Issuance costs			-13,028			-13,028
<b>Total transactions with owners</b>	<b>853</b>		<b>149,403</b>	<b>0</b>	<b>0</b>	<b>150,256</b>
<b>Balance, 31 December 2016</b>	<b>1,502</b>	<b>7,587</b>	<b>231,404</b>	<b>-26,333</b>	<b>22,950</b>	<b>237,110</b>

(SEK 000)	RESTRICTED EQUITY		UNRESTRICTED EQUITY			
	SHARE CAPITAL	RESERVE FOR DEVELOPMENT EXPENDITURE	SHARE PREMIUM RESERVE	RETAINED PROFIT OR LOSS	PROFIT FOR THE YEAR	FOR THE YEAR
<b>Balance, 1 January 2015</b>	<b>649</b>	<b>0</b>	<b>82,001</b>	<b>-23,904</b>	<b>12,480</b>	<b>71,226</b>
Appropriation of profit/loss for the preceding year				12,480	-12,480	0
Profit for the year				0	-5,287	-5,287
Other comprehensive income				0	-2,334	-2,334
<b>Total comprehensive income</b>				<b>0</b>	<b>-7,621</b>	<b>-7,621</b>
Transactions with owners:						
Share-based remuneration				299		299
<b>Total transactions with owners</b>		<b>0</b>	<b>0</b>	<b>299</b>	<b>0</b>	<b>299</b>
<b>Balance, 31 December 2015</b>	<b>649</b>		<b>82,001</b>	<b>-11,125</b>	<b>-7,621</b>	<b>63,904</b>

# PARENT COMPANY CASH FLOW STATEMENT

(SEK 000)	NOTE	2016	2015
<b>Cash flow from operating activities</b>			
Operating profit		25,125	16,763
Adjustments for non-cash items:			
Depreciation/amortisation		9,843	5,924
Reversal of impairment loss, subsidiaries		938	0
Warrant expenses		–	299
Guarantee reserve		87	–685
Received interest		4	1
Paid interest		–62	–221
<b>Cash flow from operating activities before changes in working capital</b>		<b>35,935</b>	<b>22,081</b>
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in inventories		7,554	–6,625
Decrease (+)/Increase (–) in accounts receivable		–13,625	–10,785
Decrease (+)/Increase (–) in other receivables		–3,324	8,796
Decrease (–)/Increase (+) in trade payables		8,502	1,777
Decrease (–)/Increase (+) in other current receivables		15,068	18,401
<b>Cash flow from operating activities</b>		<b>50,110</b>	<b>33,645</b>
Investing activities			
Acquisition of intangible non-current assets	11	–8,759	–9,330
Acquisition of tangible non-current assets	12	–3,622	–3,134
Investments in other financial non-current assets	13	119	–21,310
<b>Cash flow from investing activities</b>		<b>–12,262</b>	<b>–33,774</b>
Financing activities			
New share issue	24	151,173	–
Issuance costs		–13,028	–
Warrants		460	–
<b>Cash flow from financing activities</b>		<b>138,605</b>	<b>–</b>
<b>Cash flow for the year</b>		<b>176,453</b>	<b>–129</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>14,481</b>	<b>16,027</b>
<b>Exchange rate differences in cash and cash equivalents</b>		<b>2,239</b>	<b>–1,417</b>
<b>Cash and cash equivalents at year-end</b>	21	<b>193,173</b>	<b>14,481</b>

# NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

## NOTE 1 ACCOUNTING POLICIES

The annual accounts of the Parent Company have been prepared pursuant to the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. According to RFR 2, the Parent Company is to apply all International Financial Reporting Standards, adopted by the EU, to the extent possible within the framework of the Annual Accounts Act. The amendments to RFR 2 that have come/will come into effect and apply to the 2016 and/or 2017 financial year had/are estimated to have no impact on the Parent Company's financial statements.

The differences between the Parent Company's and the consolidated accounting policies are described below:

### Classification and presentation

The Parent Company's income statement and balance sheet are presented according to the format stipulated in the Annual Accounts Act. The difference compared with IAS 1 Presentation of Financial Statements, which is applied to the presentation of the consolidated financial statements, primarily pertains to the recognition of financial income and expenses, non-current assets and shareholders' equity, as well as the existence of provisions under a separate heading.

### Subsidiaries

Shares and participations in subsidiaries are recognised at cost in the Parent Company's financial statements. Acquisition-related costs for subsidiaries, which are expensed in the consolidated financial statements, are included as a component of cost in respect of participations in subsidiaries.

### Financial instruments

The Parent Company does not apply IAS 39 Financial Instruments: Recognition and Measurement. The method applied in the Parent Company uses the Annual Accounts Act as the point of departure.

## NOTE 2 INFORMATION ON INTRA-GROUP PURCHASES AND SALES

	2016	2015
Sales	3.7%	12.6%

## NOTE 3 REMUNERATION OF THE AUDITOR

	2016	2015
Deloitte AB		
Audit assignments	450	205
Auditing activity other than audit assignments	1,465	243
Other services	615	0
<b>Total</b>	<b>2,530</b>	<b>448</b>

## NOTE 4 LEASES

### Operating leases - lessees

The Group is a lessee in operating leases for rented premises. The year's expensed lease payments for operating leases totalled SEK 4,082,000 (2,406,000) in the Group. Future minimum lease payments and variable payments for non-cancellable operating leases fall due as follows:

Due dates	2016	2015
<i>Future minimum lease payments</i>		
Within one year	3,556	3,556
Later than one year but within five years	2,667	6,224

## NOTE 5 PERSONNEL EXPENSES

### Salaries, remuneration, social security contributions and pension costs

	2016	2015
Salaries and other remuneration	66,458	56,596
Social insurance contributions	16,868	14,337
Pensions expenses	10,544	8,447
<b>Total</b>	<b>93,870</b>	<b>79,380</b>

See Note 12 to the consolidated financial statements for information on the average number of employees, salaries and remuneration, as well as the distribution between women and men on the Board of Directors and among senior executives.

## NOTE 6 DEPRECIATION/AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE NON-CURRENT ASSETS

	2016	2015
Research and development expenses	6,614	2,177
Cost of goods and services sold	3,229	3,747
<b>Total</b>	<b>9,843</b>	<b>5,924</b>

## NOTE 7 IMPAIRMENT OF FINANCIAL NON-CURRENT ASSETS

	2016	2015
Impairment losses	938	-19,603
<b>Total</b>	<b>938</b>	<b>-19,603</b>

The component of the Parent Company's receivables that is not regarded as being repayable in a foreseeable future has been granted to the subsidiary as a shareholder contribution and was subsequently impaired. The assessment of the Parent Company is that the remaining receivables will be repaid within the year ahead.

## NOTE 8 OTHER INTEREST INCOME AND SIMILAR ITEMS

	2016	2015
Interest income	5	0
Interest income, Group companies	119	83
Exchange-rate differences	5,100	1,380
<b>Total</b>	<b>5,224</b>	<b>1,463</b>

## NOTE 9 OTHER INTEREST EXPENSES AND SIMILAR ITEMS

	2016	2015
Interest expense	-169	2
Factoring fees	-11	-85
Exchange-rate differences	-1,706	-617
<b>Total</b>	<b>-1,886</b>	<b>-700</b>

## NOTE 10 TAX ON PROFIT FOR THE YEAR

	2016	2015
Current tax	-7,038	-3,918
Adjustments recognised in current year for previous year's current tax	0	21
Deferred tax attributable to temporary differences	587	724
<b>Tax on profit for the year</b>	<b>-6,451</b>	<b>-3,173</b>

<b>Reconciliation of the year's tax expenses</b>	2016	2015
Recognised profit before tax	29,401	-2,114
Tax based on Swedish tax rate (22%)	-6,468	465
Tax effect of non-deductible expenses and losses:		
Temporary differences for the year for which no deferred tax assets have been recognised	-587	
Impairment of financial asset	206	-4,313
Deduction for reversal of accelerated depreciation and change in accelerated depreciation	-58	46
Non-deductible expenses and losses	-131	-117
Interest income, tax account	0	1
<b>Total</b>	<b>-7,038</b>	<b>-3,918</b>
Deferred tax attributable to temporary differences	587	724
Adjustments recognised in current year for previous year's current tax	0	21
<b>Tax expenses recognised for the year</b>	<b>-6,451</b>	<b>-3,173</b>

Current tax recognised directly in equity amounts to SEK 0 (0).  
Deferred tax recognised directly in equity amounts to SEK 0 (0).

## Deferred tax assets and deferred tax liabilities

The Parent Company's deferred tax assets and deferred tax liabilities relate to the following items:

	31 Dec 2016	31 Dec 2015
<b>Deferred tax assets</b>		
Unutilised tax loss carryforwards	11,030	18,069
Withholding tax	914	589
<b>Deferred tax assets</b>	<b>11,944</b>	<b>18,658</b>
<b>Deferred tax liabilities</b>		
Capitalised expenditure on development work	-231	-818
<b>Recognised deferred tax asset, net</b>	<b>11,713</b>	<b>17,840</b>

Deferred tax assets are measured at no more than the amount that is likely to be recovered based on current and future taxable profits. The company has unutilised loss carryforwards amounting to SEK 50,135,000 (82,126,000), of which SEK 50,135,000 (82,126,000) pertains to recognised loss carryforwards. Deferred tax liabilities pertains to capitalised expenditure on development work concerning 2013 and 2014.

The tax rate for calculating deferred tax is 22%.

## NOTE 11 CAPITALISED EXPENDITURE ON DEVELOPMENT WORK

	2016	2015
<b>Cost as of 1 January</b>	<b>19,215</b>	<b>9,885</b>
Assets developed internally	8,759	9,330
<b>Accumulated cost as of 31 December</b>	<b>27,974</b>	<b>19,215</b>
<b>Amortisation as of 1 January</b>	<b>-6,617</b>	<b>-2,870</b>
Amortisation for the year	-6,614	-3,747
<b>Accumulated amortisation as of 31 December</b>	<b>-13,231</b>	<b>-6,617</b>
<b>Carrying amount as of 31 December</b>	<b>14,743</b>	<b>12,598</b>

## NOTE 12 EQUIPMENT, TOOLS AND INSTALLATIONS

	2016	2015
<b>Cost as of 1 January</b>	<b>18,067</b>	<b>14,933</b>
Purchases	2,840	737
Reclassifications	787	2,397
<b>Accumulated cost as of 31 December</b>	<b>21,694</b>	<b>18,067</b>
<b>Amortisation as of 1 January</b>	<b>-14,095</b>	<b>-11,918</b>
Amortisation for the year	-3,230	-2,177
<b>Accumulated amortisation as of 31 December</b>	<b>-17,325</b>	<b>-14,095</b>
<b>Carrying amount as of 31 December</b>	<b>4,369</b>	<b>3,972</b>



### NOTE 13 PARTICIPATIONS IN GROUP COMPANIES

	2016	2015
<b>Cost as of 1 January</b>	<b>21,073</b>	<b>1,470</b>
Reclassifications	0	19,603
<b>Accumulated cost as of 31 December</b>	<b>21,073</b>	<b>21,073</b>
<b>Opening impairment losses as per 1 January</b>	<b>-21,073</b>	<b>-1,470</b>
Impairment losses for the year	0	-19,603
<b>Accumulated impairment losses as per 31 December</b>	<b>-21,073</b>	<b>-21,073</b>
<b>Carrying amount as of 31 December</b>	<b>0</b>	<b>0</b>

#### Company's holdings of participations in Group companies

Company's name	Share of capital <sup>1)</sup>	Number of participations	Carrying amount	
			31 Dec 2016	31 Dec 2015
Edgware Inc	100%	1,000	0	0
<b>Total</b>			<b>0</b>	<b>0</b>

1) The share of equity matches the share of votes.

Company's name	Registered office:
Edgware Inc	Incooperated in Delaware, USA (situated in Chicago)

### NOTE 14 RECEIVABLES FROM GROUP COMPANIES

	2016	2015
<b>Cost as of 1 January</b>	<b>29,969</b>	<b>39,243</b>
Additional receivables	8,761	26,376
Settled receivables	-7,197	-13,799
Reclassifications	0	-21,851
<b>Accumulated cost as of 31 December</b>	<b>31,533</b>	<b>29,969</b>
<b>Opening impairment losses as per 1 January</b>	<b>-24,948</b>	<b>-24,948</b>
Reclassifications	0	19,603
Impairment losses for the year	0	-19,603
<b>Accumulated impairment losses as per 31 December</b>	<b>-24,948</b>	<b>-24,948</b>
<b>Carrying amount as of 31 December</b>	<b>6,585</b>	<b>5,021</b>

### NOTE 15 OTHER NON-CURRENT RECEIVABLES

	31 Dec 2016	31 Dec 2015
Deposit, landlord	1,000	1,000
Deposit, Business Sweden	2,568	2,178
<b>Carrying amount</b>	<b>3,568</b>	<b>3,178</b>

### NOTE 16 RAW MATERIALS AND SUPPLIES

Inventories consist of components, third-party products and finished products. Inventories recognised as costs during the year include the cost of goods sold amounting to SEK 2,355,000 (121,000).

### NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2016	31 Dec 2015
Prepaid costs for goods sold	1,095	1,048
Other items	4,635	3,317
<b>Carrying amount</b>	<b>5,730</b>	<b>4,365</b>

### NOTE 18 OTHER PROVISIONS

	2016	2015
1 January	515	1,200
Additional provisions	1,570	781
Amounts utilised	-602	-781
Reversal of unutilised amount	-881	-685
<b>Carrying amount as of 31 December</b>	<b>602</b>	<b>515</b>

### NOTE 19 ACCRUED EXPENSES AND DEFERRED INCOME

	2016	2015
Accrued salaries	7,495	537
Accrued vacation pay	2,618	2,254
Accrued social insurance contributions	2,343	1,930
Prepaid income	35,985	27,866
Accrued interest expense	0	1,971
Other items	6,054	7,799
<b>Carrying amount</b>	<b>54,495</b>	<b>42,357</b>

## NOT 20 FINANCIAL INSTRUMENTS

### Maturity breakdown, financial liabilities

31 Dec 2016	Within 3 months	3–12 months	1–5 years	More than 5 years	Total
Trade accounts payable	16,725	0	0	0	16,725
Other current liabilities	0	3,003	0	0	3,003
<b>Total</b>	<b>16,725</b>	<b>3,003</b>	<b>0</b>	<b>0</b>	<b>19,728</b>

31 Dec 2015	Within 3 months	3–12 months	1–5 years	More than 5 years	Total
Trade accounts payable	8,223	0	0	0	8,223
Other current liabilities	0	12,044	0	0	12,044
<b>Total</b>	<b>8,223</b>	<b>12,044</b>	<b>0</b>	<b>0</b>	<b>20,267</b>

31 Dec 2016	Loans and accounts receivables	Short term liabilities	Carrying amount
<b>Financial assets</b>			
Trade accounts receivable	63,510	0	63,510
Other receivables	0	0	0
Cash and cash equivalents	193,173	0	193,173
<b>Financial liabilities</b>			
Trade accounts payable		–16,725	–16,725
Other liabilities	0	0	0
<b>Total</b>	<b>256,683</b>	<b>–16,725</b>	<b>239,958</b>

31 Dec 2015	Loans and accounts receivables	Other liabilities	Carrying amount
<b>Financial assets</b>			
Trade accounts receivable	49,885	0	49,885
Other receivables	0	0	0
Cash and cash equivalents	14,481	0	14,481
<b>Financial liabilities</b>			
Trade accounts payable		–8,223	–8,223
Other liabilities	0	–11,971	–11,971
<b>Total</b>	<b>64,366</b>	<b>–20,194</b>	<b>44,172</b>

## NOTE 21 ASSETS PLEDGED AND CONTINGENT LIABILITIES

	31 Dec 2016	31 Dec 2015
<b>Pledged assets</b>		
Chattel mortgage	0	6,000
Bank guarantee	546	0
<b>Total</b>	<b>546</b>	<b>6,000</b>
Contingent liabilities	None	None

## NOTE 22 CASH AND CASH EQUIVALENTS IN CASH FLOW

	31 Dec 2016	31 Dec 2015
Available funds on accounts at banks and other credit institutions	193,173	14,481
<b>Total</b>	<b>193,173</b>	<b>14,481</b>

## NOTE 23 TRANSACTIONS WITH RELATED PARTIES

Transactions between the Parent Company and its subsidiaries, which are parties related to the Parent Company, and disclosures about transactions between other related parties are presented below.

Sales of goods and services	2016	2015
Edgware Inc	10,392	32,820
<b>Total</b>	<b>10,392</b>	<b>32,820</b>

Sales and purchases of goods and services are conducted on market-based terms.

	31 Dec 2016	31 Dec 2015
<b>Loans to related parties</b>		
Loans to related parties, convertible debentures	0	10,000
<b>Total</b>	<b>0</b>	<b>10,000</b>

Loans to related parties as per 31 Dec 2015 pertained to a letter of debt of SEK 10,000,000 carrying interest of 8%. On 31 March 2016, an extraordinary general meeting resolved to increase the share capital by 30,221 preference shares of series P6. Payment for the new shares will take the form of offsetting against previous claims on the company. As a result, the share capital increased by SEK 30,598,000.

## NOTE 24 SHARE CAPITAL DEVELOPMENT

At the beginning of the 2016 and 2015 financial years, the registered share capital amounted to 649,171 shares with a quotient value of SEK 1 each. As per 31 December 2016, the registered share capital amounted to 30,043,008 shares with a quotient value of SEK 0.05 each.

The below table shows historic changes in the company's share capital since 1 January 2013, and changes in the number of shares and the share capital during 2016, resulting from the listing of the company's shares on Nasdaq Stockholm.

Time	Event	Change in number of shares	Number of shares after the transaction	Change in share capital	Total share capital
1 Jan 2013		–	649,171	–	649,171.00
14 Jul 2016	New share issue	500	649,671	500.00	649,671.00
14 Jul 2016	Issue against set off	30,221	679,892	30,221.00	679,892.00
14 Jul 2016	Share subscription due to warrants	7,679	687,571	7,679.00	687,571.00
14 Jul 2016	New share issue	1,000	688,571	1,000.00	688,571.00
23 Nov 2016	New share issue	266	688,837	266.00	688,837.00
23 Nov 2016	Share split	13,087,903	13,776,740	–	688,837.00
9 Dec 2016	Share conversion	–	13,776,740	–	688,837.00
9 Dec 2016	Bonus issue	11,093,855	24,870,595	554,692.75	1,243,529.75
15 Dec 2016	New share issue	5,172,413	30,043,008	258,620.65	1,502,150.40

## NOTE 25 EVENTS AFTER THE CLOSING DAY

No events of material importance have occurred after the closing day.

## NOT 26 PROPOSED DISTRIBUTION OF UNAPPROPRIATED

### EARNINGS

#### Funds available for distribution by the AGM, SEK

Earnings brought forward	205,070,556
Profit for the year	22,949,748
	<b>228,020,304</b>
The Board of Directors proposes that the following amount be carried forward	228,020,304
<b>Carrying amount</b>	<b>228,020,304</b>

The Board of Directors and the CEO hereby certify that the Annual Report has been prepared in accordance with the Annual Accounts Act and Recommendation RFR 2 Accounting for Legal Entities and provides a true and fair view of the company's financial position and results, and that the Directors' Report provides a true and fair overview of the development of the company's business, position and results and describes significant risks and uncertainties faced by the company. The Board of Directors and the CEO hereby certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and provide a true and fair view of the Group's financial position and results, and that the Directors' Report for the Group provides a true and fair overview of the development of the Group's business, position and results and describes significant risks and uncertainties faced by the companies included in the Group.

Stockholm, 21 March 2017

Mike Ruffolo  
CHAIRMAN OF THE BOARD

Karl Thedéen  
BOARD MEMBER

Kent Sander  
BOARD MEMBER

Sigrun Hjelmquist  
BOARD MEMBER

Lukas Holm  
BOARD MEMBER

Jason Pinto  
BOARD MEMBER

Staffan Helgesson  
BOARD MEMBER

Joachim Roos  
CHIEF EXECUTIVE OFFICER

Our auditor's report was submitted on 21 March 2017

Deloitte AB

Erik Olin  
Authorised Accountant

# AUDITOR'S REPORT

**To the general meeting of the shareholders of Edgeware AB (publ) corporate identity number 556691-7554**

## **REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS**

### **Opinions**

We have audited the annual accounts and consolidated accounts of Edgeware AB (publ) for the financial year 2016-01-01–2016-12-31 except for the corporate governance statement on pages 48–53. The annual accounts and consolidated accounts of the company are included on pages 42–85 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 parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 48–53. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

### **Basis for Opinions**

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

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

### **Key Audit Matters**

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

### **Revenue recognition**

#### *Risk assessment*

Consolidated net sales amounts to SEK 252.2 million per 31 December 2016 and derives from sales of both products and services. We have classified this as a key audit matter since revenue is significant and consist of several different revenue streams such

as hardware, software, licenses, integration services, installation services, support and maintenance where product and services in some cases is bundled into one customer offering, which may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). Revenue recognition should reflect the economic substance of each deliverable and revenue are allocated based on the relative fair value of each separately identifiable deliverables. The fair value for each separately identifiable deliverable and the timing of the recognition of revenue may have a significant impact on the Group's net sales and earnings.

For further information, please refer to the Group's accounting policies in Note 2 on page 60 and description of significant estimates and assumptions in Note 3 on page 64.

### *Our audit procedures*

Our audit procedures included but were not limited to:

- evaluation of the appropriateness of the Group's revenue recognition principles and compliance with the same for each significant revenue stream
- testing of the design and implementation of key internal controls relating to contract management and revenue accrual
- detailed testing for a sample of revenue transactions including evaluation of revenue recognition of customer contracts containing multiple deliverables
- detailed testing for a sample of revenue transactions with respect of existence and completeness of revenue by comparing reported revenue with customer payments and review of revenue accruals at year end

### **Recognition and valuation of capitalized development expenses**

#### *Risk assessment*

Consolidated capitalized development expenses amounts to SEK 14.7 million and includes internally generated software. Development expenses are capitalized when the criteria's, described in the Group's accounting policies on page 62 are met.

The capitalization and subsequent measurement of internally generated software are based on the management's assessment of the future economic benefits. There is a risk that the development expenses do not qualify for capitalization and that the carrying value of individual software applications exceeds the recoverable amount, which could have a significant impact on the Group's earnings and financial position.

For further information, please refer to the Group's accounting policies in Note 2 on page 60 and description of significant estimates and assumptions in Note 3 on page 64 and note 18 of intangible assets.

### *Our audit procedures*

Our audit procedures included but were not limited to:

- evaluation of the appropriateness of the Group's principles for capitalization of internally generated development expenses
- testing of the design and implementation of key internal controls relating to capitalization and valuation of development expenses
- detailed testing for a sample of capitalized development expenses and evaluation of management's assessment that capitalized development expenses meets the criteria for capitalization



- evaluation of the principles and methodology used by management for impairment testing of capitalized development expenses.
- evaluation of the assumptions used by management in the impairment model of capitalized development expenses and assessment of the functionality of the calculation model for mathematical correctness

#### **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 1–41 and 89–90. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

#### **Responsibilities of the Board of Directors and the Managing Director**

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

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

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

#### **Auditor's responsibility**

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

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Edgware AB (publ) for the financial year 2016-01-01 – 2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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 scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 48-53 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

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

Stockholm, 21 March 2017  
Deloitte AB

Erik Olin

**AUTHORIZED PUBLIC ACCOUNTANT**

Signatures on Swedish original

# GLOSSARY

**ACCESS NETWORK** The part of the public network that is closest to the end user.

**BAND WIDTH** Measurement of the amount of information that can be transmitted. Measured in the unit of bit per second, bps.

**BUFFERING** Downloading and delay in accessing the content.

**CATCH UP TV** Watching the latest TV programmes after they have been transmitted.

**CDN** Content Delivery Networks. An overlapping, geographically dispersed network with customer content that enables rapid and reliable reception from the location of every end user.

**CONTENT** TV content that is distributed over the network.

**HD/HDTV** High definition/High definition TV.

**UHD/TV** Ultra High Definition/TV. Available in two different video formats, 4K and 8K.

**IP** (Internet Protocol) Protocol that is used for data transmission over the Internet. All Internet traffic is provided in IP packages.

**IPTV** TV transmitted using IP, i.e. broadband.

**LIVE TO VOD** Live video and TV content that is stored and then available for play.

**OTT/ OVER-THE-TOP** Services in a network that are not offered by a network operator. TV viewers use their broadband connection and watch TV over the Internet.

**REALTIME** Live transmission without delay.

**STREAMED MEDIA** Audio and video files that are played via mobile phone or PC, at the same time as they are transmitted over a LAN or WAN, such as the Internet. These are used, for example, for playing stored files from websites and for the reception of live events on the Internet.

**TV SERVERS** Hardware servers developed especially for TV and video content.

**TV CDN** A decentralised supplier network developed especially for handling TV and video programmes.

**VOD (VIDEO ON DEMAND)** Choosing to watch video content when you want to.

# FINANCIAL CALENDER

- Annual report 2016, 21 March 2017.
- Annual shareholders meeting 2017, 12 April 2017, 10:00 Bygget Konferens, Norrlandsgatan 11, Stockholm.
- Interim report for the period January-March 2017, Q1, 4 May 2017.
- Interim report for the period January-June 2017, Q2, 3 August 2017.
- Interim report for the period January-September 2017, Q3, 2 November 2017.

## CONTACT

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Information about Edgeware, press releases, press photos, etc.  
are available in our newsroom at Cision.

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