

MSAB

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Financial calendar 2017

The AGM will be held at Gällöfsta City's premises on Biblioteksgatan 29 in Stockholm, on Wednesday, 10 May, 2017 at 18:00.

Interim report January–March	28 April
Interim report January–June	21 July
Interim report January–September	20 October
Year-end report	2 February 2017

Contact point for shareholders

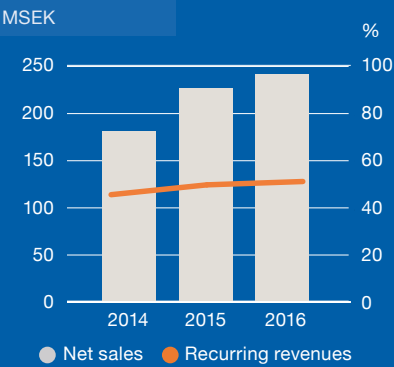
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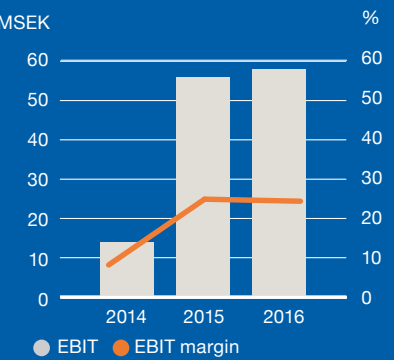
The Annual Report is in all respects a translation of the Swedish Annual Report prepared in accordance with Swedish laws and regulations. In the event of any differences between this translation and the Swedish original, the Swedish Annual Report shall have precedence.

ANNUAL REPORT 2016

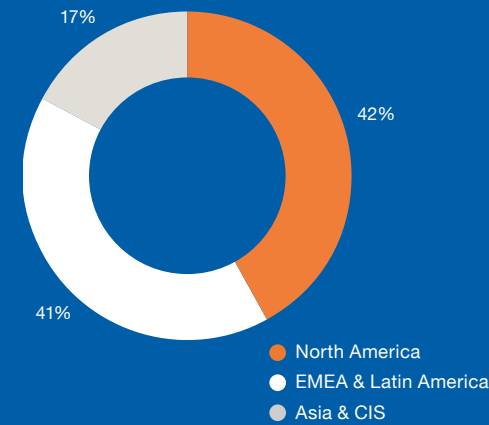
NET SALES AND RECURRING REVENUES



EBIT AND EBIT MARGIN

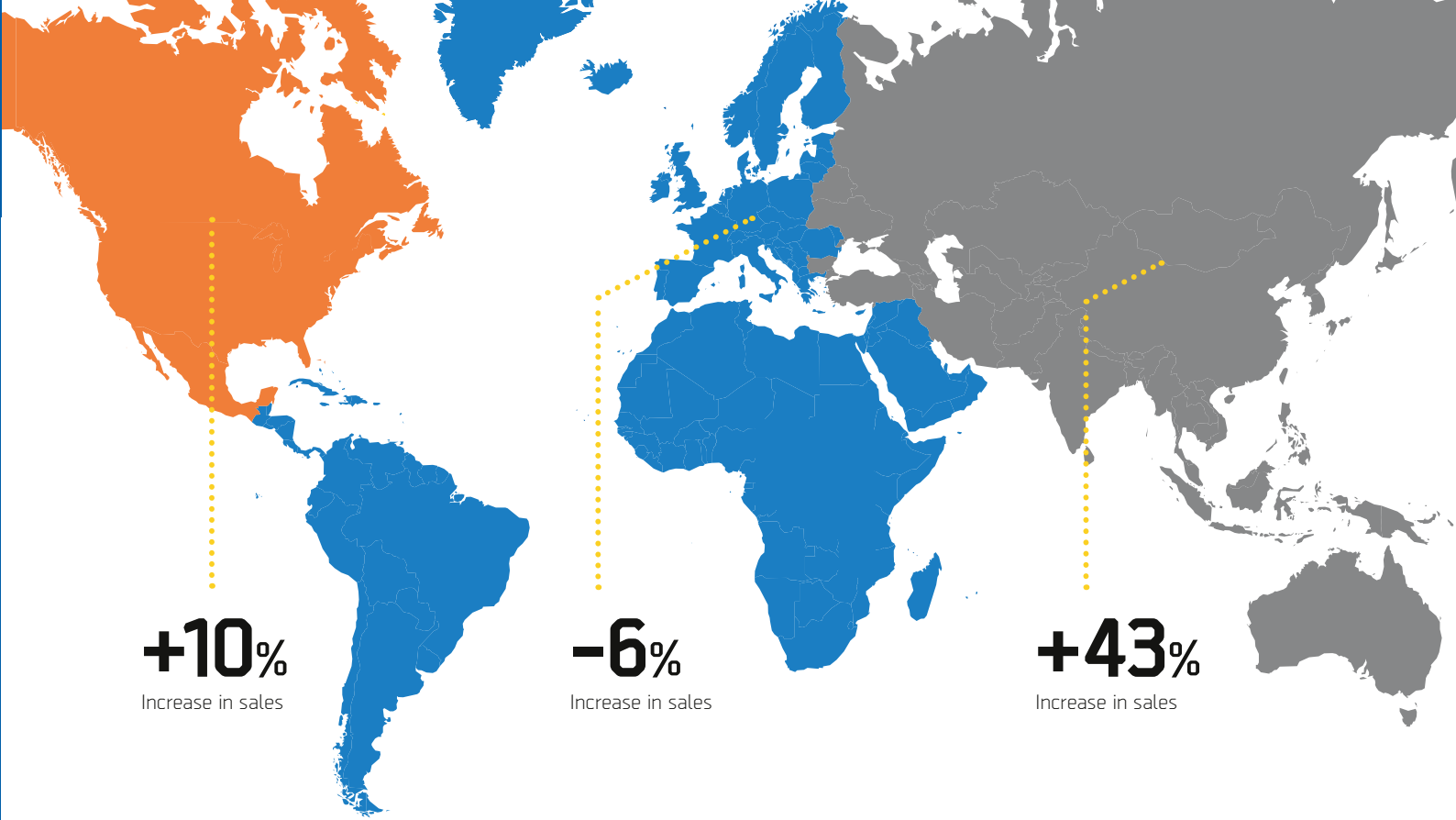


SALES BY REGION



PROPOSED DIVIDEND PER SHARE

SEK 2.2



Mobile technology changes the world

There are billions of mobile devices such as phones, tablets, GPS units and watches. Even where there are no computers, people use mobiles: in the cities, in the countryside, in deserts and mountains. Wherever we go, whatever we do, we bring our mobile devices.

This is also true for people who break the rules of society. They use mobile devices and that can be a good thing. Mobile technology leaves traces, like digital footprints. These can reveal a hidden world – a fragmented world at times, but a world that points to the truth. It is our task to help our customers search for that truth, in order to make the world a safer place.

Our customers are passionate about their jobs. They truly believe in justice and peace. However, when it comes to mobile technology they meet tough challenges. There is a constant flow of new devices, new operating systems and new apps. Staying ahead of these challenges is absolutely critical for our customers.

MSAB takes responsibility for supporting our customers with the best possible solutions for mobile forensics. This means that we also need to stay ahead of the game; with our products and services, with our vision and energy, with our people and how we do things. We are the pioneers of our industry. Our promise is simple:

MSAB – When you want to stay ahead

2016 in brief

Net sales increased 6.8 percent in 2016 to SEK 242.4 (226.9) million. In local currencies, net sales increased 7.9 percent. EBIT for the whole year was SEK 58.4 (56.4)

million, which corresponded to an EBIT margin of 24.1 (24.9) percent. In local currencies, the EBIT margin was 24.6 percent.

1

First quarter

- Net sales decline 7 percent and the EBIT margin reaches 11 percent.
- MSAB launches an entirely new concept within forensics, the MSAB Ecosystem, a platform consisting of both products and services that makes it easier for decision-makers to take a holistic approach to mobile forensics.
- The CEO and CTO exercised their respective share warrants and subscribed for 220,000 new B shares each in the Company. The number of shares increased by a total of 440,000 and the Company received SEK 7.8 million.



2

Second quarter

- Net sales increase 1 percent and the EBIT margin reaches 16 percent.
- The 2016 AGM decides to distribute a dividend of SEK 2.20 per share to shareholders.
- A new subsidiary is established in Singapore. MSAB had business dealings previously in Singapore, but the new subsidiary strengthens the Company's local presence.



3

Third quarter

- Net sales increase 20 percent and the EBIT margin reaches 32.5 percent.
- During the quarter, a new version of XRY is launched, which includes support for Apple's latest smart phone, the iPhone 7, as well as for Pokémon GO.
- Cash flow from current operations remains strong and exceeds profit after tax.



4

Fourth quarter

- Net sales increase 10 percent and the EBIT margin reaches 30 percent.
- During the quarter, the Company announces a larger, individual order for SEK 11 million from an Asian customer, primarily for XRY Office, where the agreement is for a three-year period.
- MSAB and Berla, a world leader within vehicle-related criminal technology, enter into a strategic cooperation agreement for extraction and analysis of data from vehicles and mobile phones.



Record year for sales and profit

In 2016, net sales grew 6.8 percent to SEK 242 million. EBIT for the full year amounted to SEK 58.5 million, corresponding to an EBIT margin of just over 24 percent. Sales and earnings make 2016 the best year in the history of the company. Cash flow from operating activities remained strong, and exceeded the year's profit after tax.

In 2016, we introduced the MSAB Ecosystem, which takes into account the needs of criminal investigative authorities for a broad solution focusing on the collective system requirements of police departments. System development is not yet complete and some components will be launched in 2017. Last year we also implemented an organisational change to make our development and sales processes more efficient. We invested heavily in the organisation and products, while our operating margin and cash flow remained good, which demonstrates the inherent strength in our business model.

A complex, technology-driven world

The world is shrinking and information reaches us faster thanks to smarter technology and new ways of communicating. As the world becomes increasingly technology-driven, it also becomes increasingly complex. Our customers, especially the police, must be able to work effectively as they investigate – and preferably prevent – crimes. With the continuing fast pace of development of new phones and apps, the challenges our customers face are great. Customers demand and need our innovative solutions to be more effective in solving crimes.

FBI Director James Comey recently stated that “the cell phone is probably the single most important piece of evidence you will find at a crime scene today.” Thanks to the development of the Internet of Things, the number of digital devices that can be used to secure evidence only continues to rise. If you add to this the explosion in the number of applications and new levels of encryption, you realise quickly what enormous challenges law enforcement agencies are facing.

This rapid development is why we continue to invest in and develop effective products that can unlock, read, secure, and analyse content from all kinds of devices. Whether it's a phone, USB memory or exercise arm band, and even if the data is protected by different types of encryption, we offer powerful tools. This enables our law enforcement authorities to become more effective in their efforts to make society safer for us all.

Responsible Leadership

Everyone who works at and with MSAB should be proud of what we do. We are a world leader in mobile forensics. Our leadership lies in our providing our customers with the best solutions to investigate and prevent crimes each and every day. Being a

leader in our industry also means a great deal of responsibility at a strategic level - that we not only provide our customers with potent products but also that we protect and cherish personal integrity. Our products cannot be used for mass surveillance and are subject to certain export restrictions and international agreements. The Company also adheres to its own ethical guidelines.

In addition to selling products, we have also chosen to take an active role in bringing together law enforcement agencies, different types of lawmakers and other technology companies to create a third way to deal with the so widely discussed “going dark” problem. There are convincing arguments on both sides of the debate, on the one hand to protect personal privacy and on the other to provide efficient tools to law enforcement authorities. We see it as a technical problem where there is also a technical solution. We have proposed a solution which we call FACT – Forensic Access Controlled Technology. This solution has been discussed in several American newspapers and has even been referred to and discussed in Congressional hearings, including with representatives from the FBI. Our solution is seen as a real alternative for finding a reasonable middle ground.

In 2017, we will continue to work with stakeholders to push forward our proposal, which safeguards personal integrity as well as as the rule of law.

Growth with profitability

MSAB makes no predictions, but we see a market that is constantly growing, and our aim is for our profitability to keep pace with market growth. We are expanding our workforce, launching new products with better functionality, improving procedures and processes, and listening to our customers' requirements. An important part is to position analysis of mobile devices as a standard procedure within crime investigative authorities rather than as a specialist function within IT laboratories.

2017 is going to be an exciting and challenging year.

Stockholm, April 2017

Joel Bollö
Chief Executive Officer



New ways of working with criminal investigations

For many organisations, the examination of mobile devices is no longer a specialisation, but rather a frequent feature of criminal investigations that most police officers must be able to handle.

FBI Director James Comey gave a telling example when he stated that cell phones have quickly become one of the most important pieces of evidence in combating crime.

Western countries including Sweden have made more progress than others in their efforts to quickly gather evidence in a legally secure and systematic way. This is also reflected in sales where Sweden is one of the countries where MSAB has the highest degree of coverage. In many other countries, however, the picture is very different. Authorities are still in the process of developing a more unified approach for secure and effective handling of evidence. This is where MSAB plays an important role in disseminating information and knowledge. MSAB's technology provides opportunities to streamline the work process for organisations often overloaded with seized mobile devices. Moreover, the technology provides a qualitatively better investigative basis than other methods, which means that law and order increases for individual citizens. The challenges that many law enforcement agencies face as regards handling of evidence from mobile devices also carry growth potential for MSAB.

Market conditions

The concept of mobile forensics includes not just mobile phones but also a significantly large number of other information-bearing devices. The concept of mobile devices is widely accepted within the industry, which in addition to mobile phones, also includes gps devices, tablets, memory cards and watches, to name a few. However, mobile phones are clearly the most dominant mobile device, and from an investigative point of view the most prevalent. The mobile phone market was previously fragmented in the sense that manufacturers of mobile phones extensively developed their own operating systems. With the advent of smart phones and their great dominance among mobile phones, the trend has shifted. Mobile phone manufacturers are increasingly devoted to developing phones, while a few vendors provide telephone manufacturers with operating systems for the phones. Arguably, the two most dominant operating systems are Apple's iOS and Google's Android.

Increasing amounts of data require new methods

Increasing amounts of data require new methods This development has led in part to phones that are significantly more advanced and partly to uniformity of platforms which enables standardisation for app programmers. This in turn has led to a sharp rise in the selection of apps available. Furthermore, communication tends to increasingly occur through these third-party applications rather than through the phone. In addition to the increase in the number of mobile devices, the storage space on each smart phone is growing. All in all, this means that the amount of data a phone contains is constantly increasing. For MSAB's customers, this presents a challenge as more resources are needed to extract and secure evidence from mobile devices in a legally secure and effective way. This means that MSAB's customers must adapt their methods and ways of working.

This has been evident, for example, at the Metropolitan Police in London. There, they are moving toward abandoning the model whereby a few specialists in laboratories examine all phones. Instead, the Metropolitan Police are driving a development where responsibility for a first investigation of phones is at a local level within the organisation. We see this model as the future of mobile forensics, and customers on the most mature markets are expressing a desire to adopt a similar approach.

The rapid development of mobile phones is obviously central for MSAB. In criminal investigations, however, it is the simpler and often older phones that still dominate. The reason for this is simply that these phones are cheaper for criminals to discard when it comes to getting rid of evidence. Because of MSAB's long history in this field, the Company has built up solid support for older phones, as well as providing ongoing support for new devices. This competence for handling older phones with diverse operating systems makes it very challenging for new actors to enter the market.

In summary, there are several trends and factors that are driving the market where MSAB is active, where technical development and our customers' challenge in handling this are the most central. MSAB, with its technology and long history and knowledge of methods and ways of working, is well-positioned to be the obvi-



“ The cell phone is probably the single most important piece of evidence you will find at a crime scene today ”

FBI Director James Comey

ous partner for managing our customers' challenges. For MSAB as a company, it also means good prospects for growth.

User groups

MSAB has three main customer groups where the volume of mobile forensic products is governed by knowledge and acceptance within the different user groups, but also by how well products are adapted to the user's situation.

Police and the judicial system

Police are organised differently in different countries. For example, on one of MSAB's most important markets, the UK's police force is decentralised, and decisions to purchase equipment are often taken at the regional or local level and separately in the different units. In France, the situation is the opposite. All purchasing decisions are taken at a high level and result in the negotiation of framework agreements. In the USA, there are several federal agencies who make purchasing decisions centrally but also local and state police organisations where decision-making is decentralised. Police are the customer group to first begin applying mobile forensics as a methodology for solving crimes. Included in this segment are customs and other government agencies, where utilisation has thus far been more limited.

Military

The military uses MSAB's products when reading and analysing phones discovered or seized from suspects during military operations. The penetration of the Company's products within the military has not come as far as it has within police organisations. In the first instance, users work in special services, but also to a limited extent in the regular forces.

Intelligence agencies

MSAB's products are used worldwide by various intelligence agencies. Intelligence organisations are active both at home and abroad and their operations require flexible tools that can quickly provide access to information that can help assess the level of possible threat.

Geographical overview

MSAB's products have been sold in over 100 countries worldwide. The Company focuses on a globally dispersed customer base, and divides the market into three geographic segments: North America, EMEA & Latin America and Asia & CIS. As of 2016, North America became for the first time the Company's biggest market, followed by Europe. The different geographical markets are addressed primarily through their own sales force but in some cases, through distributors. Today, MSAB has a local presence with its own staff in ten countries. During the year, the Company established a sales company in Singapore to further strengthen local presence in Asia.

The competition

MSAB has few direct competitors that possess comparable technology and product offering. The largest and main competitor today is Cellebrite with the product UFED. Their presence helps to ensure that customers always have a choice of at least two tools for forensic analysis, which is positive for the market overall. Oxygen is a Russian supplier whose commercial influence has been quite limited but which possesses technology which in some respects resembles MSAB's. With respect to the XAMN product family launched in 2016 which targets analysis of extracted data, MSAB encounters competition from other types of companies which focus on data analysis exclusively. One such operator is the Canadian company Magnet Forensics. Additionally, there is local competition in some markets. China is the market where this is most apparent.

Customer groups

Many authorities are struggling with a lower incidence of resolved cases, even as demands for efficiency increase. MSAB's comprehensive product portfolio raises the degree of utilisation throughout the organisation thus relieving the more traditional IT crime investigators. At the same time, MSAB is broadening their potential market.



Our mission – to be the industry leader **within mobile forensics**

MSAB was founded in 1984 and we have extensive experience in mobile forensics. Together with law enforcement organisations, we have been a part of the creation of this cutting-edge industry, and we remain committed to driving and leading it forward.

Our task is to develop the best possible solutions within mobile forensics and we are inspired by helping our customers do their job on behalf of society.

The business and revenue model

MSAB's core products consist of software that is licensed out to users who purchase a license for the selected basic software. The start package also includes software updates for one year and various hardware accessories needed to connect the digital device to a computer. Some of our products, such as Kiosk, Tablet and Field, include the actual hardware with the

software installed. After the first year, the user pays an annual license renewal fee for continued access to software updates and support. The hardware distributed with certain products contains no advanced proprietary technology but is offered to simplify handling. Billing is done in advance or at the time of delivery. Revenue is accrued over the license period where one year is most common, but two- and three-year license periods are possible. Ninety percent of revenue recognition occurs on the invoice date, with the remaining ten percent recognised on a straight-line basis over the license period – usually one year. The same principle is applied for multi-year licenses, i.e. ten percent

of the revenue is reserved for the respective year and then spread out on a straight-line basis over the entire licence period. For leases, a principle is applied where revenue is spread out on a straight-line basis over the entire term of the lease. As of 2017, MSAB will adjust revenue recognition so that it is consistent with IFRS 15 Revenue from Contracts.

MSAB also provides a wide range of services within mobile forensics marketed under the name Professional Services. Included in MSAB's service offering are feasibility studies, implementation services and training.

Business concept

The Company will deliver solutions world-wide that empower investigative authorities to effectively secure evidence recovered from digital devices.

Strategies

MSAB has identified several basic prerequisites that the Company sees as crucial for successful business and which thereby create value for shareholders.

Product and service quality assurance

MSAB shall be the best provider of quality systems for recovery and analysis of data from digital devices. To achieve this, a strong R&D department is needed, and technology has always played a central role at MSAB. It is not just about building advanced systems with a high degree of functionality. Customising systems for end users and situations is just as important. Quality also entails a high level of delivery assurance and first-class support.

Market presence

Through representation on many geographic markets, either by establishing a Company presence or via partners, we create proximity to existing and potential customers. To be the best supplier within a geographic market, MSAB must understand users' needs and conditions at the local level.

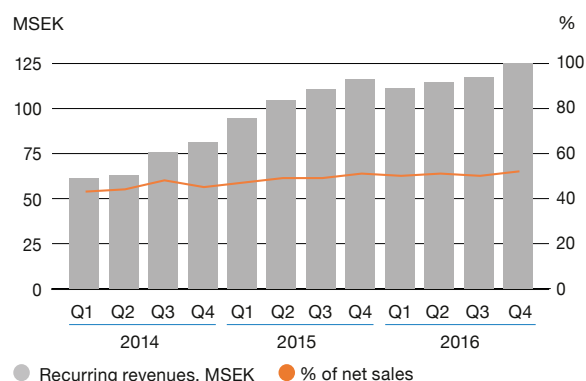
License renewal

Through annual product license renewals, MSAB creates the prerequisites to continually invest in expanded support for new models of digital devices and new functions, thereby successfully refining products for the customer. By offering first-class support and continuous upgrades, a high degree of license renewal is assured.

Growth

MSAB operates in a market with a high level of underlying growth. By investing in product development, market presence and organisational resilience, MSAB consolidates its market position. The Company is convinced that the need for professional tools for recovery and analysis of data from digital devices will continue to increase. MSAB is mainly focused on organic growth but in some cases also evaluates the possibility of acquisitions.

Recurring revenues¹ rolling 12 months



1) For definitions of key figures, refer to the 5-year overview on page 20.

Products in cooperation

MSAB currently has a broad portfolio of products, all of which work beautifully alone but when taken together form a complete forensic ecosystem that significantly increases our customers' efficiency.

MSAB has three main product families: XRY, XAMN and XEC. XRY is used to extract and present data from digital devices, mainly mobile phones. In practice, this means that as much as possible of the user-specific information contained in a mobile phone or any other digital device is transferred to a computer for further analysis. XAMN is sophisticated, and can analyse data from several digital devices simultaneously to efficiently find correlations between the different units. The XEC product family are administrative in nature, and monitor the entire forensic ecosystem.

In a police context, data from an analysed digital device is normally used in an ongoing investigation where it is important to learn who the suspect has been in contact with, when, and if possible, what was said or written. In this way, the digital device constitutes an important source of knowledge about the sequence of events an investigator is trying to understand. It is also common that the extracted information leads to suspicions about others, previously unknown crimes, or it ties the owner of the phone to another crime for which he was not previously suspected. A person arrested during a military operation is likely to have a mobile phone in their pocket. Mobile phones are commonly used because military radio communication is more limited in scope than mobile phones are. This allows for extraction of important data from phone analysis. Where a mission is undertaken by an organisation within the intelligence community, analysis of seized mobile phones is a given. An analysis is quick and does not normally affect the analysed phone and can be returned to the suspect immediately upon release.

MSAB's product development

By the end of 2016, the development department, along with the test and support department, consisted of 58 employees. A large part of efforts within the development department deal with maintaining and adding support for new mobile devices and apps. The mobile phone market evolves rapidly, where new features and applications are constantly being added. It is, therefore, crucial that the company's products are continuously adapted to these changing conditions to remain a competitive alternative for investigative authorities. During this past year, refinement of existing products continued with multiple product updates. The market for MSAB's is fragmented in such a way

that acceptance of the technology differs between countries and regions. Some countries, including the Nordics and the United Kingdom, already have working procedures where technology is a prerequisite for effective law enforcement. Other countries do not yet have any broad knowledge or understanding of how they want to and can use these types of products. For MSAB, this means satisfying existing customers with improved functionality and added support for more models and applications and, secondly, to gradually increase the possibility of using the technology without any prior, in-depth knowledge in the area. Good examples of the latter include the launch of XRY KIOSK and our XAMN products for analysis of extracted data. MSAB is also studying how users are working organisationally and listening carefully to suggestions for product improvements to assess how the products should be developed and designed with the aim of creating greater value for customers and wider acceptance.

The development objective is to:

- simplify usability and keep entry levels comfortable for customers, as technological developments will force police to widely adopt the technology
- provide the highest possible level of technical performance and functionality
- create well thought-through solutions customised for users' needs, work situations and prior knowledge.

MSAB's long-term product development strategy is based on:

- understanding how the users' organisations work and what their operations look like where the products are used, or could be used
- gathering information from users about requested functionality and how they would like to use the products
- consideration of how the market for digital devices is developing in general
- proactively developing proposals on how future products should be, and how they should be able to be used

MSAB attaches great importance to performance and user friendliness and it is crucial for the Company's continued success that our product offering is of the highest calibre.



Markets

North America

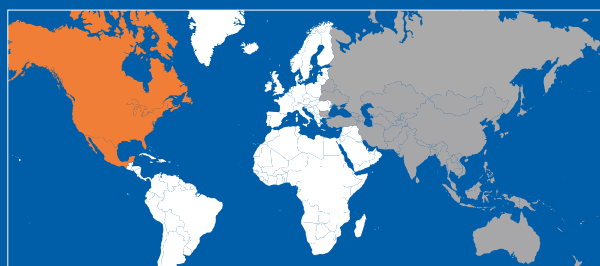
Growth for the year reaches 10 percent, and the region becomes the company's largest measured in sales. Growth consists essentially of sales to federal customers where the orders are large. This causes fluctuations between quarters where the third quarter was the year's strongest.

EMEA & Latin America

During the year, sales decline 6 percent. This is due in part to uneven sales in the Middle East and Africa, where business tends to fluctuate and lead times are long. Furthermore, sales in the United Kingdom, the single largest market in the region, were lower than last year. This is partially due to the weaker pound and partially to the fact that 2015 was a strong year with several major deliveries. Germany and France developed well during the year and are generating growth.

Asia & CIS

Growth for the year is 43 per cent, mainly due to larger orders announced in the fourth quarter. Individual orders and growth in general are the result of a longer period of focused efforts on new and existing markets in Asia.



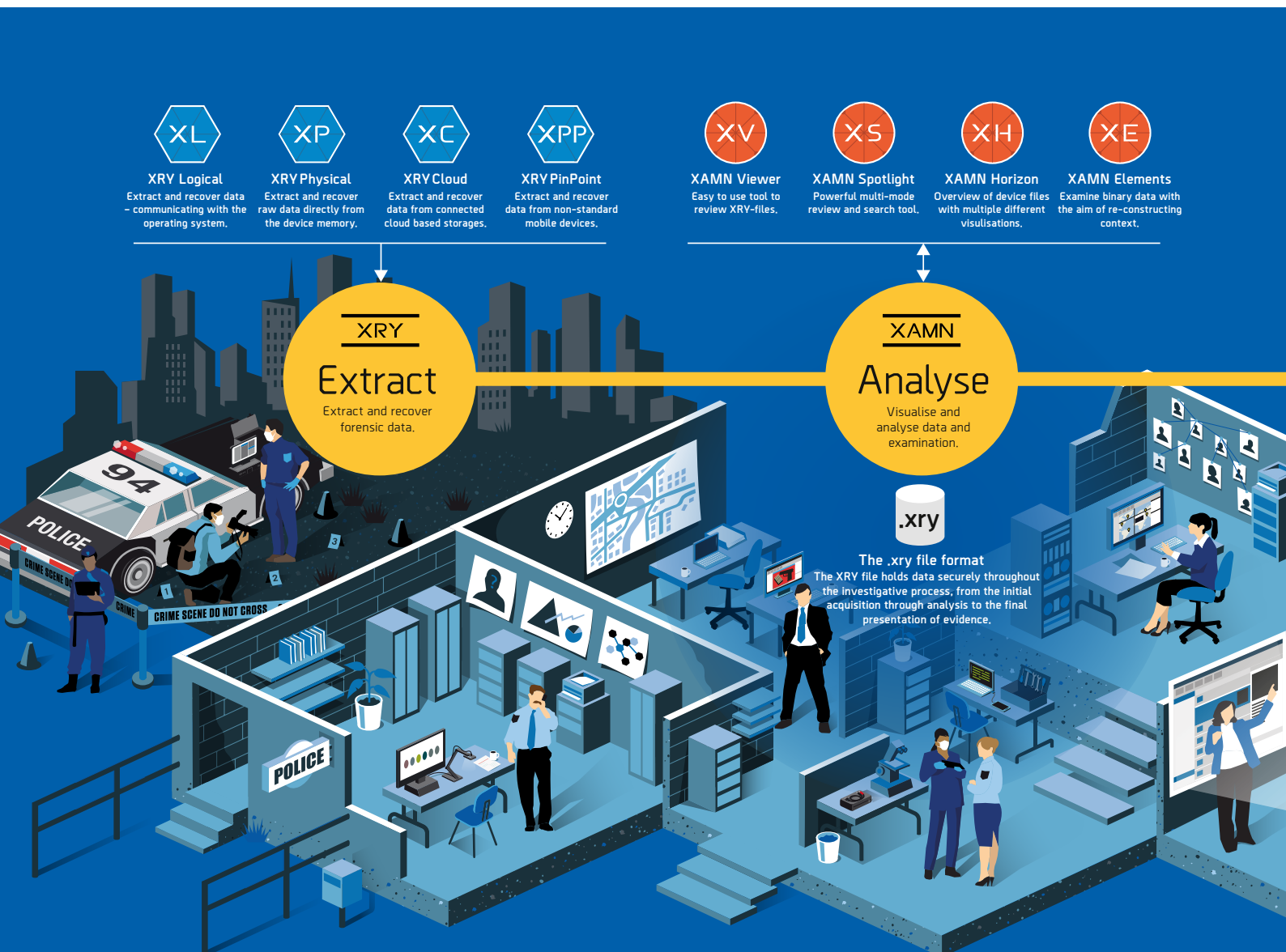
Products and services combined into one forensic ecosystem

The MSAB Ecosystem provides law enforcement organisations with a complete solution within digital criminal forensics.

The company's products, platforms and services constitute a complete ecosystem that protects our customers throughout the entire chain of custody. Regardless of the type of user, location, mobile phone or environment, MSAB has a solution adapted for our customer's needs.

XRY

XRY performs legally secure recovery of data from a wide range of mobile devices such as smartphones, tablets, modems, music players and satellite navigational devices. Different operating systems and unique configurations complicate extraction



of data from seized devices. XRY simplifies this process and supports thousands of different mobile devices and application versions. MSAB's intuitive software guides the user through the entire process

XAMN

The XAMN family is a suite of analysis tools designed to streamline the work of the investigator. After the data has been recovered with the help of XRY, it falls to investigators to find and further analyse information. XAMN helps the user quickly find information and presents a comprehensive picture from a vast data set. With XAMN, investigators can solve crimes faster and more efficiently.

XEC

The XEC family of products are designed to manage and administer the Ecosystem. They make possible different types of network

solutions that include products within the entire Ecosystem, and make possible the export of large amounts of data to other analysis tools that the company's customers might use.

Platforms

MSAB provides software products for open and turnkey platforms. Open platforms are designed to be used in a standardised Windows environment. Turnkey platforms are designed to simplify operation and come with touchscreen functions.

Professional Services

To help clients with their requirement specifications for which type of equipment will best suit their needs based on the type and structure of their organisation, MSAB has developed its service offering to include strategy services. These services allow us to work closely with clients to develop the basis for equipment specifications, implementation and training.



Platforms

MSAB Office

The all-in-one mobile forensic system from MSAB designed for skilled users in the lab.



MSAB Field

Ideally suited for mobile units in demanding conditions who need rugged technology.



MSAB Kiosk

A turn-key solution for fast extractions in a controlled environment.



MSAB Tablet

Designed to quickly extract and recover data in minutes via a portable platform.



Services

Strategy

Customer focused feasibility studies. Identifying user demands and recommending solutions.



Implementation

Installation, resourcing and adaptation of organisational resources to fine tune processes.



Training

Empowering your team's mobile forensics knowledge to ensure they can fully utilise our products.



Support

Technical support available 24 hours a day.



A company determined to contribute to a more legally secure society

MSAB develops products, services and solutions that contribute to a more legally secure society. The company aims to be a good supplier and partner to law enforcement agencies world-wide.

A prerequisite for MSAB to be able to conduct efficient business is to a large extent its own credibility. It is a matter of ensuring that procurement procedures are carried out fairly, that employees are treated equally, and that we have as much knowledge as possible about the working conditions and production methods of our subcontractors.

MSAB's product offering has been developed and designed in close cooperation with law enforcement agencies. Thus, it is natural for the Company to combine effective and profitable business with good ethics, accountability and safeguarding of the environment.

Good Business Ethics

MSAB is a global company with sales on all continents. This presents opportunities as well as challenges, and requires that the Company sometimes takes a stance. To ensure good business ethics are followed, MSAB has established and implemented a framework, in addition to applicable laws and regulations. This framework is formulated in the Company's Code of Ethics, and addresses such issues as bribery, conflict of interests, and personal conduct. The purpose of this Code is to stress the basic principles by which MSAB conducts business, and handles its relations with its employees, partners and other stakeholders.

Equal treatment

MSAB strives to recruit the best employees possible regardless of background. This premise has served the Company well and there is today a high level of diversity. The Company has guidelines for equal treatment of employees and to counter discrimination as regards employment or tasks on the basis of sex, religion, age, sexual orientation, or other non-relevant distinguishing characteristics.

Environmental accountability

None of the Company's operations are subject to notifications or permits as described in the Swedish Environmental Code. However, MSAB strives to contribute positively in those areas which can impact the environment. The most important environmental aspects within the Group concern resource utilisation, such as energy and materials, and some waste products. Some of the areas we take into consideration include:

- avoiding unnecessary waste of resources
- minimising travel in favour of other forms of communication to the extent possible

- taking care of waste in a responsible way and recycling materials
- taking into consideration environmental aspects when choosing or designing office space
- complying with environmental legislation in each market where the Company operates.

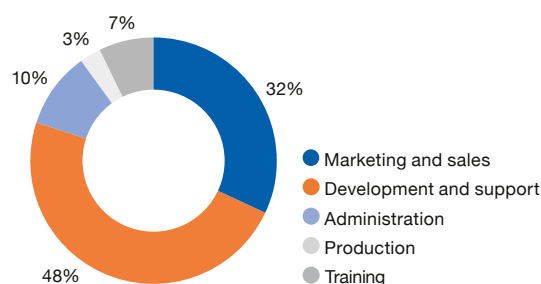
Employees and organisation

MSAB's organisational structure is based on the Company's various functions, which differs to some extent from the legal structure. This functional structure has been established based on management's assessment of how the business can be most effectively run as regards innovation, decision-making, implementation and follow-up. The Company is organised according to the following functions within the Group:

- Marketing and sales
- Development and support
- Administration
- Production
- Training

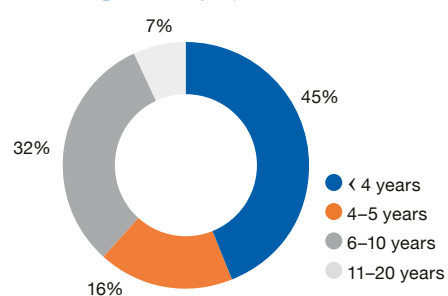
Additionally, MSAB has a Parent Company in Sweden and wholly-owned subsidiaries in the UK, USA, Canada, Australia, Hong Kong, and China, as well as representative offices in Russia. Adaptation of the legal structure is reviewed as the need arises. Frequently asked questions may concern employment conditions in specific countries where MSAB feels there is justification for hiring of locally-engaged staff, and thus needs to establish permanent premises. There were 111 employees at the beginning of 2016. At year-end, this number had grown to 121 employees. The average number of employees during the period was 118 compared with 109 last year.

Employees per function

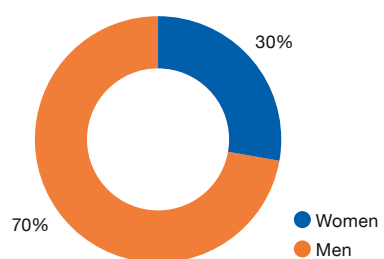




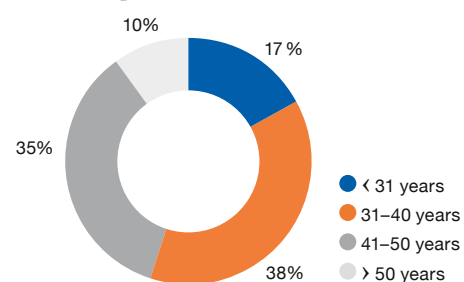
Length of employment



Percentage women and men



Age distribution



Mass surveillance is not the answer

Sweden, one of the last countries in the EU to implement the Data Retention Directive, did so in March 2012. The legislation obligates all telecom operators to store metadata for their customers' internet and telephone records for at least six months.

The aim was to facilitate criminal investigations of serious crime. Two years later in early April, the Court of Justice of the European Union (CJEU) ruled that the Data Retention Directive contravened the EU Charter of Fundamental Rights. The CJEU identified four serious problem areas, including that the directive covered all individuals, regardless of whether there was any suspicion of crime, which is known as mass surveillance. The Swedish government quickly undertook an investigation and not surprisingly concluded a couple of months later that Swedish legislation could for the most part remain unchanged. By the end of 2016, however, the CJEU concluded that the Swedish legislation contravened the European Charter of Fundamental Rights. This decision initiated an agitated debate between prosecutors and police on the one hand, and Swedish telecom operators on the other. If one sides with Swedish judicial authorities, then one believes that it is in principle impossible to conduct criminal investigative operations without violating fundamental rights. In mid-February 2017, the Swedish government initiated a new investigation which aims to ensure that police and the Swedish Security Service would have continued access to operators' data. Hence, the aim was not to investigate alternative methods of obtaining relevant information honouring fundamental rights.

This is a worrisome and strange approach from our Swedish judicial institutions. It is, of course, perfectly possible to effectively investigate crimes without compromising fundamental democratic rights. But it requires at the same time a willingness to change ways of working and implement new technologies.

In the autumn of 2012, MSAB launched its first analytical product, XAMN, based on information and data read from mobile phones. So far, nearly five years later, the Swedish police have acquired only a few licenses for XAMN. In the larger picture, police spend an incredibly small proportion of their budget on what many, including the head of the FBI, consider is probably the most important piece of evidence in criminal investigations - mobile phones. Why? It seems like a natural question yet there is still no answer. For MSAB, Sweden constitutes only a small percentage of our total market and we are not affected significantly by police inability to solve crimes on our home market. Nevertheless, it is frustrating that prosecutors and police authorities are so slow and noticeably uninterested in reversing the trend toward fewer crimes being solved.

Today, our XRY extraction tool is so easy to handle that most police officers manage it with minimal instruction. Extraction of data from all mobile phones should be an obligatory step in the initial phase of a criminal investigation. Yet most extraction of data occurs far later and within police IT departments. During



the year, our various analytical products within the XAMN family will be three in number, and are intended for investigators and analysts. Correctly utilised, they can significantly increase the rate of crimes solved. We intentionally differentiate between intentional extraction and analysis. It is rarely the same person within a police organisation that performs both tasks. We have launched our concept the MSAB Ecosystem explicitly to simplify workflows and streamline police processes.

A mobile phone today can have an internal memory of up to 256 GB, the equivalent of a few hundred medium thick novels. Most of it is, of course, irrelevant in a criminal investigation, but at the same time tools are needed to find links and hone in on information that can move an investigation forward.

Unfortunately, criminal operations are usually amongst the first to embrace new technology. I see no reason why our police should lag far behind. We stand ready to assist all criminal investigative authorities, in Sweden and abroad, who want to solve more crimes. Hence our motto: MSAB – When you want to stay ahead.

Stockholm, April 2017
Henrik Tjernberg
Chairman of the Board

“WE STAND READY TO
ASSIST ALL INVESTIGATIVE
AUTHORITIES WHO WANT
TO SOLVE CRIMES.”

The share and shareholders

MSAB's B share is listed on Nasdaq Stockholm Small Cap under the ticker symbol MSAB B. On 31 December, 2016 the share stood at SEK 67.25 and market capitalisation was SEK 1,283 million.

Share capital

Share capital as of 31 December, 2016 was SEK 3,816,400 spread over 19,082,000 shares with a quote value of SEK 0.2. The Company has three classes of shares, of which shares from series A and B have equal rights to the Company's assets and profit, but where C shares do not entitle the holder to dividends. Every share of series A entitles the holder to ten votes, and every share of series B and C entitles the holder to one vote. The number of shares in series A and B is 1,000,000 and 17,460,000 respectively. The number of shares in series C is 622,000 all of which are held in treasury. Additionally, 81,596 B shares are held in treasury.

Ownership

The total number of shareholders on 31 December, 2016 was 3,103 compared with 2,798 the previous year. The ten largest shareholders in MSAB as of 31 December, 2016 as recorded in Euroclear's share register are listed in the table on the following page.

Long-term incentive programme 2015-2018

On 6 May, 2015 MSAB's AGM decided to implement a long-term incentive programme for the Company's senior management and certain key persons with the exception of CEO Joel Bollö and CTO Örjan Gatu (no more than 20 persons total). Participants are invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes model). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June, 2018 up to and including 30 September, 2018 at a price equal to 130 percent of the average volume-weighted closing price for the Company's B series shares during the period 8 May up to and including 15 May, 2015. The maximum number of share warrants that any programme participant is offered shall not exceed 30,000.

Long-term incentive programme 2014-2017

An Extraordinary General Meeting (EGM) in 2014 decided on a long-term incentive programme for the Company's CEO and CTO. The first part of the programme consists of a gratuitous allotment of B shares worth MSEK 1.5 after income tax per respective participant. Additionally, it was decided that programme participants be invited to subscribe for 220,000 share warrants per participant at fair market compensation which would entitle the holder to subscribe for an equal number of the Company's series B shares during the period 1 January, 2016 up to and including 16 June, 2017. In March 2016, The CEO and CTO exercised all their respective share warrants and the Company received SEK 7.8 million. The number of shares increased by 440,000 and share capital increased SEK 88,000.

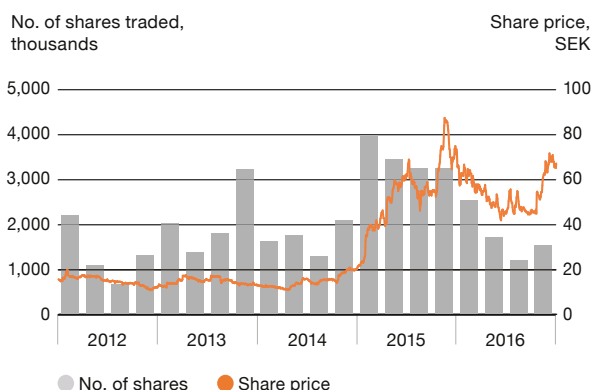
Share price trend

During the year, the share price fluctuated between SEK 42.0 and SEK 73.5 finishing at SEK 67.25 on the last trading day of the year. During the year, MSAB's share price decreased 8.8 percent. During the same period, the Nasdaq Stockholm PI increased 5.7 percent. MSAB's market capitalisation at the end of the year was SEK 1,283.3 million.

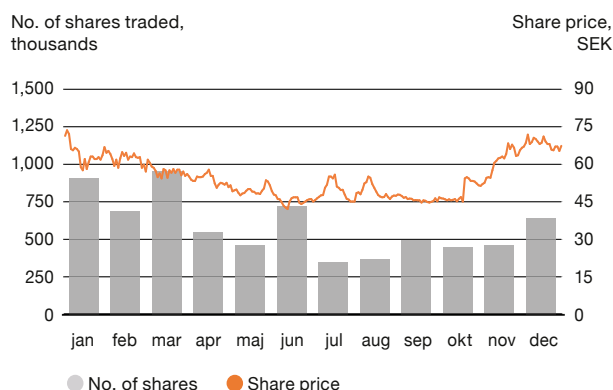
Dividend policy

The Board has adopted a dividend policy whereby at least 30 percent of the Company's reported profit shall be returned to shareholders if this is compatible with sustaining adequate liquidity necessary for planned operations.

Share price trend and volumes 2012-2016



Share price trend and volumes 2016



The ten largest shareholders as of 31 December, 2016

Shareholder	Total no. shares	A shares	B shares	C shares	% of capital	% of votes
Henrik Tjernberg	920,522	900,000	20,522	0	4.82	32.12
Edastra AB	1,871,900	100,000	1,771,900	0	9.81	9.87
Cooperatieve Rabobank U.A. Quartz	1,900,000	0	1,900,000	0	9.96	6.77
Swedbank Robur Ny teknik	1,462,304	0	1,462,304	0	7.66	5.21
Handelsbanken fonder AB RE JPMEL	947,454	0	947,454	0	4.97	3.37
Öhman Sweden Micro Cap	878,872	0	878,872	0	4.61	3.13
Humble småbolagsfond	787,970	0	787,970	0	4.13	2.81
Örjan Gatu	649,908	0	649,908	0	3.41	2.31
Nordnet Pensionsförsäkring AB	464,771	0	464,771	0	2.44	1.66
Danske Invest Sverige Fokus	450,864	0	450,864	0	2.36	1.61
Total 10 largest shareholders	10,334,565	1,000,000	9,094,565	0	54.16	68.85
Micro Systemation AB	703,596		81,596	622,000	3.69	2.50
Other	8,043,839		8,043,839		42.15	28.65
Total	19,082,000	1,000,000	17,460,000	622,000	100	100

Share capital events to year-end 2016

Year	Month	Transaction	Changes in no. of shares	Total no. of A shares	Total no. of B shares	Total no. of C shares	Total no. outstanding shares	Quote value	Changes in Share capital, SEK	Total Share capital, SEK
1984	June	Formation of Company		5,000			5,000	10.0		50,000
1998	February	Bonus issue 1:1	5,000	10,000			10,000	10.0	50,000	100,000
1998	November	Split 50:1	490,000	500,000			500,000	0.2		100,000
1998	November	New share issue	205,000	500,000	205,000		705,000	0.2	41,000	141,000
1998	December	Bonus issue		500,000	205,000		705,000	1.0	564,000	705,000
1999	March	Split 5:1	2,820,000	2,500,000	1,025,000		3,525,000	0.2		705,000
1999	March	Reclassification		1,970,000	1,555,000		3,525,000	0.2		705,000
1999	December	New share issue	705,000	1,970,000	2,260,000		4,230,000	0.2	141,000	846,000
2000	October	Reclassification	200,000	1,970,000	2,460,000		4,430,000	0.2	40,000	886,000
2004	March	New share issue 3:1	13,290,000	1,970,000	15,750,000		17,720,000	0.2	2,658,000	3,544,000
2007	November	Reclassification		1,000,000	16,720,000		17,720,000	0.2		3,544,000
2011	June	New share issue	922,000	1,000,000	16,720,000	922,000	18,642,000	0.2	184,400	3,728,400
2014	June	Reclassification		1,000,000	17,020,000	622,000	18,642,000	0.2		3,728,400
2016	March	New share issue	440,000	1,000,000	17,460,000	622,000	19,082,000	0.0	88,000	3,816,400

Ownership structure as of 31 December, 2016

Holdings	No. of shareholders	A shares	B shares	C shares	% of capital	% of votes
1–500	2,061	0	328,421	0	1.72	1.17
501–1 000	403	0	341,145	0	1.79	1.21
1 001–5 000	447	0	1,084,396	0	5.68	3.86
5 001–10 000	88	0	681,573	0	3.57	2.43
10 001–15 000	26	0	322,291	0	1.69	1.15
15 001–20 000	15	0	280,066	0	1.47	1.00
20 001–	63	1,000,000	14,422,108	622,000	84.08	89.18
Total	3,103	1,000,000	17,460,000	622,000	100.00	100.00

Five-year overview

	2016	2015	2014	2013	2012
Profit/loss, SEK thousands					
Net sales	242,355	226,912	180,971	137,532	136,636
Operating expenses	-183,947	-170,460	-166,863	-129,618	-118,495
Operating profit - EBIT	58,408	56,452	14,108	7,914	18,141
Net financial income/expense	2,163	2,207	623	1,417	174
Profit before tax	60,571	58,659	14,731	9,331	18,315
Tax	-15,335	-13,526	-4,347	-2,488	-3,942
Profit/loss for the year	45,236	45,133	10,384	6,843	14,372
Balance sheet, SEK thousands					
Non-current assets	2,816	4,018	4,464	3,543	4,830
Other current receivables	53,290	52,038	56,431	40,780	51,836
Cash and cash equivalents	123,199	103,697	65,541	50,259	43,488
Total assets	179,305	159,753	126,436	94,582	100,154
Equity	104,415	90,851	63,232	48,230	52,706
Provisions	0	0	0	0	747
Other current liabilities	74,890	68,902	63,204	46,352	46,700
Total equity and liabilities	179,305	159,753	126,436	94,582	100,154
Cash flow, SEK thousands					
Cash flow before changes in working capital	52,487	46,749	22,968	2,037	16,082
Cash flow from changes in working capital	-342	10,818	-8,218	15,773	-6,303
Cash flow from operating activities	52,145	57,567	14,750	17,810	9,779
Cash flow from investing activities	-655	6,807	-565	-508	4,375
Cash flow from financing activities	-32,574	-17,462	-1,451	-10,632	-17,720
Cash flow for the year	18,916	46,912	12,734	6,669	-3,566
Key figures					
Net sales, MSEK	242.4	226.9	181.0	137.5	136.6
Net sales growth, %	6.8	25.4	31.6	0.7	5.0
Operating profit/loss, MSEK	58.4	56.4	14.1	7.9	18.1
Operating margin, %	24.1	24.9	7.8	5.8	13.3
Earnings per share*, SEK (after dilution)	2.46	2.48	0.58	0.39	0.81
Return on equity, %	46.3	58.6	18.6	13.6	26.3
Return on capital employed, %	63.9	84.0	30.8	20.1	37.0
Equity/assets ratio, %	58.2	56.9	50.0	51.0	52.6
Liquidity ratio, %	230.7	216.5	181.7	183.4	194.9
Net worth per share, SEK	5.68	4.99	3.53	2.72	2.97
Dividend per share, SEK	2.20	1.00	0.10	1.00	0.80
Cash flow from operating activities per share, SEK	2.84	3.16	0.83	1.01	0.55

Reconciliation of measurements not defined as per IFRS, SEK millions	2016	2015	2014	2013	2012
Capital employed					
Total assets	179.3	161.0	126.4	94.6	100.1
Trade Payables	-4.6	-5.0	-12.7	-7.1	-7.8
Current tax liability	-6.2	-1.4	-2.0	-2.4	-4.0
Other liabilities	-64.1	-62.6	-48.5	-36.8	-34.9
Capital employed	104.4	92.0	63.2	48.3	53.4
Average capital employed	98.2	77.6	55.7	50.9	55.0

Information to shareholders

Definitions

Some of MSAB's financial measures are not defined in accordance with IFRS, but the Company believes these measures provide valuable additional information to investors and Company management as they enable evaluation of the company's performance.

EBIT (operating profit/loss)

Net sales minus operating expenses.

EBIT marginal (operating margin)

EBIT (operating profit/loss) as a percentage of net sales.

Earnings per share*

Profit/loss after tax divided by the average number of diluted outstanding shares.

Return on equity

Net profit as a percentage of average equity.

Return on capital employed

EBIT (operating profit/loss) plus financial income as a percentage of average capital employed.

Soliditet

Equity as a percentage of total assets.

Cash flow current operations per share

Cash flow current operations in relation to the average number of outstanding shares after dilution.

Equity per share

Equity in relation to the number of shares at the end of the period.

Average equity

Equity for a 12-month period. Equity at beginning of period plus equity at end of period divided by two.

Capital employed and average capital employed

Capital employed calculated as total assets less interest-bearing liabilities. Average capital employed is capital employed in a 12-month period. Capital employed at beginning of period plus capital employed at end of period divided by two.

Revenue growth, %

Increase or decrease in sales expressed as a percent relative to the corresponding period the previous year.

Recurring revenues

Refers to revenue for license renewals, i.e. when a license expires, customers can choose to extend the license which generates income.

Net financial income/expense

Net of financial income and financial expenses

Liquidity ratio, %

Current assets minus goods for resale in relation to current liabilities

Net asset value per share, SEK

Assets minus liabilities in relation to the number of outstanding shares

* Defined in accordance with IFRS

Financial information

Annual reports, interim reports and other information communicated through press releases can be ordered from:

Micro Systemation AB
Hornsbruksgatan 28
117 34 Stockholm, Sweden
Phone: +46 8 739 0270
Email: info@msab.com
www.msab.com

Dividend

The Board proposes that the AGM approves a dividend of SEK 2.2 per share, or MSEK 40.4 in total. The record date for dividends is 12 May, 2017 and dividends will be paid out on 17 May, 2017.

AGM 2017

The AGM will be held in Gällöfsta City's premises at Biblioteksgatan 29 in Stockholm, Wednesday, 10 May, 2017 at 18:00.

Right to participate

Shareholders in Micro Systemation AB (Publ), Corporate ID no. 556244-3050, who wish to participate at the AGM must be registered in Euroclear Sweden AB's shareholder register by 4 May, 2016 as per the instructions below.

Registration

Registration must have been received by the Company latest 4 May, 2017 at 24 :00, through one of the following channels:

- via the form available at msab.com
- by telephone +46 8 402 9075, weekdays 9.00–16.00
- or by letter to the following address:
Micro Systemation AB – AGM
Box 7835, SE-103 98 Stockholm, Sweden

Financial calendar 2017

The AGM will take place in Gällöfsta City's premises at Biblioteksgatan 29 in Stockholm, Wednesday, 10 May, 2017 at 18 :00.

Interim report January–March	28 April
Interim report January–June	21 July
Interim report January–September	20 October
Year-end report	2 February 2018

A notice to participate received in any other manner will not be accepted. Notification of participation shall include name, personal ID or organisation number, address, and telephone number, as well as the name of any possible advisor who may attend. Proxy forms are available from the Company upon request and are also available from the Company's website www.msab.com. Proxy forms, certificates of registration and any other authorisation documentation should be provided to the Company at the address provided above latest 3 May, 2017 to facilitate entry to the AGM.

Shares registered through an equity manager

Shareholders with shares registered by their equity manager must, to be entitled to participate at the AGM, temporarily re-register their shares in their own name with Euroclear Sweden AB. Shareholders who wish to re-register their shares must advise their equity manager in good time and before 3 May, 2017 for the re-registration to be finalised in time.

Notice to convene the AGM

A notice to convene will be issued latest four weeks before the AGM in Post and Inrikes Tidningar and will also be available on the Company's website msab.com. Additionally, an advertisement will be placed in Svenska Dagbladet that the notice has been issued.

Shareholders may contact

Joel Bollö
Chief Executive Officer
Tel: +46 (8) 739 0270
joel.bollo@msab.com

Report of the Directors

Operations

MSAB engages in product development, production, and sales and marketing of solutions within the area of mobile digital forensics. MSAB was founded in 1984. The B share has been listed since 1999 and listed on Nasdaq Stockholm since December 2011. The product XRY is used to extract and present data from digital devices, primarily mobile phones. In practical terms, this means that as much user-specific information as possible on a mobile phone or other digital device is transferred to a computer for further analysis. XAMN simultaneously analyses data from different digital devices in a sophisticated manner to identify links between the different devices. The Company also provides different hardware configurations depending on the environment in which the customer finds himself. The products are used primarily by police, military and intelligence agencies world-wide, and are effective tools for securing evidence. The products are sold directly by the Company and via partners, depending on where in the world the sales take place. The products have been sold in over 100 countries and as a suite they support over 16 thousand device profiles. The requirement to extract data from seized mobile phones is increasing continuously. Thus, MSAB's products meet a major and meaningful need.

Significant events in 2016

- MSAB launches an entirely new concept within mobile forensics – The MSAB Ecosystem. The Ecosystem is a platform consisting of both products and services that make it easier for decision-makers to get a comprehensive view of mobile forensics.
- The CEO and CTO exercise their respective share warrants and subscribe for 220,000 new B shares each in the Company. The number of shares increased by a total of 440,000 shares, providing the Company with SEK 7.8 million.
- The 2016 AGM decides on a dividend to shareholders of SEK 2.2 per share.
- A new subsidiary is established in Singapore. MSAB is already active in Singapore, but the new subsidiary strengthens its local presence.
- During the third quarter, a new version of XRY is launched which includes support for Apple's latest smartphone, the iPhone 7 and Pokémon GO.
- MSAB appoints Henrik Bergentoft as the new CFO.
- During the fourth quarter, a single, larger order worth SEK 11 million is received from a customer in Asia. The order consists primarily of XRY Office and the agreement is for three years.
- MSAB and Berla, a world leader in the field of vehicle-related criminal technology, enter into a strategic cooperation agreement. The collaboration involves a technical solution that offers users revolutionary possibilities to extract and analyse data from both vehicles and mobile phones.

Profit/loss and financial position

For definitions of key figures, see the Five-year overview on page 20.

	2016	2015	2014
Net sales, SEK millions	242.4	226.9	181
EBIT, SEK millions	58.4	56.4	14.1
EBIT Margin, %	24.1	24.9	7.8
Profit/loss before tax, SEK millions	60.5	58.6	14.7
Balance sheet total, SEK millions	179.3	159.8	126.4
Equity/assets ratio, %	58.2	56.9	50.0
Return on equity, %	46.3	58.6	18.6
Average no. of employees	118	109	95

Comments on financial performance

Sales increased in 2016 by 6.8 percent to SEK 242.4 (226.9) million, corresponding to an increase of 7.9 percent in local currencies. For comments on each respective market, see page 11. Expenses for goods for resale reached SEK 19.1 (20.2) million. Other external costs amounted to SEK 51.4 (50.0) million. Personnel costs were SEK 111.8 (98.7) million, the increase being primarily due to an increase in the number of personnel during the year. EBIT amounted to SEK 58.4 (56.4) million, which corresponds to an EBIT margin of 24.1 (24.9) percent. In local currencies, the EBIT margin was 24.6 percent.

Research and development

At year-end 2016, the development department, together with the test and support department, consisted of a total of 58 persons. A large part of efforts within the development department are devoted to maintaining and adding support for new mobile devices and applications. The market for mobile phones is fast-paced with new function and application areas being added constantly. Thus, it is essential that the Company's products are continuously adapted to meet these conditions so we remain a competitive alternative for criminal investigative authorities. During the past year, refinement of existing products continued with several product updates. It is the Company's assessment that all expenses attributable to development efforts should be expensed in their entirety as they occur. Costs for research and development amounted to SEK 44.0 (39.8) million.

Financial position

Cash flow from operating activities amounted to SEK 52.2 (57.6) million. Share dividends paid out in 2016 amounted to SEK 40.4 (17.9) million. During the year, share warrants were converted which contributed SEK 7.8 million in newly issued shares. Cash and cash equivalents at year-end were SEK 123.2 (103.7) million. The equity/assets ratio at year-end was 58.2 (56.5) percent.

The Parent Company

The Parent Company's sales for full-year 2016 reached SEK 184.1

(169.1) million. EBIT for the year was SEK 52.8 (48.3) million. Investments for the period amounted to SEK 0.7 (2.1) million. There were 90 (82) employees in the Parent Company at year-end.

Financial risks and instruments

Through its business, MSAB is exposed to a variety of financial risks, such as market, liquidity, currency and credit risks. Market risk consists primarily of interest rate risk and currency risk. MSAB's Board of Directors is ultimately responsible for handling and monitoring the Group's financial risk. The framework for handling and monitoring of financial risks is established by the Board of Directors. Note 4, Financial risk management and financial instruments, describes the financial risk to which the Group is exposed and risk management. Currency risk represents the most significant financial risk, while interest rate risk, liquidity and financing risk, as well as credit risk carry a lower risk factor. Currency risk results to a large extent from consolidated income from sales occurring in foreign currencies, while operating expenses are primarily paid in Swedish kronor. During 2016, the Group's export sales in foreign currencies reached approximately 98 (96) percent of total sales. The dominant currencies are the Euro (EUR), the British pound (GBP) and the American dollar (USD). Other currencies include the Canadian dollar (CAD), Australian dollar (AUD) and the Chinese renminbi (CNY).

Personnel

The average number of employees was 118 (109) of which 30 (28) percent were women. At year-end, the number of employees was 121 (111).

Profit-sharing

In 2006, the Board of Directors launched a profit-sharing programme for all employees, but excluding the CEO and the CTO. The objective of the programme is to motivate, stimulate and reward employees for efforts which lead to an improvement in Company results. The Board is convinced that performance-based financial incentives create fertile ground for bringing about the best solutions and providing the best service to customers.

Incentive programmes

Long-term incentive programme 2014–2017

An Extraordinary General Meeting (EGM) in 2014 decided on a long-term incentive programme for the Company's CEO and CTO. The first part of the programme consists of a gratuitous allotment of B shares worth MSEK 1.5 after income tax per respective participant. Additionally, it was decided that programme participants be invited to subscribe for 220,000 share warrants per participant at fair market compensation which would entitle the holder to subscribe for an equal number of the Company's series B shares during the period 1 January, 2016 up to and including 16 June, 2017. In March 2016, the CEO and CTO converted all share warrants into shares which brought SEK 7.8 mil-

lion into the company. The number of shares increased by a total of 440,000 shares, and share capital increased by SEK 88,000.

Long-term incentive programme 2015–2018

On 6 May, 2015, the AGM in MSAB approved implementation of a long-term incentive programme for the Company's senior position holders, excluding CEO Joel Bollö and CTO Örjan Gatu (maximum 20 persons) with the main conditions as follows:

Participants were invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes model). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June, 2018 up to and including 30 September, 2018 at a price equal to 130 percent of the average volume-weighted closing price for the Company's B series shares during the period 8 May up to and including 15 May, 2015. The maximum number of share warrants that any programme participant is offered shall not exceed 30,000.

Board of Directors and CEO

MSAB's Board of Directors consists of six members. During the year, the Board held ten meetings (documented in meeting minutes). The Board is kept continually informed of Company developments between meetings. The Board acts in accordance with the Procedural Plan, the Distribution of tasks between the Board and CEO, and the Board's terms of reference to the CEO. At every meeting, information is presented on the finances, personnel, operations and competition. The work of the Board is described in the Corporate Governance Report which can be found on the Company's website (msab.com) and in this Annual Report on pages 49–51.

Proposals for guidelines for remuneration of senior position holders

The Company shall offer remuneration and other employment conditions that make it possible for the Company to recruit, motivate, and retain senior position holders who have the competencies that the Company needs to execute its strategy and achieve its operational objectives.

The overall principles for remuneration to senior position holders shall be founded on market assumptions and based on position, individual performance, the Group's earnings and that the remuneration is competitive. Total remuneration to senior position holders shall consist of fixed salary and variable remuneration based on attainment of incentive-based performance targets.

For variable remuneration paid in cash, a maximum amount must be determined. Variable remuneration in the form of share and equity-related incentive programmes shall be designed with the aim of achieving increased sense of shared interest between the participating holders and the company's shareholders as well as promoting long-term value creation.

Pension terms shall be founded on market assumptions for holders of similar positions on the market where the position

holder is active. Additionally, conditions for termination and severance pay shall apply.

The Board is entitled to waive proposed guidelines for special circumstances. For further information, see Note 8.

The share

After the CEO and CTO subscribed for a total of 440,000 new B shares in March 2016, share capital in MSAB amounted to SEK 3,816,400 spread over 19,082,000 shares with a quote value of SEK 0.20. The Company has three classes of shares, where shares of series A and B entitle the holder to equal rights to the Company's assets and profit, but where holders of C shares are not entitled to partake in dividends. In the event of Company liquidation, Company assets shall be distributed equally over all shares regardless of class. C shares, however, shall not afford the holder an amount higher than that corresponding to the share's quote value. Every share of series A entitles the holder to ten votes, and every share of series B and C entitles the holder to one vote. The number of shares in series A is 1,000,000 and in series B is 17,460,000. The number of shares in series C is 622,000 all of which are part of the Company's holdings. Of shares in the B series, 81,596 are held in treasury. At the AGM, shareholders have the right to vote for the full number of shares held without any restrictions on voting rights. Holders of A shares can by way of a written request to the Company's Board of Directors request that their A shares be converted to B shares. C shares held in treasury can by way of a Board decision be converted to B shares. The Board of Directors has the right to decide on reduction of share capital, though not to a point below the minimum capital stipulated in the Articles of Association, through redemption of all C shares. Upon redemption, holders of C shares are obliged to accept a redemption price corresponding to the share's quote value. MSAB's Articles of Association contain a provision with regard to the record date, and the Company's shares are registered with Euroclear, which means that Euroclear administers the Company's share register and that no share certificates are issued for the Company's shares. All shares are denominated in Swedish kronor. In accordance with the Swedish Companies Act, shareholders have preferential rights to subscribe for new share issues and other equity securities, but these preferential rights can be waived at the discretion of the AGM.

Shares in MSAB are not subject to any offer made as a result of mandatory bids, redemption rights or redemption obligations. No public takeover bids for the Company's shares were made during the current or previous fiscal years. The Company has no knowledge of agreements between shareholders that could result in the restriction of transfer of shares. There are no specific rules in the Articles of Association governing the appointment or dismissal of Board members, or for amending the Articles of Association. There are no significant agreements to which the Company is a part, and which would come into effect, be amended or expire, if control of the Company changed as the result

of a public takeover bid. There are no agreements between the Company and Board members or other employees which prescribe compensation for termination of employment as a result of a public takeover bid.

Significant risks and uncertainty factors

MSAB's success is to a great extent linked to its ability to recruit, develop, motivate and retain engineers and other qualified personnel. Within the IT branch there is fierce competition for qualified personnel. MSAB has a relatively small development department and is thus dependent on a few key persons. Another potential risk is that any fault in the Company's products could lead to claims for compensation and damages. The Board is, however, of the opinion that the Company has sufficient insurance for product liability to limit any direct risk. Of total sales, 98 percent of the income is from sales in foreign currencies. In order to reduce the currency risk, MSAB utilises currency hedging in accordance with the financial policy established by the Board. At year-end 2016, there was no currency hedging in place.

Proposal for profit distribution

Parent Company

The following amounts in SEK are at the AGM's disposal (SEK):

Profit brought forward from previous year	20,537,748
Profit for the year	45,189,880
Total	65,727,628

The Board and CEO propose:

a dividend of SEK 2.2 per share to shareholders	40,432,489
in new account carried forward	25,295,139
Total	65,727,628

Board's statement on proposed dividend pursuant to the Swedish Companies Act, Chapter 18, §4

Based on the Company's strong financial position, positive results and strong financial position, the Board has determined that the proposed dividend does not cause any substantial limitation on the Company's ability to make necessary investments or to meet its financial obligations in the short- or long-term. Neither does the proposed dividend have any significant impact on the Company's key financial figures. Against the background stated above, the Board finds that the proposal on a value transfer in the amount of SEK 40,432,489 is both carefully considered and justified. Further, the Board finds that the proposed dividend falls within the framework of the adopted dividend policy. As regards the Parent Company's and Group's earnings and financial position, please refer to the income statements and balance sheets, cash flow analyses and other supplemental information that follows. All amounts are expressed in SEK thousands unless otherwise stated.

The Group

Income statement			
Group, SEK thousands	Notes	2016	2015
Net sales	5	242,355	226,912
Operating income		242,355	226,912
Goods for resale		-19,147	-20,194
Other external costs	6, 7	-51,387	-49,967
Personnel costs	8	-111,807	-98,678
Depreciation	13, 14	-1,606	-1,621
Total operating cost		-183,947	-170,460
Operating profit - EBIT		58,408	56,452
Financial income	9	8,056	8,285
Financial costs	10	-5,893	-6,078
Net financial income/expense		2,163	2,207
Profit/loss before tax		60,571	58,659
Tax	11	-15,335	-13,526
Profit/loss for the year		45,236	45,133
Profit/loss for the year attributable to:			
Holders with no controlling interests		–	–
Holders of shares in Parent Company		45,236	45,133
Earnings per share before dilution, SEK	12	2.47	2.52
Earnings per share after dilution, SEK		2.46	2.48
Total no. outstanding shares before dilution, thousands		18,378	17,938
Total no. outstanding share after dilution, thousands		18,378	18,231
Average no. outstanding shares before dilution, thousands		18,268	17,938
Average no. outstanding shares after dilution, thousands		18,346	18,231

Statement of comprehensive income		
Group, SEK thousands	2016	2015
Profit/loss for the year	45,236	45,133
Other comprehensive income:		
Foreign exchange differences	872	-589
Tax on foreign exchange differences	55	127
Items to be reclassified to profit/loss:		
Cash flow hedges	-25	525
Tax on items in other comprehensive income	–	-115
Comprehensive income for the year	46,138	45,081
Comprehensive income for the year attributable to Parent Company shareholders	46,138	45,081

Balance sheet

Group, SEK thousands	Notes	2016-12-31	2015-12-31
ASSETS			
Intangible assets	14	432	621
Inventory, equipment, and fixtures and fittings	13	1,907	2,670
Deferred tax assets	11	477	727
Total non-current assets		2,816	4,018
Finished goods and goods for resale		3,735	5,211
Trade receivables	16	41,302	42,296
Other current assets		1 501	756
Prepayments and accrued income	17	6 752	3,775
Cash and cash equivalents	18	123,199	103,697
Total current assets		176,489	155,735
TOTAL ASSETS		179,305	159,753
EQUITY AND LIABILITIES			
Share capital	19	3,816	3,728
Other contributed capital		28,058	20,288
Reserves		2,058	1,156
Retained profit including the year's profit/loss		70,483	65,679
Total equity attributable to Parent Company shareholders		104,415	90,851
Trade payables		4,593	4,961
Tax liabilities	11	6,206	1,382
Other liabilities		4,566	7,073
Accrued expenses and deferred income	20	59,525	55,486
Total current liabilities		74,890	68,902
TOTAL EQUITY AND LIABILITIES		179,305	159,753

Changes in equity

Group, SEK thousands	Share capital	Other contributed capital	Translation reserve	Cash flow hedges	Retained earnings	Total equity
2015						
Opening balance, equity 2015-01-01	3,728	20,288	1,593	-385	38,008	63,232
Comprehensive income for the year	–	–	-462	410	45,133	45,081
Comprehensive income for the year	0	0	-462	410	45,133	45,081
Transactions with shareholders:						
Issuance of share warrants	–	–	–	–	476	476
Dividends	–	–	–	–	-17,938	-17,938
Closing balance, equity 2015-12-31	3,728	20,288	1,131	25	65,679	90,851
2016						
Opening balance, equity 2016-01-01	3,728	20,288	1,131	25	65,679	90,851
Comprehensive income for the year	–	–	902	–	45,236	46,138
Total profit/loss for the year	0	0	902	0	45,236	46,138
Transactions with shareholders:						
New share issue, conversion of share warrants	88	7,770	–	–	–	7,858
Dividends	–	–	–	–	-40,432	-40,432
Closing balance, equity 2016-12-31	3,816	28,058	2,033	25	70,483	104,415

Cash flow analysis

Group, SEK thousands	Notes	2016	2015
Operating activities			
Profit/loss before tax		60,571	58,659
Adjustments for items not included in cash flow	21	2,520	1,115
Income tax paid		-10,604	-13,025
Cash flow from operating activities before changes in working capital		52,487	46,749
Cash flow from changes in working capital			
Changes in inventory		1,476	1,912
Changes in operating liabilities/receivables		-2,981	2,568
Changes in operating liabilities		1,163	6,338
Cash flow from operating activities		52,145	57,567
Investing activities			
Investments in current assets		-655	-2,273
Divestment of funds		–	9,080
Cash flow from investing activities		-655	6,807
Financial activities			
Dividends paid		-40,432	-17,938
New share issue, conversion of share warrants		7,858	–
Issuance of share warrants		–	476
Cash flow from financing activities		-32,574	-17,462
Cash flow for the year		18,916	46,912
Cash and cash equivalents at the beginning of the year		103,697	56,461
Translation differences in cash and cash equivalents		586	324
Cash and cash equivalents at year-end	18	123,199	103,697

The Parent Company

Income statement			
The Parent Company, SEK thousands	Notes	2016	2015
Net sales	5	184,145	169,146
Operating income sales		184,145	169,146
Goods for resale		-19,147	-20,065
Other external costs	6, 7	-34,092	-33,332
Personnel costs	8	-76,478	-65,885
Depreciation	13, 14	-1,566	-1,534
Operating costs		-131,283	-120,816
Operating profit - EBIT		52,862	48,330
Financial income	9	10 386	8,293
Financial costs	10	-5, 817	-6,076
Net financial items		4,569	2,217
Profit/loss before tax		57,431	50,547
Tax	11	-12,241	-11,175
Profit/loss for the year		45,190	39,372

Statement of comprehensive income			
The Parent Company, SEK thousands		2016	2015
Profit/loss after tax		45,190	39,372
Other comprehensive income:			
Cash flow hedges		-25	525
Tax on items in Other comprehensive income		-	-115
Total profit/loss for the year		45,165	39,782

Balance sheet			
The Parent Company, SEK thousands	Notes	2016-12-31	2015-12-31
ASSETS			
Intangible assets	14	432	621
Inventory, equipment, and fixtures and fittings	13	1,776	2,541
Shares in subsidiaries	15	13	7
Total non-current assets		2,221	3,169
Finished goods and goods for resale		3,735	5,211
Trade receivables	16	26,509	16,077
Intra-group receivables	16	5,239	12,424
Other receivables		1,346	611
Prepaid expenses and accrued income	17	6 646	3,429
Cash and cash equivalents		90,082	72,862
Total current assets		133,557	110,614
TOTAL ASSETS		135,778	113,783
EQUITY AND LIABILITIES			
Restricted equity			
Share capital	19	3,816	3,728
Statutory reserve		20,288	20,288
Non-restricted equity			
Cash flow hedges		-7	18
Share premium reserve		7,770	–
Profit/loss brought forward		12,775	13,836
Profit/loss for the year		45,190	39,371
Total equity		89,832	77,241
Trade payables		4,225	4,396
Intra-group liabilities		117	492
Tax liabilities	11	5,085	2,272
Other liabilities		2,460	3,774
Accrued expenses and deferred income	20	34,059	25,608
Total current liabilities		45,946	36,542
TOTAL EQUITY AND LIABILITIES		135,778	113,783

Changes in equity

Parent Company, SEK thousands	Restricted equity		Non-restricted equity				Total equity
	Share capital	Statutory Reserve	Cash flow hedges	Share premium reserve	Retained earnings	Profit for the Year	
2015							
Opening balance, equity 2015-01-01	3,728	20,288	-392	-	19,281	12,017	54,922
Disposition of last year's profit	-	-	-	-	12,017	-12,017	0
Profit for the year	-	-	-	-	-	39,371	39,371
Other comprehensive income	0	0	410	-	0	0	410
Comprehensive income for the year	0	0	410	-	0	39,371	39,781
Transactions with shareholders:							
Issuance of share warrants	-	-	-	-	476	-	476
Dividends	-	-	-	-	-17,938	-	-17,938
Closing balance, equity 2015-12-31	3,728	20,288	18	-	13,836	39,371	77,241
2016							
Opening balance, equity 2016-01-01	3,728	20,288	18	-	13,836	39,371	77,241
Disposition of last year's profit	-	-	-	-	39,371	-39,371	0
Profit for the year	-	-	-	-	-	45,190	45,190
Other comprehensive income	0	0	-25	-	0	0	-25
Comprehensive income for the year	0	0	-25	-	0	45,190	45,165
Transactions with shareholders:							
New share issue, conversion of share warrants	88	-	-	7,770	-	-	7,858
Dividends	-	-	-	-	-40,432	-	-40,432
Closing balance, equity 2016-12-31	3,816	20,288	-7	7,770	12,775	45,190	89,832

Cash flow analysis

Parent Company, SEK thousands	Notes	2016	2015
Operating activities			
Profit/loss before tax		57,431	50,547
Adjustments for items not included in cash flow	21	1,567	1,481
Income tax paid		-14,857	-9,892
Cash flow from operating activities before changes in working capital		44,141	42,136
Cash flow from changes in working capital			
Changes in inventory		1,476	1,912
Changes in operating receivables		-6,855	6,335
Changes in operating liabilities		11,650	-2,137
Cash flow from operating activities		50,412	48,246
Investing activities			
Divestment of short-term investments		-	9,080
Investments in non-current assets		-612	-2,069
Investments in subsidiaries		-6	0
Cash flow from investing activities		-618	7,011
Financing activities			
Dividends paid		-40,432	-17,938
New share issue, conversion of share warrants		7,858	-
Issue of share warrants		-	476
Cash flow from financing activities		-32,574	-17,462
Cash flow for the year		17,220	37,795
Cash and cash equivalents at the beginning of the year		72,862	35,067
Cash and cash equivalents at year-end	18	90,082	72,862

Notes

Note 1 General information

Micro Systemation AB (publ) "MSAB", with Corporate ID no.556244-3050, is a listed company registered in Sweden with headquarters in Stockholm. The headquarters address is Box 17111, 104 62 Stockholm. The street address is Hornsbruksgatan 28. The Company and its subsidiaries ("the Group") engage in product development and marketing of software

solutions within the area of mobile digital forensics. Note 15 describes the Group's composition. MSAB's B share has been listed since 1999, and listed on Nasdaq Stockholm since December 2011.

Note 2 Critical accounting principles

The consolidated accounts for MSAB have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the interpretations of the IFRS Interpretations Committee (IFRIC) applicable for periods starting 1 January, 2016 or later. Furthermore, the Group complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups. In the consolidated accounts, items have been valued at historical cost, except for certain financial instruments which have been measured at fair value. Critical accounting policies applied are described below.

New and revised standards and interpretations applicable in 2016

New and revised standards and interpretations from IASB and IFRS have had no significant impact on the Group's financial reporting.

New and revised standards and interpretations not yet in force

New and revised standards and interpretations issued but not in force until 1 January, 2017, have not yet been applied by the Group. New and revised standards and interpretations which are assessed as having an impact on the Group's financial reporting from first application are described below.

IFRS 15 Revenue from Contracts with Customers was issued on 28 May, 2014 and will replace IAS 18 Revenues and IAS 11 Customer Contracts. IFRS 15 is a model for revenue recognition for almost all revenues that arise from contracts with customers, with the exception of lease agreements, financial instruments, and insurance agreements. The basic principle for revenue recognition in IFRS 15 is that a company shall recognise revenue in a way that reflects the transfer of promised goods or service to the customer, in the amount that the company considers itself entitled to receive in exchange for the goods or service. Revenue is recognised when the customer obtains control over the goods or service. IFRS 15 is applicable for the accounting year commencing on or after 1 January, 2018 with earlier application allowed. IFRS 15 has not yet been adopted by the EU. The company's preliminary assessment is that IFRS 15 will entail some adjustment of distribution of the transaction price for each respective sub-component. Our preliminary analysis shows that the effect on the income of any calendar year will be relatively small, but that there may be differences between different quarters due to support and upgrades delivered over time being allocated a higher value when using the so-called input method for 1-year contracts but a lower value for 2- and 3-year contracts compared to today. Our preliminary analysis is based on the distribution of customer contracts in all significant aspects following the historical pattern with respect to the relationship between 1-, 2- and 3-year licences where 1-year licenses today account for the majority.

IFRS 16 Leases issued 13 January, 2016 replaces IAS 17 Leases. IFRS 16 introduces a "right of use model" and implications for the lessee

are that virtually all leases shall be recognised in the balance sheets. Hence classification of leases as operational or financial is not necessary. Exceptions are made for leases with a term of 12 months or less and leases of lesser value. Depreciation of assets and interest expenses for liabilities are recognised in the Income Statement. The standard requires more comprehensive disclosure compared with the current standard. For lessors, IFRS 16 carries no significant differences compared with IAS 17. IFRS 16 is applicable for the accounting year commencing on or after 1 January, 2019, with earlier application allowed provided that IFRS 15 is applied simultaneously. The standard has not yet been adopted by the EU.

IFRS 9 Financial Instruments issued on 24 July, 2014 will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard has been released in phases, where the version released in July 2014 replaces all prior versions. The standard contains new requirements for classification and measurement of financial instruments, for de-recognition, impairment and general regulations for hedge accounting. The standard is obligatory for periods commencing on or after 1 January, 2018. Company management has not yet conducted a detailed analysis of the impact of applying IFRS 16 and IFRS 9 and is therefore unable to quantify the effects. It is Company management's assessment that other new and revised standards and interpretations not yet in effect will not significantly impact the Group's financial reporting when they are applied for the first time.

Consolidated reporting

Consolidated reporting consists of reporting for the Parent Company and those companies where the Parent Company has a controlling influence (subsidiaries). The Group has controlling influence over a company when it is exposed to, or has the right to, variable returns from its investment in the company, and when it can use its influence to affect the size of the returns. Normally, controlling influence exists when the parent company directly or indirectly holds more than 50 percent of the votes in another company. Controlling influence can also be exercised in other ways than through shareholdings. The results for subsidiaries acquired or disposed of during the year are included in the consolidated income statement from, and up to, the date the transaction takes place, i.e. when the controlling influence commences or terminates respectively. In the case where accounting policies applied in subsidiaries deviate from those applied within the Group, the subsidiary's accounting is adjusted to ensure consistency with other Group companies. Internal transactions and intra-Group dealings are eliminated in the preparation of the consolidated accounts.

Minority interest is the portion of earnings and net assets in a partly-owned company held by other owners. The minority share of earnings are included in the consolidated profit/loss after tax. The portion of net assets is included in equity in the consolidated balance sheet but reported separately from equity attributable to the Parent Company's shareholders.

Note 2 continued

Business combinations

Business combinations are recognised in accordance with the acquisition method. The cost of acquisition is measured on the date of the transaction as an aggregate of the fair value of assets, incurred or assumed liabilities, and equity instruments issued by the acquirer in exchange for controlling influence in the acquired business. Acquisition-related expenses are recognised in the income statement as they occur. Acquired identifiable assets, liabilities and contingent liabilities are measured at fair values on the date of acquisition. If the cost for acquisition of the acquired parts exceeds the total fair value of acquired, identifiable assets, liabilities, and contingent liabilities, then the difference is recognised as goodwill. If the cost for acquisition is lower than the fair value as calculated above, then the difference is recognised directly in the income statement. Minority interests are recognised by stating the minority shareholders' proportion of recognised fair value of assets, liabilities and contingent liabilities. Upon acquisition of minority interests, any differences between the cost of acquisition of the acquired parts and the fair value of acquired, identifiable assets and liabilities is recognised directly against equity.

Revenues

Revenues are recognised at fair value of compensation received, or which will be received, less VAT, estimated customer returns, rebates and similar allowances.

Goods – products/licenses

Revenues from sales of products and licenses are recognised when all of the following conditions are met:

- The Group has transferred to the purchaser all significant risks and rewards associated with ownership of the goods.
- The Group does not retain any obligations in the ongoing management usually associated with ownership and the Group does not exercise any real control over goods sold.
- The revenue can be reliably calculated. It is probable that the economic benefits associated with the transaction will flow to the Group.
- Costs incurred, real or expected as a result of the transaction, can be reliably calculated.

These conditions are considered met when a sales agreement has been entered into, delivery has taken place, the price is fixed, payment is probable and there are no outstanding obligations.

Services

Revenues from training are recognised as revenue in the period in which the service was performed.

Sales agreement with multiple elements

MSAB's sales consist of an integrated package where customers buy products through a license which gives them unlimited rights to use the products. Additionally, MSAB also offers a time-limited service for support and product updates, i.e. a sales transaction which contains multiple parts. MSAB receives full payment after delivery of the Company's products and at the same time transfers all risks and rewards associated with ownership to the purchaser. MSAB recognises revenues from sales of products in fair value amounts for each respective product in relation to the sales transaction as a whole. Revenues from support and product update agreement parts that correspond to fair value of that part relative to the sales transaction as a whole, are recognised as income when the service is performed, usually on a straight-line basis over the agreement period. If the sales transaction includes a discount, this is also spread over the different parts in a way that reflects the fair value of the parts.

Dividends and income from interest

Dividends are reported when shareholders' right to receive payment has been established. Interest income is recognised over the term

using the effective interest method. Effective interest is that interest which renders the present value of all future receipts and payments during the fixed interest term equal to the reported value of the receivable.

Government grants received

Government grants received are recognised in the income statement and allocated in the same way as the expenses they are intended to compensate. Government support attributable to operating expenses reduces these expenses.

Leases

A financial lease is an agreement under which the financial risks and rewards associated with ownership of an object are essentially transferred from the lessor to the lessee. Other leases are classified as operational leases.

The Group as lessee

Assets held under financial leases are recognised as non-current assets in the consolidated balance sheet at fair value as of the commencement date of the lease period or at the current value of the minimum leasing fee if this is lower. The corresponding liability to the lessor is recognised in the balance sheet as a financial lease liability. Lease payments are allocated between interest and amortisation of the liability. Interest is allocated over the lease period so that every accounting period is charged in an amount corresponding to a fixed interest rate for the respective period of the recognised liability. Interest expense is recognised directly in the income statement. If interest expenses are directly attributable to acquisition of an asset which requires a substantial amount of time to be prepared for utilisation or sale, then the interest expense shall instead be included in the asset's acquisition cost in accordance with the Group's policies for loan expenses (see below). Lease fees related to operational leases are charged on a straight-line basis over the term of the lease, unless another systematic approach better reflects the user's financial benefit over time.

Foreign currencies

Items included in the financial statements for the various entities within the Group are recognised in the currency used in the primary financial environment where the respective entity primarily conducts its operations (functional currency). In the consolidated financial statements, all amounts are translated to Swedish kronor (SEK), which is the Parent Company's functional currency and reporting currency. Transactions in foreign currencies are translated into the functional currency in each respective entity using the exchange rates prevailing on the transaction date. On every closing date, monetary items in foreign currencies are recalculated using the prevailing exchange rate of the closing date. Non-monetary items that are measured in fair value in a foreign currency are translated at the exchange rate of the date when the fair value was established. Non-monetary items measured at cost in a foreign currency are not translated. Foreign exchange differences are recognised in the income statement in the period in which they occur, except for transactions that constitute hedges which meet the conditions for hedge accounting for cash flow or for net investment, where profit and loss are recognised in other comprehensive income. When preparing the consolidated financial statements, the assets and liabilities of foreign subsidiaries are translated to Swedish kronor at the exchange rate of the closing date. Revenue and expense items are translated using the period's average exchange rate, unless exchange rates fluctuated significantly during the period, in which case the exchange rate of the transaction date is used instead. Any translation differences are recognised in equity and in other comprehensive income. When a foreign subsidiary is disposed of, translation differences are recognised in the income statement as a part of capital gains. Goodwill and adjustments to fair value which arise upon acquisition of a foreign operation are treated as assets and liabilities in the foreign operation itself and translated at the exchange rate on the closing date.

Note 2 continued

Employee remuneration

Remuneration to employees in the form of salaries, paid sick leave, etc., as well as pensions, are recognised as they are earned. Pensions and other post-employment benefits are classified as defined contribution or defined benefit pension plans.

Profit-sharing

The Group recognises the expected cost of profit-sharing payments when the Company has a legal or informal obligation to make such payments due to prior events, and can reliably estimate this obligation. The Group recognises a liability and cost for profit-sharing based on 5 per cent of consolidated profit before tax. Profit-sharing payments are due within 12 months after the end of the period in which the employees perform the services, and is therefore recognised as a current liability.

Incentive programme

Share-related remuneration is regulated through measurement of the equity instrument at fair value at the date of issuance. The fair values established at the time of issuance are charged in the income statement. The cost of distributed rights is recognised as a personnel expense in the income statement and in equity. Payment of social fees is recognised as a personnel expense in the income statement and as a liability in the balance sheets.

Defined contribution pension plans

There are only defined contribution pension plans at MSAB. MSAB pays fixed fees for these to a separate and independent legal entity. The Group is under no obligation to pay additional fees. The consolidated profit/loss is charged for expenses as the benefits are earned, which normally coincides with the point in time when the premium is paid.

Taxes

Tax expense is the aggregate of current and deferred taxes.

Current tax

Current tax is calculated on the taxable profit for the period. Taxable income differs from the reported profit/loss in the income statement in that it has been adjusted for non-taxable income and non-deductible expenses, as well as for revenue and expenses that are taxable or deductible from other periods. The Group's current tax liability is calculated in accordance with tax rates enacted or substantively enacted as of the closing date.

Deferred tax

Deferred tax is the difference between the carrying value of assets and liabilities in the financial statements and the tax base used in the computation of taxable income. Deferred tax is reported in accordance with the balance sheet method. In principle, deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to that extent that the amount is likely to be used against future taxable profit. Deferred tax liabilities and assets are not recognised if the temporary difference is attributable to goodwill or if it occurs as a result of a transaction that is the initial recognition of an asset or liability (which is not a business combination), and which, at the time of the transaction, affects neither recognised nor taxable profit. Deferred tax liabilities are recognised for taxable temporary differences attributable to investments in subsidiaries and associated companies, except in those cases where the Group can control the timing of the reversal of the temporary differences, and it is likely that such reversals will not take place in the foreseeable future. Deferred tax assets attributable to deductible, temporary differences for such investments and interests are only recognised to the extent that the amount can be used against future taxable profit, and such use is likely to occur within the foreseeable future. The carrying amount of deferred taxes assets is reviewed at every balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit

will be available to be used, in whole or part, to offset the deferred tax asset. Deferred tax is calculated at the tax rates expected to apply for the period when the asset is recovered or the liability is settled, based on the tax rates (and tax laws) rates enacted or substantively enacted as of the closing date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same authorities and where the Group intends to settle the tax by a net amount.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or revenue in the income statement, except when the tax is attributable to transactions that are recognised directly in equity. In such cases, the tax is also recognised in equity. If the tax is attributable to a business acquisition or merger, the tax effect is taken into account when calculating goodwill or when determining the size of any excess amount that arises if the fair value of the acquired share of the acquirer's identifiable assets, liabilities and contingent liabilities exceed the purchase price of the business combination.

Tangible assets

Tangible assets are stated at historical cost less allowance for accumulated depreciation and any impairments. Cost includes the purchase price, costs directly attributable to the acquisition, and expenses for preparation of the asset until it is ready to be brought into service. Subsequent costs are only included in the asset or recognised as a separate asset when it is probable that future economic benefits attributable to the item will flow to the Group and the cost of same can be measured reliably. All other costs for repairs, maintenance, and any additional expenses are recognised in the income statement in the period in which they occur. Depreciation of material assets are expensed so that the asset's value less estimated residual value at end of useful life are amortised on a straight-line basis which is estimated at:

Inventory, equipment, fixtures and fittings	5 years
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Intangible assets

Intangible assets are stated at historical cost less allowance for accumulated depreciation and any impairments. Cost includes the purchase price, costs directly attributable to the acquisition, and expenses for preparation of the asset until it is ready to be brought into service. Subsequent costs are only included in the asset or recognised as a separate asset, when it is probable that future economic benefits attributable to the item will flow to the Group, and the cost of same can be reliably measured. All other costs for repairs, maintenance, and any other expenses are recognised in the income statement in the period in which they occur. Depreciation of intangible assets are expensed so that the asset's value less estimated residual value at end of useful life are amortised on a straight-line basis which is estimated at:

Intangible assets	5 years
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Assets held under financial leases are depreciated over the asset's estimated useful life as described above or over the term of the lease if this is shorter. Gains or losses which arise when intangible assets are retired or disposed of represent the difference between what is received for the asset and its carrying value and recognised in the operating profit.

Research and development

Expenses for research and development are expensed as they occur. Expenses which occur in development projects are recognised as intangible assets when the following criteria are met:

- It is technically possible for the Company to complete the intangible asset so that it can be utilised.
- Management intends to complete the intangible asset and use or sell it.
- The conditions necessary to use or sell the intangible asset are in place.

Note 2 continued

- It can be demonstrated how the intangible asset will likely generate future financial benefits.
- There are adequate technical, financial, and other resources to complete development and to use or sell the intangible asset.
- The expenditures attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these conditions are recognised as they occur. Development expenditures previously recognised as a cost are not recognised as an asset in the subsequent period. Capitalised development costs are recognised as intangible assets and amortised from that point in time when the asset is ready for use on a straight-line basis over the period of useful life.

Inventory

Inventory is stated at the lowest cost or net sales value. Cost is determined using the first-in, first-out method (FIFO). The cost of finished goods consists of raw materials and direct labour costs. Net sales value is the estimated sales price in the ordinary course of business, less applicable variable sales expenses. No part of inventory has been pledged as collateral for loans or other liabilities.

Financial instruments

A financial asset or liability is recognised in the balance sheet when the Company becomes party to the instrument's contractual terms and conditions. A financial asset is de-recognised from the balance sheet when the contractual rights are realised, when it matures, or when the Company loses control over it. A financial liability is de-recognised from the balance sheet when the contractual obligation is fulfilled or otherwise extinguished. At each balance sheet date, the Company assesses whether there are any objective indications that a financial asset or a group of financial assets are impaired due to past events. Financial instruments are recognised at amortised cost or fair value, depending on the initial categorisation pursuant to IAS 39.

Fair value of financial instruments

For financial assets and financial liabilities, fair value is determined as follows:

- Fair value for financial assets and liabilities with standard conditions and which are traded on an active market is determined by reference to quoted market prices.
- Fair value for other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analyses using data taken from observable, current market transactions. For all financial assets and liabilities, recognised value is considered to be a good approximation of fair value, unless otherwise noted in one of the following Notes.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and recognised in a net amount in the balance sheet when there is a legally enforceable right to offset, and where there is an intention to settle items on a net basis or to realise the asset and settle the liability.

Cash and cash equivalents

Cash and cash equivalents includes cash and bank deposits, and other current, liquid investments which are easily converted to cash and which are subject to an insignificant risk of value change. To classify as a cash equivalent, maturity shall not exceed three months from the time of acquisition. Cash and bank balances are categorised as Loans and receivables which are measured at amortised cost. Because bank balances are payable free on demand, the amortised cost corresponds to the nominal amount. Short-term investments are categorised as "held for trading" and measured at fair value with value changes recognised in the income statement.

Trade receivables

Trade receivables are categorised under Loans and receivables and are measured at amortised cost. The expected duration of trade receivables is, however, short. Hence recognition is at the nominal amount without discounting. Deductions are made for receivables which are considered unsafe. Impairment of trade receivables is recognised in operating costs.

Trade payables

Trade payables are categorised under "Other financial liabilities" and are measured at amortised cost. The expected duration of trade payables is, however, short. Hence recognition is at the nominal amount without discounting.

Derivative instruments and Fixed income funds

Currency futures are recognised in the balance sheet on the contract date and measured at fair value, both initially and in subsequent revaluations. MSAB applies hedge accounting in accordance with the provisions of IAS 39. Derivative instruments are categorised as "Derivatives for hedging" and classified as a current asset or liability in the balance sheet. Gains or losses arising from revaluation are recognised in other comprehensive income.

Accounting principles for the Parent Company

The Parent Company complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Application of RFR 2 means that to the extent possible, the Parent Company shall apply all IFRS adopted by the EU within the framework for the Swedish Annual Accounts Act and the Safeguarding Act, and take into account the relationship between reporting and taxation. Differences between the accounting policies of the Parent Company and Group are described below:

Revised accounting principles

Revisions to RFR 2 Accounting for Legal Entities which entered into force for accounting year 2016 have not had any significant impact on the Parent Company's accounting. Of those revisions to RFR 2 which have not yet entered into force, it is the Company's assessment that these will not have any impact on the Parent Company's financial position or profit/loss.

Shares in subsidiaries

Shares in subsidiaries are recognised in accordance with the cost method. Acquisition-related costs for subsidiaries which are expensed in the consolidated financial statements are included as a part of the cost for shares in the subsidiary. The recognised value of shares in subsidiaries is tested for impairment when there are indications that the need for impairment exists.

Leases

All leases in the Parent Company are recognised in accordance with the regulations for operational leases.

Note 3 Estimates and assumptions in the financial statements

Preparing financial statements to conform with IFRS requires that Company management make certain assessments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. The actual results may differ from these estimates and assumptions. Estimates and assumptions are reviewed regularly. Changes in estimates are recognised in the period when a change is made if the change only affects this period, or in the period the change is made and future periods if the change affects both current and future periods. At the end of the period, special consideration is given to valuation of trade receivables which are considered the single most important item of the Company's assets. The Group reports income in accordance with IAS 18, which is the IFRS standard for revenue recognition.

According to this standard, revenue should be reported when it is likely that economic benefits will accrue to the seller and these can be calculated reliably. Revenues are booked in accordance with the principles set out in Note 2. The Group's sales agreements in most cases contain delivery of different sub-components, so-called multiple elements, and in these cases the Group has made a breakdown based on estimated fair values so that the reporting of revenue makes clear the financial meaning of the transaction. The multiple elements relate to the Group's commitment to customers to provide support as well as product updates. The estimated resources needed to deliver these commitments are the basis for the valuation of the various multiple elements which are significant for revenue recognition.

Note 4 Financial risk management and financial instruments

The overall objective of MSAB's financial risk management is to identify and control the Group's financial risks. MSAB's Board of Directors is ultimately responsible for exposure, management and monitoring of the Group's financial risks. The framework which applies to exposure, management and monitoring of financial risks is established by the Board. The most significant financial risks to which the Group is exposed are market, liquidity and credit risk. Market risk consists primarily of currency risk and interest rate risk.

Market risk Currency risk

Currency risk refers to the risk that the consolidated profit/loss and equity will be negatively impacted by changes in exchange rates. Exposure to currency risk derives from the flow of payments (transaction exposure) in foreign currencies and from translation of balance sheet items in foreign currencies, and translation of foreign subsidiary's income statements and balance sheets to the Group's presentation currency of Swedish kronor (translation exposure).

Transaction exposure

Transaction exposure occurs as a result of MSAB's export sales. Of the Group's total sales in 2016, approximately 96 (95) percent were export sales and sales through foreign subsidiaries in foreign currencies. Inflows of foreign currencies consist primarily of euros (EUR), British pounds (GBP) and American dollars (USD). The lion's share of goods and services purchased are in Swedish kronor (SEK). Net exposure in relation to the inflow of payments in foreign currencies is thus essential. From time to time, MSAB applies hedge accounting and uses forward contracts to minimise larger currency fluctuations. At year-end 2016, the Company held no forward contracts.

Translation exposure

Translation exposure occurs primarily when translating asset and liability posts in foreign currencies, as well as income statements and balance sheets for foreign subsidiaries, to SEK. Currency fluctuations can have a negative effect on consolidated equity and profit/loss. The table below shows the Group's and Parent Company's net currency exposure on closing day (foreign currencies are translated to SEK thousands in the table):

	The Group		The Parent Company	
Market risk SEK thousands	2016	2015	2016	2015
Currency				
AUD	127	724	294	737
CAD	451	418	390	226
EUR	22,855	14,643	22,855	14,643
GBP	2,895	7,725	4,719	7,687
HKD	0	0	2,140	2,346
SGD	288	0	1,238	0
USD	11,320	17,822	-3,254	1,896
Total trade receivables in foreign currencies	37,936	41,331	28,382	27,536
SEK	3,366	965	3,366	965
Total trade receivables	41,302	42,296	31,748	28,501

A change of +/- 5 percent in relevant exchange rates relative to Swedish kronor would entail an impact on the consolidated profit/loss for respective currencies: USD: SEK 566 (891) thousand, EUR: SEK 1,143 (732) thousand, GBP: SEK 145 (386) thousand. For the Parent Company, the corresponding impact on profit/loss is USD: SEK 163 (95) thousand, EUR: SEK 1,143 (732) thousand, GBP: SEK 236 (384) thousand.

Note 4 continued

Interest rate risk

Interest rate risk refers to the risk for a negative impact on the consolidated income statement and cash flow due to changes in market interest rates. MSAB has no interest-bearing liabilities and interest rate risk is primarily limited to the Group excess liquidity, which is placed in interest-bearing bank accounts and in other interest-bearing investments. Excess liquidity shall be invested at a low risk with short, fixed interest rate terms, as stipulated in the Board's instructions. Hence, the Group has chosen to place excess liquidity in different bank accounts, primarily in SEB and in funds with a risk level consistent with established financial policy.

Liquidity and financing risk, SEK thousands	The Group					The Parent Company				
	Within 3 months	3–12 months	1–5 years	Over 5 years	Total	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Trade payables	4,593	0	0	0	4,593	4,342	0	0	0	4,342
Other liabilities	4,566	–	–	–	4,566	2,460	–	–	–	2,460
Total	9,159	0	0	0	9,159	6,802	0	0	0	6,802

Credit risk

Credit risk refers to a counterparty not being able to meet their contractual obligations as they relate to the Group resulting in a financial loss. The Group's exposure to credit risk derives primarily from trade receivables. Sales of MSAB's products are conducted either directly to the end customer or via partners. End customers are almost exclusively criminal investigative authorities and to a lesser extent private companies. Credit risk is assessed as low in the majority of business transactions. In order to limit the Group's exposure to credit risk, a credit rating is conducted on every new customer. The financial situation of existing customers is also monitored on an on-going basis to identify warning signals at an early stage. A credit rating is always performed before the company enters into new sales partnerships, after which the financial situation of sales partners is monitored on an on-going basis to identify warning signals. The Group may also establish credit limits for partners or require bank guarantees for larger contracts. To further minimise

Liquidity and financing risk

Liquidity risk refers to the risk that the Group is impacted negatively by inadequate handling and control of liquidity and cash flows. Financing risk refers to the risk that the Group cannot raise enough cash to meet its obligations. Liquidity and financing risk is currently very low. The Group has very good liquidity and a high earnings capacity. Group excess liquidity is placed in bank accounts. Liquidity preparedness is thus high, and there is currently no need for external credit to finance operations or to create liquidity. The duration and distribution of contractual payment obligations related to the Group and the Parent Company's financial liabilities are listed in the table below:

credit risk, the Group can also choose to invoice an end customer directly, and instead allow the sales partner to invoice MSAB for their commission. The Group also has well-developed procedures for handling overdue trade receivables at a very early stage. The Group's actual losses for bad debts for accounting year 2016 are listed in Note 16. Credit risk also occurs when the company's excess liquidity is invested in various types of financial instruments. According to the Board's instructions, excess liquidity is placed in interest-bearing bank accounts or in interest-bearing securities/fixed income funds. The Swedish state and banks are eligible counter-parties. The Group's lending to banks is covered by the Swedish state's deposit guarantee, which covers up to SEK 500 thousand per bank. The Group's and Parent Company's maximum exposure to credit risk corresponds to the booked value of all financial assets and is listed in the table below.

Credit risk, SEK thousands	The Group		The Parent Company	
	2016	2015	2016	2015
Trade receivables	41,302	42,296	31,748	28,501
Other receivables	1,501	756	1,346	611
Equity	123,199	103,697	90,082	72,862
Maximum exposure for credit risk	166 002	146,749	123,176	101,974

Concentration risk

Trade receivables are concentrated primarily to a smaller number of major customers with a high credit rating. The ten largest customers accounted for 35 (27) percent of total revenue. Approximately 41 (39) percent of the Group's sales occur on the European market, of which the United Kingdom represents the single largest geographic exposure. North America accounts for 43 (41) percent of sales. The majority of the Company's customers are active within the judicial system. The purchasing process can differ from country to country where some negotiations may be conducted centrally while in others decision-making takes place at the local level. Similarly, procurement can originate from within certain branches of the military. In these cases, customers can be referred to purchasing companies where procurement is centralised, which means that for a given period, this purchasing company can account for a relatively large proportion of the Company's net sales, a turnover which often consists of several different customers. Procurement through purchasing companies is on-going and varies from year to year. In practice, this means that in any given year purchasing companies can account for more than 10 percent of MSAB's net sales. During 2016, no one customer accounted for 10 percent or more of the Company's consolidated net sales. In Note 16 Trade receivables, there is an age analysis of the Group's and the Parent Company's trade receivables.

Management of capital risk

MSAB defines its managed capital as the aggregate of consolidated net liabilities and equity. Because the Group currently has no loans, managed capital and consolidated equity are the same. At year-end 2016, consolidated equity amounted to SEK 104,415 (90,851) thousand. The Company's objective regarding its capital structure is to secure its ability to sustain operations and generate returns for shareholders and other stakeholders, and that the capital structure is optimal as regards cost of capital. Shareholder dividends, redemption of shares, or sale of assets are examples of measures the Group can take to adjust capital structure. The Board has adopted a dividend policy whereby at least 30 percent of the Company's reported earnings shall be returned to shareholders given that this is compatible with maintenance of an adequate amount of liquidity for planned operations.

Categorisation of financial instruments

Booked values of financial assets and liabilities by valuation category in accordance with IAS 39 are shown in the table below:

Note 4 continued

	The Group		The Parent Company	
Categorisation of financial instruments, SEK thousands	2016	2015	2016	2015
FINANCIAL ASSETS				
Loans and trade receivables				
Trade receivables	41,302	42,296	31,748	28,501
Cash and cash equivalents	123,199	103,697	90,082	72,862
Assets measured at fair value and held for trading				
Fixed income funds	–	32	–	32
TOTAL FINANCIAL ASSETS	164,501	146,025	121,830	101,395
FINANCIAL LIABILITIES				
Other financial liabilities				
Trade payables	4,593	4,961	4,342	4,888
Held for trading	–	–	–	–
TOTAL FINANCIAL LIABILITIES	4,593	4,961	4,342	4,888

There were no reclassifications between valuation categories during the period.

For financial assets and liabilities with short maturities, the reported values are a reasonable estimate of fair value.

Fair value measurement

Measurement of fair value takes place according to a valuation hierarchy consisting of three levels. The levels reflect the extent to which fair value is based on observable market data and internal assumptions.

Below is a description of the different levels for establishing fair values for financial instruments that are recognised at fair value.

Level 1 – Fair value is determined based on observable (unadjusted), quoted prices on active markets for identical assets and liabilities

Level 2 – Fair value is determined through valuation models based on observable data for the asset or liability other than the quoted prices included in Level 1.

Level 3 – Fair value is determined through valuation models where significant inputs are based on non-observable data. MSAB only has assets and liabilities with fair value measures belonging to Levels 1 and 2. These assets and liabilities are specified by level below:

	The Group		The Parent Company	
Fair value measurement, SEK thousands	2016	2015	2016	2015
LEVEL 1				
Financial assets	–	–	–	–
Total	–	–	–	–
Level 2				
Financial assets				
Currency derivatives	–	32	–	32
Total	–	32	–	32
Financial liabilities	–	–	–	–
Total	–	–	–	–

	The Group		The Parent Company	
Net gains/losses for each category of financial instrument, SEK thousands	2016	2015	2016	2015
Loans and trade receivables				
Currency gains	250	-139	174	-139
Currency losses	-463	-141	-351	-130
Other financial liabilities Currency gains				
Currency losses	7,698	7,817	7,698	7,817
	-5,652	-6,064	-5,652	-6,064
Held for trading	–	–	–	–
Total	1,834	1,473	1,870	1,484

Note 5 Operating Income

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Sale of goods	224,323	208,335	177,218	163,333
Sale of services	18,032	18,577	6,927	5,813
Total	242,355	226,912	184,145	169,146
Geographical information				
EMEA & Latin America*	98,554	104,821	87,832	90,474
Asia & Russia	40,455	28,277	35,459	20,981
North America	103,345	93,814	60,854	57,690
Total	242,354	226,912	184,145	169,146
*Of which Sweden	5,079	5,311	5,079	5,311

Distribution of the Group's fixed assets

The distribution of the Group's fixed assets is as follows: EMEA & Latin America SEK 2,221 (3,168) thousand, Asia & Russia SEK 0 (0) thousand, North America SEK 131 (128) thousand.

Information on intra-Group purchasing and sales

Purchasing and sales from the Parent Company to other Group companies amounted to SEK 90,541 (93,773) thousand in sales and SEK 0 (0) thousand in purchasing.

Currency exposure

Of the total consolidated net sales, SEK 250 (-139) thousand related to foreign exchange differences attributable to translation of trade receivables. Profit was impacted in the amount of SEK 1,834 (1,473) thousand.

Segment reporting

The Company sells and markets a small number of products, which are for the most part packaged and sold to the same customers. The Company's operations and management are organised by function, e.g., development, support, sales and administration, and the Company's internal monitoring is currently at the aggregate level only. Monitoring of geographic areas is only done for sales in respective countries or regions. Hence the Group recognises no operating segments in the financial statements.

Note 6 Disclosure of auditor's fees and expenses

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Auditing services, Deloitte	310	284	310	284
Other audit assignments, Deloitte	50	3	50	3
Tax consultancy, Deloitte	38	20	38	20
Auditing services, other	80	71	–	–
Total	478	378	398	307

Note 7 Operational leases

The year's cost for operational leases related to vehicles and rent and amounted to SEK 6,672 (5,638) thousand for the Group and SEK 5,228 (4,828) thousand for the Parent Company. At balance sheet date, the

Group had outstanding commitments for non-cancellable operational leases due for settlement as follows:

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Within a year	6,503	6,779	5,420	6,779
Within two to five years	10,355	14,643	9,566	14,643
After five years	–	–	–	–
Total	16,858	21,422	14,986	21,422

Note 8 Salaries, other remuneration and social fees

	2016		2015	
Average no. of employees	Total	of which men	Total	of which men
The Parent Company				
Sweden	87	61	83	59
The Group				
The Group	18	13	15	11
USA	8	5	7	5
United Kingdom Canada	1	1	1	1
Australia	1	1	1	1
Hong Kong	–	–	–	–
China	2	1	2	1
Singapore	1	1	–	–
Total	118	83	109	78

Gender distribution of senior position holders	Total	of which men	Total	of which men
The Parent Company				
Members of the Board of Directors	6	5	6	5
Other senior position holders	2	2	2	2
Total in the Parent Company	8	7	8	7

Salaries and benefits, SEK thousands	2016	2015
The Parent Company		
Salaries and benefits	49,584	44,100
Pension expenses	5,867	4,957
Other social fees	16,241	13,783
Total	71,692	62,840
Subsidiaries		
Salaries and benefits	29,663	24,409
Pension expenses	660	600
Other social fees	2,373	3,529
Total	32,696	28,538

Pension expenses relate to the amount recognised as an expense for defined contribution plans in the income statement and associated payroll tax.

Remuneration to the Board, CEO and senior position holders 2016, SEK thousands	Salaries/ Board fees	Pension expenses	Other benefits	Total
Board of Directors:				
Henrik Tjernberg, Chairman of the Board	475	–	–	475
Örjan Gatu, Board member ¹	–	–	–	–
Jan-Olof Backman, Board member	175	–	–	175
Robert Ahldin, Board member	175	–	–	175
Katarina G Bonde, Board member	175	–	–	175
Carl Bildt, Board member	175	–	–	175
Other senior position holders				
Joel Bollö, CEO	2,045	436	64	2,545
Other senior position holders (1 person) ¹	1,845	435	74	2,354
Total	5,065	871	138	6,074

1) Örjan Gatu receives no fees for Board membership – only remuneration as a member of senior management.

Note 8 continued

Remuneration to the Board, CEO and senior position holders 2015, SEK thousands	Salaries/ Board fees	Pension expenses	Other benefits	Total
Board of Directors:				
Henrik Tjernberg, Chairman of the Board	475	–	–	475
Örjan Gatu, Board member ¹	–	–	–	–
Jan-Olof Backman, Board member	175	–	–	175
Robert Ahldin, Board member	175	–	–	175
Katarina G Bonde, Board member	175	–	–	175
Ulf Arnetz, Board member	175	–	–	175
Other senior position holders				
Joel Bollö, CEO	1,980	431	63	2,474
Other senior position holders (1 person) ¹	1,889	450	92	2,431
Total	5,044	881	155	6,080

1) Örjan Gatu receives no fees for Board membership – only remuneration as a member of senior management.

Remuneration principles

Remuneration to the Chairman of the Board and other Board members is decided by the AGM. Overall principles guiding remuneration to senior position holders are based on position, individual performance, consolidated profit, and that remuneration shall be competitive. Total remuneration to leading position holders shall consist of fixed salary and variable salary based on attainment of incentive-based performance targets. Additionally, there are conditions governing termination and severance pay. Group management in 2016 comprised one senior position holder together with the Chief Executive Officer. All senior position holders were employed for the whole year.

Variable remuneration

MSAB has a profit-sharing programme whereby five percent of consolidated profit before tax is distributed to employees, excluding the CEO and the CTO. This total includes social fees and the allocation shall not exceed three months of salary.

Incentive programmes

Long-term incentive programme 2015–2018

On 6 May, 2015 MSAB's AGM decided to implement a long-term incentive programme for the Company's senior management and certain key persons except for CEO Joel Bollö and CTO Örjan Gatu (no more than 20 persons total). Participants are invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes model). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June, 2018 up to and including 30 September, 2018 at a price equal to 130 percent of the average volume-weighted closing price for the Company's B series shares during the period 8 May up to and including 15 May, 2015. The maximum number of share warrants that any programme participant is offered shall not exceed 30,000.

Long-term incentive programme 2014–2017

An Extraordinary General Meeting (EGM) in 2014 decided on a long-term incentive programme for the Company's CEO and CTO. The first part of the programme consists of a gratuitous allotment of B shares worth MSEK 1.5 after income tax per respective participant. Additionally, it was decided that programme participants be invited to subscribe for 220,000 share warrants per participant at fair market compensation which would entitle the holder to subscribe for an equal number of the Company's series B shares during the period 1 January, 2016 up to and including 16 June, 2017. The subscription price was decided at 130 percent of the average volume-weighted price for the Company's B series shares for the five trading days occurring immediately prior to the 2014 EGM. In March 2016, the CEO and the CTO exercised all their respective share warrants in a new share issue, and the Company received SEK 7.8 million. The number of shares increased by a total of 440,000 and share capital increased SEK 88,000.

Pension

The contractual retirement age for the Chief Executive Officer and other senior position holders is 65 years. Pension premiums for the Chief Executive Officer are calculated at 22 percent of pensionable salary and follow a defined pension contribution plan. Other senior position holders also belong to a defined pension contribution plan, and pension premiums for 2016 were on average 23 percent of basic salaries. Variable remuneration is not included in pension calculations for the Chief Executive Officer nor for any other senior position holders. All pensions are inviolable, i.e. not conditional upon future employment.

Severance pay

At year-end 2016, the Chief Executive Officer had a fixed annual salary of SEK 2,400,000. Upon termination, the Chief Executive Officer is entitled to compensation corresponding to one year's fixed salary. The Company pays insurance compensation on severance pay. Severance pay is not offset against other income. When termination of other senior positions holders is initiated from the Company's side, Swedish labour law (LAS) shall apply.

Note 9 Financial income

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Dividends from subsidiaries	–	–	2,372	–
Interest income	134	50	92	58
Currency exchange gains	7 922	8,235	7,922	8,235
Total financial income	8,056	8,285	10,386	8,293

Note 10 Financial expenses

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Interest expenses	-12	-14	-3	-12
Currency exchange losses	-5,881	-6,064	-5,814	-6,064
Total financial expenses	-5,893	-6,078	-5,817	-6,076

Note 11 Tax

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Current tax	-15,812	-14,254	-12,241	-11,175
Deferred tax	477	727	–	–
Total reported tax expense	-15,335	-13,527	-12,241	-11,175
Reconciliation of the year's tax				
Profit/loss before tax	60 571	58,659	57,431	50,547
Tax in accordance with tax rate in Sweden, 22%	-13,325	-12,905	-12,635	-11,120
Effect of different tax rates in foreign subsidiaries	-2,403	-566	–	–
Non-taxable items	524	–	524	–
Non-deductible items	-131	-55	-131	-55
Tax expense	-15,335	-13,526	-12,242	-11,175
Average tax rate, %	25.3	23.1	22.3	22.1
Deferred tax in balance sheet				
Temporary difference relating to distribution over a period of time of income in the USA (MSAB Incorporated)	477	727	–	–
Total	477	727	–	–

Note 12 Earnings per share

Earnings per share before and after dilution is calculated by dividing consolidated profit attributable to the Parent Company's shareholders by weighted average number of ordinary shares outstanding.

	The Group	
SEK thousands	2016	2015
Profit/loss for the year after tax, SEK thousands	45,236	45,133
Average no. of shares before dilution, thousands	18,268	17,938
Average no. of shares after dilution, thousands	18,346	18,231
Earnings per share before dilution, SEK	2.47	2.52
Earnings per share after dilution, SEK	2.46	2.48

Dilution derives from the Company's employee share-option plan, where dilution occurs when the exercise price falls below the current market price.

Note 13 Inventory, equipment, and fixtures and fittings

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Opening balance, historical	7,146	5,342	6,698	5,097
Purchases	640	1,804	597	1,600
Sold/scrapped	-76	–	–	–
Exchange gains/losses	11	–	–	–
Closing balance, accumulated cost	7,721	7,146	7,295	6,698
Opening balance, depreciation	-4,476	-3,406	-4,157	-3,172
Planned depreciation for the year	-1,405	-1,070	-1,362	-985
Sold/scrapped	67	–	–	–
Closing accumulated depreciation	-5,814	-4,476	-5,519	-4,157
Closing balance, planned residual value	1,907	2,670	1,776	2,541

Note 14 Intangible assets

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Opening balance, historical	2,386	2,074	2,386	2,074
Purchases	15	522	16	522
Sold/scrapped	–	-210	–	-210
Closing balance accumulated cost	2,401	2,386	2,402	2,386
Opening balance depreciation	-1,765	-1,426	-1,765	-1,426
Depreciation for the year	-204	-549	-205	-549
Sold/scrapped	–	210	–	210
Closing accumulated depreciation	-1,969	-1,765	-1,970	-1,765
Closing balance, planned residual value	432	621	432	621

Note 15 Participation in Group Companies

	The Parent Company	
SEK thousands	2016	2015
Opening balance, historical cost	7	7
Share capital MSAB Pte Ltd	6	–
Closing balance, accumulated cost	13	7

SEK thousands	No. shares	Corp. ID Number	Capital and voting rights, %	Book value	Domicile	Equity	Profit/Loss
Micro Systemation Ltd	1	6783784	100	–	United Kingdom	1,082	826
MSAB Incorporated	3,000	33-1211059	100	6	USA	12,819	2,544
Micro Systemation Canada Inc	100,000	850091-6	100	–	Canada	321	74
Micro Systemation Pty Ltd	100	164546632	100	1	Australia	725	6
MSAB Pte Ltd	1,000	201617865E	100	6	Singapore	-881	-877
Micro Systemation HK Ltd	10,000	1986284	100	–	Hong Kong	-269	-139
– MSAB Technology (Beijing) Co., Ltd	–	09557804-X	100	–	China	2,143	344
Total				13			

Note 16 Trade receivables

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Trade receivables	41,302	42,296	31,748	28,501
Total	41,302	42,296	31,748	28,501

Trade receivables, age analyses, SEK thousands	2016	2015	2016	2015
Not yet due	36,466	20,756	29,702	24,789
Overdue 30 days	3,841	15,357	1,592	1,989
Overdue 31–60 days	257	282	120	118
Overdue 61–90 days	223	5,313	107	1,496
Overdue > 90 days	515	588	227	108
Total	41,302	42,296	31,748	28,501

Overdue trade receivables amounted to SEK 4,836 (21,540) thousand. Total provisions for doubtful trade receivables amounted to SEK 0 (400) thousand. Established bad debt losses amounted to SEK 0 (32) thousand

and have been recognised as an operating expense. It is the Company's assessment that reported values for trade receivables correspond to fair values.

Note 17 Prepaid expenses and accrued income

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Prepaid rent	1,530	1,237	1,530	1,186
Prepaid insurance premiums	579	–	579	–
Prepaid inventory purchases	2,343	–	2,343	–
Other items	2,300	2,538	2,194	2,243
Total	6,752	3,775	6,646	3,429

Note 18 Cash and cash equivalents

Cash and cash equivalents comprise only the cash available in the Group's normal bank accounts. Net asset value for these assets is assessed as corresponding to fair value.

Note 19 Share capital

Share capital amounted to SEK 3,816,400 (3,728,400) – 19,082,000 (18,642,000) shares at a nominal value of SEK 0.20.

The Company has three classes of shares. Every share gives equal rights to the Company's assets and profit, but where every share in the A series entitles the holder to ten votes, every share in the B and C series entitles the holder to one vote. The number of shares in series A was 1,000,000 and in series B to 17,460,000. The number of C shares

amounted to 622,000 all of which are held in treasury. Of B shares, 81,596 are held in treasury.

Micro Systemation's B share has been listed on Nasdaq Stockholm since 27 December, 2011. One trading unit in MSAB is 1 share.

Other contributed equity consists primarily of share premium reserves.

Note 20 Accrued expenses and deferred income

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Accrued vacation pay	6,209	5,420	6,104	5,420
Accrued bonus	6,835	3,852	5,307	3,852
Accrued social fees	3,585	3,026	3,585	3,026
Deferred income	41,176	38,931	17,529	12,109
Other items	1,720	4,257	1,534	1,201
Total	59,525	55,486	34,059	25,608

Note 21 Adjustments for items not included in cash flow

	The Group		The Parent Company	
SEK thousands	2016	2015	2016	2015
Depreciation	1,609	1,621	1,567	1,535
Unrealised change in value, financial instruments	–	-54	–	-54
Unrealised foreign exchange differences	911	-452	–	–
Total	2,520	1,115	1,567	1,481
Interest received	73	50	73	58
Interest paid	–	-14	–	-12

Note 22 Dividend

The dividend decided by the AGM and paid out in 2016 was SEK 2.20 per share, totalling SEK 40,432 thousand.

The Board of Directors will propose at the AGM on 10 May, 2017 a cash dividend of SEK 2,20 per share, totalling SEK 40,432 thousand.

Note 23 Pledged assets and contingent liabilities

	2016	2015
SEK thousands		
The Group		
Pledge	2,855	1,718
Total	2,855	1,718
The Parent Company		
Pledge	2,855	1,718
Total	2,855	1,718

Pledges relate to a performance guarantee for payment of rent for headquarter offices in Stockholm.

Note 24 Appropriation of profit

SEK	2016	2015
Available funds		
Profit brought forward from previous year	12,767,348	13,853,407
Share premium reserve	7,770,400	–
Profit/loss for the year	45,189,880	39,371,430
Total	65,727,628	53,224,837
Proposed dividends	40,432,489	40,432,489
Transferred to new account	25,295,139	12,792,348
Total	65,727,628	53,224,837

Note 25 Approval of financial reports

Micro Systemation AB's (publ) consolidated accounts and the annual accounts for Micro Systemation AB (publ) for accounting year 2016 were approved by the Board of Directors and the Chief Executive Officer on 19 April, 2016. The consolidated accounts and the annual accounts will be put before the Annual General Meeting for adoption on 10 May 2017.

The Board of Directors and the Chief Executive Officer give their assurance that the annual accounts have been prepared in accordance with the Annual Accounts Act and RFR 2.2 and that they provide a true and fair view of the Company's financial position and results, and that the Report of the Board of Directors gives a true and fair view of the

Group's business activities, financial position and results, and describes the significant risks and uncertainties to which the Company is exposed.

The Board of Directors and the Chief Executive Officer give their assurance that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they give a true and fair view of the Group's position and result, and that the Report of the Board of Directors for the Group gives a true and fair view of the Group's business activities, financial position and results, and describes the significant risks and uncertainties to which the Group is exposed.

Stockholm 19 April, 2017

Henrik Tjernberg
Chairman of the Board

Joel Bollö
Chief Executive Officer

Jan-Olof Backman
Board member

Örjan Gatu
Board member

Robert Ahldin
Board member

Katarina G Bonde
Board member

Carl Bildt
Board member

Our audit report was submitted on 19 April, 2017

Deloitte AB

Erik Olin
Authorised public accountant

Auditor's Report

To the Annual General Meeting of Micro Systemation AB (publ) Corporate ID no. 556244-3050.

Report on the Annual Accounts and Consolidated Accounts

Opinions

We have audited the annual accounts and consolidated accounts of Micro Systemation AB (publ) for the financial year 2016-01-01 – 2016-12-31 except for the Corporate Governance Report on pages 49–51. The annual accounts and consolidated accounts of the Company are included on pages 22–45 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December, 2016 and its financial performance and cash flow for the year 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 its financial performance and cash flow for the year 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 Report on pages 49–51. The statutory administration report is consistent with other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the Annual General Meeting of shareholders adopts the income statements and balance sheets of the Parent Company and the Group.

Basis for opinions

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

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

Key audit matters

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

Revenue recognition

Assessment of risk

Net sales for fiscal year 2016 amounted to SEK 242.4 (226.9) million and were generated primarily from the sale of goods, but also services. We have identified this as a key audit area, as the Company's revenue is a significant item that in some cases consists of an amalgamation of products and services. These agreements include the delivery of sub-components where the revenue recognition reflects the financial implications of respective components of the agreement and the distribution of revenue is based on the estimated fair value of each component. The division can have a significant impact on consolidated net sales and profit.

For further information, please refer to the Group's accounting principles in Note 1 on page 31, and the section Critical accounting estimates and assumptions for accounting purposes in Note 3 on page 35.

Our audit measures

Our audit measures included, but were not limited to:

- evaluation of the Company's principles for revenue recognition, and review of compliance of these for respective revenue streams;
- acquisition of an understanding of essential transaction flows, and for these evaluation of the Company's significant controls for managing the risk of errors in the financial reporting;
- for a selection of individual revenue transactions, verified that income was reported at fair value for each sub-component and in the period when MSAB fulfilled its commitments.

Information other than the annual accounts and consolidated accounts

This document also contains information other than the annual report and consolidated financial statements, which can be found on pages 1–21 and 52–56. The Board of Directors and the Chief Executive Officer are responsible for this other information.

Our opinions as regards the annual accounts and the consolidated accounts do not include this information, and we offer no opinions to corroborate this other information.

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 knowledge otherwise obtained during the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed relating to 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 Director and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for preparation of the annual accounts and the consolidated accounts, and for ensuring that they give a true and fair view in accordance with the Annual Accounts Act and, in the case of consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Chief Executive Officer are also responsible for the internal controls they deem necessary to ensure that preparation of the annual accounts and consolidated accounts do not contain any material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Chief Executive Officer 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 which can impact ability to continue operations, and use the going concern basis of accounting. However, the going concern basis of accounting does not apply if the Board of Directors and the Chief Executive Officer intend to liquidate the Company, cease operations, or have no realistic alternative to doing any of this.

Auditor's Responsibilities

Our goal is to achieve a reasonable degree of certainty that the annual accounts and consolidated accounts as a whole do not contain any 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 ISA 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 a part of an audit conducted in accordance with ISA, we use professional judgment and maintain a professionally sceptical attitude throughout the audit. In addition:

- we identify and assess the risks of material misstatement in the annual accounts and consolidated accounts, whether due to fraud or error, design and execute measures, including based on these risks, and collect sufficient and appropriate audit evidence to provide a basis for our opinions. The risk of failing to detect a material misstatement due to irregularities is greater than for a material misstatement due to errors, because irregularities may include actions conducted in collusion, falsification, deliberate omissions, incorrect information or breach of internal controls.
- we obtain an understanding of that part of the Company's internal control which is relevant to our audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- we evaluate the appropriateness of accounting principles applied and how reasonable the Board of Directors' and the Chief Executive Officer's assessments in the financial statements and related information are.
- We draw a conclusion about the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the assumption of going concern when preparing the annual accounts and the consolidated accounts. We also draw a conclusion based on the audit evidence obtained as to whether there is any material uncertainty relating to events or conditions that can lead to significant doubt about the Company's and the Group's ability to continue operations. If we conclude that there is a significant uncertainty factor, then we are obligated to draw attention in our Auditor's report to the information contained in the annual accounts and the consolidated accounts that relate to the significant uncertainty factor or, if such information is insufficient, modify our opinions on the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of the audit report. However, future events or circumstances may mean that a company and a group can no longer stay in business.
- we evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the information, and whether the annual accounts and consolidated accounts reflect the underlying transactions and events in a way that gives a true and fair picture.
- we obtain sufficient and appropriate audit evidence with respect to the financial information for the units or business activities within the group in order to issue an opinion regarding the consolidated

accounts. We are responsible for management, monitoring and execution of the Group audit. We hold sole responsibility for our opinions.

We must inform the Board of Directors on, among other things, the planned scope, direction and timing of the audit. We must also communicate significant observations made during the audit, including any significant weaknesses in internal control that we identify.

We must also provide the Board of Directors with a statement that we have complied with the relevant professional ethical requirements concerning independence, and disclose all relationships and other conditions that may reasonably affect our independence, and, where applicable, the associated counter-measures.

Of the areas raised to the Board of Directors' attention, we determine which of these areas have been most significant for the audit of the annual accounts and consolidated accounts, including the risks of material misstatement assessed as most important, and which therefore constitute particularly significant areas for audit purposes. We describe these areas in the audit report unless laws or regulations prevent disclosure of the issue, or when, in extremely rare cases, it is our assessment that an issue not be communicated in an audit report because the negative consequences of doing so could reasonably be expected to outweigh public interest on the issue.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we also audited the administration of the Board of Directors and the Chief Executive Officer of Micro Systemation AB (publ) for the fiscal year 2016-01-01 – 2016-12-31, as well as the proposed appropriation of the Company's profit or loss.

We recommend that the Annual General Meeting of shareholders appropriate the profit in accordance with the proposal in the statutory administration report, and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the fiscal 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 Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. In the event of a proposed 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 financial position in general.

The Board of Directors is responsible for the Company's organisation and for 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 organisation is designed so that the accounting, management of assets and the Company's financial affairs otherwise are controlled in a reassuring manner. The Chief Executive Officer shall manage the ongoing administration according to the Board of Directors' guidelines and instructions, including taking measures necessary to conduct the Company's accounting according to law and handle the management of assets in a reassuring manner.

Auditor's responsibilities

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 Chief Executive Officer 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 a 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 use professional judgement, and maintain a professionally sceptical attitude through the entire audit. Review of the administration and the proposal for appropriation of the Company's profit or loss is based mainly on the audit of the accounts. Additional procedures performed are based on our professional assessment, with risk and materiality as our starting point. This means that we focus the examination on such measures, areas and conditions essential for operations, and where deviations and violations would have special significance for the Company's situation. We go through and examine decisions, the basis for making decisions, actions taken and other conditions relevant for our opinion concerning discharge from liability. As a basis for our opinion on the Board's proposal for the appropriation of the profit or loss, we examined the Board's statement and a selection of supporting evidence in order to determine whether the proposal is in accordance with the Companies Act.

Stockholm, 19 April, 2017

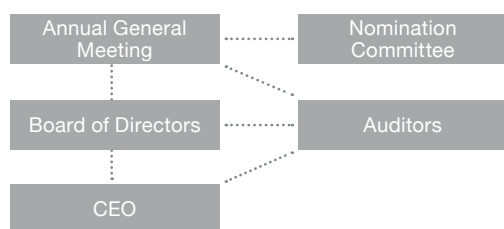
Deloitte AB

Erik Olin

Authorised Public Accountant

Corporate Governance Report

As of November 1, 2015, MSAB applies the revised Swedish Corporate Governance Code. Corporate governance in MSAB is based on Swedish legislation, and the regulations and recommendations as set out by relevant organisations such as the Swedish Corporate Governance Board, Nasdaq Stockholm, the Swedish Securities Council, and others. Corporate governance is conducted through the AGM, the Board and the Chief Executive Officer. The Company's auditors, elected by the AGM, review the financial statement and the management of the Company as conducted by the Board of Directors and the Chief Executive Officer. The Nomination Committee prepares proposals to the AGM on the election and remuneration of the Board and auditors. The Code is built on the principle comply or explain, which means that a company that applies the Code may deviate from its provisions provided that each deviation can be explained in a satisfactory manner.



Annual General Meeting

The Annual General Meeting (AGM) is the Company's highest decision making body. The Company complies with the Swedish Companies Act with regard to how the AGM is organised, how shareholders exercise their rights, and what decision-making powers the AGM has. The AGM was held on 10 May, 2016 at Gällöfsta City's premises in Stockholm. Decisions taken by the AGM included:

- re-election of Henrik Tjernberg as Chairman of the Board, and re-election of Katarina G. Bonde, Ulf Arnetz, Jan-Olof Backman, Robert Ahldin and Örjan Gatu as Board members, and new election of Carl Bildt as Board member;
- adoption of the income statement and balance sheet for calendar year 2015 as reported in the annual accounting;
- distribution of SEK 40.4 million to shareholders in accordance with the Board's proposal;
- discharge of Board members and the Chief Executive Officer from liability for 2015;
- adoption of the Board's and auditor's remuneration, and provision of guidelines for remuneration of senior position holders;
- re-election of Erik Hermansson, Joakim Dal and Henrik Tjernberg as members of the Nomination Committee. Erik Hermansson was appointed Chairman of the Nomination Committee;
- re-election of Deloitte AB, with Erik Olin as the Auditor-in-Charge for the period up to the conclusion of the next AGM.

The AGM has not granted decision-making authority to the Board regarding whether the Company shall issue new shares or repurchase shares. The protocol from the AGM is available in full on the Company's website: msab.com.

Share ownership

The Company's B shares (MSABB) are listed on Nasdaq Stockholm. The total number of shareholders as of 31 December, 2016 was 3,103. At the end of the period, Henrik Tjernberg and Robert Ahldin held shares or votes exceeding 10 percent.

Nomination Committee

The Nomination Committee is elected by the AGM. At the 2016 AGM, Erik Hermansson, Henrik Tjernberg and Joakim Dal were re-elected to the committee. The Nomination Committee is responsible for preparing and presenting proposals regarding the election of General Meeting Chairmen, Chairman of the Board and Board members, proposals for fees to Board members and auditors, as well as preparing proposals for procedures for the Nomination Committee itself. Shareholders who wish to submit proposals to the Nomination Committee can do so via email to: valberedning@msab.com.

The Board and its work in 2016

The Board consisted of six members after election by the AGM. The Board is ultimately responsible for how the Company is organised and for administration of the Company's affairs. Information about the business and its economic and financial status is provided regularly at Board meetings. As part of the internal control of financial reporting, the Board reviews financial year-end reports, interim reports and the annual accounts, and poses control questions on process descriptions and ways of working prepared by senior management. The CEO and the Chairman of the Board communicate frequently regarding the business. The Board is also responsible for ensuring that appropriate policies are drawn up and implemented within the organisation. The distribution of tasks between Board members, the Chairman of the Board and the Chief Executive Officer are clarified in the following written instructions:

- the Board's Procedural Plan;
- Distribution of tasks between the Board and CEO;
- Instructions for the CEO

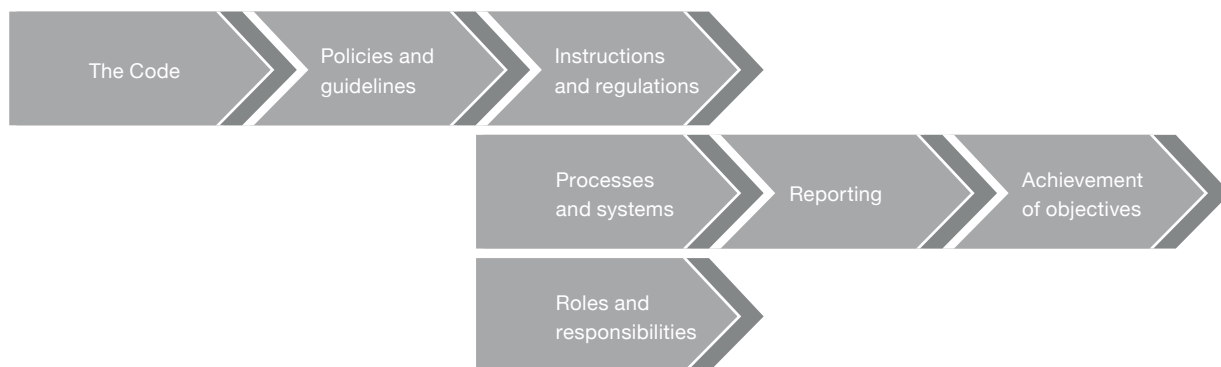
Evaluation of Board and CEO performance

The Board, excluding members who are part of the operational management, evaluates on a continuous basis the performance of the CEO within the framework of routine Board work.

Board evaluation has been accomplished partly through the Chairman's reporting to the Nomination Committee on the Board's work and its way of functioning, and partly through a survey compiled jointly by the Board and completed by each Board member. Great emphasis has been placed on following up former high-profile issues, and in continuity in the change and improvement work. When necessary, complementary, in-depth interviews of individual Board members have been conducted. The results have provided a basis for the Nomination Committee's ongoing work and have to some extent been reported back to the Board.

The Board met ten times in 2016 in Stockholm with attendance as follows on the next page.

Corporate Governance



The Board 2016	Function	Elected	Independent	Attendance Board meetings
Henrik Tjernberg	Chairman	1986	No	10 of 10
Jan-Olof Backman	Board member	1999	Yes	10 of 10
Örjan Gatu	Board member	1999	No	10 of 10
Katarina G Bonde	Board member	2011	Yes	8 of 10
Ulf Arnetz ¹	Board member	2011	Yes	1 of 5
Robert Ahldin	Board member	2013	No	10 of 10
Carl Bildt ²	Board member	2016	Yes	3 of 5

¹) Left the Board at the AGM on 10 May, 2016

²) Elected to the Board at the AGM on 10 May, 2016

Board independence

The Board is considered independent in relation to major shareholders, management and the Company except for Chairman of the Board Henrik Tjernberg, whose voting rights exceed 10 percent and Board member Robert Ahldin whose shareholdings and voting rights exceed 10 percent. Furthermore, Board member Örjan Gatu is considered dependent in relation to the Company and management in his capacity as Chief Technology Officer (CTO). Taking into consideration the Company's operations and development stage, the competence of the CTO is valuable for the efficient functioning of the Board's work thus motivating his Board membership. The Board has not established particular committees for remuneration and auditing since the Company and the Board employ relatively few people. These issues are handled in their entirety by the Board. Örjan Gatu does not participate in work related to committees or remuneration since he is active daily in his role as CTO. The Board has discussed the Company's focus, product development, growth, strategy and significant operational questions. MSAB works actively with targets established by the Board, which are communicated to operational units via the CEO and senior management.

Senior management

The CEO is responsible for preparing and implementing MSAB's strategies for achieving agreed objectives. The CEO leads weekly meetings of two groups where one of the groups is oriented towards sales and marketing issues, and the second towards product development issues. Meetings are also regularly convened for the entire Company, or

certain departments, for the purposes of disseminating information and reviewing activities with the Company's employees.

Auditor

At the 2016 AGM, the audit firm Deloitte was re-elected as the Company's external auditor for the period up to the next AGM. Erik Olin is the responsible Auditor-in-Charge. The Company's auditor reviewed the interim report for the period January – September 2016 as well as for the whole year. The auditor reports to the Board annually the conclusions drawn from its review and meets with the Board without management's presence in accordance with the Swedish Corporate Governance Code.

Internal control

The Board has overall responsibility for effective internal control of the Company. The CEO is responsible for processes and for an organisation that assures internal control and the quality of the financial reporting to the Board and the market. The essential components of the Company's internal control structure are the control environment itself, risk assessment, control activities and monitoring.

The control environment

The foundation of MSAB's control environment is the Company's established corporate culture. MSAB works actively to communicate the Company's values to ensure that a high level of morals, ethics and integrity permeate the organisation. The backbone of internal control is built on the Company's guidelines, instructions, policy documents, and the accountability and authority structure adapted to the organisation. During the year, the Board established a Code of Conduct with the purpose of ensuring good behaviour vis-à-vis the Company's customers, suppliers, employers and other stakeholders, as well as to ensure the Company's long-term value creation.

The Group-wide ERP system has been upgraded and to some extent integrated into the Company's corporate CRM system. This is to streamline the sales process, reduce the need for manual actions, and contribute to strengthening of the internal control environment.

Risk assessment

Risks relating to the financial reporting are evaluated and monitored continuously by the Board and management. Risk assessments are made at both the Company and functional level, including essential processes and the IT environment. The Company's accounting is characterised by precautionary principles, and management strives to limit financial risks. It is management's objective that even the Company's IT environment shall be reliable and risk-minimised, and

that the Company's business system is appropriate given the nature of the Company's operations. The Company strives for strong control over the production flow through all design and development taking place within the Company's organisation, and that all designs are the proprietary property of MSAB. The Company is not dependent upon any single supplier, although some production is external. MSAB's operations are affected by several business risks which have an impact on the Company's performance and financial strength. When assessing future trends, it is important to weigh opportunities for growth in profitability against the risks. The most significant risks identified relating to business operations are currently:

- Exposure to various foreign currencies. The value of the Swedish krona relative to applicable currency fluctuations creates uncertainty in forecasts of future income in Swedish kronor. More than 90 percent of the Company's total sales are for export, while approximately 70 percent of Company's expenses are in Swedish kronor.
- Competition for customers is intensifying, and the Company works continuously with product improvements and packaging to continually meet customer requirements for the best tools.
- The speed of technological advancement and the launch rate of new and more advanced mobile phones places ever greater demands on development resources.
- Legal risks.

Control activities

Several control activities are applied in the on-going business processes to ensure that any potential errors or deviations in the financial reporting are prevented, detected and corrected. The objective is to have an authorisation structure where the same individual cannot perform a task and then control that same task. Personnel working within the accounting function are also involved in on-going dialogues with subsidiaries, and conduct annual visits to follow-up and ascertain that routines and policy documents are adhered to in accordance with instructions from Group management.

Monitoring

The CEO reports monthly to the Board through a report covering the consolidated earnings trend in comparison to the previous year's and to the budget, as well as the consolidated financial position. MSAB has no particular audit function or internal audit as the Company is relatively small, and it is the opinion of the Board that the Company's business model, current structure and scope do not require such a function. The function is instead performed by Group management and the Group's financial function with the support of the external auditor. An on-going dialogue takes place between the Company and its external auditor, and those controls performed by Group management are currently assessed as adequate to ensure that the internal control is of a good standard. This assessment is continually evaluated and will be examined again in 2017.

Remuneration of the Board of Directors and senior position holders

The Nomination Committee prepares proposals for remuneration of the Board and these fees are decided upon by the AGM and received by those Board members who are not Company employees. Amounts of remuneration to the Board by fiscal year are reported in Note 8.

Remuneration principles

The Chairman of the Board and other Board members receive remuneration as decided by the AGM. Örjan Gatu is a member of the Company's senior management and receives no remuneration for his Board membership. Overall principles guiding remuneration to senior position holders are based on position, individual performance, consolidated

profit, and that remuneration shall be competitive. Total remuneration to leading position holders shall consist of fixed salary and variable salary based on attainment of incentive-based performance targets. Additionally, there are conditions governing termination and severance pay. Group management in 2016 comprised one senior position holder together with the CEO. All senior position holders were employed throughout the entire year.

Long-term incentive programme 2015–2018

On 6 May, 2015 MSAB's AGM decided to implement a long-term incentive programme for the Company's senior management and certain key persons except for CEO Joel Bollö and CTO Örjan Gatu (no more than 20 persons total). Participants are invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes model). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June, 2018 up to and including 30 September, 2018 at a price equal to 130 percent of the average volume-weighted closing price for the Company's B series shares during the period 8 May up to and including 15 May, 2015. The maximum number of share warrants that any programme participant is offered shall not exceed 30,000.

Pension

The contractual retirement age for the CEO and other senior position holders is 65 years of age. Pension premiums for the CEO are calculated at 22 percent of pensionable salary and follow a defined pension contribution plan. Other senior position holders also belong to a defined pension contribution plan, and pension premiums for 2016 were on average 24 percent of basic salaries. Variable remuneration is not included in pension calculations for the CEO nor for any other senior position holders. All pensions are inviolable, i.e. not conditional upon future employment.

Severance pay

At the end of 2016, the CEO had a fixed annual salary of SEK 2,400,000. Upon termination, the CEO is entitled to compensation corresponding to one year's fixed salary. The Company pays insurance compensation on severance pay.

Severance pay is not offset against other income. When termination of other senior positions holders is initiated from the Company's side, Swedish labour law (LAS) shall apply.

Auditor's report on the Corporate Governance Report

To the Annual General Meeting of shareholders in Micro Systemation AB (publ), Corporate Identity

The Board of Directors is responsible for the Corporate Governance Report and for ensuring that it has been prepared in accordance with the Annual Accounts Act. We have read the Corporate Governance Statement and based on that reading and our knowledge of the Company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory 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. In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm 19 April, 2017

Deloitte AB

Erik Olin

Authorised Public Accountant

The Board of Directors and CEO

The Board, from left to right

Carl Bildt

Board member
Independent in relation to the Company, senior management and major shareholders.
Born: 1949
Education: Stockholm University
Current position: Chairman, Global Commission Internet Governance; Chairman, European Council on Foreign Relations; Senior Advisor Wallenberg Foundations.
Previous positions: Prime Minister, Foreign Minister, Member of Parliament.
Board member since: 2016
Shareholdings as of 2016-12-31: 0
Other Board assignments: Magnora AB, Fastator AB, RAND Corporation.

Jan-Olof Backman

Board member
Independent in relation to the Company, senior management and major shareholders.
Born: 1961
Education: Master of Science, Engineering, KTH and University of Washington
Current position: Self-employed
Previous positions: Senior positions within Coor Service Management and McKinsey & Company
Board member since: 2002
Shareholdings as of 2016-12-31: 246,181 B shares held privately and through company
Other Board assignments: Board member in Vasakronan AB, Logent Holding AB, 24Storage AB, AB Torgfastigheter, Byggnads Aktiebolaget O. Tjärnberg.

Katarina G Bonde

Board member
Independent in relation to the Company, senior management and major shareholders.
Born: 1958
Education: Master of Science, Physics, KTH and studied Economics at Stockholm University
Current position: CEO, Kubi LLC.
Previous positions: CEO UniSite Software Inc; CEO Captura International; VP Sales and Marketing Timeline Software Inc; Head of Marketing, Dun & Bradstreet Software Inc; CEO Programator Industri AB
Board member since: 2011
Shareholdings: 0
Other Board assignments: Chairman of the Board, Opus Group AB, Propellerhead Software AB, and Imint AB; Board member in Fingerprint Cards AB, Mycronic AB, Avega Group AB, Nordax Bank AB, and Birger Jarl Fondkommission AB.

Henrik Tjernberg

Chairman of the Board
Independent in relation to the Company and senior management. Not independent in relation to major shareholders.
Born: 1960
Education: Studied at KTH
Current position: Investor Relations Advisor
Board member: 1986–2002 Chairman of the Board since: 2002
Shareholdings as of 2016-12-31: 900,000 A shares, 20,522 B shares
Other Board assignments: Chairman of the Board in Tjernkraft AB and CrowdSoft AB; Board deputy in Spinn-Y AB.

Örjan Gat

Board member
Independent in relation to major shareholders. Not independent in relation to the company and senior management.
Born: 1971
Education: Technical secondary education
Current occupation: CTO, MSAB
Has worked with R&D at MSAB since 1994.
Board Member since: 1999
Shareholdings as of 2016-12-31: 649,908 B shares
Other Board assignments: Board member, Sustainable Energy Solutions Sweden AB.

Robert Ahldin

Board member
Independent in relation to the Company and senior management. Not independent in relation to major shareholders.
Born: 1971
Education: Studied Economics at Eckerd College, FL, USA
Current position: Partner, GP Bullhound
Previous positions: Founder of risk capital and investment company Edastra, Rite Internet Ventures, Arctic Ventures, and stockbroker at Remium; began his career in 1995 as a financial analyst at Matteus Fondkommission
Board member since: 2013
Shareholdings as of 2016-12-31: 100,000 A shares, 1,771,900 B shares
Other Board assignments: Matsmart in Scandinavia AB, Edastra AB, Edastra Venture Capital AB, Billogram AB.



CEO

Joel Bollö

President and CEO, MSAB

Born: 1968

Education: Engineer

Current position: President and CEO, MSAB

Previous positions: CEO, DLX AB (founder); Key Account Manager, Netwise AB.

Shareholdings as of 2016-12-31: 224,222 B shares



History

1984

Bo Ericsson founds MSAB, a company with focus on advanced data communication. The current Chairman of the Board Henrik Tjernberg is employed the following year.

1998

The first GSM-related product, SoftGSM, an entirely software-based GSM modem, is launched. At the same time, the Company releases a new share issue and an informal listing takes place.

1999

The Company is listed on NGM (formerly SBI). An OEM agreement with Option International is signed. During June and July 1999, over 10,000 units of SoftGSM are sold.

2000

Launch of SoftNet, which facilitates connection of laptops to the Internet automatically via cable, wireless or GSM modem.

2002

Joel Bollö succeeds Henrik Tjernberg as CEO and initiates discussions with the Swedish police regarding the need for systems for retrieval of data from mobile phones

2003

SoftGSM and a subsequent product called SoftNet are consolidated under the name Mobile Communication Suite. The first version of SoftGSM XRY is sold.

2004

A new share issue of SEK 10 million is used to finalise and begin selling the XRY system, which is launched globally and is the first product within the field of mobile forensics.

2005

The Company receives orders for the XRY, including from Germany and Austria. MSAB launches the first training in the field of forensics focusing on the preservation of evidence from mobile phones.

2006

MSAB reports a profit of just over SEK 10 million. XRY is described in Fortune Magazine in an article entitled, "How to get the most out of a mobile phone". Version 3.0 of XRY makes it possible to create reports in local languages.

2007

MSAB records sales of over SEK 50 million and reports a net profit of SEK 23 million, which corresponds to growth of 93 percent. 2007 is the first year with new launch plans involving five product updates per year. XRY now supports 500 phone models. MSAB is the successful bidder on a tender issued by the French Ministry of the Interior and receives a large order.

2008

XRY has become the de facto standard within mobile forensics. The complementary product XACT, which can also recover deleted information, is launched. Dagens Industri bestows the award Gasellbolag (Gazelle Company of the Year, an award recognising the fastest growing company) and makes Technology Fast 500's list (exclusively for companies that demonstrate sustainable profitability and strong growth for at least five consecutive years). A subsidiary is established in the USA. The AGM decides to distribute dividends in the amount of SEK 11.5 million to shareholders.

2014

A subsidiary is registered in China which makes possible local sales through distributors who were previously unable to import and sell the Company's products. XRY Tablet is launched – a portable, hand-held terminal where both XRY and XAMN are available – as a complement to staff working in the field. The AGM decides to distribute dividends in the amount of SEK 1.7 million to shareholders.

2015

The Company launches a new graphical profile to further strengthen its branding, and is henceforth known as MSAB. An updated version of XRY Kiosk is launched, followed by a major order from Metropolitan Police Services in London for 60 systems. The AGM decides to distribute dividends in the amount of SEK 17.9 million to shareholders.

2016

MSAB launches a whole new concept within mobile forensics – The MSAB Ecosystem. The AGM decides to distribute dividends in the amount of SEK 40.4 million to shareholders. A new subsidiary is established in Singapore. A new version of XRY is launched with support for Apple's latest smartphone, the iPhone 7, and Pokémon GO. A single, large order worth SEK 11 million is received from a customer in Asia. MSAB and Berla, a leading global actor within automotive-related criminal technology, enter into a strategic collaboration.

2012

MSAB introduces XAMN, an entirely new product which significantly improves customers' ability to analyse large quantities of data from several sources. Geographic expansion continues and the Company sets up in Russia, Brazil and China. The AGM decides to distribute dividends in the amount of SEK 17.7 million to shareholders.

2013

XRY Kiosk, a stationary solution that allows for fast, simple data extraction, is launched. New offices are established in Canada and Australia, and investments efforts in China continue. The Company wins several significant contracts in Russia during the year. The AGM decides to distribute dividends in the amount of SEK 10.6 million to shareholders.

2009

The Company opens offices in Washington, DC. Another subsidiary is established in the UK which is the Company's largest market to date. Australia and Asia are established as a new region and managed centrally from headquarters in Solna. A three-year framework agreement with the French Ministry of the Interior is signed and one of the Company's largest orders follows. The AGM decides to distribute dividends in the amount of SEK 11.5 million to shareholders.

2010

During the second half of the year, an American authority orders Field Version II to a total value of SEK 50 million. Financial objectives are presented: 25 percent growth and an operating margin of 25 percent over a three-year period. The AGM decides to distribute dividends in the amount of SEK 17.7 million to shareholders.

2011

MSAB gives notice of its intention to start preparations for the Company's public listing on Nasdaq Stockholm, with completion in December. During the year, the Company receives a couple of additional, major orders from a major governmental organisation in the USA and from the French Ministry of the Interior. In June, the Company receives a strategically critical order from the FBI for 60 Office Logical systems. The AGM decides to distribute dividends in the amount of SEK 14.2 million to shareholders.

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